

*Consolidated
Financial Statements*

*Banco Nacional de
Desenvolvimento Econômico e
Social – BNDES and
Subsidiaries*

*Years ended December 31, 2003 and 2002
with Report of Independent Auditors*

**BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL
– BNDES AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements expressed in Brazilian currency in accordance with accounting practices adopted in Brazil

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Banco Nacional de Desenvolvimento Econômico e Social – BNDES

1. We have audited the accompanying balance sheet of the Banco Nacional de Desenvolvimento Econômico e Social - BNDES and the consolidated balance sheet of the Banco Nacional de Desenvolvimento Econômico e Social – BNDES and its subsidiaries, as of December 31, 2003 and the related statements of income, shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of certain affiliated companies in which the subsidiary BNDES Participações S.A. – BNDESPAR holds investments of R\$4,794,619 thousand, which net earnings determined by the equity method amounted R\$259,020 thousand, were previously audited by other independent auditors. The reports presented to us by those auditors contain no qualifications that significantly impact the financial position and results of the Bank, and our opinion on such investments is solely based on the reports issued by those independent auditors.
2. Our audit was conducted in accordance with auditing standards generally accepted in Brazil and comprised: a) the planning of the work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal controls systems of the Bank; b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and c) an assessment of the accounting practices used and significant estimates made by the Bank management, as well as an evaluation of the overall financial statements.
3. In our opinion, based on our audit and on the reports issued by other independent auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Banco Nacional de Desenvolvimento Econômico e Social – BNDES and the consolidated financial position of the Banco Nacional de Desenvolvimento Econômico e Social – BNDES and its subsidiaries at December 31, 2003, the result of its operations, changes in its shareholders' equity and changes in financial position for the year then ended, in accordance with the accounting practices adopted in Brazil.

4. The financial statements for the year ended December 31, 2002, presented for comparison purposes, were audited by other independent auditors whose report dated March 27, 2003, expressed an unqualified opinion on those statements.

Rio de Janeiro, March 5, 2004

ERNST & YOUNG
Audítores Independentes S/S
CRC-2SP 015.199/O-6 - F - RJ

Luiz Carlos Nannini
Accountant CRC-1SP 171.638/O-7-S-RJ

Fernando Alberto S. Magalhães
Accountant CRC-1SP 133.169/O-0-S-RJ

A free translation from Portuguese into English of financial statements expressed in Brazilian currency in accordance with accounting practices adopted in Brazil

**BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL –
BNDES AND SUBSIDIARIES**

BALANCE SHEETS
December 31, 2003 and 2002
(In thousands of reais)

	BNDES		CONSOLIDATED	
	2003	2002	2003	2002
ASSETS				
CURRENT ASSETS	28,995,760	28,294,273	35,879,741	34,588,570
CASH AND DUE FROM BANKS	2,514	122,759	3,550	140,269
INTERBANK INVESTMENTS	10,481	1,696	10,481	1,696
SECURITIES AND DERIVATIVE INSTRUMENTS	2,820,254	3,256,128	4,180,843	5,435,765
Fixed-income fund	2,044,013	2,695,677	2,762,686	4,251,947
Government securities	7,813	2,795	112,545	119,892
Shares, certificates and premium-per-stock option	211,519	211,948	211,519	211,948
Debentures	273,730	347,536	896,955	857,135
Allowance for loan losses – Debentures	(156)	(8,205)	(86,197)	(42,530)
Derivative instruments	283,335	6,377	283,335	37,373
INTERBANK ACCOUNTS	9,743,667	13,664,037	10,689,790	14,095,687
Interbank lending	9,775,444	13,677,182	10,735,503	14,181,951
Unrestricted funds	8,352,574	11,113,987	9,312,633	11,618,756
Funds - PIS/PASEP	1,422,870	2,563,195	1,422,870	2,563,195
Allowance for loan losses	(31,777)	(13,145)	(45,713)	(86,264)
LOANS	15,421,114	10,113,962	17,074,175	11,643,911
Loans	16,772,941	10,856,517	18,441,790	12,417,039
Unrestricted funds	13,982,270	9,810,851	15,651,119	11,371,373
Funds - PIS/PASEP	2,782,518	1,038,643	2,782,518	1,038,643
Funds – Merchant Marine Fund (FMM)	8,153	7,023	8,153	7,023
Allowance for credit losses	(1,351,827)	(742,555)	(1,367,615)	(773,128)
OTHER CREDITS	997,240	1,134,585	3,918,370	3,267,193
Receivables	70,775	302,797	70,775	302,797
Installment sale of securities	44,584	-	2,252,162	2,092,062
Interest on shareholders' equity and dividends	187,406	200,650	221,201	73,351
Receivables from National Treasury – guaranties honored and others	379,235	334,608	490,139	375,011
Allowance for other credit losses	(323)	(2,134)	(98,389)	(197,882)
Sundry	315,563	298,664	982,482	621,854
OTHER ASSETS	490	1,106	2,532	4,049
NONCURRENT ASSETS	110,277,378	110,130,622	101,711,997	105,164,431
SECURITIES AND DERIVATIVE INSTRUMENTS	4,517,272	4,865,832	12,444,018	12,144,624
Government securities	1,093,420	1,321,874	3,561,943	4,068,467
Quotas of mutual investment funds	-	-	481,462	395,305
Debentures	2,765,943	3,039,510	8,539,833	7,475,178
Allowance for credit losses – Debentures	(86,366)	(81,110)	(883,495)	(379,884)
Derivative instruments	638,756	457,664	638,756	457,664
Fixed income securities	105,519	127,894	105,519	127,894
INTERBANK ACCOUNTS	65,945,932	63,071,547	29,996,635	35,627,407
Interbank lending	66,161,002	63,132,224	30,243,022	36,089,261
Unrestricted funds	53,037,734	51,786,311	17,119,754	24,743,348
Funds – PIS/PASEP	13,123,268	11,345,913	13,123,268	11,345,913
Allowance for loan losses	(215,070)	(60,677)	(246,387)	(461,854)
LOANS	37,816,100	40,700,992	55,906,795	52,825,761
Loans	41,131,089	43,689,209	59,394,568	55,953,749
Unrestricted funds	36,385,266	37,808,433	54,648,745	50,072,973
Funds – PIS/PASEP	2,971,695	4,422,344	2,971,695	4,422,344
Funds – Merchant Marine Fund (FMM)	1,774,128	1,458,432	1,774,128	1,458,432
Allowance for loan losses	(3,314,989)	(2,988,217)	(3,487,773)	(3,127,988)
OTHER CREDITS	1,998,074	1,492,251	3,364,549	4,566,639
Receivables	1,084,775	752,879	1,084,775	752,879
Installment sale of securities	171,608	220,204	1,307,359	3,566,913
Allowance for loan losses	(3,518)	(6,860)	(167,598)	(537,537)
Sundry	745,209	526,028	1,140,013	784,384
PERMANENT ASSETS	12,620,283	12,564,169	14,533,750	11,204,959
INVESTMENTS	12,485,165	12,425,881	14,398,632	11,066,671
Equity in results of subsidiaries and associated companies	12,184,665	12,125,381	7,242,495	5,555,826
Other equity interests	83,528	83,528	6,927,682	5,282,390
Other investments	216,972	216,972	228,455	228,455
FIXED ASSETS IN USE	124,367	130,496	124,367	130,496
DEFERRED CHARGES	10,751	7,792	10,751	7,792
TOTAL ASSETS	151,893,421	150,989,064	152,125,488	150,957,960

	BNDES		CONSOLIDATED	
	2003	2002	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES	13,016,027	11,997,906	13,150,244	12,770,591
DEPOSITS	1,580,693	1,628,811	1,580,693	1,654,842
Special deposits – FAT	1,223,769	1,269,861	1,223,769	1,269,861
Restricted deposits	355,880	350,806	355,880	376,837
Sundry	1,044	8,144	1,044	8,144
INTERBRANCH ACCOUNTS	787	41,596	787	41,596
Third-party funds in transit	787	41,596	787	41,596
FUNDS BORROWED AND ONLENDING	5,954,470	4,475,790	5,614,668	4,403,324
Foreign borrowings	1,420,426	1,268,859	1,420,426	1,268,859
Syndicated loans	-	884,329	-	884,329
Bonds	1,420,426	384,530	1,420,426	384,530
Local onlending	3,067,016	515,167	2,727,214	442,701
National Treasury	2,296,829	51,221	2,347,698	51,221
Subsidiaries	390,671	72,466	-	-
Marine Merchant Fund (FMM)	44,226	53,009	44,226	53,009
National Development Fund (FND)	317,889	326,953	317,889	326,953
Other	17,401	11,518	17,401	11,518
Foreign onlending – Multilateral institutions	1,467,028	2,691,764	1,467,028	2,691,764
OTHER LIABILITIES	4,155,280	4,611,544	4,629,299	5,430,664
Financial and development funds	2,328,728	1,451,242	2,328,728	1,451,242
PIS/PASEP Fund	2,014,752	1,154,460	2,014,752	1,154,460
Other	313,976	296,782	313,976	296,782
Income tax and social contribution	617,079	410,471	940,696	726,892
Other taxes	28,865	54,702	118,097	88,002
Linked to foreign exchange transactions	-	-	40,463	-
Dividends and interest on shareholders' equity	246,483	130,523	246,483	130,523
Liabilities to borrowers	-	1,557,516	-	1,557,516
Accounts payable – FAPES	3,376	8,811	4,070	13,069
Linked to the National Treasury	815,834	880,375	815,834	880,375
Derivative instruments	1,772	-	1,772	-
Sundry	113,143	117,904	133,156	583,045
SUBORDINATED DEBTS	1,324,797	1,240,165	1,324,797	1,240,165
Constitutional FAT	1,324,797	1,240,165	1,324,797	1,240,165
NONCURRENT LIABILITIES	126,020,493	126,640,915	126,118,343	125,837,126
DEPOSITS	10,729,705	10,434,764	10,729,705	10,434,764
Special deposits – FAT	10,729,705	10,434,764	10,729,705	10,434,764
FUNDS BORROWED AND ONLENDING	43,338,740	47,289,017	43,269,137	46,371,629
Foreign borrowings	12,722,535	15,698,943	12,722,535	15,698,943
Bonds	12,722,535	15,698,943	12,722,535	15,698,943
Local onlending	21,319,064	21,296,858	21,249,461	20,379,470
National Treasury	11,889,622	12,457,670	15,711,638	15,286,293
Subsidiaries	3,891,619	3,746,011	-	-
Merchant Marine Fund (FMM)	2,084,847	1,864,780	2,084,847	1,864,780
National Development Fund (FND)	3,379,924	3,167,395	3,379,924	3,167,395
Other	73,052	61,002	73,052	61,002
Foreign onlending – Multilateral institutions	9,297,141	10,293,216	9,297,141	10,293,216
OTHER LIABILITIES	18,970,580	18,719,746	19,138,033	18,833,345
Financial and development funds – PIS/PASEP Fund	18,402,096	18,357,723	18,402,096	18,357,723
Accounts payable – FAPES	258,211	255,531	332,640	324,764
Provision for labor and civil contingencies	140,197	106,492	177,128	130,936
Derivative instruments	53,082	-	53,082	-
Actuarial liabilities – FAMS	116,994	-	164,934	-
Deferred taxes	-	-	8,153	19,922
SUBORDINATED DEBTS	52,981,468	50,197,388	52,981,468	50,197,388
Constitutional FAT	52,981,468	50,197,388	52,981,468	50,197,388
Other subordinated debts	46,565,785	44,035,983	46,565,785	44,035,983
Debt eligible for capitalization	6,415,683	6,161,405	6,415,683	6,161,405
SHAREHOLDERS' EQUITY	12,856,901	12,350,243	12,856,901	12,350,243
Capital	11,362,584	11,362,584	11,362,584	11,362,584
Capital reserve	106,885	-	106,885	-
Revaluation reserve	25,536	27,432	25,536	27,432
Income reserve	326,719	274,828	326,719	274,828
Retained earnings	1,035,177	685,399	1,035,177	685,399
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	151,893,421	150,989,064	152,125,488	150,957,960

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL –
BNDES AND SUBSIDIARIES**

STATEMENTS OF INCOME
Six-month period and year ended December 31, 2003 and
year ended December 31, 2002
(In thousands of reais, except for net income per share)

	BNDES			CONSOLIDATED		
	Six months	Year		Six months	Year	
	2003	2003	2002	2003	2003	2002
INCOME FROM GAIN ON FINANCIAL INTERMEDIATION	8,314,683	5,876,803	27,864,120	9,428,600	8,064,720	30,940,079
Loans and interbank lending						
. Local currency	4,470,842	8,966,522	6,439,535	4,678,841	9,589,603	7,491,234
. Foreign currency	2,146,881	(5,990,085)	18,515,575	2,195,016	(5,524,560)	18,265,301
Income from securities	1,138,631	2,105,211	1,415,624	1,936,069	3,132,839	3,570,783
Income from operations linked to the National Treasury	185,946	199,736	1,054,661	405,892	456,273	1,223,043
Management fee on funds and programs	210,650	409,808	384,381	209,243	403,809	371,520
Monetary restatement of assets – SELIC	161,733	185,611	54,344	3,539	6,756	18,198
EXPENSES WITH FINANCIAL INTERMEDIATION	(5,996,835)	(4,432,054)	(26,962,429)	(5,730,685)	(6,533,918)	(29,394,609)
Funding expenses – financing and lending						
. Local currency	(4,015,036)	(8,086,093)	(5,638,740)	(4,970,158)	(10,042,536)	(7,271,467)
. Foreign currency	(2,414,279)	5,427,386	(19,001,799)	(2,421,018)	5,413,995	(19,087,982)
Expenses with operation linked to the National Treasury	(86,910)	64,541	(366,456)	(92,093)	59,358	(366,456)
Provision for loan losses	588,459	(1,753,402)	(1,928,027)	1,821,651	(1,880,249)	(2,641,297)
Monetary restatement of dividends and interest on shareholders' equity – SELIC	(69,069)	(84,486)	(27,407)	(69,067)	(84,486)	(27,407)
GROSS INCOME ON FINANCIAL INTERMEDIATION	2,317,848	1,444,749	901,691	3,697,915	1,530,802	1,545,470
OTHER OPERATING INCOME (EXPENSES)	1,371,279	311,528	286,883	143,746	432,633	416,955
Results from equity in subsidiaries	1,869,881	789,078	844,843	238,144	275,223	(140,726)
Premium amortization	-	-	-	(346,576)	(375,492)	(19,584)
Provision for investment adjustment	(521)	(38,300)	(2,380)	(209,045)	(296,058)	(9,471)
Result of exchange portfolio	13,623	20,447	7,514	13,623	20,447	7,514
Dividend income	90	536	29,679	4,922	176,123	200,513
Income from interest on shareholders' equity	24	3,906	373	365,661	557,071	314,477
Income from disposal of investments	-	-	-	824,476	814,775	1,049,023
Provision for labor and civil contingencies	(72,626)	(51,657)	(64,545)	(86,811)	(67,336)	(46,875)
Tax expenses	(81,080)	(142,945)	(114,230)	(198,805)	(313,913)	(320,801)
Payroll	(191,783)	(341,468)	(268,373)	(251,353)	(449,677)	(346,953)
Administrative expenses	(60,778)	(110,425)	(103,818)	(62,022)	(112,089)	(107,637)
Other operating income	330,805	359,733	53,143	410,159	439,087	53,141
Other operating expenses	(436,356)	(177,377)	(95,323)	(558,627)	(235,528)	(215,667)
NET OPERATING INCOME	3,689,127	1,756,277	1,188,574	3,841,661	1,963,435	1,962,425
NON-OPERATING INCOME (EXPENSES)	(7,096)	(12,542)	7,753	(12,264)	(17,706)	6,744
Non-operating income	170	1,200	9,510	202	1,238	9,543
Non-operating expenses	(7,266)	(13,742)	(1,757)	(12,466)	(18,944)	(2,799)
INCOME BEFORE TAXES	3,682,031	1,743,735	1,196,327	3,829,397	1,945,729	1,969,169
Provision for income tax	(303,659)	(656,270)	(415,647)	(612,042)	(1,011,253)	(947,476)
Provision for social contribution	(111,792)	(239,710)	(152,106)	(185,977)	(330,447)	(346,882)
Deferred tax	203,697	221,148	(56,604)	448,594	474,569	(95,767)
INCOME BEFORE PROFIT SHARING	€ 3,470,277	1,068,903	571,970	3,479,972	1,078,598	579,044
Employee profit sharing	(31,079)	(31,079)	(22,401)	(40,774)	(40,774)	(29,475)
NET INCOME FOR THE SIX MONTHS/YEAR	3,439,198	1,037,824	549,569	3,439,198	1,037,824	549,569
NET INCOME FOR THE SIX MONTHS/YEAR PER SHARE – R\$	0.5482	0.1654	0.0876			
INTEREST ON SHAREHOLDERS' EQUITY	240,000	240,000	130,000	240,000	240,000	130,000

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

STATEMENTS OF SHAREHOLDERS' EQUITY

Six-month period ended December 31, 2003

(In thousands of reais)

	Capital reserve	Reserve for revaluation of investees' assets	Income Reserve	Retained earnings/ (accumulated deficit)	Total
	Tax Incentive Reserve		Legal Reserve		
Balances at July 1, 2003	11,362,584	106,885	26,641	274,828	10,055,754
Supplementary dividends – year 2002	-	-	-	(391,568)	(391,568)
Revaluation reserve Realization	-	-	(1,105)	1,105	-
Net income for the six-month period	-	-	-	3,439,198	3,439,198
Distribution of net income					
Legal reserve	-	-	-	(51,891)	-
Interest on shareholders' equity	-	-	-	(240,000)	(240,000)
Dividends	-	-	-	(6,483)	(6,483)
Balances at December 31, 2003	11,362,584	106,885	25,536	326,719	12,856,901
Changes for the six-month period	-	-	(1,105)	51,891	2,801,147

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

STATEMENTS OF SHAREHOLDERS' EQUITY --Continued
Year ended December 31, 2003
(In thousands of reais)

	Capital Reserve	Reserve for revaluation of investees' assets	Income Reserve	Retained earnings	Total
	Tax Incentive Reserve		Legal Reserve		
Balances at January 1, 2003	11,362,584	-	27,432	274,828	12,350,243
Supplementary dividends - year 2002	-	-	-	685,399	(391,568)
Tax incentive reserve					
Investment – BNDES	47,322	-	-	-	47,322
Investment – BNDESPAR	38,357	-	-	-	38,357
Investment – FINAME	21,206	-	-	-	21,206
Revaluation reserve					
Realization	-	(1,896)	-	1,896	-
Net income for the year	-	-	-	1,037,824	1,037,824
Distribution of net income:					
Legal reserve	-	-	51,891	(51,891)	-
Interest on shareholders' equity	-	-	-	(240,000)	(240,000)
Dividends	-	-	-	(6,483)	(6,483)
Balances at December 31, 2003	11,362,584	106,885	25,536	1,035,177	12,856,901
Changes for the year	-	106,885	(1,896)	51,891	349,778

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

STATEMENTS OF SHAREHOLDERS' EQUITY --Continued
Year ended December 31, 2002
(In thousands of reais)

	Capital	Capital Reserve	Reserve for revaluation of investees' assets	Income reserve	Retained earnings	Total
	in progress	Legal	Legal	Legal	earnings	Total
Balances at January 1, 2002	9,759,259	1,603,325	21,412	247,349	571,772	12,203,117
Supplementary dividends - year 2001	-	-	-	-	(279,410)	(279,410)
Capital increase	1,603,325	(1,603,325)	-	-	-	-
Revaluation reserve	-	-	7,490	-	-	7,490
Realization	-	-	(1,470)	-	1,470	-
Net income for the year	-	-	-	-	549,569	549,569
Distribution of net income:						
Legal reserve	-	-	-	27,479	(27,479)	-
Interest on shareholders' equity	-	-	-	-	(130,000)	(130,000)
Dividends	-	-	-	-	(523)	(523)
Balances at December 31, 2002	11,362,584	-	27,432	274,828	685,399	12,350,243
Changes for the year	1,603,325	(1,603,325)	6,020	27,479	113,627	147,126

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Six-month period and year ended December 31, 2003 and
year ended December 31, 2002
(In thousands of reais)

	BNDES			CONSOLIDATED		
	Six months	Year		Six months	Year	
	2003	2003	2002	2003	2003	2002
SOURCES OF FUNDS	12,948,883	3,613,963	38,413,217	12,891,656	4,929,956	41,972,093
FROM OPERATIONS	1,060,225	2,104,073	1,708,080	2,028,053	3,393,704	3,419,716
NET INCOME FOR THE SIX-MONTH PERIOD/YEAR	3,439,198	1,037,824	549,569	3,439,198	1,037,824	549,569
ITEMS NOT AFFECTING FINANCIAL POSITION	(2,378,973)	1,066,249	1,158,511	(1,411,145)	2,355,880	2,870,147
Allowance for loan losses	(588,459)	1,753,402	1,928,027	(1,821,653)	1,880,249	2,641,297
Additions to (reversal) the provision for labor and civil contingencies	72,626	51,657	60,753	86,811	67,336	46,875
Equity in result of associated companies and subsidiaries	(1,869,881)	(789,078)	(844,843)	(238,144)	(275,223)	140,726
Depreciation and amortization	6,220	11,968	12,194	6,220	11,968	12,194
Premium amortization	-	-	-	346,576	375,492	19,584
Recording (reversal) of the provision for investment adjustment	521	38,300	2,380	209,045	296,058	9,471
THIRD PARTY FUNDS PROVIDED FROM	11,888,658	1,509,890	36,705,137	10,863,603	1,536,252	38,552,377
. Increase in funds borrowed and onlending, net	6,084,958	349,122	35,415,788	6,618,542	929,571	37,193,218
. Increase in other liability accounts, net	2,394,599	-	977,323	2,219,149	-	1,358,327
. Decrease in loans, net	-	-	-	-	499,796	-
. Decrease in interbank investments, net	-	-	832	-	-	832
. Decrease in other asset accounts, net	2,624,872	371,187	-	2,025,912	-	-
. Decrease in permanent assets, net	784,229	682,696	311,194	-	-	-
. Tax incentive investments (Shareholders' equity)	-	106,885	-	-	106,885	-
APPLICATIONS OF FUNDS	12,953,046	3,734,208	38,484,825	12,898,312	5,066,675	42,026,191
. Increase in loans, net	12,311,298	3,084,292	36,647,400	8,909,748	-	37,978,521
. Increase in interbank investments, net	3,697	8,785	-	3,697	8,785	-
. Decrease in other liability accounts, net	-	3,080	-	-	336,037	-
. Increase in other asset accounts, net	-	-	1,427,492	-	346,716	1,909,431
. Increase in permanent assets, net	-	-	-	3,346,816	3,737,086	1,728,306
. Supplementary dividends for the years 2001 and 2000	-	-	279,410	-	-	279,410
. Supplementary dividends for the year 2002	391,568	391,568	-	391,568	391,568	-
. Dividends proposed for the year 2003	6,483	6,483	-	6,483	6,483	-
. Dividends proposed for the years 2002 and 2001	-	-	523	-	-	523
. Interest on shareholders' equity	240,000	240,000	130,000	240,000	240,000	130,000
DECREASE IN FINANCIAL POSITION	(4,163)	(120,245)	(71,608)	(6,656)	(136,719)	(54,098)
CHANGE IN FINANCIAL POSITION						
Beginning of the six-month period / year	6,677	122,759	194,367	10,206	140,269	194,367
End of the six-month period / year	2,514	2,514	122,759	3,550	3,550	140,269
DECREASE IN FINANCIAL POSITION	(4,163)	(120,245)	(71,608)	(6,656)	(136,719)	(54,098)

See accompanying notes.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

(In thousands of reais)

1. Operations

1.1) History

BNDES was incorporated on June 20, 1952, by Law No. 1628, as a governmental agency. Through the enactment of Law No. 5662 and Decree No. 68786, both dated June 21, 1971, it became a state-owned company and subject to general budgetary and accounting rules and specific regulations established by the National Monetary Council (CMN).

1.2) Objectives and performance

The BNDES Group is the main instrument of the Federal Government for long-term financing, with an emphasis on providing national private enterprise incentives.

The BNDES structure is designed to stimulate the national development and job creation, setting as priorities:

- infrastructure investments;
- investments in core inputs, for a resumption of industrial growth;
- exports;
- national technology;
- incentive to small and mid-sized businesses; and
- continental integration within South America.

In addition to operating as a development bank, BNDES has an important roll in the national development policies and in the identification of solutions for structural issues of the Brazilian economy.

BNDES also operates through its wholly owned subsidiaries BNDES Participações S.A. (BNDESPAR), which invests in national companies through subscription of shares and convertible debentures, and the Special Agency for Industrial Financing (FINAME), which supports the expansion and modernization of Brazilian industry by financing machinery and equipment acquisition.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
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2. Basis of preparation and presentation of the financial statements

The individual and consolidated financial statements have been prepared in conformity with the Brazilian Corporation Law and specific standards issued by the Central Bank of Brazil (BACEN), and are presented in accordance with the Chart of Accounts (COSIF) established by the BACEN.

Certain amounts in the financial statements dated December 31, 2002 have been reclassified to conform to the standards issued by BACEN and to ensure better comparability with the financial statements dated December 31, 2003.

3. Consolidation criteria

The consolidated financial statements include BNDES and its wholly owned subsidiaries FINAME and BNDESPAR. The consolidation of balance sheet and income accounts corresponds to the horizontal sum of the asset, liability, revenues and expenses, according to the nature of each balance, with the following eliminations:

- (i) investments, reserves and accumulated results held between the Institutions;
- (ii) balances of transactions between BNDES and its subsidiaries and other asset and/or liability balances held between the Institutions.

4. Summary of significant accounting practices

4.1) Operating results

Transactions with fixed interest rate are stated at their redemption values, and revenue and expenses relating to future periods are recorded in accounts reducing the related assets and liabilities. Transactions with post-fixed interest rate or indexed to foreign currencies are adjusted up to the balance sheet date.

Other revenues and expenses are recognized on an accrual basis, using the daily pro rata criterion for those of a financial nature.

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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
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4. Summary of significant accounting practices--Continued

4.2) Interbank investments

Interbank investments are stated at acquisition cost plus earnings up to the balance sheet date, deducted by valuation allowance, when applicable.

4.3) Securities and derivative instruments

Based on Circular No. 3068 of November 8, 2001 issued by BACEN, securities are classified in accordance with the intent of management into the following categories:

- a) trading;
- b) available for sale; and
- c) held to maturity.

Securities classified as trading and as available for sale are valued at the balance sheet date at fair value; those classified as held to maturity are valued at their acquisition cost, plus earnings to the balance sheet date.

Adjustments to fair value of the securities classified as trading in the period are recorded against the corresponding income or expense account, in operating results for the period.

Adjustments to fair value of the securities classified as available for sale are recorded against a specific account in the shareholders' equity, net of tax effects, transferred to operating results for the period at their effective realization, through the sale of the securities.

**BANCO NACIONAL DE DESENVOLVIMENTO
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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
(In thousands of reais)

4. Summary of significant accounting practices--Continued

4.3) Securities and derivative instruments--Continued

Derivative instruments, comprised of swap and option operations, are recorded in accordance with the following criteria:

- swap operations – differentials receivable or payable are respectively recorded in asset or liability accounts, and appropriated to income or expenses on a daily pro-rata basis to the balance sheet date;
- options operations – premiums paid or received are respectively recorded in assets or liabilities, up to the effective exercising of the option, and recorded with reduction or increase of the cost of the asset or right, for options effectively exercised, or as income or expense in case they are not exercised.

Derivative instruments operations are valued at market, at the balance sheet date, and respective valuation is recorded as follows:

- derivatives not considered as hedge – income or expense accounts, in the operating results for the period;
- derivatives considered as hedge – classified as market risk hedge and cash flow hedge.

Market-risk hedges are intended to offset the risks from the exposure to fair value variation of the hedged object and related valuation is recorded against income and expense accounts, in the operating income (loss) for the period.

Cash flow hedges are intended to offset changes in the estimated future cash flow and related valuation is recorded against a specific account in shareholders' equity. The related hedged objects are adjusted to fair value at the balance sheet date.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
(In thousands of reais)

4. Summary of significant accounting practices--Continued

4.4) Loans and allowance for loan losses

Loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors, complying with the standards established by Resolution No. 2682 of the BACEN, which requires periodic analysis of the portfolio and its classification into nine risk levels ranging between "AA" (minimum risk) and "H" (loss).

Income from loans past due over 60 days, irrespective of the risk level, are recognized as income only when received. Operations classified at "H" level remain as such for at least six months, when they are charged against the related allowance and controlled in memorandum accounts for five years, no longer appearing on the balance sheet.

Renegotiated operations remain at the same level at which they were classified, except for the renegotiation with AES, as further described in Note 6.7. Renegotiated loans which had already been charged against the allowance for loan losses and which have been controlled in memorandum accounts are classified at "H" level, and any gains resulting therefrom are recognized as income only when received.

The allowance for loan losses, considered sufficient by management, is in compliance with the requirements established by BACEN, as shown in Note 6.

4.5) Investments

Investments in subsidiaries and associated companies are accounted for by the equity method.

Other investments are carried at cost, deducted by the allowance for losses, when applicable.

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ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
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4. Summary of significant accounting practices--Continued

4.5) Investments--Continued

The dividends declared and interest on shareholders' equity, for significant investments, are recorded as a reduction of the related equity interests. Dividends and interest on shareholders' equity valued at acquisition cost are recorded directly in income.

4.6) Property and equipment

Property and equipment are stated at acquisition cost, net of the related accumulated depreciation. Depreciation is computed on the straight-line basis over the economic lifetime of the assets.

4.7) Deferred charges

Deferred charges are stated at acquisition or built-up cost, net of related accumulated amortization, which is computed by the straight-line method.

4.8) Monetary restatement of assets and liabilities

Assets and liabilities legally or contractually subject to foreign exchange or index-based variation are restated up to the balance sheet date. These restatements are recorded against the operating result for the year.

4.9) Recognition of actuarial assets and liabilities

a) Pension plan

Actuarial assets, computed by the actuaries, are not recognized as assets of the sponsor since it is not possible to offset such amounts against future contributions, as set forth by the pension fund regulation.

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ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
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(In thousands of reais)

4. Summary of significant accounting practices--Continued

4.9) Recognition of actuarial assets and liabilities--Continued

a) Pension plan--Continued

The portion of actuarial gains and losses to be recognized as an increase or reduction of future liabilities, to be determined by the actuaries, will correspond to the excess of the higher of 10% of the fair value of the plan assets or 10% of actuarial liabilities discounted to present value, and this portion is recognized over the average future time of service of the active participants of the plan. The effect of deferred actuarial gains and losses is accounted for through the annual expense with the supplementary pension plan, determined by the actuaries.

Expenses in connection with sponsor's contributions to the pension plan are charged to income on an accrual basis.

b) Health care plan

Actuarial liabilities, determined by actuaries, are recognized by the sponsor as a supplement to the existing reserve against the income (loss) for the period.

Expenses in connection with sponsor's contributions to the post-retirement health care plan are charged to income on an accrual basis.

4.10) Income tax and social contribution

The provision for income tax is calculated on the taxable income at the rate of 15%, plus a 10% surtax under the terms set forth by prevailing tax legislation. Social contribution, adjusted in accordance with the legislation in force, is computed at the rate of 9%.

Deferred income tax and social contribution on temporary differences are recorded in "Tax credits", in non-current assets.

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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
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5. Securities

In compliance with Circular No. 3068 of November 8, 2001 issued by BACEN, securities have been classified, in accordance with the intent of Management, based on their trading frequency or on their being held to maturity. At December 31, the securities portfolio, classified in accordance with the aforementioned regulation, was comprised as follows:

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Trading securities				
Federal Government securities	1,013,759	1,013,759	-	-
BB Extramercado Fund – Resolution No. 2108/94	-	718,673	-	1,556,270
BB Polo XXVI Fund	276,912	276,912	-	-
BB Millenium Fund	1,767,101	1,767,101	2,695,677	2,695,677
Quotas of mutual investment funds	-	481,462	-	395,305
	3,057,772	4,257,907	2,695,677	4,647,252
Securities available for sale				
Shares – PND	211,362	211,362	211,791	211,791
Shares – CompanhiaVale do Rio Doce – CVRD	157	157	157	157
	211,519	211,519	211,948	211,948
Securities held to maturity				
Debentures	2,953,151	8,467,096	3,297,731	7,909,899
Government securities	87,474	2,660,729	1,324,669	4,188,359
Foreign fixed-income securities	105,519	105,519	127,894	127,894
	3,146,144	11,233,344	4,750,294	12,226,152
Total	6,415,435	15,702,770	7,657,919	17,085,352
Current	2,536,919	3,897,508	3,249,751	5,398,392
Noncurrent	3,878,516	11,805,262	4,408,168	11,686,960

Trading securities

Government securities

Represented by Financial Treasury Bills (LFT) yielding the equivalent to the SELIC variation and with maturity at January 17, 2007.

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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
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5. Securities--Continued

Trading securities--Continued

Government securities--Continued

The fair value of the Financial Treasure Bills (LFTs) was computed based on quoted amount obtained from the National Association of Open Market Institutions (ANDIMA).

BB Extramercado Fund

Investments in this fund, managed by Banco do Brasil S.A., represent investments of cash generated by BNDESPAR and FINAME. These investments yield on average about 98% of the CDI (Interbank Deposit Certificates).

BB Pólo XXVI Fund

Investments in this fund are represented by Federal Government securities backed by U.S. dollar.

BB Millenium Fund

Investments in this fund are backed by Federal Government securities yielding the equivalent to the variation in SELIC.

Quotas of mutual investment funds

These investments are managed by private financial institutions. The quotas of such funds are valued based on the quota amount disclosed by the respective fund manager at the balance sheet date.

Investment funds are adjusted to fair value on a daily basis, against the income (loss) for the period.

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
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5. Securities--Continued

Securities available for sale

Shares - PND

Represented by shares of companies under the National Privatization Program (PND), by operation of Decree No. 1068/94, which are sold by privatization auctions. The proceeds from the sale of such shares will be used, compulsorily, in the acquisition of National Treasury Notes series P (NTN-P), traded exclusively with the National Treasury, with maturities between 8 and 15 years. Under these conditions, BNDES understands that such shares shall not be valued at fair value since they will be traded exclusively with the National Treasury. Accordingly, at December 31, 2003, there are no positive or negative effects on shareholders' equity.

Shares – Companhia Vale do Rio Doce - CVRD

Represented by the net book value of Companhia Vale do Rio Doce – CVRD shares that were not sold during the CVRD privatization process and in the public offering held in March 2002. BNDES understands that such shares have not to be valued at fair value since they will be traded exclusively with the National Treasury. Accordingly, at December 31, 2003, there are no effects on shareholders' equity.

Securities held to maturity

Debentures

Debentures represent a type of financial support, and are contracted directly with the issuers and realized at maturity or converted into equity interest in accordance with contractual clauses. The maturities of the debentures are from November 2004 to January 2017. Due to the characteristics of such securities, they are valued in conformity with the standards defined by BACEN Resolution No. 2682 (see Note 6).

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Public sector	721,895	721,895	672,527	672,527
Private sector	2,229,256	7,745,201	2,625,204	7,237,372
Total	2,953,151	8,467,096	3,297,731	7,909,899

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NOTES TO FINANCIAL STATEMENTS--Continued
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5. Securities--Continued

Securities held to maturity--Continued

Government securities

Government securities originate, mainly, from the exchange of credit and other assets with the National Treasury. These securities are traded with Federal Government-related institutions and, to date, have not been subject to market trading. The maturities of these securities are from March 2004 to March 2014.

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
- Unrestricted securities				
- National Treasury Notes – Series I	-	-	-	56,291
- Financial Treasury Certificate – Series D	2,239	2,239	3,078	3,078
- Financial Treasury Bills – Series A	80,084	80,084	1,252,949	1,252,949
- National Treasury Notes – Series D	-	2,570,260	-	2,799,005
	82,323	2,652,583	1,256,027	4,111,323
Securities linked to PND:				
- Other	5,151	8,146	68,642	77,036
Total	87,474	2,660,729	1,324,669	4,188,359

Financial Treasury Certificate – series D (CFT-D)

These securities originate from the exchange of assets with the National Treasury and are adjusted based on U.S. dollar variation, plus interest of 6% per year, with the maturity on October 30, 2004.

Financial Treasury Bills – Series A (LTN-A)

These bills originate from the exchange of assets with the National Treasury, are adjusted based on the SELIC rate, plus interest of 0.0245% per month, with the maturity on March 18, 2014.

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NOTES TO FINANCIAL STATEMENTS--Continued
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5. Securities--Continued

Securities held to maturity--Continued

Financial Treasury Bills--Continued

In order to raise funds for the budgeted disbursements of 2003, BNDES sold LFT previously classified as “securities held to maturity”. This need was raised by a greater demand for funds in the last quarter of 2003, mainly under Export Support Programs, which resulted in a volume of disbursements higher than the budget in approximately R\$ 1,000,000. Such sales provided additional funds to BNDES of R\$ 770,000 and generated an income of approximately R\$ 3,800.

Considering that the volume of investments budgeted for 2004 is higher than the actual volume in 2003, Management believes that selling the LFTs with maturity at January 17, 2007 will be necessary, and that the reclassification, at December 31, 2003, from “held to maturity” to “Trading securities”.

National Treasury Notes – Series D (NTN-D)

These notes are issued by the National Treasury, and are adjusted based on the U.S. dollar plus interest of 12% per year, with maturities from January 19, 2005 to September 20, 2006.

Securities linked to the PND

These securities originate from the privatization of equity investments under the National Privatization Program (PND), in accordance with Law No. 9491/97, and will be commuted with the Federal Government for National Treasury Notes – Series P (NTN-P).

Foreign fixed-income securities

Represented by repurchases of securities that are issued by BNDES in the foreign market, with maturities between 2005 and 2008.

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NOTES TO FINANCIAL STATEMENTS--Continued
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6. Loans, interbank onlending, debentures and installment sales of securities

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Loans	53,237,214	72,980,970	50,814,954	64,469,672
Interbank onlending	75,689,599	40,686,425	76,735,584	49,723,094
Debentures – private sector (Note 5)	2,953,151	8,467,096	3,297,731	7,909,899
Installment sales of securities	212,351	3,293,534	213,344	4,923,556
Total	132,092,315	125,428,025	131,061,613	127,026,221
Current	25,482,616	30,728,496	24,117,330	28,448,383
Non-current	106,609,699	94,699,529	106,944,283	98,577,838

6.1) Classification by risk level and allowance for loan losses

The National Monetary Council (CMN), through Resolution No. 2682 of December 21, 1999, published by BACEN, established a systematic method for recording the allowance for loan losses. The rule which stipulates a risk classification by levels based on the status of such operations in full performance and in default and respective percentages, and became effective in the beginning of March 2000.

Therefore, allowances for loans in full performance and in default related to loans, interbank onlending and debentures were as follows:

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NOTES TO FINANCIAL STATEMENTS--Continued
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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

a) Loans

Risk level	Status	2003				
		Loans		Allowance	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	34,136,059	39,431,704	0.00%	-	-
A	In full performance	6,111,887	11,860,116	0.50%	30,559	59,301
B	In full performance	6,507,750	15,186,712	1.00%	65,077	151,867
C	In full performance	2,823,183	2,963,855	3.00%	84,696	88,916
	In default	19,879	19,879	3.00%	596	596
		<u>2,843,062</u>	<u>2,983,734</u>		<u>85,292</u>	<u>89,512</u>
D	In full performance	2,705,772	2,705,772	10.00%	270,577	270,577
	In default	63,054	63,054	10.00%	6,305	6,305
		<u>2,768,826</u>	<u>2,768,826</u>		<u>276,882</u>	<u>276,882</u>
E	In full performance	1,694,172	1,694,172	30.00%	508,252	508,252
	In default	39,829	39,829	30.00%	11,949	11,949
		<u>1,734,001</u>	<u>1,734,001</u>		<u>520,201</u>	<u>520,201</u>
F	In full performance	1,165	1,165	50.00%	582	582
	In default	6,295	6,295	50.00%	3,147	3,147
		<u>7,460</u>	<u>7,460</u>		<u>3,729</u>	<u>3,729</u>
G	In full performance	333,548	333,548	70.00%	233,484	233,484
	In default	32,819	32,819	70.00%	22,974	22,974
		<u>366,367</u>	<u>366,367</u>		<u>256,458</u>	<u>256,458</u>
H	In full performance	169,778	208,446	100.00%	169,778	208,446
	In default	3,258,840	3,288,992	100.00%	3,258,840	3,288,992
		<u>3,428,618</u>	<u>3,497,438</u>		<u>3,428,618</u>	<u>3,497,438</u>
Total		<u>57,904,030</u>	<u>77,836,358</u>		<u>4,666,816</u>	<u>4,855,388</u>
Current		16,772,941	18,441,790		1,351,827	1,367,615
Non-current		41,131,089	59,394,568		3,314,989	3,487,773

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
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**6. Loans, interbank lending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

a) Loans--Continued

Risk level	Status	2002				
		Loans		Allowance %	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	24,782,121	22,216,612	0.00%	-	-
A	In full performance	5,389,114	12,540,201	0.50%	26,946	62,701
B	In full performance	11,308,575	20,467,895	1.00%	113,086	204,679
C	In full performance	3,733,160	3,771,477	3.00%	111,995	113,145
	In default	131,386	131,386	3.00%	3,942	3,942
		<u>3,864,545</u>	<u>3,902,863</u>		<u>115,936</u>	<u>117,087</u>
D	In full performance	1,537,910	1,537,910	10.00%	153,791	153,791
	In default	8,553	8,553	10.00%	855	855
		<u>1,546,463</u>	<u>1,546,463</u>		<u>154,646</u>	<u>154,646</u>
E	In full performance	5,989,005	5,989,004	30.00%	1,796,701	1,796,701
F	In full performance	11,952	11,952	50.00%	5,976	5,976
G	In full performance	399,360	399,360	70.00%	279,552	279,552
	In default	55,547	55,547	70.00%	38,883	38,883
		<u>454,906</u>	<u>454,907</u>		<u>318,435</u>	<u>318,435</u>
H	In full performance	814,668	856,514	100.00%	814,668	856,514
	In default	384,377	384,377	100.00%	384,377	384,377
		<u>1,199,045</u>	<u>1,240,891</u>		<u>1,199,045</u>	<u>1,240,891</u>
Total		<u>54,545,726</u>	<u>68,370,788</u>		<u>3,730,772</u>	<u>3,901,116</u>
Current		10,856,517	12,417,039		742,555	773,128
Non-current		43,689,209	55,953,749		2,988,217	3,127,988

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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

b) Interbank onlending

Risk level	Status	2003				
		Interbank onlending		Allowance %	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	71,605,539	33,978,967	0.00%	-	-
A	In full performance	2,732,821	4,879,041	0.50%	13,664	24,395
B	In full performance	1,264,878	1,674,511	1.00%	12,648	16,745
C	In full performance	29,675	64,689	3.00%	890	1,941
	In default	61	61	3.00%	2	2
		29,736	64,750		892	1,943
D	In full performance	36,426	46,628	10.00%	3,643	4,663
E	In full performance	72,923	128,963	30.00%	21,877	38,689
H	In full performance	1,873	1,873	100.00%	1,873	1,873
	In default	192,250	203,792	100.00%	192,250	203,792
		194,123	205,665		194,123	205,665
Total		75,936,446	40,978,525		246,847	292,100
Current		9,775,444	10,735,503		31,777	45,713
Non-current		66,161,002	30,243,022		215,070	246,387

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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

b) Interbank onlending--Continued

Risk level	Status	2002				
		Interbank onlending		Allowance %	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	72,091,728	40,593,281	0.00%	-	-
A	In full performance	3,248,511	5,024,605	0.50%	16,243	25,123
B	In full performance	1,335,746	3,866,730	1.00%	13,357	38,667
C	In full performance	78,004	289,883	3.00%	2,340	8,696
D	In full performance	9,464	17,848	10.00%	946	1,785
E	In full performance	7,169	7,169	30.00%	2,151	2,151
H	In full performance	38,785	447,919	100.00%	38,785	447,919
	In default	-	23,777	100.00%	-	23,777
		38,785	471,696		38,785	471,696
Total		76,809,406	50,271,212		73,822	548,118
Current		13,677,182	14,181,951		13,145	86,264
Non-current		63,132,224	36,089,261		60,677	461,854

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NOTES TO FINANCIAL STATEMENTS--Continued
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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

c) Debentures

Risk level	Status	2003				
		Debentures		Allowance %	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	1,319,620	3,116,230	0.00%	-	-
A	In full performance	-	54,219	0.50%	-	271
B	In full performance	15,561	173,932	1.00%	156	1,739
C	In full performance	1,473,271	3,303,897	3.00%	44,198	99,117
D	In full performance	135,992	327,026	10.00%	13,599	32,702
E	In full performance	95,229	2,315,453	30.00%	28,569	694,636
G	In full performance	-	8,004	70.00%	-	5,603
	In default	-	8,011	70.00%	-	5,608
		-	16,015		-	11,211
H	In full performance	-	12,970	100.00%	-	12,970
	In default	-	117,046	100.00%	-	117,046
		-	130,016		-	130,016
Total		3,039,673	9,436,788		86,522	969,692
Current		273,730	896,955		156	86,197
Non-current		2,765,943	8,539,833		86,366	883,495

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NOTES TO FINANCIAL STATEMENTS--Continued
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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.1) Classification by risk level and allowance for loan losses--Continued

c) Debentures--Continued

Risk level	Status	2002				
		Debentures		Allowance %	Allowance	
		BNDES	Consolidated		BNDES	Consolidated
AA	In full performance	1,013,020	1,733,799	0.00%	-	-
A	In full performance	492,172	688,872	0.50%	2,461	3,444
B	In full performance	430,607	1,795,570	1.00%	4,306	17,956
C	In full performance	1,192,202	3,130,983	3.00%	35,766	93,929
D	In full performance	154,657	261,841	10.00%	15,466	26,184
E	In full performance	104,388	441,749	30.00%	31,316	132,525
F	In full performance	-	262,246	50.00%	-	131,123
H	In full performance	-	16,449	100.00%	-	16,449
	In default	-	804	100.00%	-	804
		-	17,253		-	17,253
Total		3,387,046	8,332,313		89,315	422,414
Current		347,536	857,135		8,205	42,530
Non-current		3,039,510	7,475,178		81,110	379,884

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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
(In thousands of reais)

**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.2) Profile of loans, interbank onlending and debentures

a) Loans and interbank onlending, by year of maturity, are as follows:

	2003	
	BNDES	Consolidated
Past due	3,613,027	3,654,721
Current:		
2004	22,935,359	24,141,344
2005	17,644,308	17,091,075
2006	13,730,253	11,673,077
2007	13,008,386	9,904,753
2008	11,437,001	5,840,562
Thereafter	51,472,142	46,509,350
Total	<u>133,840,476</u>	<u>118,814,883</u>

b) Debentures, by year of maturity, are as follows:

	2003	
	BNDES	Consolidated
Past due	-	5,983
Current:		
2004	15,561	92,668
2005	14,219	168,306
2006	18,063	643,059
2007	602,760	1,433,960
2008	212,788	212,788
Thereafter	2,176,282	6,880,024
Total	<u>3,039,673</u>	<u>9,436,788</u>

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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.2) Profile of loans, interbank onlending and debentures--Continued

c) Loans and interbank onlending, segregated into public and private sectors, are as follows:

		2003					
		BNDES			Consolidated		
		Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Public sector:							
Subsidiaries		31,785,093	22,701,121	54,486,214	-	-	-
Other		13,537,798	2,994,857	16,532,655	15,310,923	3,866,065	19,176,988
		<u>45,322,891</u>	<u>25,695,978</u>	<u>71,018,869</u>	<u>15,310,923</u>	<u>3,866,065</u>	<u>19,176,988</u>
Private sector		47,782,082	15,039,525	62,821,607	66,243,572	33,394,323	99,637,895
Total		<u>93,104,973</u>	<u>40,735,503</u>	<u>133,840,476</u>	<u>81,554,495</u>	<u>37,260,388</u>	<u>118,814,883</u>

		2002					
		BNDES			Consolidated		
		Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Public sector:							
Subsidiaries		24,182,861	29,439,934	53,622,795	-	-	-
Other		10,645,890	3,479,814	14,125,704	11,166,702	4,212,345	15,379,047
		<u>34,828,751</u>	<u>32,919,748</u>	<u>67,748,499</u>	<u>11,166,702</u>	<u>4,212,345</u>	<u>15,379,047</u>
Private sector		44,672,616	18,934,017	63,606,633	56,819,733	46,443,220	103,262,953
Total		<u>79,501,367</u>	<u>51,853,765</u>	<u>131,355,132</u>	<u>67,986,435</u>	<u>50,655,565</u>	<u>118,642,000</u>

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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.2) Profile of loans, interbank onlending and debentures--Continued

d) Distribution of loans and onlending by activities

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Public sector	71,018,869	19,176,988	67,748,499	15,379,047
Private sector	62,821,607	99,637,895	63,606,633	103,262,953
Rural	826,927	826,927	896,870	896,870
Industrial production	28,341,213	28,341,213	31,680,507	29,320,443
Commerce	452,600	452,599	623,935	623,935
Financial intermediation	19,599,746	37,024,541	21,375,716	60,004,966
Other services	13,601,121	32,992,615	9,029,605	12,416,739
Total	133,840,476	118,814,883	131,617,923	118,642,000

6.3) Reclassifications of credits from loans and interbank onlending to income

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Credits reclassified to income	840,429	1,315,774	641,360	762,120
Credits recovered	188,150	211,622	396,774	434,906

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**6. Loans, interbank onlending, debentures and installment sales of securities--
Continued**

6.4) Changes in provision for loans

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Balance at beginning of year	3,730,772	3,901,116	1,820,713	1,874,299
Change in provision for loans in default, net	(1,910,813)	(1,880,660)	(5,150)	(6,458)
Change in provision for loans in full performance, net	2,846,857	2,834,932	1,915,209	2,033,275
Balance at yearend	4,666,816	4,855,388	3,730,772	3,901,116

6.5) Changes in provision for interbank onlending

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Balance at beginning of year	73,822	548,118	191,664	684,435
Change in provision for loans in default, net	(42,147)	(54,382)	(14,251)	1,010
Change in provision for loans in full performance, net	215,172	(201,636)	(103,591)	(137,327)
Balance at yearend	246,847	292,100	73,822	548,118

6.6) Breakdown of the allowance for loan losses balance

	BNDES			Consolidated		
	Six month- period 2003	Year 2003	Year 2002	Six month- period 2003	Year 2003	Year 2002
Loans in full performance	4,893,860	2,846,857	1,915,209	4,759,871	2,834,932	2,033,275
Loans in default	(5,880,600)	(1,910,813)	(5,150)	(5,850,447)	(1,880,660)	(6,458)
Onlending operations in full performance	182,761	215,172	(103,591)	(281,152)	(201,636)	(137,327)
Onlending operations in default	(256,763)	(42,147)	(14,251)	(256,763)	(54,382)	1,011
Installment sale of securities	(5,153)	(5,153)	(72,301)	(469,632)	(469,432)	518,960
FMM – in full performance	-	-	(119,024)	-	-	(119,024)
Securities – debentures	(15,139)	(2,793)	82,547	(682,782)	547,276	23,648
Subtotal of allowance for loan losses	(1,081,034)	1,101,123	1,683,439	(2,782,705)	776,098	2,314,085
Write-off of loans (BACEN Resolution No. 2682)	567,491	840,429	641,363	1,040,029	1,315,774	762,120
Recovery of loans written off	(74,916)	(188,150)	(396,775)	(80,975)	(211,622)	(434,908)
Net result – memorandum account	492,575	652,279	244,588	959,054	1,104,151	327,212
Net expense recorded	(588,459)	1,753,402	1,928,027	(1,821,651)	1,880,249	2,641,297

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NOTES TO FINANCIAL STATEMENTS--Continued
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6. Loans, interbank lending, debentures and installment sales of securities--
Continued

6.7) Renegotiation of loans with AES Elpa and AES Transgás

In August 1998, BNDES granted a loan of US\$ 1.8 billion to Lightgás Ltda., now known as AES ELPA S.A., for the acquisition of 11 billion common shares of Eletropaulo Metropolitana Eletricidade São Paulo S.A. (ELETROPAULO), corresponding to 74.88% of the voting capital and 29.88% of the total capital of said company. The same common shares were given in guaranty of the operation. The company became a defaulter with BNDES on January 31, 2003.

In January and May 2000, BNDESPAR, a wholly-owned subsidiary of BNDES, granted a loan of US\$ 1.2 billion to AES TRANSGÁS EMPREENDIMENTOS LTDA. for forward sales of preferred shares issued by ELETROPAULO, corresponding to 64% of the preferred shares, or 39% of the total capital of said company. The referred shares were given in guaranty of the operation to the Brazilian Clearing and Depository Corporation (CBLC). The company became a defaulter with BNDESPAR on February 28, 2003.

As set forth by BACEN Resolution No. 2682/99, both loans were gradually accrued, reaching 100% of the amount in June 2003. The high level of such provisions brought negative results to both BNDES and BNDESPAR during a large part of the year 2003.

In September 2003, BNDES and AES signed a Memorandum of Understanding (MoU), suspending the court proceedings. Under the terms of the MoU, the debt of both companies would be restructured with the creation of a new company that would assume the responsibility for both loans.

The articles of incorporation of the new company BRASILIANA ENERGIA S.A. were executed on December 22, 2003. In order to make the negotiation feasible, the BNDES assigned its receivable from AES ELPA to BNDESPAR which, in turn, holds interest in the capital of the new company through conversion of the equivalent to US\$ 600 million of the total debt (US\$1.2 billion), corresponding to 50% of the common capital stock of BRASILIANA, less 1 (one) share.

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6. Loans, interbank lending, debentures and installment sales of securities--
Continued

6.7) Renegotiation of loans with AES Elpa and AES Transgás--Continued

Also, under the terms of the agreement, US\$ 90 million of the remaining debt was to be paid in cash (received in January 2004), upon approval of the agreement by competent authorities, and the balance was converted into series of convertible debentures, with an established payment schedule. The conversion into shares could occur any time upon a new event of default on the part of the company, allowing BNDESPAR to take over the new company immediately, without any legal measures being taken.

With respect to arrears interest and charges corresponding to the period of default, totaling US\$118 million, an acknowledgment of debt was signed whereby the BNDES Group is assured of repayment in case Brasiliana becomes a defaulter. If the agreement is honored as expected, the amount will be waived.

The conclusion of the agreement allowed a partial reversal of the provisions totaling R\$ 2,782,585, part of which (R\$ 1,226,249) had been recorded in the year ended December 31, 2002, with a positive impact on the BNDES Group's results for the year 2003 (consolidated).

7. Other credits - Sundry

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Tax credits (see Note 13.b)	792,290	1,303,012	571,141	840,211
Recoverable payments	26,276	49,945	40,071	28,542
Tax incentives, net of provision	21,781	27,673	11,969	45,262
Escrow deposits	39,131	48,792	32,663	41,916
Receivables	-	260,028	-	-
Other	181,294	433,045	168,848	450,307
Total	1,060,772	2,122,495	824,692	1,406,238
Current	315,563	982,482	298,664	621,854
Non-current	745,209	1,140,013	526,028	784,384

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NOTES TO FINANCIAL STATEMENTS--Continued
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8. Investments

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
In subsidiaries	12,176,654	-	12,117,370	-
- Valued by the equity method	12,176,654	-	12,117,370	-
In associated companies	8,011	7,242,495	8,011	5,555,826
- Valued by the equity method	-	4,435,488	-	2,859,449
- Valued at cost	8,011	2,807,007	8,011	2,696,377
Other equity interests	83,528	6,927,682	83,528	5,282,390
Other investments	216,972	228,455	216,972	228,455
Total	12,485,165	14,398,632	12,425,881	11,066,671

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NOTES TO FINANCIAL STATEMENTS--Continued
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8. Investments

8.1) Subsidiaries - BNDES

Subsidiaries	Base date	Shareholders' equity	Net income for the year	Equity pickup	Dividends	Effects of adjustments to shareholders' equity in subsidiaries' Capital reserve	Book value of the investment		
							2003	2002	
Agência Especial de Financiamento Industrial - FINAME	12.31.2003	1,777,618	307,575	307,575	274,468 73,049	a b	c	1,777,618	1,796,354
								21,206	
.BNDES Participações S.A. - BNDESPAR	12.31.2003	10,399,036	481,503	481,503	327,483 114,357	a b	c	10,399,036	10,321,016
								38,357 (1,896)	d
				789,078	789,357			12,176,654	12,117,370

The percentage equity interest held in subsidiaries is 100%.

- a) Additional dividends in year 2002.
- b) Minimum dividends proposed for year 2003.
- c) Capital reserve – tax incentives.
- d) Capital reserve – realization of revaluation reserve.

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8. Investments

8.2) Associated companies – CONSOLIDATED

a) Valued at cost

Investees	Number in thousands shares held		Equity interest %	BNDES Book value		Consolidated Book value	
	Common	Preferred		2003	2002	2003	2002
Cadam – Caulim da Amazônia S.A.	-	3,712	16.87	8,010	8,010	8,011	8,011
Cia. de Aços Especiais Itabira – ACESITA	-	130,169,553	17.46	-	-	155,966	155,966
CAIUA Serviços de Eletricidade S.A.	-	9,199	16.18	-	-	91,476	91,478
Centrais Elet. Brasil S.A. – ELETROBRAS	67,789,960	532,938	12.71	-	-	2,286,207	2,209,757
Indústrias Verolme Ishibras S.A.	1,224,784	1,224,784	12.98	1	1	1	1
Nordeste Química S.A. – NORQUISA	-	69,620	10.06	-	-	30,960	30,960
Rio Polímeros S.A.	129,101	-	16.67	-	-	150,719	74,792
				8,011	8,011	2,723,340	2,570,962
Total							
				8,011	8,011	83,667	125,413
						2,807,007	2,696,377

Other investments (net of valuation allowance of R\$73,638 in 2003 and 2002-BNDES, and R\$ 81,274 in 2003 and R\$ 90,865 in 2002 – CONSOLIDATED)

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8. Investments--Continued

8.2) Associated companies – CONSOLIDATED

b) Valued by the equity method

Investees	Base date	Capital	Shareholders' equity	Number in thousands shares held		Equity interest %	Equity pickup	Equity value of the investment	Premium (Discount) Valuation allowance	Book value	
				Common	Preferred					2003	2002
				At December 31, 2003						a	b
Acos Villares	(1) 10.31.2003	288,104	176,761	-	-	28.88	32,485	51,051	-	51,051	18,567
Brasilianna Energia	(1) 12.31.2003	3,701,789	3,701,789	50,000	-	53.85	-	1,993,413	(231,948)	1,761,465	-
CEG	(1) 10.31.2003	180,244	286,557	-	-	34.56	21,659	99,027	(16,222)	82,805	69,933
COPEL	(1) 10.31.2003	2,900,000	4,814,855	28,210,943	-	24.30	(38,800)	1,170,211	(317,506)	852,705	891,505
Klabin	(1/2) 10.31.2003	800,000	1,971,359	190,247	-	20.71	246,951	408,190	-	408,190	175,367
Inepar Energia	(1) 10.31.2003	32,3637	188,167	20,000	-	27.63	(15,190)	51,988	(51,987)	1	10,180
Ioelpe Maxion	(1) 10.31.2003	161,463	158,086	179,138	904,135	40.70	(2,560)	64,341	(22,194)	42,147	44,706
Marlim Part.	(1) 10.31.2003	188,626	227,621	27,879	55,759	30.00	34,868	68,286	-	68,286	73,962
Net Serv. Com.	(1) 10.31.2003	2,735,727	(64,809)	60,138	374,430	21.42	(97,223)	289,804	170,966	460,770	462,649
Suzano	(1) 10.31.2003	1,137,737	2,298,853	-	32,590	12.61	86,735	598,308	(27,454)	570,854	580,760
Telemar Part.	(1) 10.31.2003	3,385,466	2,393,233	858,225	-	25.00	(9,905)	-	-	-	-
Other companies											
					Subtotal		259,020	4,794,619	(615,324)	4,298,274	2,736,956
							16,203	150,886	2,565	137,214	122,493
					Total		275,223	4,945,505	(623,158)	4,435,488	2,859,449

(1) Financial statements reviewed by independent auditors at the equity pickup base date, except for Cia. Distribuidora de Gás do Rio de Janeiro-CEG, Marlim Participações S.A. and NET Serviços de Comunicação S.A.

(2) Successor by merger to IKPC-Indústrias Klabin de Papel e Celulose S.A.

- The base date indicates the date of the shareholders' equity of the investee in which the most recently calculated equity pickup was based.
- Equity pickup considers the effects of changes in shareholders' equity of associated companies for the period from prior year base date to the current year base date.
- The amounts related to discounts on investment subscription are not amortized for lack of economic basis.

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8. Investments--Continued

8.3) Other equity interests – CONSOLIDATED

Investees	Number in thousands shares held		Equity interest %	BNDES Book value		Consolidated Book value	
	Common	Preferred		2003	2002	2003	2002
Americal S.A.	-	132,690	1.45	-	-	6,782	119,182
Anacruz Celulose S.A.	56,881	44,162	9.79	-	-	229,653	229,653
Banco do Brasil S.A.	42,985,035	-	5.78	-	-	265,338	265,338
Brasil Telecom Part. S.A.	1,606,631	13,337,542	4.19	-	-	351,851	348,622
Brasil Telecom S.A.	-	5,001,074	0.92	-	-	70,633	69,415
Banco Bradesco S.A.	-	7,752,527	0.49	-	-	75,131	72,532
Banco Itaú S.A.	-	312,700	0.27	-	-	54,839	54,839
Cia Brasileira de Distribuição-CBD	-	3,321,860	2.93	-	-	131,156	131,155
Centrais Elétricas de Minas Gerais S.A. – CEMIG	115,321	3,472,673	2.21	-	-	91,816	91,816
Centrais Elétricas de Santa Catarina S.A. – CELESC	-	35,001	4.54	-	-	44,517	44,516
CPFL Energia S.A.	140,845	-	3.42	-	-	300,000	-
Cia de Tecidos do Norte de Minas-COTEMINAS	-	588,653	9.69	-	-	151,902	-
Cia. Vale do Rio Doce – CVRD	17,668	1,306	4.88	-	-	808,094	808,094
Empresa Brasileira de Aeronáutica S.A. – EMBRAER	3,735	46,930	7.08	-	-	148,093	148,764
Embratel Participações S.A.	4,952,507	19,298,761	7.25	-	-	200,772	200,772
Gerdaul S.A.	3,801	1,971	3.89	-	-	64,889	64,889
Petróleo Brasileiro S.A. – PETROBRAS	12,789	73,956	7.91	-	-	1,061,962	1,061,962
Rede Ferroviária Federal S.A. – RFFSA	-	3,956,987	1.55	73,580	73,580	73,580	73,580
Telemar Norte Leste S.A.	-	1,308,495	0.53	-	-	51,051	51,051
Telesp Celular Participações S.A.	-	29,471,473	2.52	-	-	230,933	230,933
Telet S.A.	-	133,930	0.96	-	-	8,636	111,036
Tele Norte Leste Participações S.A.	1,292,661	7,832,784	2.34	-	-	236,921	232,686
Tractebel Energia S.A.	14,905,395	17,991,337	5.04	-	-	91,171	84,171
VALEPAR S.A.	12,375,000	-	9.47	-	-	1,541,987	40,148
Votorantim Celulose e Papel S.A.-VCP	-	1,475,291	3.85	-	-	78,427	308,187
				73,580	73,580	6,370,134	4,843,341
				9,948	9,948	557,548	439,049
				83,528	83,528	6,927,682	5,282,390
		Total					

Other equity interests (net of valuation allowance of R\$ 311,343 in 2003 and 2002 – BNDES, and of R\$ 378,700 in 2003 and R\$ 375,109 in 2002 – CONSOLIDATED).

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8. Investments--Continued

8.4) Quality of stock portfolio – Consolidated

Equity investments are recorded, at December 31, 2003, in the amount of R\$ 14,170,178, as follows: R\$ 7,242,495 in associated companies (subject and not subject to equity pickup) and R\$ 6,927,683 in other investments. Out of that total, R\$ 9,864,726 (equivalent to 70%) is invested in listed companies, and R\$ 4,305,452 (equivalent to 30%) in unlisted companies.

At December 31, 2003, the fair value of equity interest was estimated at R\$ 29,789,573, out of which R\$ 23,625,445 (equivalent to 80%), referring to the fair value of the stock exchange-traded shares, was calculated based on average quotation, by security, in the most recent floor trading session.

	2003	
	Book value	Fair value
		Unrealized gain
Equity interest in Eletrobras	2,286,207	3,233,768
Equity interest in Petrobras	1,061,962	6,777,294
Other interest in listed companies	6,516,557	13,614,382
Interest in unlisted companies	4,305,452	6,164,129
Total	14,170,178	29,789,573
		15,619,395

The valuation allowance is recorded only when the loss is considered permanent.

9. FAT – Subordinated debt and special deposits

The Fund for Workers' Support (FAT) is comprised basically of funds from the collection of contributions to the Social Integration Program (PIS) and to the Public Service Employee Savings Program (PASEP), together with income from its investments, used to fund the unemployment insurance and the salary bonus as well as economic development programs through BNDES, with at least 40% of the referred to collection.

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9. FAT – Subordinated debt and special deposits--Continued

Accordingly, FAT succeeded the PIS-PASEP Participation Fund, which significantly changed the purpose of the referred social contribution. While the PIS-PASEP Participation Fund was created in order to form the individual assets of the workers who held the fund quotas, FAT works as a tool to fight unemployment on two fronts: first, it features an emergency character, supporting the unemployed by providing them with a provisional compensation, training program and outplacement; and also, it features a preventive character, fostering job creation under economic development projects.

FAT funds transferred to BNDES are classified in two categories:

a) Constitutional FAT

Constitutional FAT comprises transfers of funds up to the limit of 40% of the collection to PIS and PASEP programs. In this category, balances are remunerated based on the long-term interest rate (TJLP) or indexed to the U.S. dollar (FAT Exchange) and remunerated based on the Libor variation. BNDES pays FAT (Federal Government) semi-annual interest corresponding to the TJLP, limited to the rate of 6% per year. The difference between the TJLP and the interest paid is included within the debt balance in non-current liabilities.

For Constitutional FAT funds, amortization will be recorded only when there are insufficient funds to pay unemployment insurance and salary bonus, in the amounts and situations legally provided.

The debt balance of Constitutional FAT is recorded under the heading “Subordinated debts” and is made up as follows:

	<u>2003</u>	<u>2002</u>
FAT – Constitutional		
FAT – TJLP – Principal	36,614,142	30,060,320
FAT – Foreign -US\$ (1)	<u>16,367,326</u>	<u>20,137,068</u>
	52,981,468	50,197,388
Accrued interest	<u>1,324,797</u>	<u>1,240,165</u>
	<u>54,306,265</u>	<u>51,437,553</u>
Current	1,324,797	1,240,165
Non-current	52,981,468	50,197,388

(1) up to 50% of total regular transfers; used to finance production/sale of internationally demanded products.

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9. FAT – Subordinated debt and special deposits--Continued

a) FAT Constitutional--Continued

Based on BACEN Resolution No. 2837 of May 30, 2001, the funds transferred by FAT could be classified as Subordinated Debt. This classification was possible since BNDES debt regarding these funds is not subject to contractually defined amortization terms considering that its payment might be required only in the event the Ministry of Labor does not have sufficient funds to pay unemployment insurance. In this case, about 5% of the debt balance would be amortized annually.

Also, based on the head of Article 3 of the above-mentioned Resolution, the portion of Subordinated Debt – Eligible for Capitalization would be equivalent to 50% of the adjusted shareholders' equity (R\$ 6,415,683 at December 31, 2003).

b) FAT – Special Deposits

Represents additional transfers to FAT Constitutional. Special deposits are invested in specific programs, under special conditions, and provided for different rules for remuneration, amortization and interest payment on FAT.

The debt balance of FAT – Special deposits is recorded under the heading “Special deposits – FAT” and, at December 31, was comprised as follows:

	2003	2002
FAT – Special deposits		
Pro-employment	9,246,905	7,993,387
BNDES – Exim	-	2,036,048
FAT “Exportar/Fomentar”	1,004,323	-
Pronaf	1,641,669	1,613,554
Other	60,577	61,636
	11,953,474	11,704,625
Current	1,223,769	1,269,861
Non-current	10,729,705	10,434,764

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9. FAT – Subordinated debt and special deposits--Continued

b) FAT – Special Deposits--Continued

Changes in the balances of FAT Constitutional and FAT – Special deposits for the year ended December 31, 2003 were as follows:

	Constitutional		Special deposits	Total
	TJLP	Foreign		
Balance at December 31, 2002	30,992,540	20,445,013	11,704,625	63,142,178
. Inflow of funds	4,649,316	-	2,530,000	7,179,316
. Monetary restatement	1,729,608	-	-	1,729,608
. Exchange variation	-	(3,594,844)	-	(3,594,844)
. Accrued interest	2,038,047	481,395	1,260,060	3,779,502
. Amortization of special deposits	-	-	(2,949,672)	(2,949,672)
. Interest paid	(1,889,937)	(544,873)	(591,539)	(3,026,349)
. Transfer to FAT Foreign	(4,859,509)	4,859,509	-	-
. Return on FAT Foreign	5,034,408	(5,034,408)	-	-
Balance at December 31, 2003	37,694,473	16,611,792	11,953,474	66,259,739

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NOTES TO FINANCIAL STATEMENTS--Continued
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10. Funds borrowed and onlending

a) Breakdown

Foreign loans – Bonus

<u>Institution</u>	<u>Currency</u>	<u>Average rate</u>	<u>Average maturity</u>	<u>2003</u>	<u>2002</u>
Chase Manhattan International	US\$	7.78% ⁽¹⁾	4.38 years	3,611,500	4,416,625
Credit Suisse	Sundry	8.04%	9.17 years	1,215,032	1,266,147
Deutsche Morgan Grenfell	LIT	8%	6.42 years	565,500	573,300
Merryl Lynch Bank and Trust Co.	US\$	9.62%	8.06 years	866,760	1,059,990
Morgan Stanley & Co. Incorporated	US\$	6.5%	2.49 years	866,760	1,059,990
Salomon Smith Barney	US\$	11.25%	1.75 years	1,155,680	1,413,320
Société Générale de Banque	ECU	9%	1.29 years	1,095,177	1,110,360
The Nomura Securities Co. Ltd.	YEN	4.75%	1.93 years	3,511,430	3,871,270
Warburg Dillon	ECU	10%	1.17 years	912,648	925,300
Accrued interest				342,474	387,171
Total				14,142,961	16,083,473
Current				1,420,426	384,530
Non-current				12,722,535	15,698,943

(1) Including Bond (FYN) at a floating rate of 20.3690%, adjusted semi-annually, plus a fixed rate of 0.5%.

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NOTES TO FINANCIAL STATEMENTS--Continued
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10. Funds borrowed and onlending--Continued

a) Breakdown--Continued

Local loans – National Treasury

Maturity	Rate	BNDES		Consolidated	
		2003	2002	2003	2002
2027	-	126	126	126	126
2027	TR ⁽¹⁾ + 6.17% p.a.	6,056,595	5,442,040	6,056,595	5,442,040
2008	SELIC	6,707,875	6,150,375	6,707,875	6,150,375
2007	SELIC	449,572	-	1,892,279	1,167,141
2015	IGP-DI ⁽²⁾	944,251	859,109	944,251	859,109
-	-	28,032	57,241	28,032	57,241
2011	IGP-M ⁽³⁾	-	-	1,587,337	1,370,824
2015	SELIC	-	-	358,615	290,658
2010	IGP-M	-	-	484,226	-
		14,186,451	12,508,891	18,059,336	15,337,514

Current	2,296,829	51,221	2,347,698	51,221
Non-current	11,889,622	12,457,670	15,711,638	15,286,293
⁽¹⁾ TR – referential rate; ⁽²⁾ IGP-DI – General Price Index – Internal Availability;				
⁽³⁾ IGP-M – General Market Price Index				

Foreign onlending – Multilateral institutions

Institution	Currency	Average rate	Average maturity	2003	2002
JBIC	YEN	2.16%	11.89 years	2,153,060	2,081,423
BID	Sundry	4.98%	14.18 years	7,623,760	9,969,154
BIRD	BIRD	6.56%	2.37 years	156,961	275,340
NIB	US\$	2.08%	13.91 years	288,920	-
KfW	Sundry	10%	6.33 years	459,354	563,476
Accrued interest				82,114	95,587
Total				10,764,169	12,984,980
Current				1,467,028	2,691,764
Non-current				9,297,141	10,293,216

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10. Funds borrowed and onlending--Continued

a) Breakdown--Continued

Foreign onlending – Multilateral institutions--Continued

BNDES's foreign sources of funds are comprised of fund raising through traditional financial instruments – syndicated bank loans and the issuance of eurobonds – and fund raising from multilateral credit institutions and governmental agencies. While market instruments are not secured by the Federal Government, the loans obtained from multilateral institutions – World Bank, Interamerican Development Bank (IDB), Nordic Investment Bank (NIB) and their co-financiers –require, under their Articles of Incorporation, that such loans are formally secured by the Federal Government. Independent loans, which are not co-financed with multilateral institutions yet raised with governmental entities, such as the Japan Bank for International Corporation (JBIC) and Kreditanstalt für Wiederaufbau (KfW), may or may not be formally secured by the Federal Government.

Merchant Marine Fund – FMM

Beginning January 1984, BNDES became the financial agent of the Merchant Marine Fund (FMM), providing financial support to National Merchant Marine fleet renewal, expansion and overhauling activities. At December 31, 2003, the FMM investments reached R\$ 2,629,000, out of which R\$ 2,129,073 (R\$ 44,226 in current, and R\$ 2,084,847 in non-current) involved BNDES risk. Since June 2002, following instructions issued by BACEN, which rectified the respective sources of funds, operations involving BNDES risk have been reclassified to the Bank's assets.

National Development Fund - FND

On October 3, 1988, with the enactment of Decree No. 96905, BNDES assumed the responsibilities of the Executive Secretariat for the National Development Fund (FND), providing technical, administrative and personnel support. The FND assets totaled R\$ 5,265,000 at December 31, 2003; its shareholders' equity amounted to R\$ 1,490,000, divided into 2,363 million quotas, with a par value of R\$ 0.6304.

The funds raised from FND amounted to R\$ 3,697,813 (R\$ 317,889 in current, and R\$ 3,379,924 in non-current).

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10. Funds borrowed and onlending--Continued

b) Funds borrowed and onlending, by year of maturity, comprise as follows:

	BNDES			Consolidated		
	Local	Foreign	Total	Local	Foreign	Total
Current in:						
2004	5,587,393	2,887,453	8,474,846	5,196,722	2,887,453	8,084,175
2005	3,280,582	4,126,679	7,407,261	2,887,580	4,126,679	7,014,259
2006	4,294,309	3,822,811	8,117,120	3,371,782	3,822,811	7,194,593
2007	2,774,312	1,382,715	4,157,027	4,933,655	1,382,715	6,316,370
2008	2,956,152	3,569,249	6,525,401	2,651,774	3,569,249	6,221,023
Thereafter	5,493,332	9,118,223	14,611,555	4,935,162	9,118,223	14,053,385
Total	24,386,080	24,907,130	49,293,210	23,976,675	24,907,130	48,883,805

The obligations payable are subject to monetary restatement or exchange variation and interest ranging between 1.65% and 11.25% per year. The maximum maturity period is set for the year 2022.

	BNDES			Consolidated		
	Local	Foreign	Total	Local	Foreign	Total
Current in:						
2003	3,015,543	3,960,623	6,976,166	2,943,077	3,960,623	6,903,700
2004	1,915,907	2,800,181	4,716,088	1,566,109	2,800,181	4,366,290
2005	2,653,323	4,497,640	7,150,963	2,301,346	4,497,640	6,798,986
2006	3,347,432	4,234,618	7,582,050	2,496,821	4,234,618	6,731,439
2007	2,123,899	1,394,189	3,518,088	3,476,863	1,394,189	4,871,052
Thereafter	8,755,921	13,065,531	21,821,452	8,037,954	13,065,532	21,103,486
Total	21,812,025	29,952,782	51,764,807	20,822,170	29,952,783	50,774,953

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11. PIS-PASEP Fund

Since 1974, part of the collection of social contributions for PIS and PASEP Programs, which built the PIS-PASEP Fund, began to be transferred to BNDES. According to legislation, the funds would be used in economic development program investments, including money market. Out of total collection, 38% were transferred, on average, corresponding to nearly R\$ 700 million per year, during the period from 1974 to 1988.

The risk for operations contracted through December 31, 1982, falls to the PIS-PASEP Fund. In this portion of the portfolio, which, today, represents 5.86% of the total, BNDES receives management fees of 0.5% per year, paid by the Fund. For operations contracted after that date (94.14% of the portfolio), the risk falls to the Bank, which is authorized to charge the borrower a management fee up to 0.5% per year., embedded in the interest rate, and a risk fee up to 1.5% per year.

In 2003, BNDES refunded the PIS-PASEP Fund R\$ 1,807,000. During this period, interest income generated by the portfolio investments, amounting to R\$ 2,138,000, was higher than the payment of respective return.

At December 31, the PIS-PASEP Fund balances managed by BNDES were as follows:

	2003	2002
PIS/PASEP	21,686,862	21,804,283
FPS	2,323,477	1,325,849
Total	24,010,339	23,130,132

The balances of the PIS-PASEP Fund lending operations contracted to December 31, 1982, which constitute the Fund risk, were reclassified at the end of the first six-month period of 2002 to BNDES's liabilities, and the amount of the respective liability with the Fund was rectified, as instructed by BACEN.

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12. Accounts payable – FAPES

Accounts payable to Assistance and Social Security Foundation of BNDES (FAPES) were recorded as a result of Law No. 10566 of November 13, 2002, which has included one hour to the daily working hours of BNDES Group employees, which led to an increase in payroll and salaries. This change in working hours generated an actuarial matching entry corresponding to the increase in FAPES mathematical reserves. This debt is subject to monetary adjustment based on the same index used to adjust the employees' compensation and interest of 6.48% per year, and paid in 390 installments, 13 installments per year. At December 31, 2003, the balance payable is R\$ 261,587 (2002: R\$ 264,341) and R\$ 336,710 – Consolidated (2002: R\$ 337,833).

13. Income tax and social contribution

a) Current

BNDES calculates income tax and social contribution on the annual taxable income, and is subject to monthly payments on an estimated basis, whenever the tax suspension/reduction is not applicable, as provided for in Articles 27 to 35 of Law No. 8981/95, supplemented by Law Nos. 9065/95, 9249/95, 9316/96, 9430/96 and 9532/97.

At December 31, 2003 and 2002, the Bank recorded provisions for social contribution (at a 9% rate) and income taxes payable (at a 15% rate, plus a 10% surtax). Such provisions were calculated on income before deduction of social contribution and income tax expenses.

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13. Income and social contribution taxes--Continued

a) Current--Continued

BNDES	2003		2002	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxes and interests	1,712,656	1,712,656	1,173,926	1,173,926
Total income tax and social contribution expenses at rates of 25% and 9%	428,164	154,139	293,481	105,653
Effect of additions (exclusions) upon calculation of taxes:				
<ul style="list-style-type: none"> • Allowance for loan losses (BACEN Res. No. 2682/99) • Provision for labor contingencies • Actuarial liability – FAMS • Valuation allowance for securities • Allowance for loan losses • Interest on shareholders' equity payable to Federal Government • Equity in subsidiaries results • Write-offs and depreciation – IPC/DTNF difference • Dividends on investments measured at acquisition cost • Provision for guaranties issued • Other additions and exclusions, net 	275,281 8,426 29,248 9,575 158,758 (60,000) (197,269) - (134) (1,687) 5,908	99,101 3,033 10,530 3,447 57,153 (21,600) (71,017) 254 (48) (607) 5,325	420,860 (75,350) (40,256) 60,269 (32,500) (211,210) - (7,420) 11,452 (3,679)	151,510 (27,126) (14,492) 21,697 (11,700) (76,036) 254 (2,671) 4,123 894
Income tax and social contribution	<u>656,270</u>	<u>239,710</u>	<u>415,647</u>	<u>152,106</u>
CONSOLIDATED	2003		2002	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before taxes and interests	2,694,033	2,694,033	2,784,537	2,784,537
Total income tax and social contribution expenses at rates of 25% and 9%	673,508	242,463	696,134	250,609
Effect of additions (exclusions) upon calculation of taxes:				
<ul style="list-style-type: none"> • Allowance for loan losses (BACEN Res. No. 2682/99) • Provision for labor contingencies • Actuarial liability – FAMS • Valuation allowance for securities • Allowance for loan losses • Equity in subsidiaries results • Write-offs and depreciation – IPC/DTNF difference • Dividends on investments measured at acquisition cost • Interest on shareholders' equity payable to Federal Government • Provision for guaranties issued • Premium amortization, net of realization • Realization of premium amortization • Other additions and exclusions, net 	194,024 11,244 41,233 72,515 275,708 (262,688) - (44,030) (60,000) (1,687) 93,263 11,769 6,394	69,849 4,048 14,844 26,105 99,255 (94,568) 747 (15,851) (21,600) (607) - - 5,762	578,521 (106,241) (51,555) 70,217 (168,967) - (50,128) (32,500) 11,452 4,265 - (3,722)	208,268 (38,247) (18,560) 25,278 (60,828) 4,926 (18,046) (11,700) 4,123 - - 1,060
Income tax and social contribution	<u>1,011,253</u>	<u>330,447</u>	<u>947,476</u>	<u>346,882</u>

**BANCO NACIONAL DE DESENVOLVIMENTO
ECONÔMICO E SOCIAL – BNDES AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS--Continued
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13. Income tax and social contribution--Continued

a) Current--Continued

The payable balance is comprised as follows:

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
Income tax and social contribution:				
Provision:				
Income tax	656,270	1,011,254	415,647	947,476
Social contribution	239,710	330,447	152,106	346,882
	<u>895,980</u>	<u>1,341,701</u>	<u>567,753</u>	<u>1,294,358</u>
Prepayments:				
Income tax	(199,341)	(296,940)	(116,261)	(387,443)
Social contribution	(79,560)	(104,065)	(41,021)	(180,023)
	<u>(278,901)</u>	<u>(401,005)</u>	<u>(157,282)</u>	<u>(567,466)</u>
Income tax and social contribution payable	<u>617,079</u>	<u>940,696</u>	<u>410,471</u>	<u>726,892</u>

b) Tax credits

	2003		2002	
	BNDES	Consolidated	BNDES	Consolidated
• Breakdown of deferred tax credit:				
Allowance for loan losses	660,497	930,131	446,750	558,188
Provision for labor contingencies	36,119	46,029	36,207	44,518
Provision for civil contingencies	6,103	6,555	1,289	1,289
Valuation allowance for securities	76,460	266,315	63,438	167,696
Premium amortization, net of realization	-	37,575	-	42,659
Provision for guaranties	-	-	15,574	15,574
Provision for employee profit sharing	10,566	13,862	7,616	10,020
Other	2,545	2,545	267	267
	<u>792,290</u>	<u>1,303,012</u>	<u>571,141</u>	<u>840,211</u>
Current	47,081	89,967	45,113	55,827
Deferred	745,209	1,213,045	526,028	784,384

In accordance with BACEN Resolution No. 3059/02, the Bank recorded deferred tax assets on temporary additions to be deductible in the future upon determination of social contribution and income taxes. At December 31, 2003, the matching entry of deferred income tax and social contribution at BNDES, amounting to R\$ 162,609 and R\$ 58,539, respectively, was credited to income (2002: R\$ 41,621 and R\$ 14,983, respectively, charged to income).

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NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2003 and 2002
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13. Income and social contribution taxes--Continued

b) Tax credits--Continued

Basically, deferred tax credits on temporary differences arise from:

- a) Allowance for loan losses: refers to the allowance recorded for loans or interbank onlending operations which are past due over 360 days or when payment acceleration is allowed. During that period, pre-legal (amicable) collection actions are initiated by the credit collection department. Failing that, court collection actions are filed.
- b) Provision for labor contingencies: refers substantially to labor claims filed by employees for recognition of overtime pay and respective labor rights and social security charges thereon. Part of these amounts is pending court decision.
- c) Valuation allowance for variable-rate securities: allowance for investments originating from tax incentives (FINOR) and equity interests valued at acquisition cost or by the equity method.
- d) Premium amortization: premium on subscription of shares in cash, conversion of debentures, or barter of shares or receivables.

Additionally, BNDES recorded deferred tax credits on provisions for civil contingencies, impairment of assets not in use, and employee profit sharing.

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13. Income tax and social contribution--Continued

b) Tax credits--Continued

Tax credits on temporary additions are realized upon payment, use or reversal of the mentioned allowances and provisions. The amounts recorded and written off during the year are shown below:

	BNDES			2003
	2002	Recorded as	Realized as	
Allowance for loan losses	446,750	285,543	(71,796)	660,497
Provision for labor contingencies	36,207	17,564	(17,652)	36,119
Provision for civil contingencies	1,289	4,814	-	6,103
Valuation allowance for securities	63,438	16,096	(3,074)	76,460
Provision for guarantees	15,574	-	(15,574)	-
Provision for employee profit sharing	7,616	12,375	(9,425)	10,566
Valuation allowance	267	2,448	(170)	2,545
	571,141	338,840	(117,691)	792,290

	CONSOLIDATED			2003
	2002	Recorded as	Realized as	
Allowance for loan losses	558,188	452,502	(80,559)	930,131
Provision for labor contingencies	44,518	21,848	(20,337)	46,029
Provision for civil contingencies	1,289	5,266	-	6,555
Valuation allowance for securities	167,696	109,246	(10,627)	266,315
Premium amortization	42,659	93,873	(98,957)	37,575
Provision for guarantees	15,574	-	(15,574)	-
Provision for employee profit sharing	10,020	16,340	(12,498)	13,862
Valuation allowance	267	2,448	(170)	2,545
	840,211	701,523	(238,722)	1,303,012

Tax credits not recorded at December 31, 2003, in BNDES totaled R\$ 1,766,145 (R\$ 2,351,916 in Consolidated). This amount refers substantially to the allowance for loan losses calculated in conformity with BACEN Resolution No. 2682/99, a part of the provisions for civil and labor contingencies, provision for guarantees and provision for premium amortization. In accordance with BACEN Resolution No. 3059/02, realization of such credits shall occur within but not later than 5 years, however, based on a technical study prepared by Bank Management, this amount is expected to be realized after the maximum period established. In view of the above, such tax credits are not recorded in the December 31, 2003 financial statements.

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NOTES TO FINANCIAL STATEMENTS--Continued
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13. Income tax and social contribution--Continued

b) Tax credits--Continued

Expected realization of tax credits is as follows:

BNDES:

	2004	2005	2006	2007	2008	Thereafter
Allowance for loan losses	15,725	191,846	86,869	72,203	293,854	-
Provision for labor contingencies	595	2,330	1,329	441	1,321	30,103
Provision for civil contingencies	-	2,399	868	29	1,518	1,289
Valuation allowance for securities	17,650	17,652	16,096	-	-	25,062
Provision for employee profit sharing	10,566	-	-	-	-	-
Other	2,545	-	-	-	-	-
	<u>47,081</u>	<u>214,227</u>	<u>105,162</u>	<u>72,673</u>	<u>296,693</u>	<u>56,454</u>

CONSOLIDATED:

	2004	2005	2006	2007	2008	Thereafter
Allowance for loan losses	29,011	233,773	97,434	113,538	456,375	-
Provision for labor contingencies	2,246	3,156	1,481	637	1,594	36,915
Provision for civil contingencies	-	2,427	1,059	29	1,750	1,290
Valuation allowance for securities	38,593	40,968	36,214	-	73,032	77,508
Provision for employee profit sharing	13,862	-	-	-	-	-
Premium amortization	3,710	-	-	-	25,535	8,330
Other	2,545	-	-	-	-	-
	<u>89,967</u>	<u>280,324</u>	<u>136,188</u>	<u>114,204</u>	<u>558,286</u>	<u>124,043</u>

The present value of tax credits recorded, calculated on the average funding rate, totaled R\$ 541,807 (R\$ 873,396 in Consolidated).

In accordance with Resolution No. 3059/02, Article 5, the assets corresponding to the portion of tax credits must be written off whenever the amounts effectively realized in two consecutive periods represent less than 50% of the amounts forecast for the same period as per a technical study prepared by the Institution. The provisions of this Article are not applicable to tax credits recorded before the date on which such Resolution took effect. The tax credits recorded after the effective date of the Resolution amounted to R\$ 333,622 (R\$ 614,827 in Consolidated).

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NOTES TO FINANCIAL STATEMENTS--Continued
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14. Shareholders' equity

Fully paid capital of BNDES is represented by 6,273,711,452 registered common shares, without par value, held by the Federal Government.

BNDES, as set forth by its Articles of Association, allocated the net income for the year 2003, in the amount of R\$ 1,037,824, as follows: 5% to the legal reserve, in the amount of R\$ 51,891; 25% of net income after legal reserve was allocated for the payment of minimum mandatory dividends, R\$ 240,000 of which as interest on shareholders' equity and R\$ 6,483 as dividends. The allocation of the remaining balance of net income for the year 2003, amounting to R\$ 739,450, will be subject to a resolution by the Bank's Executive Board.

15. Derivative instruments

BACEN, through its Circular No. 3,082/2002, set specific criteria for assessment and classification of derivative instruments.

Currency and interest rate derivatives are used to adjust the composition and volatility of currency positions and interest rates of foreign liabilities of the BNDES with a view to making its "currency basket" credit product more representative of the composition of the foreign currency exposure of the Bank, and more attractive to borrowers.

The BNDES, following its financial policy, seeks to transfer to its borrowers currency and interest rate risks, including those arising from derivatives operations, keeping the Bank from assuming any credit risk deriving from the effect of currency and interest rate volatilities on its customers.

Currency and interest-rate derivatives operations constitute an attempt to increase the dollar weight in the "currency basket" and minimize any adverse impact that the volatility of other hard currencies may have on borrowers of funds in the currency unit linked to the "currency basket" of BNDES.

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NOTES TO FINANCIAL STATEMENTS--Continued
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15. Derivative instruments--Continued

There are certain operations in which swaps are combined with matched sale-purchase transactions involving foreign currency options that are significantly undervalued by the time of their sale, for the purpose of reducing interest charges. BNDES also adopts another interest-reducing mechanism associated with swaps: the sale of the so-called credit derivative instruments whose underlying risk and delivery assets are papers issued by BNDES itself. Accordingly, the other party is allowed, under quite restrictive conditions, to use BNDES securities as payment currency. Another instrument used by the BNDES to hedge liability positions with longer maturity terms against risk consists of including a swap-extinction clause associated with Brazil's risk rating. Under that clause, in the event of a sovereign default on its foreign debt obligations, the hedging transaction will cease to exist, and none of the parties will owe anything to the other.

Concerning the effectiveness analysis of international over-the-counter transactions involving interest-rate and currency transactions, the BNDES receives the full amount payable on the variable to be protected against risk, save in situations in which the accumulated exchange gains of BNDES on a given transaction are already significant, using the referred combination of hedging instruments. Therefore, the risk protection level usually approximates 100%.

In view of the long-term profile of the BNDES's liability transactions, derivative instruments operations have been traded in the over-the-counter market. In order to mitigate the credit risk involved in such operations, BNDES requires of its counterparties credit risk classifications rated "A1" by Moodys, and "A+" by Standard & Poor's and Fitch, considering acceptable that one of the ratings issued by those agencies be below the referred classifications.

For operations in Japanese yen, the rating issued by Japan Rating & Investment Information is accepted as long as it is not below "AA-". The margin account mechanism was used to mitigate credit risk only in one structured-derivative operation with Goldman Sachs, with maturity in April 2005. Cash deposits will be made in the margin account only when the net liability position reaches US\$ 20 million; such calculation is made weekly.

The following tables describe the asset operations involving currency hedges at December 31, 2003. All of the following operations were traded in the international over-the-counter market and intended to offer protection against market risk.

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NOTES TO FINANCIAL STATEMENTS--Continued
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15. Derivative instruments--Continued

15.1) Summary of Currency Swaps Receivable

<u>Original debt</u>	<u>Operation date</u>	<u>Maturity</u>	<u>Operation matched with options</u>	<u>Counterparties</u>
JPY 40 billion	Jan 24,25,28 and 29, 2002	Aug/04	European call option contracted in Japanese yen (JPY 95/US\$)	Bank of Tokyo-Mitsubishi, Citibank and JP Morgan
EUR 150 million	Nov 19 and 21, 2001 and Dec 13, 2001	Feb/05	European call option contracted in euro (US\$ 1.2 / EUR)	BBVA and BankBoston
EUR 225 million	Aug 28, 29 and 30, 2000	Apr/05	European call option contracted in euro (US\$ 1.32 / EUR)	Bank of America, Citibank and WestLB
EUR 75 million	Oct 5, 2000	Apr/05	Credit option (a)	Goldman Sachs
CHF 200 million	May 2 and 3, 2000	May/05	European call option contracted in Swiss franc (CHF 1.25/ US\$)	Citibank and WestLB
ITL 300 billion	Dec 9, 11 and 12, 2003	Apr/10	Credit option (b)	Goldman Sachs and Deutsche Bank

The amounts in parentheses indicate the strike price. For call options sold by BNDES, the rates reflect the maximum rate from which BNDES may benefit in case the original currency to pay the debt is sharply appreciated.

- (a) This option provides for the right to settle part of the debt with BNDES, capped at US\$ 5 million, using securities issued by BNDES, at face value, in the event of political risk.
(b) The operation includes an extinction clause in the event of sovereign default on foreign debt obligations. In the event of Federal Government credit, the operation ceases to exist and none of the parties will owe anything to the other.

15.2) Derivative Instruments Transactions – Quantitative Analysis

The results from derivative instruments transactions are fully passed on to borrowers of funds pegged to a “currency basket”. The following table shows the notional and fair values of derivatives transactions at December 31, 2003 and 2002. Fair values refer to the estimated settlement value of such transactions at December 31, 2003 and 2002.

	<u>Notional values</u>				<u>Fair values</u>			
	<u>2003</u>		<u>2002</u>		<u>2003</u>		<u>2002</u>	
	<u>US\$ million</u>	<u>R\$ million</u>	<u>US\$ million</u>	<u>R\$ million</u>	<u>US\$ million</u>	<u>R\$ million</u>	<u>US\$ million</u>	<u>R\$ million</u>
Currency and interest rate swaps	1,004	2,900	1,065	3,762	313	904	142	503
Currency and interest rate options								
Short position (*)	1,004	2,900	822	2,905	(19)	(55)	(11)	(39)
TOTAL	2,008	5,800	1,887	6,667	294	849	131	464

(*) All embedded in swap contracts. Refer to call options in foreign currency and credit derivatives involving BNDES risk only, which do not effectively represent a credit risk to BNDES.

The following table shows the notional values, in millions of U.S. dollars, of currency and interest-rate instruments by maturity.

	<u>US\$ million</u>			
	<u>Maturity by notional values</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Currency and interest-rate swaps	299	516	189	1,004
Currency and interest-rate options				
Short position (*)	299	516	189	1,004
TOTAL	598	1,032	278	2,008

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NOTES TO FINANCIAL STATEMENTS--Continued
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15. Derivative instruments--Continued

15.2) Derivative Instruments Transactions – Quantitative Analysis--Continued

The fair value options is calculated in accordance with specific assessment criteria, using as parameters the market information made available on the Bloomberg Financial Services database. BNDES records swaps at the contract rates.

16. Employee benefits

16.1) Retirement and pension plan:

Fundação de Assistência e Previdência Social do BNDES – FAPES

FAPES is a private pension foundation created primarily to supplement the social security benefits granted by the National Social Security Institute (INSS) to the employees of its sponsors: BNDES, FINAME, BNDESPAR and FAPES itself.

FAPES has a defined benefit plan and uses the capitalization system to assess its respective reserves.

Sponsors should ensure to FAPES, when so required, funds for covering any technical deficits revealed by the actuarial revaluation, as established in the Foundation's bylaws, in accordance with ruling legislation.

According to the balance sheet of FAPES at December 31, 2003, the difference between the guaranty asset and the actuarial commitment was calculated at R\$ 142,383 (consolidated), equivalent to 5.13% of total guaranty assets of FAPES. The actuarial commitment was valued by an independent actuary by the Projected Credit Unit (PCU) method, based on analysis performed in September, 2003. The amounts were restated through December 31, 2003, considering an actuarial interest of 6% per year and monetary adjustment was based on the National Consumer Price Index (INPC) variation.

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NOTES TO FINANCIAL STATEMENTS--Continued
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16. Employee benefits--Continued

16.1) Retirement and pension plan:--Continued

Fundação de Assistência e Previdência do BNDES – FAPES
--Continued

The following table shows the contributions made by BNDES and its subsidiaries to fund the benefits plan in 2003, in accordance with the limit established by ruling legislation:

	<u>BNDES</u>	<u>Consolidated</u>
Payroll	164,475	218,564
Contributions from participants	20,989	27,338
Contributions from sponsors	20,989	27,338

16.2) Other employee benefits

Health plan

BNDES and subsidiaries sponsor the Medical and Social Assistance Fund (FAMS), created primarily to provide the plan participants and dependents with benefits that are supplementary or similar to those granted by the INSS. Employees have been assured of receiving such benefits, including medical/hospital and dental care services under free- or directed-choice systems, since 1976, supported by BNDES Executive Board Resolution No. 933/98, applicable to BNDES subsidiaries.

FAMS beneficiaries are active and retired employees of BNDES and its subsidiaries and respective dependents; in the event of death of the principal beneficiary, the dependent is assured of his/her right to the benefits over a maximum of 24 months.

FAMS receives funds donated by BNDES and its subsidiaries to achieve its objectives. These funds are managed by FAPES, which is also responsible for annual budgeting and detailing of operating costs required by FAMS.

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16. Other employee benefits--Continued

16.2) Other employee benefits--Continued

Health plan--Continued

FAMS is not covered by guaranty assets. Benefits are prepaid by BNDES based on budgets prepared by FAPES which submits monthly to BNDES supporting evidence (Statement of Accountability) of the expenses incurred. Total expenses incurred in 2003 amounted to R\$ 16,224 (BNDES) and R\$ 20,566 (Consolidated).

At December 31, 2003, based on the actuarial valuation by the independent actuary on the same date, the amount of the actuarial obligation to assisted and active participants over the average time of service (in the future) was charged directly to income.

<u>Actuarial obligation</u>	2003	
	<u>BNDES</u>	<u>Consolidated</u>
Active participants	56,413	85,080
Assisted participants	60,581	79,854
Total	<u>116,994</u>	<u>164,934</u>

Other benefits

In addition to FAMS, BNDES and subsidiaries grant their active employees the following benefits:

<u>Benefit</u>	2003	
	<u>BNDES</u>	<u>Consolidated</u>
Subsidized transportation	245	295
Meal tickets	5,814	6,686
Daycare	761	900

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NOTES TO FINANCIAL STATEMENTS--Continued
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16. Employee benefits--Continued

16.3) Results of actuarial valuation

Actuarial obligation and fair value of plan assets – change in the period:

	2003	
	BNDES	Consolidated
Present value of actuarial obligation at beginning of year	1,654,666	2,142,038
Interest cost	99,280	128,522
Current service cost	37,953	52,969
Benefits paid	(122,034)	(144,662)
Actuarial loss on actuarial obligation at beginning of year	356,694	453,858
Present value of actuarial obligation at end of year	<u>2,026,559</u>	<u>2,632,725</u>

	2003	
	BNDES	Consolidated
Fair value of plan assets at beginning of year	1,680,174	2,175,059
Estimated return on plan assets	96,075	124,484
Contributions made to the fund	48,118	63,820
Benefits paid	(122,034)	(144,662)
Actuarial gain on plan assets at beginning of year	433,826	556,407
Fair value of plan assets at end of year	<u>2,136,159</u>	<u>2,775,108</u>

Accumulated actuarial gains and losses:

	2003	
	BNDES	Consolidated
Accumulated gains (losses), net - beginning of year	(93,776)	(118,306)
10% limits at beginning of period	168,017	217,506
Excess	-	-
Average estimated remaining service period (in years)	-	-
Annual amortization of gains/(losses)	<u>-</u>	<u>-</u>

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16. Employee benefits--Continued

16.3) Results of actuarial valuation--Continued

Accumulated actuarial gains and losses:--Continued

	2003	
	BNDES	Consolidated
Calculation of gains (losses) at end of year:		
(1) Unrecognized actuarial gains (losses) at beginning of period	(93,776)	(118,306)
(2) Actuarial gains (losses) on obligations (b-a)	<u>(356,694)</u>	<u>(453,858)</u>
(a) actual actuarial obligations at end of year	2,026,559	2,632,725
(b) estimated actuarial obligations at end of year	1,669,865	2,178,867
(3) Actuarial gains (losses) on plan assets (a-b)	<u>433,826</u>	<u>556,407</u>
(a) actual return on plan assets	529,901	680,891
(b) estimated return on plan assets	96,075	124,484
(4) Subtotal (1 + 2 +3)	(16,644)	(15,757)
(5) Amortization of accumulated actuarial gains (losses)	-	-
Unrecognized actuarial gains (losses) (4 + 5)	<u>(16,644)</u>	<u>(15,757)</u>

Estimated return on assets:

	BNDES		Consolidated	
	2003	2004	2003	2004
Specification:				
(a) Interest on plan assets at beginning of year	<u>100,810</u>	128,170	<u>130,504</u>	166,506
(b) Estimated contributions from participants	11,076	14,397	14,660	44,621
(c) Estimated contributions from sponsor	27,058	33,721	36,275	(144,662)
(d) Estimated payment of benefits	<u>(85,967)</u>	(122,034)	<u>(101,013)</u>	-
(e) Subtotal (b + c + d)	<u>(47,833)</u>	(73,916)	<u>(50,078)</u>	(100,041)
(f) Difference between estimated and actual contributions from participants	(3,321)	-	(4,539)	-
(g) Estimated return on plan assets	<u>96,075</u>	125,984	<u>124,484</u>	163,548
(a + (e) x ((1,06 ^{0,5})-1)+f)				

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NOTES TO FINANCIAL STATEMENTS--Continued
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16. Employee benefits--Continued

16.3) Results of actuarial valuation--Continued

Calculation statement of actuarial assets and liabilities:

	2003	
	BNDES	Consolidated
Specification:		
(1) Present value of actuarial obligation at end of period (a + b)	2,026,559	2,632,725
(a) Benefits to be granted (active participants)	1,029,302	1,424,935
(b) Benefits granted (retirees and pensioners)	997,257	1,207,790
(2) Fair value of plan assets at end of period	2,136,159	2,775,108
(3) Present value of liabilities in excess of fair value of plan assets (1-2)	(109,600)	(142,383)
(4) Liabilities (assets) not recognized on adoption of this pronouncement ⁽¹⁾	-	-
(5) Unrecognized actuarial gains (losses)	(16,644)	(15,757)
Actuarial liabilities (assets), net (3+4+5) ⁽¹⁾	(126,244)	(158,140)
(7) Total net actuarial liabilities (assets) to be accrued	(126,244)	(158,140)
(8) Actuarial liabilities (assets) already accrued	(119,284)	(151,327)
Additional actuarial liabilities (assets) (7-8) ⁽²⁾	(6,960)	(6,813)

⁽¹⁾ Since the sponsor would account for actuarial assets only if such asset amount were supported by evidence clearly indicating it as a probable reducer of contributions from sponsor, or even as an amount refundable in the future, BNDES did not post the corresponding accounting record.

⁽²⁾ As mentioned in Note 4.9, actuarial assets are not recognized in the financial statements.

Deferred expenses, net:

	2003	
	BNDES	Consolidated
Specification:		
Current service cost	40,458	57,000
Interest cost – benefits to be granted (assets)	61,758	85,496
Interest cost – benefits granted (retirees and pensioners)	59,835	72,467
Estimated return on plan assets	(125,984)	(164,117)
Estimated contributions from participants	(14,397)	(19,199)
Amortization cost:		
Unrecognized actuarial gains (losses), net	-	-
Unrecognized liabilities	-	-
Deferred expenses, net	21,670	31,647

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NOTES TO FINANCIAL STATEMENTS--Continued
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16. Employee benefits--Continued

16.3) Results of actuarial valuation--Continued

Change in net liabilities (assets) for the year:

	2003	
	BNDES	Consolidated
Specification:		
Current service cost	37,952	52,968
Interest cost	99,280	128,522
Estimated return on plan assets	(96,075)	(124,484)
Contributions received from participants	(14,397)	(19,199)
(1) Net expense for the period	<u>26,760</u>	<u>37,807</u>
(2) Net liabilities (assets) at beginning of year	(119,284)	(151,327)
(3) Payment of contributions from employer	(33,721)	(44,621)
Net liabilities (assets) (1+2+3)	<u>(126,245)</u>	<u>(158,141)</u>
(4) Estimated return on plan assets	96,075	124,484
(5) Actuarial gains (losses) on plan assets	433,826	556,407
Actual return on plan assets (4+5)	<u>529,901</u>	<u>680,891</u>

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NOTES TO FINANCIAL STATEMENTS--Continued
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16. Employee benefits--Continued

16.3) Results of actuarial valuation--Continued

The principal assumptions adopted in the actuarial valuation were:

<u>Type</u>	<u>Specification</u>
Benefit plan:	Defined benefit
Benefits considered:	All regular benefits
Actuarial method:	Projected Credit Unit
Mortality table:	AT-49
Disability:	Álvaro Vindas
Average turnover up to 47 years of age for those who have adhered to the plan after 12/31/1977:	4.0% per year – female participants 3.0% per year – male participants
Average turnover up to 47 years of age for those who have adhered to the plan prior to 12/31/1977:	0% per year
Actual salary increase estimated for active participants:	1.57% p.a. up to 50 years and nil after 51 years
Actual increase estimated for benefits granted:	0% per year
Discount rate for actuarial liabilities:	6% per year
Estimated rate of return on plan assets:	6% per year

17. Operating limits (Basel Agreement)

As permitted by BACEN Resolution No. 2283 of June 5, 1996, the minimum capital ratio is calculated on the consolidated assets of BNDES, weighed by risk. At December 31, 2003, such ratio achieved 14.30% (2002: 11.57%).

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NOTES TO FINANCIAL STATEMENTS--Continued
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18. Other information

a) Subsidiary liability of the Federal Government

In conformity with Report No. 1124/96 issued by the Ministry of Planning and Budget, BNDES, as a wholly owned company of the Federal Government, cannot file for bankruptcy protection, and the Federal Government is subsidiarily liable for obligations contracted by BNDES.

b) National Privatization Program (PND)

As set forth by Law No. 9491 of September 9, 1997, BNDES owns shares that are deposited in the National Privatization Fund (FNDE).

<u>Companies</u>	<u>2003</u>		<u>2002</u>	
	<u>Number of shares</u>	<u>Balance</u>	<u>Number of shares</u>	<u>Balance</u>
Cia. Vale do Rio Doce – CVRD	5,729	157	5,729	157
Rede Ferroviária Federal S.A.	3,856,987,465	73,579	3,856,987,465	73,580
Indústrias Verolme Ishibrás S.A.	2,449,568,494	1	2,449,568,494	1
CADAM - Caulim da Amazônia S.A.	3,712,498	8,008	3,712,498	8,008
Cia Energética de Alagoas-CEAL	64,317,366	136,002	64,317,366	135,941
Banco do NE do Brasil S.A-BNB	5,390,008,254	15,602	5,390,008,254	15,602
La Fonte Participações S.A	26,086,956	13,304	26,086,956	13,304
Pronor Petroquímica S.A	9,861,137	15,778	9,861,137	15,778
Other	-	40,625	-	41,115
		<u>303,056</u>		<u>303,486</u>

c) Counter-guaranties given

Counter-guaranties given by BNDES to the NATIONAL TREASURY, for guaranty and loans raised abroad, are equivalent to US\$ 600 million, with the following shares held in escrow: 7,744,038 registered preferred shares issued by Petróleo Brasileiro S/A (PETROBRAS), 755,035,010 registered common shares and 255,634,597 registered preferred shares of Tractebel Energia S/A (formerly GERASUL), and 28,083,251,230 registered common shares issued by Centrais Elétricas Brasileiras S/A (ELETROBRAS) held by its wholly-owned subsidiary BNDES PARTICIPAÇÕES S/A (BNDESPAR).

The BNDES System has 29,116,851 registered preferred shares issued by Empresa Brasileira de Aeronáutica S/A (EMBRAER), which are held by its wholly owned subsidiary BNDES PARTICIPAÇÕES S/A (BNDESPAR), retained in an escrow account to back the issuance of EXCHANGEABLE NOTES, for AMERICAN DEPOSITARY SHARES (ADS), representative of registered preferred capital stock of EMBRAER, in a fundraising operation totaling US\$ 300 million.

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18. Other information--Continued

d) Management of programs

Fundo de Garantia à Exportação (FGE)

The FGE was incorporated by Law No. 9818/99 for the purpose of covering the guaranties given by the Federal Government on export guaranties transactions. The FGE is linked to the Ministry of Finance and managed by BNDES. At December 31, 2003, total guaranties given amounted to R\$ 1,406,000.

Fundo de Garantia para a Promoção de Competitividade (FGPC)

The FGPC was incorporated by Law No. 9531/97 and regulated by Decree No. 3113/99. This guaranty fund is linked to the Ministry of Development, Industry and Foreign Trade and managed by BNDES. The FGPC was created to provide funds to guarantee the risk of financing operations undertaken by BNDES and FINAME, directly or through pass-through institutions, to mini, small and mid-sized export companies or producers of inputs that are an integral part of the production process, assembly or packaging of goods for export. At December 31, 2003, total guaranties given amounted to R\$ 1,575,900.

Fundo para o Desenvolvimento Regional com Recursos da Desestatização (FRD)

The FRD was incorporated on December 17, 1997, by BNDES Resolution No. 918, to provide financial support to regional and social development projects in municipalities geographically located in areas under the influence of Companhia Vale do Rio Doce – CVRD. The initial equity was R\$ 85,900, provided from a donation made under the terms of Resolution No. 02/97 issued by the National Privatization Council (CND). Total operations carried out in 2003 amounted to R\$ 38,500.

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18. Other information--Continued

d) Management of programs--Continued

Fundo de Terras e da Reforma Agrária (FTRA)

The FTRA was incorporated by Law No. 93/98, regulated by Decree No. 3475/2000, to provide funds for rural settlement and land reform. BNDES works as the financial manager of the Fund.

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BOARD OF DIRECTORS:

Luiz Fernando Furlan – Chairman

Carlos Francisco Theodoro Machado Ribeiro de Lessa – Vice Chairman

Guido Mantega

Eduardo Eugênio Gouvêa Vieira

João Antônio Felício

João Paulo dos Reis Velloso

João Pedro de Moura

Eugênio Emílio Staub

Marcio Fortes de Almeida

SUPERVISORY COUNCIL (“CONSELHO FISCAL”):

Joaquim Vieira Ferreira Levy

José Fernando Monteiro Alves

Alessandro Golombiewski Teixeira

EXECUTIVE BOARD:

Carlos Francisco Theodoro Machado Ribeiro de Lessa – President

Darc Antonio da Luz Costa – Vice President

Fabio Stefano Erber – Officer

Luiz Eduardo Melin de Carvalho e Silva – Officer

Marcio Henrique Monteiro de Castro – Officer

Maurício Borges Lemos – Officer

Roberto Timótheo da Costa – Officer

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SUPERINTENDENCY OF THE FINANCIAL AREA:

José Roberto Leal Ferreira Fiorencio

HEAD OF THE ACCOUNTING DEPARTMENT:

Ricardo Massao Matsushima - CRC- SP 073.979/O-2 T-RJ