

Caixa Econômica Federal

Financial statements

December 31, 2003 and 2002

(A free translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)

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Management report

To the citizens of Brazil,

We hereby present the Management Report and the Financial Statements of Caixa Econômica Federal related to the year 2003, in the terms established by the Central Bank of Brazil - BACEN.

1 Introduction

CAIXA, as a financial institution and executor of government policies, seeks continual improvements in its products and services rendered within the following businesses:

- Management of third party funds;
- Urban development and housing;
- Distribution of products and own/third party services;
- Banking and real estate businesses; and
- Funds, programs and services entrusted by government.

Within these businesses, in 2003 CAIXA presented the greatest net profit in its history when it reached R\$1.6 billion, contracting more than R\$ 6.0 billion in operations focused urban development, particularly sanitation, in which it contracted the total volume of resources allocated to those operations.

It is also worth noting the efforts made in executing the federal government's social policy, notably with respect to what is referred to as Social Inclusion, by implementing the CAIXA Aqui Account, which resulted in more than one million Brazilians having bank accounts, who, until then, did not have access to any banking services, and becoming the first partner certified by the Zero Hunger Program (*Programa Fome Zero*).

2 Economic and financial performance

The computed net profit earned provided return on final shareholders' equity of 28%. The Adjusted Shareholders' equity at December 31, 2003, equivalent to 19.2% of weighted assets according to risk and investments in fixed assets, in relation to Adjusted Shareholders' equity, represented 41.3%.

This performance resulted in the Union receiving R\$ 809,9 million as dividends and interest on shareholders' equity, besides R\$ 2.1 billion in taxes and social security charges.

3 Management of third party funds

CAIXA closed the year 2003 with 89 investment funds and managed portfolios under its responsibility, of which 50 were fixed income funds, 12 variable income funds, 7 social funds, 4 pension funds and 16 managed portfolios. During the period 10 new investment funds were launched, of which 5 were network funds and 5 were exclusive funds, as well as one managed portfolio.

The managed shareholders' equity reported growth of 38.34% during the year, increasing from R\$ 59.4 billion at December 2002 to R\$ 82.2 billion at December 2003. In the ranking of fund managers by ANBID - National Association of Investment Banks (*Associação Nacional dos Bancos de Investimento*), CAIXA moved from 7th to 5th position.

The products launched during the year include the Funds CAIXA Fome Zero FIF (CAIXA FIF Zero Hunger), FIDC - PIPS CAIXA Brasil Construir Residencial Cidade São Paulo (FIDC - PIPS CAIXA Brazil Residential Construction City of São Paulo), the objectives of which are to strengthen social policies. CAIXA FIF Fome Zero, launched in February 2003, was created in order to support the Federal Government's Zero Hunger Program, by making a direct transfer of half of the income obtained from the administration fee (5% per annum) to MESA - Ministério Extraordinário da Segurança Alimentar e Combate à Fome (Extraordinary Ministry for Food Security and Combating Hunger).

The FIDC - PIPS CAIXA Brasil Construir Residencial Cidade São Paulo, is a fund constituted within the PIPS ambit - Incentive Programs for Projects of Social Interest, instituted by the Federal Government through Law 10735, of September 11, 2003, whose focus is on urban development in infra-structure. This fund, launched in November, aims to capture funds to purchase credit rights arising from contracts of sale and financing of residential and commercial units for the São Paulo City Residential Project (an undertaking conceived by COHAB-SP), making access to home ownership financially viable for more than 1,500 public employees of the São Paulo city hall, the target public of the project.

Almirante Barroso Real Estate Investment Fund

CAIXA launched its first FII - Real Estate Investment Fund on November 20, 2002, terminating the first placing of 104,800 quotas, equivalent to R\$ 104.8 million, on February 3, 2003.

Aimed to encourage the development of the net, transparent secondary market, the quotas for the Almirante Barroso Real Estate Fund were registered on the trading environment of SOMA - Operator Society for the Asset Market of BOVESPA (Sao Paulo Stock Exchange), where its quotas are traded daily. During 2003, the Fund reported a total volume of R\$ 31.2 million in trading, represented by 2,132 transactions and 31,166 quotas traded.

The launching of this Fund was considered a historic mark for this sector, since it resulted in gaining 5,259 investors. Until then, it was estimated that the Real Estate fund market comprised approximately 2,000 quotaholders.

Given the success of this fund, CAIXA is studying the possibility of launching other funds as from 2004.

4 Operations with Securities

Given its significant participation in the primary and secondary markets for public federal securities, CAIXA was chosen to be one of the five institutions, simultaneously, accredited as primary dealers and specialists. To measure the performance of each accredited institution, BACEN and STN - National Treasury department defined monthly reference goals depending on the nature of the dealer. After assessing fulfillment these goals, between August 15, 2003 and December 31, 2003, CAIXA was classified in first place as a Primary Dealer and in 2nd place as a Specialist Dealer.

From operating on these markets and managing a portfolio of Federal Public Securities of approximately R\$ 76.7 billion, it earned income of approximately R\$ 13.5 billion and a positive variation of R\$ 19.0 billion, which corresponds to 33.0% growth compared to the balance reported in 2002. It should be noted that in 2003, approximately R\$ 724.2 million was earned from intermediation of assets on the secondary market and from appropriation of discounts and interest on these securities.

The year 2003 was also marked by the bank's increased activities in providing Financial Settlement and Custody Services. The custody services, previously outsourced, were absorbed by the variable income funds managed by CAIXA. This measure resulted in a reduction in costs of approximately R\$ 1.0 million per annum, for the aforementioned funds. Financial Settlement and Custody services were also made available to the Real Estate Fund Quota segment as from April 2003.

5 Urban development and housing

During 2003, CAIXA, consistent with PPA - Multiannual Program of the Federal Government (*Programa Plurianual do Governo Federal*), sought to develop solutions, through partnerships with the public sector, private sector, NGOs - Non Government Organizations and Universities, for the problem of popular housing, meeting part of the demand through housing programs of social interest and urban development and management, for example PSH - Housing Subsidy Program of Social Interest (*Programa de Subsídio à Habitação de Interesse Social*) and PAR - Residential Leasing Program (*Programa de Arrendamento Residencial*).

Housing programs

For the PSH, a program aimed exclusively at families within the income bracket of up to R\$ 740.00, CAIXA established the priority, through partnerships with States and Municipals, to attend families with a gross monthly income of approximately one minimum salary, since they belong to population segments with the greatest difficulty in obtaining access to conventional housing loans.

Whilst PAR aimed to attend families with a gross monthly income of up to 6 minimum salaries, in the form of residential leasing with the option to purchase. Since 1999, the year the program was launched by the Federal Government, operations have been contracted for a total of R\$ 3.0 billion, involving 974 undertakings, with 132,696 residential units.

The best annual performance reported by PAR, in terms of quantity and quality, occurred in 2003, with operations contracted amounting to R\$ 1.1 billion, representing 43,327 housing units, with production increasing 46% compared to 2002.

With funds derived from FGTS - Government Severance Indemnity Fund (*Fundo de Garantia do Tempo de Serviço*), aimed at the population with family income between R\$ 2 thousand and R\$ 4.5 thousand, according to the type of financing, CAIXA invested almost all of the budget available, achieving the goal of investing, at least 50% of the funds from the FGTS Letter of Credit Program in the modules for purchasing or constructing new units. Within the FAT-HABITAÇÃO ambit, implemented using FAT resources - Worker Support Fund (*Fundo de Amparo ao Trabalhador*) it invested approximately R\$ 164.2 million, attending 3,138 families.

With respect to operations for transferring General Government Budget (OGU) funds, through intermediary of the Better Housing Program, the module for constructing and/or improving housing, operations amounting to R\$ 106.0 million were contracted, involving the production of 9,874 housing units.

In global terms, CAIXA closed the year, through intermediary of the programs classified as housing of social interest, making viable 289,173 housing units at a total value of R\$ 4.6 billion, attending a population of more than 1.1 million citizens and generating more than 452 thousand jobs, as demonstrated per origin of funds:

Origin	Amounts contracted (R\$ 000)	Number of units	Population attended	Jobs generated
FGTS	2,790,678	183,044	732,176	265,087
FAT	164,288	3,138	12,552	15,649
FAR	1,097,371	43,327	173,308	105,337
PSH	191,381	26,079	104,316	18,153
CAIXA	335,235	22,214	88,856	31,955
CAIXA/SFI	60,434	1,497	5,988	5,755
OGU	<u>106</u>	<u>9,874</u>	<u>40,088</u>	<u>10,105</u>
Total	<u>4.639.493</u>	<u>289.173</u>	<u>1.157.284</u>	<u>452.041</u>

Sanitation and infrastructure programs

In 2003, the credit contingency table for the public sector, as well as the limit established by the CMN - National Monetary Council, continued with the commitment 45% of the Adjusted Shareholders' Equity of Institutions of the National Financial System to their credit operations in this sector. Nevertheless, CAIXA reported its best performance for the last 10 years, making it viable to resume a significant amount of the financing in sanitation for the public sector, through qualifying its operations under the hypotheses provided under regulatory norms, making the contingency flexible with respect to renegotiation agreements for debts with the States and Municipals and implementing operations through intermediary of international bids.

CAIXA exceeded the forecast goal by 22.8%, reporting R\$ 1.8 billion in contracts for sanitation and infra-structure and as a result of its performance, it was able to make investments amounting to R\$ 26 billion, benefiting 0.5 million citizens and with the forecast of generating a further 353.5 thousand jobs:

Origin/program	Value of loans (R\$ 000)	Value of investment (R\$ 000)	Population attended	Jobs generated
FGTS/Pro-Housing	95	118	526,263	19,064
FGTS/Pro-Sanitation	1,618	2,067	9,177,538	322,456
FGTS/FCP/SAN	<u>6</u>	<u>7</u>	<u>31,667</u>	<u>1,147</u>
Subtotal FGTS	<u>1,719</u>	<u>2,192</u>	<u>9,735,468</u>	<u>342,667</u>
FAT/Infra-structure	67	345	500,000	1,600
BIRD/PAT-PROSANEAR	<u>28</u>	<u>57</u>	<u>255,511</u>	<u>9,256</u>
Total	<u>1,814</u>	<u>2,594</u>	<u>10,490,979</u>	<u>353,523</u>

Transfer of Funds from the General Budget of the Federal Government - OGU

CAIXA contracted 2.9 thousand operations with States and Municipalities, using OGU resources, involving R\$ 478.5 million, which will provide up to 90.6 thousand jobs, through the intermediary of various Federal Government programs, benefiting 2.5 million Brazilians:

Management	Program	Amount of funds (R\$ 000)	Number of operations	Population benefited	Jobs generated
Ministry of Environment	Management of water resources	6,361	7	37,195	1,347
EMBRATUR - Brazilian Tourism Institute	Tourism infrastructure	45,210	132	226,141	8,191
MAPA - Ministry of Agriculture, Animal Husbandry and Supply	PRODESA	43,446	451	228,423	8,273
MDA - Ministry of Agrarian Development	PRONAF	90,517	689	449,560	16,282
Ministry of Sports and Tourism	Sport in Schools	1,539	17	7,790	282
	Brazil sports potential	1,855	6	9,659	350
	Joint Sport	<u>70,581</u>	<u>633</u>	<u>356,037</u>	<u>12,895</u>
Total Sports and Tourism		<u>73,976</u>	<u>656</u>	<u>373,486</u>	<u>13,527</u>
Special Secretary for Urban Development	Urban management	494	6	2,424	88
	Pat-Prosanear	28,378	25	255,511	9,256
	Pro-Infra	<u>190,147</u>	<u>925</u>	<u>931,071</u>	<u>33,724</u>
Total Special Secretary for Urban Development		<u>219,019</u>	<u>956</u>	<u>1,189,006</u>	<u>43,068</u>
Total		<u>478,529</u>	<u>2,891</u>	<u>2,503,811</u>	<u>90,688</u>

Also through agreements with FNS - National Health Fund (*Fundo Nacional de Saúde*) and with FUNASA - National Health Foundation (*Fundação Nacional de Saúde*), signed in 2001 and 2002, during the year CAIXA transferred R\$ 136.8 million to agencies and entities under direct public administration, government agencies or funds, philanthropic private or public companies, which had recommended it as transferor of these funds in its Work Plans.

CAIXA's Best Practices in Local Management Program

The objective of CAIXA's Best Practices in Local Management Program is to publish and replicate successful practices for urban development, in various modules, in which technical and financial support had been provided by CAIXA. The Company reported significant results from the Program for the 2003/2004 edition, with the inscription of 259 projects originating from 22 states, districts or territories, providing evidence that this initiative has created considerable interest among government entities, companies, civil entities, NGOs, and the population in general, with an increase of 95% compared to the number of projects registered in the previous edition.

CAIXA as manager of projects and programs and motivator of technological innovation.

CAIXA has provided project and program management services, considering its internal technical competence and the distribution of operations in all of the States throughout Brazil. Within this ambit, in 2003, a Contract was signed with the Ministry of Justice/DEPEN, to manage the construction of 5 Federal Prisons, as well as an Agreement for Cooperation with the Namibia Government for technical assistance for urban development in that country.

CAIXA's role in encouraging studies and research into new technologies for urban development has been of fundamental importance, especially in reducing costs and improving the quality of projects and processes. Within this area, in partnership with FINEP - Financing for Studies and Projects (*Financiadora de Estudos e Projetos*) and with the Ministry of Science and Technology, it has supported HABITARE - Housing Technology Program (*Programa de Tecnologia de Habitação*) and PROSAB - Program for Research into Basic Sanitation (*Programa de Pesquisa em Saneamento Básico*), which aim to develop research to produce and improve technology that gives priority to operational simplicity and low investment cost, for the operation and maintenance of basic sanitation. In 2003, a total of R\$ 600 thousand was invested in HABITARE and R\$ 500 thousand in PROSAB.

CAIXA hospitals

Since 1997, CAIXA has contributed to meet the immediate working capital requirements of philanthropic hospitals, by means of credit operations called CAIXA Hospitals, aimed exclusively at supporting philanthropic entities, and during 2003, it undertook 352 operations, which amounted to R\$ 152.3 million.

Support for modernization of public management

In recent years CAIXA has participated in projects of government interest, focused on the implementation of programs to support the restructuring, the fiscal adjustment and the modernization of management in the state and municipal administrations, contributing decisively to balancing public finances, as well as improving the attendance of the public, whether through financing for this purpose, or support provided in the management and co-management of these programs and systems.

National Programs of Support for Fiscal Administration for Brazilian States - PNAFE (“Programas Nacionais de Apoio à Administração para os Estados Brasileiros”) and for Administrative and Fiscal Management of Brazilian Municipalities - PNAFM (“Gestão Administrativa e Fiscal dos Municípios Brasileiros”)

In 2003 R\$ 92.3 million was released, equivalent to US\$ 30.7 million, to give continuity to the execution of modernization projects introduced in 1997 in the fiscal area in the States and the Federal District. Since the beginning of PNAFE, a total of US\$ 366.9 million has been released, which corresponds to 81% of the US\$ 449.3 million allocated by IDB – Interamerican Development Bank.

CAIXA, the financial agent and co-executor of PNAFM, and responsible for the process since 2001, closed 2003 with 24 sub-borrowing contracts signed, of which 23 are with municipalities with populations in excess of 50 thousand inhabitants, amounting to R\$ 156.7 million (equivalent to US\$ 50.9 million) and 1 simplified contract, for R\$ 300.4 thousand (equivalent to US\$ 97.9 thousand) with a municipality with a population of less than 50 thousand inhabitants. This year R\$ 14.8 million was released to Brazilian municipalities, representing 64.0% of the R\$ 23.1 million paid out since the beginning of the Program. Improvements in its operational conditions, enabled projects to be presented for analysis by the Ministry of Finance, involving funds of approximately R\$ 362 million.

Accounting Data Collection System - SISTN

During 2003, supporting the National Treasury department in fulfillment of its legal obligations, by means of the agreement for technical cooperation signed in 2001, CAIXA collected the balance sheets for 2002 from all of the States and the Federal District and from 5,121 municipalities, i.e. from 92.1% of all of the Brazilian municipalities, with the aim of consolidating and publishing the accounting data and finances on these entities, to enable the National Treasury department to follow up the limits established by the Law of Fiscal Responsibility.

System for Follow-up of Public Works and Federal Government Engineering services - OBRASNet

The objective of OBRASNet is to integrate the activities for the planning, approval, release of funds and physical and financial follow-up of works undertaken using funds from the Government's General Budget. It is a tool for managing federal government engineering works and services, aimed at executing projects and costs, respectively, compatible with the identified needs and market values; with follow-up of their conclusion; with prompt payments, consistent with the physical and financial timetable and with effective control of the corresponding public expenses.

The first phase of this system was made available in November 2002, through an Internet page, with information and links to systems already managed by CAIXA, such as CAIXA Project Follow Up, which includes more than 20 thousand registered projects in progress and SINAPI - National System for Research into Civil Construction Costs and Indices (*Sistema Nacional de Pesquisas de Custo e Índices da Construção Civil*), which has data on 8 thousand items used in civil construction. Resuming its development this year, OBRASNet will enable all citizens to have access to Federal Government Control Agencies, permitting them to accompany the application and allocation of public funds.

6 Distribution of own and third party products and services

Channels for attendance

At December 31, 2003 CAIXA's physical attendance network, present in all Brazilian municipalities, consisted of 16.2 thousand attendance outlets, distributed as follows:

Physical Network - Type of Unit	Number of units	Number of transactions (millions)
Branches and outlets - PAB	2,126	483,55
Electronic outlets - PAE	1,080	38,23
Banking correspondents - lottery shops	8,922	908,54
Banking correspondents - other establishments	2,108	21,34
24-hr ATMs	<u>1,966</u>	<u>696,05</u>
Total	<u>16.202</u>	<u>2.147.71</u>

Lottery network

The year 2003 closed with 2.9 billion transactions, of which 920 million were banking services and 2.0 billion in various lotteries. The following table presents the types of transaction, highlighting those for power, telephone and sewerage bills, as well as payments of Federal Government social security benefits.

Values in R\$ millions/volumes in millions

Type of transaction	2002		2003	
	Volume (in millions)	Amount (R\$ millions)	Volume (in millions)	Amount (R\$ millions)
Concessionary accounts	628.64	26.50	595.66	29.03
Taxes	31.56	1.52	37.69	1.91
Bank collections	63.98	6.82	70.07	7.90
Social contributions	24.86	1.63	27.50	2.13
Benefits paid	51.60	2.38	75.17	4.08
Receipt of declaration of income tax exemption	29.81	17.89	32.20	24.15
Bank deposits	9.15	1.51	14.94	2.63
Bank withdrawals	25.05	2.74	44.15	5.67
Bank balances	<u>8.37</u>	<u>-</u>	<u>22.96</u>	<u>-</u>
Total banking services	<u>873.07</u>	<u>43.17</u>	<u>920.37</u>	<u>53.40</u>
Total lotteries	<u>1,800.50</u>	<u>3,011.67</u>	<u>2,007.01</u>	<u>3,544.48</u>
Total	<u>2,673.58</u>	<u>3,054.84</u>	<u>2,927.39</u>	<u>3,597.88</u>

From comparing the years, growth of 9.49% can be observed in the volume of transactions and an increase of 17.77% in the amounts moved by the lottery shops. This growth is the result of the policy for quality in attending lottery shop owners, which, amongst other measures, qualified them to participate in courses at CAIXA University, aimed at improving the services provided to the Brazilian society.

Other banking correspondents

The other Banking Correspondents ensure CAIXA is present in all of the 5,561 Brazilian municipalities, and through this channel a total of 23.3 million transactions were registered, amounting to approximately R\$ 1.1 billion, including 9.1 million transactions related to payment of various Federal Government social benefits, moving R\$ 349.1 million.

Similarly the lottery network, the other Banking Correspondents exercise an important role in offering various banking services to the population, and are distributed in Brazil as follows:

Region	Number
Central West	258
North East	746
North	141
South East	503
South	<u>460</u>
 Total	 <u>2.108</u>

Virtual attendance channels

CAIXA's portal on the *Internet*, www.caixa.gov.br, received approximately 351 million accesses, visiting 1.96 billion pages during the year. Electronic accesses to FGTS information (balances, statements and changes of addresses, etc.) by more than 8.5 million workers were recorded with 102.6 million accesses made during the period.

At the end of the year, CAIXA's portal registered more than 876 thousand clients who received electronic messages about products and services, including lottery results, information on capitalization, balances and bank statements and press news, with a total of 31 million messages sent to these clients. Banco Eletrônico, *Internet Banking* CAIXA, totaled 2.3 million registered accounts, with movement of R\$ 11.3 billion and 81.5 million transactions.

A new service was provided at CAIXA's site, www.caixa.gov.br/depositos, which added speed and convenience in dealing with legal deposits, benefiting the parties of legal proceedings, their lawyers, as well as court clerks and judges, providing another channel for opening accounts, making legal deposits and printing supporting documentation, as well as issuing TEDs - Available Electronic Transfers and enabling judges to accompany the financial movement and evolution of balances of legal deposits for which they are responsible.

CAIXA's *telemarketing* network made 77.8 million calls attending to the Brazilian population, with 18.0 million of these for the Federal Government's Social Programs:

Program	Volume (in millions)
Social Integration program - PIS	9,10
Complementary Credits to the Government Severance Indemnity Fund - FGTS	5,80
School Allowance Program	1,50
Unemployment Benefit	1,00
Student Financing Program - FIES	0,10
Family Allowance	0,21
Other social programs	<u>0,31</u>
Total	<u>18,02</u>

Disque (Dial) CAIXA made more than 21 million calls of attendance, of which 16.5 million were made electronically and 3.8 million by operators, involving consultations on products for transferring benefits.

SAC - Client attendance service

After the changes in the classification system, made in May, BACEN published eight editions of attendance rankings for Financial institutions with more than 1 million accounts and with the highest number of irregularities. CAIXA was not included in six of these, consolidating an unprecedented level, which, although not the only measure of quality in banking attendance, is an important thermometer for determining the extent to which the company complies with the monetary authority's regulations.

Compared to 2002, there was a reduction of 4.5% in the number of occurrences registered against CAIXA at BACEN, in a context in which the company opened more than one million new accounts and continued to make payments for corrections to FGTS as a result of the economic plans.

The number of occurrences registered at SAC increased by 17% compared to the previous year, amounting to 114.7 thousand. The number of complaints increased by the same percentage, and amounted to 101.8 thousand. In absolute numbers, the number of attendances to citizens that registered complaints, denouncements, suggestions and praise in 2003, was 17 thousand higher than that recorded in the previous year.

CAIXA participated in one of the most important Ombudsman events held in 2003, aimed at exchanging experiences and presenting results obtained by VIVA VOZ, an internal channel for relations between employees and CAIXA management. This channel was selected as a success story, amongst tens of experiences registered in the VIII National Meeting of Ombudsmen, held in Gramado/RS, in September 2003, when it was praised and recognized as one of the most important and efficient means of building relations between employees and management.

7 Banking and real estate business

Funding

CAIXA closed 2003 with a balance in its savings account of approximately R\$ 43.8 billion, recording a growth of R\$ 1.4 billion compared to the previous year, which guaranteed its market share of 30.4%, which was also higher than that reported in December 2002. For the second consecutive time, the company was awarded *TOP OF MIND*, introduced by the newspaper Folha de São Paulo to award the brands most remembered by Brazilian consumers, thus ratifying its incontestable leadership position for the savings account product.

On October 31, 2003, International Savings Day, CAIXA launched a new publicity campaign - FORCE X, the objective of which was to reinvigorate the product, recovering the concept of savings with children, based on encouraging the healthy habit of not wasting natural resources.

The LH - Mortgage Notes with swaps presented a balance of R\$ 9.2 billion and 53,429 operations, representing an increase during the year of R\$ 1.7 billion, equivalent to 28.05% compared to December 31, 2002. In April 2003, the product Letra Hipotecária de Rendimento Crescente (Growing Income Mortgage Note) was launched, aimed at the retail market with remuneration based on the Reference rate (TR) plus coupon interest, for investments of at least R\$ 20 thousand, with this limit changed to R\$ 5 thousand as from November 2003. This module permits redemption in advance with the remuneration rate defined at the time of contracting, constituting funding for Housing financing. The total balance for the product at December 31, 2003, was R\$ 121.3 million, with 3,874 operations performed.

CAIXA worked in partnership with STN - National Treasury department and CBLC - Brazilian Company for Settlement and Custody, seeking to increase the client base for Tesouro Direto (Direct Treasury), which is a product aimed to make access to Public Securities more democratic, to encourage long term savings for small investors and to permit the participation of the population in the administration and structuring of the public federal debt. At December 31, 2003, it presented total accumulated negotiations of R\$ 37.2 million, with a market share , by volume of business, of 9.5% and by number of clients, of 12.1%, holding 3rd place.

Commercial credit

CAIXA closed the year 2003 with a loan portfolio of R\$ 6.9 billion, recording growth of 12.2% compared to 2002. A total of R\$ 19.6 billion was invested in commercial credit during the year, representing growth of 25.3% compared to the previous year, when R\$ 15.7 billion was invested.

It is worth highlighting the incentive for the tourism sector, where CAIXA released total funds of R\$ 90 million for micro and small companies, representing growth of 122% compared to 2002. Also worth noting is the allocation of the working capital portfolio to operations with the guarantee of receivables, which increased from R\$ 254 million in 2002 to R\$ 885 million in 2003, an increase of 248% in the discount portfolio. The contracts for sales incentive operations, also directed at corporate entities, increased 156.19% compared to 2002, amounting to R\$ 1.3 billion in 2003.

Amongst the operations with individuals, those with agreements for payroll deposits, which increased by 81.5% compared to 2002, resulting in a total of R\$ 2.2 billion in concessions in 2003, compared to R\$ 1.2 billion in the previous year need to be highlighted.

The CAIXA Aqui Account and Microcrédito - Productive

The CAIXA Aqui Account is the first simplified account launched on the Brazilian market, which enables the low income population to have easy and convenient access to banking services, since there is no requirement for proof of income or a minimum deposit to open the account, since it is moved only by magnetic card and can be opened both at Branches and at Correspondent Banks of CAIXA, factors which contribute to amplifying the banking services.

The initial forecast was to open 500 thousand accounts by the end of the year, but by September 2003 this level had already been exceeded, reaching 672 thousand accounts at the end of the month, with a total balance of R\$ 26.2 million. At the end of 2003, more than 1.1 million accounts had been opened, and of this total, 336 thousand clients had approved credit, with a total of R\$ 67.0 million available for use.

The share in the total transactions undertaken with debit cards, which in June represented 2.0%, reached 15.0% at the end of 2003, thanks to the possibility of clients making purchases directly in commercial establishments.

In 2003 CAIXA started to operate with the concession of micro-credit for working capital and/or fixed investments, for micro-enterprises or individuals that operated in formal or informal sectors of the economy, by means of accreditation of IMF - Micro-finance Institutions, thus contributing to creating jobs and income.

In Salvador/BA, as a representative of the NGO - Housing and Citizenship, CAIXA retains a portfolio of 2,416 micro-credits, with a total balance of R\$ 2.7 million, benefiting approximately 1,200 informal micro-enterprises which has made it possible to generate and/or maintain 1,800 work posts. Also during the year, 4 new institutions were accredited to operate with Microcrédito CAIXA, with 2 in the state of Minas Gerais, 1 in Rio de Janeiro and 1 in Sao Paulo.

Banking services

CAIXA was also present in offering banking services, offering the population various types of services, which involved more than 291 million transactions, involving R\$ 66.1 billion in salary deposits, banking collection, collection of union fees, FGTS and other agreements. The collections for public concessionaries, for example, reached a total of R\$ 32.3 billion, with 606.5 million transactions.

Reconciling the execution of public policies with generating business, CAIXA introduced or adapted its own pension schemes for States and Municipalities, and signed 68 new contracts to provide technical assistance services in the actuarial, legal and organization areas, contributing to guarantee retirement plans and pensions for 67,317 public employees.

Real Estate loans

The contracts with CONSTRUCARD closed 2003 reporting growth of 38.4% compared to the previous year. During the year R\$ 505 million was invested, corresponding to 34,097 contracts. In November 2003, contracts were resumed with CAIXA Letters of Credit, which had been suspended since August 2001. During the last two months of 2003, contracts for R\$ 21 million were taken out.

Given the challenges presented by the need to create jobs and revert the Brazilian housing deficit, it was necessary to implement projects of social interest, using modern instruments for obtaining and recycling resources. These included the COI - Center for Housing Operations, implemented by CAIXA, to control and standardize the concession and maintenance of housing loans in a fully automated manner, adding quality, reducing costs and minimizing risks. Initially this model was implemented to attend the Sales Points in the metropolitan region of Sao Paulo, where more than 14 thousand processes were registered, resulting, at the end of 2003, in approximately 10 thousand new housing loan operations being contracted.

Borrowings under pledge

For more than a century pledges have provided Brazilian citizens with access to credits, in a simplified manner, offering speed and agility, thus reinforcing CAIXA's activities in the social ambit. The interest rates vary depending on the value of the loan. During the year, under this portfolio, borrowings amounting to R\$ 4.1 billion were granted, through 9.8 million contracts, representing an increase of 21.2% compared to borrowings reported in 2002.

Loyalty-building products

Throughout its network of agencies, CAIXA provides insurance, social security, capitalization and real estate consortium products from its related company CAIXA Seguros, aimed to gain client loyalty, meeting their needs and anxieties. It is worth noting the performance in 2003, of the sale of CAPMAIS securities, these are based on a single payment, launched in May, and recorded sales of 2.3 million securities:

Product	Value (R\$ 000)	Volume (in units)
Private pension	319.211	249.422
Capitalization	158.877	2.958.417
Insurance	<u>112.585</u>	<u>1.232.515</u>
Total	<u>590.673</u>	<u>4.440.354</u>

It is also worth highlighting the performance of the Real Estate Consortium, which recorded sales of 19,463 quotas, with 1,052 consortium members, who have letters of credit to purchase Real Estate. Operating for a little over one year in this market CAIXA holds 2nd place.

Cards - Debit and credit

CAIXA closed 2003 with 1.8 million credit cards and revenue of R\$ 3.4 billion, representing growth of 14% compared to 2002. The debit card base increased 25.5% compared to 2002, closing the year with 28.1 million cards. This significant volume was responsible for 56.3 million electronic transactions and revenue of R\$ 2.2 billion, resulting in almost 50% more than in 2002:

Revenue in R\$ Billions/base and volume in millions

Debit cards	2002	2003	Variation
Card base	22,4	28,1	25,5%
Volume of transactions	41,2	56,3	37%
Volume of revenue	1,5	2,2	47%

8 Funds, programs and services delegated by the Government

FGTS - Government Indemnity Severance Fund

During the year, CAIXA, as the FGTS Operator Agent, recorded collection of contributions of R\$ 24.9 billion, through 39.9 million transactions, as well as 18.5 million payments, totaling R\$ 20.3 billion. More than 10 million additional credits were made to FGTS tied accounts as a result of economic plans, amounting to R\$ 8.6 billion, and of this total, R\$ 6.2 billion was withdrawn by workers.

During the year, R\$ 535.0 million in credits was recovered from financial agents classified as in liquidation, considered difficult to recover, given the characteristics and situations of the agents. The results achieved reduce the risks of the Government and provide resources for new investments by FGTS.

A further R\$ 2.9 billion was injected in the economy in the form of expenditure for installments for housing, sanitation and urban infrastructure contracts, undertaken in recent years. Thus FGTS, through intermediary of CAIXA, contributed to the movement of R\$ 29.4 billion in the Brazilian economy.

Throughout the year, complying with the guidelines established by the FGTS Curator Council, CAIXA contracted R\$ 4.5 billion with Financial Agents to be invested in housing, sanitation and urban infrastructure. Of this total, the Financial Agents have contracted with the final borrowers, the sum of R\$ 3.85 billion, financing 204.6 thousand housing units, benefiting a population of 9.6 million individuals and generating more than 607 thousand jobs.

Complementary FGTS credits

According to art. 4 of LC - Complementary Law 110/01, the complementary FGTS credits from the Summer Plan and Collor I plan were dependent on the Term of Adhesion being signed by workers. Thus, of the total estimated 38.8 million workers with rights to these credits, at December 30, 2003, the date forecast to close the adhesions, more than 32 million had signed the term, representing 83% of the total.

Of the total of 121.7 million accounts with rights to complementary credits, 72.3 million received benefits, amounting to R\$ 19.0 billion. Of these total credits, in 2003, the titleholders of 41.1 million related accounts were included with payments/withdrawals for a total of R\$ 13.3 billion.

Financing for University Students - FIES (“Fundo de Financiamento ao Estudante de Ensino Superior”)

FIES, aimed at providing financing to enable students from low income families to conclude higher education courses, reported a record number of candidates in its 8th selection process. The 277,681 inscriptions resulted in contracting 49,346 new places, for a total of R\$ 103.4 million. Also in 2003, 262,710 contracts were renewed for another study period, which resulted in R\$ 550.7 million being made available. In December, the total FIES portfolio reported a balance of R\$ 2.3 billion, with 271,992 students attended.

Delegated services and programs for transferring income

During 2003, in addition to the FGTS payments, approximately 300 million payments were made for other social benefits operated by CAIXA. The volume of funds involved amounted to R\$ 24.6 billion, representing an increase of 26.0% compared to the previous year. In terms of number of payments, there was an increase of 23.3%, as presented in the following table:

Benefits	2002		2003	
	Volume (in units)	Value (R\$ 000)	Volume (in units)	Value (R\$ 000)
Programs for transferring income	172,469,275	2,146,804	225,930,055	3,143,587
Social security	27,891,566	9,873,888	29,545,902	12,379,065
Bonus	5,374,175	1,014,510	6,619,424	1,517,230
PIS	17,375,425	890,955	16,983,542	980,237
Unemployment Insurance	<u>20,131,252</u>	<u>5,548,124</u>	<u>20,873,804</u>	<u>6,536,138</u>
Total	<u>243,241,693</u>	<u>19,474,281</u>	<u>299,952,727</u>	<u>24,556,257</u>

In addition, approximately 29.9 million collection transactions were performed for INSS, involving R\$ 8.3 billion. CAIXA continues to be the largest collection agent for social security. To provide more comfort and efficiency to beneficiaries of INSS, the company implemented the payment of benefits in municipalities not assisted by the banking network, by means of CAIXA Correspondent Banks CAIXA Aqui - shops and lottery outlets. These covered 238 municipals and approximately 41 thousand beneficiaries.

In July 2003, CAIXA implemented payments with the Citizen Card for all types of unemployment insurance, which enabled payment of benefits at the correspondent banks. Approximately 1.2 million benefits were paid through this channel.

Through operating the federal government's transfer of income programs, which included Young Agent, Student Allowance, Gas Assistance, Food Allowance, School Allowance, Family Allowance, Income Allowance, Crop Guarantee, PCA - Food Card Program and PETI - Eradication of Child Employment, CAIXA attended 7.8 million families with payments amounting to R\$ 3.1 billion in 225.9 million installments. Compared to 2002, there was an increase of 31.0% in the volume of installments paid and an increase of 48.6% in the values involved:

Programs	2002		2003	
	Volume (in units)	Value (R\$ 000)	Volume (in units)	Value (R\$ 000)
Young Agent	5,238	340	94,420	6,137
Student Allowance	680,403	20,412	792,655	23,778
Gas Assistance	65,991,293	494,934	100,418,969	753,142
Food Allowance	6,247,918	93,718	18,327,027	274,905
Educational Allowance	96,628,549	1,449,428	92,582,898	1,388,742
Family allowance	-	-	4,986,981	376,082
Income Allowance	2,874,917	86,247	5,544,152	166,325
Crop guarantee	-	-	42,395	4,027
PCA - Zero Hunger - Food Card	-	-	2,177,004	108,849
PETI	<u>40,957</u>	<u>1,725</u>	<u>963,554</u>	<u>41,600</u>
Total	<u>172,469,275</u>	<u>2,146,804</u>	<u>225,930,055</u>	<u>3,143,587</u>

Single registration

To comply with that established in the Term of Commitment for Single Registration, signed between CAIXA and the Ministry of Social Assistance, actions were implemented to optimize attendance, aimed to register the needy population. These actions consisted basically of training provided to CAIXA employees, lectures in the municipalities and implementation of a new version of the attendance application. In 2003, CAIXA registered approximately 2.5 million families, resulting in base total of 8.1 million families benefiting from the Federal Government's social programs.

Description	Volumes in units	
	2002	2003
New families registered - single registration	5,559,339	2,465,143
Cards issued		
Food Allowance	135,092	-
School Allowance	265,306	-
PROFAE	208,358	57,058
Citizen Card CAIXA	18,228,134	3,575,867
Social Security Card	223,909	192,149
Citizen Card - Federal Government	<u>5,353,637</u>	<u>1,884,372</u>
Total cards issued	<u>24,414,436</u>	<u>5,709,446</u>

The reduction in the number of new registrations is due to the fact that the process covered 98% of the Brazilian cities in 2003.

In October 2003, the Federal Government created the Family Allowance for the purpose of unifying the benefits under the School Allowance, Gas Assistance, Food Allowance and Food Card Program. By December, 3.6 million family registers had been transferred to the family allowance, originating from the programs to transfer income. The families that are registered with the Family Allowance received the new benefit introduced in October. The other families, which have not transferred their registrations, will continue to receive their benefits under the original programs until these are altered.

Management of lotteries

The lotteries managed by CAIXA collected R\$ 3.5 billion in 2003 and transferred the sum of R\$ 1.7 billion to the various funds, programs and entities assisted by the Federal Government, representing growth of 17.7% compared to the previous year:

Distribution of funds collected by Federal Lotteries

Apportionment	R\$ Thousands	
	2002	2003
Income Tax	386,494	451,982
National Culture Fund	86,247	101,598
Social Security	500,640	582,603
Educational Loans to Students - FIES	205,002	249,500
Sports Entities and Federations	6,239	6,786
National Sports Secretariat	144,952	168,982
National Penitentiary Fund - FUNPEN	87,291	106,494
Brazilian Olympic Committee - COB	48,844	57,572
Brazilian Para-Olympic Committee - CPB	8,619	10,160
Special Tests (APAE ¹ , Red Cross, COB and CPB)	<u>416</u>	<u>689</u>
Total transfer	<u>1,474,744</u>	<u>1,736,366</u>

9 Risk management

Given the prospect of the publication of the final document for the New Basel Capital Agreement - Basel II, requiring banks to adopt appropriate management of operational risks, CAIXA has developed models and procedures to correctly identify, measure, control, mitigate and monitor these risks.

During 2003, the specifications were finalized for the filters for collecting data that refer to operational losses from the Treasury and Management of third party resources.

To manage credit risk, in 2003 CAIXA implemented the portfolio analysis tool, *Credit Risk Plus*, which enables the credit portfolio to be managed, through knowledge of expected and unexpected losses of economic capital and RAROC - risk adjusted profitability. The evaluation routine of the loan proponents has started to generate results in real time, extending the security of operations, the productivity of the sales points and client satisfaction.

10 Prevention of Money Laundering Crimes

Given the importance of this area, CAIXA has adopted a proactive approach, participating in forums, debates and discussions on norms and regulations that govern this question, together with regulatory bodies and other financial institutions, in the search for cooperative solutions that aim at improvements in combating this crime.

As a result of this effort, COAF - the Council for the Control of Financial Activities, from the Ministry of Finances, recognized CAIXA as a reference in the prevention of money laundering crimes, recommending it as the point of contact and information upon visits by representatives from the CICAD/OEA - InterAmerican Commission for the Control of Drug Abuse from the Organization of American States. It is also worth noting the company's participation in the VII Meeting of Federal Judges, covering the theme "Prevention of Money Laundering within Financial Institutions"; the visit to the company by members of GAFI - Financial Action Group on Money Laundering, operating internationally and its sponsorship of the I Symposium "National Strategy to Combat Money Laundering" - ENCLA 2004, coordinated by the Ministry of Justice.

11 Internal controls, transparency and compliance

Providing continuity to the practice of presenting society with its economic, financial and operational performance, as well as its publicity in newspapers, magazines and at its Internet site, CAIXA presented its results for 2002 and its results to the 3rd quarter of 2003, to the management and associates of APIMEC - Association of Analysts and Professionals from the Capital Market, from the Federal District, Minas Gerais, Ceará, Rio Grande do Sul and São Paulo.

Another highlight during the period of the same type was the contracting of the Agency *Austin Rating* to classify the quality of management in administering third party assets. To classify the risk of management companies, *Austin* performs a comparative analysis of the best practices considered by the market to manage resources, such as: level of general supervision of the activities of the assets, controls used, risk management, volume managed, management capacity, segregation of duties, position on the market, etc. In this way, CAIXA values transparency in its activities, as the manager of third party resources, respecting the interests of its investors.

CAIXA also continued to invest in improving controls, in promoting conformity and in developing a compliance culture in the organization, aimed to make its SCI - Internal Control System, effective. In this way, new actions, methodologies and control tools were implemented, which included implementing standard routines for systems posting; specification of a new routine aimed at prioritizing, systematically, basic procedures and actions for assuming sales outlets - PVs and reviewing control procedures for processes and products related to Treasury, Administration of third party resources, SPB - Brazilian Payment System, Loans and with high exposure to risk.

As part of the activities to accompany and promote CAIXA conformity, various actions were implemented, including the monitoring, in real time, of transactions undertaken at PVs, in order to detect any events that may be considered as noncompliance with internal norms or conflicts in relation to ethical principles defined by the company and the development of a system to monitor operations undertaken to manage third party resources, to be homologated/implemented at the beginning of 2004.

12 Security policy

CAIXA has started to develop the Project "Model Agency" which establishes a new security standard for its units through the use of Integrated Physical Protection Systems. This project consists of using high technology and security routines that adhere to external regulations, observing the characteristics of the agencies, with the aim of providing clients and employees with an even more secure environment for performing their banking activities and business.

In order to maintain efficient levels of information security, compatible with its institutional image before the Federal Government and its clients, CAIXA has emphasized implementing a policy, organizing and classifying information, adhering to the International Standard Norm, NBR ISO/IEC-17799, guaranteeing the basic principles of integrity, confidentiality and availability of information.

Also to improve security at the agencies and to optimize the processes related to distribution of funds, with gains both for the treasuries and for executive cash, and consequently agility in attending clients, 1,251 automatic, electronic safes were purchased, with modules for payment and deposits in envelopes, which will be installed by June 2004.

13 Program for Streamlining Expenditure and Eliminating Wastage - PROGED (Programa de Racionalização de Gastos e Eliminação de Desperdícios)

PROGED was created by CAIXA on August 08, 2002, in preparation for optimizing the levels of administrative expenses for 2003, and for the permanent analysis and equilibrium of these expenses in relation to the real capacity to generate operational income.

This program makes it possible to implement its objectives and goals by encouraging the development of organizational knowledge on the subject and awareness of the individual responsibility for optimizing the use of resources. It is a strategic incentive that acts promptly for any existing inefficiencies and identifies and encourages the adoption of innovative solutions, and during 2003 achieved a saving of approximately R\$ 284.1 million, including the following::

Solution	Value (R\$ 000)
Renegotiating contracts with the 50 largest suppliers	70,660
CAIXA assumed attendance by means of a previously outsourced Telemarketing distribution channel	60,000
Expenses from issuing and sending magnetic cards, quick-cash and statements	49,880
Electronic bidding for purchase of micro computers with a management solution	23,220
Bid for 2,500 data circuits distributed in three macro-regions: North-Northeast; Central-South and São Paulo	18,490
Bid for 47 wide bank circuits allocated in three centers: São Paulo; Rio de Janeiro and Brasília	18,350
Absorption of contracts for real estate portfolios purchased which were previously managed by third parties.	16,830

14 CAIXA Zero Hunger Project

CAIXA was the first institution to receive Certification as a Partner Company in the Zero Hunger Program, for its actions based on its own initiative and those developed together with MESA - Extraordinary Ministry for Food Security, during 2003, which resulted in the following investments for the Program:

- 771 tons of food; and
- R\$ 2.12 million in donations.

The CAIXA FIF Fome Zero Fund, with 50% of its administration fee transferred to the Program, transferred R\$ 641.7 thousand during the period.

15 Training of attendance workforce

Human Resources

In 2003, CAIXA contracted 2,853 new employees, closing the year with 57,382 staff. During 2003, CAIXA continued to invest heavily in training its workers, aimed particularly at improving the quality of attendance. The main training and development actions undertaken during the year were:

Activity	Number of employees
Courses at CAIXA Corporate University (<i>Universidade Corporativa CAIXA</i>)	45,099
Post Graduation <i>Lato</i> and <i>Strictu Senso</i>	1,154
Graduation courses	1,300
Specific Higher Education in Strategic Management of Organizations	500
Foreign languages	525

The Corporate Education policy materialized through UCC - CAIXA Corporate University which, since October 2003 has its own site on the Internet www.universidadecorporativa.caixa.gov.br, open to the public in general, providing organized information in areas such as: publications, *Prata da CAIXA*, news and courses.

PPQAV - Qualification Program for Attendance and Sales (*Programa de Qualificação em Atendimento e Vendas*), is a permanent initiative that involves all employees from PV CAIXA. The objective of PPQAV, which consists of a set of strategies that aim at establishing standards for attendance and services, is to encourage the continued qualification and training of CAIXA teams, aiming to achieve excellence in attendance and relationships with clients. It consists of an integrated effort orientated towards consolidating the importance of attendance as a competitive differential.

PPQAV consists of 4 training schemes and 42 modules available at UCC, aimed at all teams from the agencies, and in 2003, 91,180 participations in the courses offered were registered. This program was recognized by ENAP - National School for Public Administration, for excellence in public management in the Federal Government ambit, and is amongst the 15 experiments awarded by the judging committee for the 8th Competition for Innovation in Federal Public Management.

Within the context of business activities that include social responsibility, CAIXA created the Adolescent Apprentices Program, the main objective of which is to provide the opportunity for first employment, with qualifications in banking and administrative services, aimed at including adolescent apprentices in the employment market, as well as encouraging them to adopt ethical and professional values inside and outside of the work environment. In July 2003, CAIXA began the program, which will include approximately 3,700 adolescents by January 2005. At the end of the year, 1,090 adolescents had been contracted.

During the same period, CAIXA Health Program provided approximately 1.3 million attendances for 216 thousand beneficiaries, employees and retired employees from CAIXA and their dependents.

Technological infrastructure

During 2003, with investments of approximately R\$ 305.34 million, CAIXA's technological infrastructure was enlarged, increasing its processing capacity by 42% and its data storage capacity by 15%, compared to 2002. Consequently, the productive capacity of the technological environment enabled corporate demands to be met.

16 Social/cultural and marketing activities

In 2003, CAIXA undertook *marketing* and “*endomarketing*” actions, through communication/publication, sponsorship, participation in events, that ratified the corporate image of an institution that continually seeks to make clients, the community and related segments aware of the use of its products, services and attendance channels, social responsibility and at the same time, make its activities aimed at social-cultural interests and government policies more transparent.

Amongst the external communication actions undertaken during 2003, the more important ones were CAIXA FIF Fome Zero, Conta CAIXA Aqui, the campaign “Crédito para os brasileiros. A CAIXA tem” (Credit for Brazilians, CAIXA has it) and FIES. The actions worth mentioning as part of “*endomarketing*” and Internal Communication include the Adolescent Apprentice Program and Participative Planning CAIXA 2004. The main awards received were *Marketing Best/Social Responsibility*, *Top Marketing* from ADVB and the *Ibest* award.

Amongst the events held, one is worth mentioning, since it refers to the first time in its recent history that the Company received a visit from the President of the Republic, which occurred in order to commemorate the mark of one million Caixa Aqui Accounts.

Consistent with the Federal Government’s new policy, CAIXA has sought to continually improve the quality of life of Brazilian citizens, developing projects related to culture and art education, which reach all social segments, aimed at the social educational development of children and young people from needy communities, as well as contributing towards developing new talents and generating new jobs. The following projects are worth mentioning:

- Expresso Cultural Caixa, Convênio Cultural e Museu, Escola e Família;
- Vozes do Brasil (Voices of Brazil) Project;
- Projeto Criança Arteira, published in Guia Exame de Boa Cidadania Corporativa;
- Exhibition “Treasures of CAIXA”; and
- Exhibition “História em Quadrões”.

During the last year, CAIXA invested approximately R\$ 4.3 million in events held in its cultural areas, with more than 200 projects with different artists and different languages (plastic arts, visual arts, theater, musicals, dance and literary displays), reaching a public of approximately 430 thousand individuals.

In 2003, CAIXA invested approximately R\$ 3.4 million in sponsoring the Brazilian Athletics Confederation, providing support to athletes and their trainers through the CAIXA Top Level Athletes and Talented Youth Project. Approximately 80 athletes and trainers benefited from the project; 11 thousand young with clinics and forums; 27 State Athletics Federations; 10 thousand students from public municipal and state schools in the city of Belém, with the CAIXA Athletics Initiation Program. With this support from CAIXA, Brazilian athletics have stood out in international competitions, particularly during their participation in the Santo Domingo Pan American games, held in 2003, and with 36 of its athletes included within the best rankings by IAAF - International Athletics Federation.

Another important action developed by CAIXA is the sponsorship by the CAIXA Lotteries of the Brazilian Para-Olympic Team, through the contract signed with CPB - Brazilian Para-Olympic Committee, for R\$ 1.0 million, transferred by means of the FDL - Lottery Development Fund.

17 Acknowledgements

The Board of Directors of CAIXA dedicates the results achieved during the year ended December 31, 2003, which benefit its clients in particular and all of the Brazilian society, to its controller, the Federal Government, for its constant and decisive support for projects undertaken and to all of its employees, suppliers, partners and correspondent banks, which made every effort to realize these projects.



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Independent auditors' report

To
The Administrative Council
Caixa Econômica Federal
Brasília - DF

1. We have examined the balance sheets of Caixa Econômica Federal (CAIXA) as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examinations, with the exception of the issue mentioned in the following paragraph, were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of CAIXA; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by CAIXA management, as well as the presentation of the financial statements taken as a whole.
3. As mentioned in Note 6a, CAIXA has credits receivable from the Fund for Compensation of Salary Variations (*Fundo de Compensação de Variações Salariais - FCVS*), corresponding to housing contracts of its own ones and acquired from other agents, with guarantee of FCVS. The realization of these credits depends on adherence to a set of rules and procedures defined in regulations issued by FCVS. CAIXA management has been implementing a process for analyzing and checking the conditions and data of these contracts, to comply with these rules and procedures. This process for analyzing and checking the credits, at December 31, 2003, currently permits them to be separated into contracts already authorized by FCVS, contracts with denial of coverage, with or without the possibility of appeal for reassessment of the denial, and contracts pending analysis and checking. CAIXA management, based on this information, established criteria to estimate probable losses arising from unauthorized contracts, which may be considered as being the best estimate possible in the current circumstances. However, in view of the little historical experience of effective loss and of recovery of credits arising from contracts which initially had not been authorized by FCVS, as well as the existence of contracts pending analysis and checking, we understand that the aforementioned estimate of loss is subject to changes, the effects of which on the provision for losses, recorded in "Interbank accounts - Housing Finance System", in the amount of R\$ 4,844 million, at December 31, 2003 (R\$ 2,904 million at December 31, 2002), cannot be predicted at this moment.





4. In our opinion, except for the possible effects arising from the issue discussed in the previous paragraph, the financial statements mentioned above present, fairly, in all material respects, the financial position of CAIXA as of December 31, 2003 and 2002, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.
5. CAIXA, as demonstrated in Note 19a, has an amount recorded as assets of R\$ 1,705 million (R\$ 1,913 million at December 31, 2002), corresponding to income and social contribution tax credits, the realization and maintenance of which is subjected to generating taxable income in the future and to complying with rules defined by Resolution n° 3059/02 of the Central Bank of Brazil.
6. As mentioned in Note 15(a), CAIXA was processed by the Inspection Service of the National Institute for Social Security (*Instituto Nacional do Seguro Social - INSS*), on the allegation that social security contributions were not effected on certain payments made to its employees, and by the Federal Revenue Service, on the allegation of an insufficiency in the payment of PIS/PASEP. In line with the understanding of its legal and tax departments, which claim that not all the amounts listed by the INSS are subject to social welfare contributions, and in view of the possibilities of a successful defense of the filing related to PIS/PASEP, CAIXA management understands that it is not necessary to record provisions for contingencies related to these matters, in addition to those already existing, which amounted to R\$ 103 million (INSS) and R\$ 568 million (PIS/PASEP), at December 31, 2003 (INSS - R\$ 99 million and PIS/PASEP - R\$ 529 million, at December 31, 2002).

February 3, 2004

KPMG Auditores Independentes
CRC SP014428/O-6-F-DF

Original report in Portuguese signed by
Francesco Luigi Celso
Accountant CRC SP175348/O-5-S-DF

Caixa Econômica Federal

Balance sheets

December 31, 2003 and 2002

(In thousands of Reals)

Assets	2003	2002	Liabilities	2003	2002
Current assets	<u>76,954,974</u>	<u>35,311,216</u>	Current liabilities	<u>#REF!</u>	<u>104,533,883</u>
Cash and cash equivalents	<u>565,212</u>	<u>597,722</u>	Deposits (Note 11)	<u>79,888,430</u>	<u>75,504,546</u>
Interbank funds applied (Note 4)	<u>3,277,848</u>	<u>3,740,429</u>	Demand deposits	4,986,788	5,158,665
Money market funds applied	3,077,848	3,720,417	Saving deposits	43,872,307	42,430,846
Interbank deposits	200,000	20,012	Time deposits	25,011,231	24,099,201
Securities and derivative financial instruments (Note 5)	<u>44,595,355</u>	<u>9,253,317</u>	Special deposits, funds and programs	6,018,104	3,803,621
Own portfolio	21,995,403	3,489,162	Deposits in foreign currency	-	12,213
Subject to repurchase commitments	22,426,196	5,143,752	Money market repurchase commitment (Note 11)	<u>34,116,404</u>	<u>18,936,859</u>
Derivative financial instruments	15,882	1,745	Own portfolio	29,424,846	12,778,799
Deposits with Central Bank	149,642	614,138	Third parties portfolios	4,691,558	6,158,060
Subject to guarantee services	8,232	4,520	Acceptances and endorsements	<u>1,266,831</u>	<u>1,319,353</u>
Interbank accounts	<u>15,425,064</u>	<u>14,832,209</u>	Mortgage note funds (Note 12)	1,266,831	1,319,353
Collections in transit	63,614	53,610	Interbank accounts	<u>62,947</u>	<u>145,062</u>
Term deposits:			Payments in transit	62,947	144,966
Brazilian Central Bank deposits (Note 6(a))	15,317,596	14,706,351	Correspondents	-	96
Interbank repasses			Interbranch accounts	<u>440,213</u>	<u>659,659</u>
Correspondents	43,854	72,248	Third party funds in transit	337,977	558,663
Interbranch accounts	<u>189,342</u>	<u>416,073</u>	Own funds in transit	102,236	100,996
Third party funds in transit	79,871	61,458	Derivative financial instruments	<u>184,845</u>	<u>196,975</u>
Own funds in transit	109,471	354,615	Other liabilities (Note 15)	<u>8,777,607</u>	<u>7,791,429</u>
Loans (Note 7)	<u>9,077,915</u>	<u>3,676,325</u>	Collection of taxes	73,388	69,881
Loans, discounted loans and financing	6,779,565	4,371,186	Foreign exchange portfolio	-	3,925
Real estate financing	3,430,367	340,584	Due to shareholders	85,009	221,699
Infrastructure and development financing	-	100,102	Taxes payable (Note 15(a))	1,202,866	1,158,726
Provision for doubtful loans	(1,132,017)	(1,135,547)	Securities clearing accounts	83	-
Other receivables	<u>2,928,268</u>	<u>1,883,698</u>	Funds to specific destination:		
Foreign exchange portfolio	-	3,928	Lottery operations	218,904	262,718
Income receivable (Note 8(a))	1,080,019	676,903	Social program and fund obligations	1,100,562	1,496,521
Securities clearing accounts	3,141	-	Obligation to financial and development funds	527,819	56,516
Specific credits	30,459	17,885	Other (Note 15(c))	5,568,976	4,521,443
Other (Note 8(b))	1,814,649	1,184,982	Noncurrent liabilities	<u>19,986,647</u>	<u>19,235,930</u>
Other assets (Note 9)	<u>895,970</u>	<u>911,443</u>	Deposits (Note 11)	<u>1,135,917</u>	<u>1,101,760</u>
Assets received in settlement of debt	1,187,452	1,305,671	Time deposits	1,135,917	1,101,760
Valuation allowance	(299,711)	(403,391)	Acceptances and endorsements	<u>9,690,646</u>	<u>7,795,995</u>
Prepaid expenses	8,229	9,163	Mortgage note funds (Note 12)	9,239,469	7,438,265
Noncurrent assets	<u>71,155,390</u>	<u>90,621,643</u>	Real estate credit notes	451,177	357,730
Interbank funds applied (Note 4)	<u>1,653,313</u>	<u>2,857,035</u>	Borrowings (Note 13)	<u>48,184</u>	<u>107,560</u>
Money market funds applied	1,653,313	2,857,035	Foreign currency trade finance borrowings	48,184	107,560
Securities and derivative financial instruments (Note 5)	<u>32,930,597</u>	<u>48,114,161</u>	Repass borrowings from public sector (Note 14)	<u>8,615,198</u>	<u>5,818,298</u>
Own portfolio	25,143,118	39,387,708	National Treasury	377,507	393,083
Subject to repurchase commitments	7,119,446	7,693,705	BNDES (Federal Development Bank)	361,032	312,149
Derivative financial instruments	-	5,508	FGTS (Government Severance Indemnity Fund for Employees)	7,729,699	4,914,235
Deposits with Central Bank	342,148	311	Other	146,960	198,831
Subject to guarantees rendered	325,885	1,026,929	Other liabilities (Note 15)	<u>496,702</u>	<u>4,412,317</u>
Interbank accounts	<u>21,022,042</u>	<u>20,460,880</u>	Taxes payable (Note 15(a))	142,727	163,378
Housing Finance System - SFH (Note 6(a))	21,022,042	20,460,880	Social program and fund obligations (Note 15(b))	54,235	64,765
Loans (Note 7)	<u>12,798,422</u>	<u>15,966,584</u>	Other (Note 15(c))	299,740	4,184,174
Loans, discounted loans and financing	1,275,181	3,117,978	Shareholders' equity (Note 17)	<u>5,771,552</u>	<u>4,628,121</u>
Real estate financing	12,989,691	14,411,445	Capital - Domestic	3,885,000	3,345,727
Infrastructure and development financing	793,459	393,350	Capital reserves	10	54,973
Provision for doubtful loans	(2,259,909)	(1,956,189)	Revaluation reserves	418,606	508,268
Other receivables	<u>2,751,016</u>	<u>3,222,983</u>	Revenue reserves	203,507	216,816
Income receivable (Note 8(a))	249,854	174,803	Adjust to Market Value - Securities and derivative financial instruments	134,542	(256,730)
Specific values	-	132,839	Retained earnings	1,129,887	759,067
Other (Note 8(b))	2,924,544	3,322,890			
Provision for doubtful receivables (Note 8(c))	(423,382)	(407,549)			
Permanent assets	<u>2,385,112</u>	<u>2,485,075</u>			
Investments	<u>329,190</u>	<u>265,048</u>			
Subsidiaries and affiliates (Note 10(a))	288,022	221,123			
Other investments	62,516	65,649			
Provision for losses	(21,348)	(21,724)			
Premises and equipment (Note 10(b))	<u>1,575,679</u>	<u>1,659,357</u>			
Premises	211,005	232,810			
Revaluation of premises	582,772	672,922			
Other fixed assets	1,818,813	1,628,736			
Accumulated depreciation	(1,036,911)	(875,111)			
Deferred charges (Note 10(c))	<u>480,243</u>	<u>560,670</u>			
Deferred charges	1,068,346	1,073,763			
Accumulated amortization	(588,103)	(513,093)			
	<u>150,495,476</u>	<u>128,417,934</u>		<u>#REF!</u>	<u>128,417,934</u>

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Statements of income

Years ended December 31, 2003 and 2002 and semester ended December 31, 2003

(In thousands of Reais)

	Second semester 2003	Year end	
		2003	2002
Financial operations income	<u>12,240,286</u>	<u>25,050,909</u>	<u>17,812,907</u>
Loans	2,644,353	5,335,876	3,768,009
Securities income	7,420,382	14,732,131	10,562,130
Derivative financial instruments	(21,120)	328,147	
Foreign exchange income			636
Compulsory investments	2,196,671	4,654,755	3,482,132
Financial operations expenses	<u>(8,216,330)</u>	<u>(16,486,175)</u>	<u>(11,000,036)</u>
Deposits, money market and interbank funds	(7,101,577)	(14,436,536)	(9,195,753)
Borrowings and repasses	(407,470)	(786,254)	(501,326)
Foreign exchange expenses	(21)	(1,341)	-
Derivative financial instruments	-	-	(561,494)
Provision for losses doubtful loans	(707,262)	(1,262,044)	(741,463)
Net income (loss) on financial operations	<u>4,023,956</u>	<u>8,564,734</u>	<u>6,812,871</u>
Other operating income/expense	<u>(2,795,377)</u>	<u>(6,365,664)</u>	<u>(5,307,298)</u>
Service fee income (Note 20(a))	2,333,738	4,593,942	4,233,890
Equity in earnings of subsidiaries	32,648	64,610	50,635
Personnel expenses (Note 20(b))	(2,187,747)	(4,030,200)	(3,916,185)
Other administrative expenses (Note 20(b))	(1,924,908)	(3,683,116)	(3,473,523)
Tax expenses	(345,001)	(688,941)	(637,781)
Other income (Note 20 (c))	813,134	2,761,920	3,242,197
Other expenses (Note 20 (c))	(1,517,241)	(5,383,879)	(4,806,531)
Operating result	<u>1,228,579</u>	<u>2,199,070</u>	<u>1,505,573</u>
Non-operating result	<u>70,447</u>	<u>46,409</u>	<u>(21,006)</u>
Net income before income taxes	<u>1,299,026</u>	<u>2,245,479</u>	<u>1,484,567</u>
Income tax and social contribution (Note 19(b))	<u>(442,978)</u>	<u>(479,425)</u>	<u>(403,474)</u>
Income tax expenses	(225,095)	(240,839)	(195,820)
Social contribution tax expenses	(59,621)	(64,910)	(86,483)
Deferred tax assets	(158,262)	(173,676)	(121,171)
Profit sharing (Note 20(i))	<u>(99,909)</u>	<u>(149,909)</u>	<u>-</u>
Net income	<u>756,139</u>	<u>1,616,145</u>	<u>1,081,093</u>

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Statements of changes in shareholders' equity

Years ended December 31, 2003 and 2002 and semester ended December 31, 2003

(In thousands of Reais)

	Capital reserves		Revenue reserves		Adjustment to market value	Retained earnings (loss)	Total
	Capital	Special reserve	Revaluation reserve	Legal and other			
Balances at July 1st, 2003	3,885,000	54,973	425,616	136,778	91,181	727,077	5,320,625
Adjustment to market value - securities and derivative financial instruments	-	-	-	-	43,361	-	43,361
Reversal of reserves (Law 8200)	-	(54,973)	(599)	-	-	54,973	(599)
Donations	-	10	-	-	-	-	10
Taxes on revaluation	-	-	3,287	-	-	-	3,287
Revaluation reserve to subsidiaries and affiliates	-	-	(248)	-	-	-	(248)
Realization of reserve	-	-	(9,450)	-	-	9,450	-
Net income for the semester	-	-	-	-	-	756,139	756,139
Destination of net income: (Note 17 (e))							
Legal reserve	-	-	-	37,807	-	(37,807)	-
Lottery reserve	-	-	-	28,922	-	(28,922)	-
Dividends distributed in prior years	-	-	-	-	-	(250,720)	(250,720)
Interest on own capital	-	-	-	-	-	(100,303)	(100,303)
Dividends	-	-	-	-	-	-	-
Balances at December 31, 2003	<u>3,885,000</u>	<u>10</u>	<u>418,606</u>	<u>203,507</u>	<u>134,542</u>	<u>1,129,887</u>	<u>5,771,552</u>
Balances at January 1st, 2003	3,345,727	54,973	508,268	216,816	(256,730)	759,067	4,628,121
Adjustment to market value - securities and derivative financial instruments	-	-	-	-	391,272	-	391,272
Capital increase	539,273	-	-	(162,761)	-	(376,512)	-
Reversal of reserves (Law 8200)	-	(54,973)	(10,276)	-	-	54,973	(10,276)
Donations	-	10	-	-	-	-	10
Taxes on revaluation	-	-	20,650	-	-	-	20,650
Revaluation reserve to subsidiaries and affiliates	-	-	(272)	-	-	-	(272)
Realization of reserve	-	-	(99,764)	-	-	99,764	-
Net income for the year	-	-	-	-	-	1,616,145	1,616,145
Destination of net income (Note 17(e)):							
Legal reserve	-	-	-	80,807	-	(80,807)	-
Lottery reserve	-	-	-	68,645	-	(68,645)	-
Dividends distributed in prior years	-	-	-	-	-	(64,183)	(64,183)
Interest on own capital	-	-	-	-	-	(498,924)	(498,924)
Dividends	-	-	-	-	-	(310,991)	(310,991)
Balances at December 31, 2003	<u>3,885,000</u>	<u>10</u>	<u>418,606</u>	<u>203,507</u>	<u>134,542</u>	<u>1,129,887</u>	<u>5,771,552</u>
Balances at January 1st, 2002	12,350,000	54,973	490,770	316,375	-	(9,320,649)	3,891,469
Adjustment to market value - securities and derivative financial instruments	-	-	-	-	(256,730)	96,635	(160,095)
Capital increase	316,375	-	-	(316,375)	-	-	-
Capital decrease	(9,320,648)	-	-	-	-	9,320,648	-
Premises revaluation	-	-	213,182	-	-	-	213,182
Reversal of reserves	-	-	(159,108)	-	-	-	(159,108)
Taxes on revaluation	-	-	(17,310)	-	-	-	(17,310)
Revaluation reserve to subsidiaries and affiliates	-	-	589	-	-	-	589
Realization of reserve	-	-	(19,855)	-	-	19,855	-
Net income for the year	-	-	-	-	-	1,081,093	1,081,093
Destination of net income: (Note 17 (e))							
Legal reserve	-	-	-	54,055	-	(54,055)	-
Lottery reserve	-	-	-	162,761	-	(162,761)	-
Dividends	-	-	-	-	-	(221,699)	(221,699)
Balances at December 31, 2002	<u>3,345,727</u>	<u>54,973</u>	<u>508,268</u>	<u>216,816</u>	<u>(256,730)</u>	<u>759,067</u>	<u>4,628,121</u>

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Statements of changes in financial position

Years ended December 31, 2003 and 2002 and semester ended December 31, 2003

(In thousands of Reais)

	Second	Year end	
	semester 2003	2003	2002
Sources of funds:	17,476,952	28,744,248	30,912,854
Adjusted net income	954,031	2,032,837	1,560,107
Net income for the semester/year	756,139	1,616,145	1,081,093
Depreciation and amortization	230,540	481,302	529,649
Equity in earnings of subsidiaries and affiliates	(32,648)	(64,610)	(50,635)
Adjustment to market value - securities and derivative financial instruments	43,361	391,272	-
Investment subsidy	16,416,155	26,145,122	28,762,332
Increase in current and long-term liabilities	16,326,767	24,236,615	27,648,049
Deposits	2,637,107	4,418,041	7,349,040
Money market repurchase commitment	10,842,463	15,179,545	16,370,346
Acceptances and endorsements	623,387	1,842,129	-
Interbank accounts	-	-	76,725
Interbranch accounts	231,740	-	267,676
Repass borrowings from public sector	1,343,919	2,796,900	2,477,979
Derivative financial instruments	-	-	196,975
Other liabilities	648,151	-	909,308
Decrease in current and long-term assets	89,388	1,908,507	1,114,283
Interbank funds applied	-	1,666,303	-
Interbank accounts	89,388	226,731	-
Other receivables	-	-	937,006
Other assets	-	15,473	177,277
Disposal of assets and investments	32,074	133,972	559,151
Investments	152	757	400
Premises and equipment	31,922	133,215	558,751
Decrease in deferred charges	3	6	-
Interest on own capital	31,328	41,039	31,264
Application of funds	17,447,858	28,776,758	30,791,582
Adjustment to market value - securities and derivative financial instruments	-	-	160,095
Inversion in:	244,325	304,150	748,939
Investments	289	289	3,100
Premises and equipment	244,036	303,861	745,839
Deferred charges	39,929	156,824	237,150
Funds applied:	16,812,581	27,441,686	29,423,699
Increase in current and long-term assets	16,204,042	24,159,561	28,109,560
Interbank funds applied	560,171	-	1,773,713
Securities	13,979,973	20,158,474	14,295,532
Interbank accounts	406,732	1,154,017	8,350,277
Interbranch accounts	-	-	324,398
Loans	898,913	2,233,428	3,365,640
Other receivables	324,097	613,642	-
Other assets	34,156	-	-
Decrease in current and long-term liabilities	608,539	3,282,125	1,314,139
Acceptances and endorsements	-	-	1,050,049
Interbank accounts	-	219,446	-
Interbranch accounts	584,965	82,115	-
Borrowings	2,459	59,376	264,090
Derivative financial instruments	21,115	12,130	-
Other liabilities	-	2,909,058	-
Dividends distributed on prior years	-	64,183	-
Proposed dividends distributed	100,303	310,991	221,699
Interest on own capital	250,720	498,924	-
Increase (decrease) in cash and cash equivalents	29,094	(32,510)	121,272
Changes in cash and cash equivalents:			
Beginning of the period	536,118	597,722	476,450
End of the period	565,212	565,212	597,722
Increase (decrease) in cash and cash equipments	29,094	(32,510)	121,272

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Notes to the financial statements

Years ended December 31, 2003 and 2002

(In thousands of Reais)

1 Operations

CAIXA is a financial institution constituted by Decree-Law 759, dated August 12, 1969, under the form of a public company with the personality of a legal entity of private law, linked to the Ministry of Finance and subject to general norms, decisions and the normative regulations established by the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN). The capital of CAIXA belongs to the Union and, within the macroeconomic context, the company's economic-financial management falls under the group of decisions of the Federal Government.

Business areas

CAIXA is authorized to perform business activities related to real estate loans, basic sanitation, urban infrastructure, commercial banks, as well as the rendering of services of a social nature, delegated by the Federal Government.

In the performance of these activities, CAIXA executes the funding of resources through savings accounts, mortgage notes, judicial deposits, demand deposits and time deposits, besides executing investment in loans mainly linked to housing, including operations related to transfers of the Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço - FGTS*).

CAIXA also administers lotteries, funds and programs, which include the Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço - FGTS*), the Fund for Compensating Salary Variation (*Fundo de Compensação de Variações Salariais - FCVS*), the Employees' Profit Participation Program (*Programa de Integração Social - PIS*), the Social Development Support Fund (*Fundo de Apoio ao Desenvolvimento Social - FAS*), the Social Development Fund (*Fundo de Desenvolvimento Social - FDS*) and the Residential Lease Fund (*Fundo de Arrendamento Residencial - FAR*). The funds and programs managed are independent legal entities governed by specific regulations, possessing their own accountability, whereby their operations are presented in separate financial statements.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

2 Presentation and preparation of financial statements

The financial statements are the responsibility of company Management and were prepared in accordance with the accounting practices adopted in Brazil and the rules of the Central Bank of Brazil (BACEN).

3 Significant accounting policies

The main accounting policies are summarized as follows:

a. Income statement

Income and expenses are recognized on the accrual basis.

b. Current and noncurrent assets

Recorded at cost plus income accrued and, whenever applicable, adjusted by market or realization value.

Securities - The Central Bank of Brazil (BACEN), through Circular 3068/2001, established criterias for the recording and valuation of the portfolio of securities which are classified in accordance with management's intention in three specific categories, meeting the following accounting criteria:

- **Trading securities** - securities acquired with the objective of being frequently and actively traded, which are adjusted to market value in a counter entry to the income of the period.
- **Securities available for sale** - securities which are not considered as trading securities nor held to maturity. These securities are adjusted to market value in a counter entry to the separate account in shareholders' equity, denominated "Adjustment to market value - securities and derivative financial instruments", net of tax, when applicable.

Gains and losses, when realized, are recognized in the income statement.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

- **Securities held to maturity** - Securities which management intends and has the financial capacity to held to maturity, which are stated at cost of acquisition plus accrued income.
- **Derivative financial instruments** - Similarly, in accordance with Central Bank of Brazil (BACEN) Circular 3082, of January 30, 2002 and later regulations, the derivative financial instruments began to be classified on the date of their acquisition in accordance with Management's intention to use them for hedge purposes or not.

The operations performed by CAIXA involving derivatives aim to meet their own needs and their clients' needs and, also, to reduce market, currency and interest rate risks. The management of these risks is done by defining operating strategies, establishing a system of internal controls and determining the limits of the positions.

The derivatives used for protection against risk exposure or to modify the characteristics of financial assets and liabilities, and which are highly correlated with regards to changes in their market value in relation to the market value of the item that is being protected, both at the beginning and throughout the life of the contract and considered effective in the reduction of the risk associated to the exposure to be protected against, are classified as hedge in accordance with their nature:

- **Market risk hedge** - The financial assets and liabilities, as well as the respective related derivative financial instruments, are adjusted to market value with the gains and losses realized and not realized, recognized directly in the income statement.
- **Cash flow hedge** - The effective portion of hedge of financial assets and liabilities, as well as the respective related financial instruments, is adjusted by the market value with the gains and losses realized and not realized, net of tax, when applicable, recognized in a specific shareholders' equity account. The non-effective portion of the hedge is recognized directly in the income statement.

When the derivative financial instrument is contracted in negotiation associated with the funding or investment of resources, in the terms of BACEN Circular BACEN 3150/02, the valuation is based on the conditions defined in contract, with no adjustment arising from the market value of the derivative.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

Loans and provision for doubtful loans - Loans are classified observing: (i) the parameters established by Resolution 2682/99 of CMN, which requires their classification at nine levels, from “AA” (minimum risk) to “H” (maximum risk); and (ii) assessment by Management as to the risk level. This assessment, realized periodically, takes into consideration the economic situation, past experience and the specific and overall risks in relation to the operations, the debtors and guarantors. Additionally, the periods of late payment, defined in Resolution 2682/99 of CMN for attribution of the levels of classification in the following form are taken into consideration:

Period in arrears	Classification of the client
From 15 to 30 days	B
From 31 to 60 days	C
From 61 to 90 days	D
From 91 to 120 days	E
From 121 to 150 days	F
From 151 to 180 days	G
More than 180 days	H

The accrual of the loans overdue up to 60 days is recorded in income from loans, and as from the 61st day in unearned income.

Loans in arrears classified as level “H” are maintained in this category for six months, when they are then written-off against the existing provision and controlled, for a further five years, in memorandum accounts, no longer stated in the balance sheet.

Renegotiated loans are maintained, at the minimum, in the same level in which they were classified. The renegotiations of loans that had been written off against the provision and that were recorded in memorandum accounts are classified as level “H” and eventual gains resulting from renegotiation are only recognized as receipt when effectively received.

c. *Permanent assets*

Permanent assets are recorded at cost, price level restated up to December 31, 1995, plus the following aspects:

- Property reevaluations carried out in December 2002 (each 4 years);

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

- Provisions for devaluations of other investments, when applicable;
- Depreciation of premises and equipment is provided using the straight-line method at rates that take into account the estimated useful lives of the assets, which are: real estate in use - 4%, equipment - 10%, vehicles - 20% and other assets in use - 10% to 20%; and
- Amortization of deferred charges is calculated using the straight-line method for a period of up to 5 (five) years.

d. Current and noncurrent liabilities

Current and noncurrent liabilities are recorded at known or estimated amounts, plus charges and daily “pro rata” monetary and exchange rate variations incurred.

The contribution to PASEP was calculated at the rate of 0.65%, and the contribution to COFINS was calculated at the rate of 3% until august 2003 and 4% starting at September 2003, in accordance with prevailing legislation.

The provision for income taxes (IRPJ), was calculated at the rate of 15% of taxable income, plus a 10% surtax, as per the limit established in Law. The provision for social contribution (CSLL) was computed at the rate of 9%, on income adjusted before income tax.

4 Interbank funds applied

Interbank funds applied are evaluated at cost value, plus accrued revenues to the balance sheet date, less eventual allowances for valuation, when applicable.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

	2003	2002
Money market funds applied	<u>4,731,161</u>	<u>6,577,452</u>
Held position	<u>39,595</u>	<u>417,316</u>
Financial Treasury Bills	600	199,903
National Treasury Bills	38,995	189,414
Central Bank Notes	-	27,999
Financed position	<u>4,691,566</u>	<u>6,160,136</u>
Financial Treasury Bills	2,873,651	4,047,602
National Treasury Bills	1,680,047	2,012,475
National Treasury Notes	63,935	100,059
Central Bank Notes	73,933	-
Interbank deposits	<u>200,000</u>	<u>20,012</u>
	<u>4,931,161</u>	<u>6,597,464</u>

5 Securities and derivative financial instruments

a. Summary of the classification of securities and derivative financial instruments

Category	2003	2002
Trading securities	23,054,404	7,733,800
Securities available for sale	8,199,020	10,560,204
Securities held to maturity	46,256,646	39,066,221
Derivative financial instruments	<u>15,882</u>	<u>7,253</u>
	<u>77,525,952</u>	<u>57,367,478</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

b. Composition of securities

	2003	2002
Own portfolio	<u>47.138.521</u>	<u>42.876.870</u>
Fixed rate securities	<u>46.801.587</u>	<u>42.577.899</u>
Financial Treasury Bills	44,385,181	38,551,825
National Treasury Bills	35,776	148,789
National Treasury Notes	1,235,665	1,691,338
Central Bank Notes	41,760	594,645
Treasury Financial Certificates	459,274	805,435
Securitized Credits	579,473	716,541
Other securities	64,458	69,326
Investments funds quotas - FND	<u>320.749</u>	<u>298.971</u>
Investments funds quotas - Real Estate Fund	<u>16.185</u>	<u>-</u>
Securities subject to commitments	<u>30.371.549</u>	<u>14.483.355</u>
Subject to repurchase commitments	<u>29.545.642</u>	<u>12.837.457</u>
Financial Treasury Bills	23,124,911	11,751,256
National Treasury Bills	5,327,567	773,450
National Treasury Notes	867,616	312,751
Central Bank Notes	225,548	-
Deposited with Central Bank	<u>491.790</u>	<u>614.449</u>
Financial Treasury Bills	342,148	2,403
National Treasury Bills	149,642	612,046
Pledged as guarantees	<u>334.117</u>	<u>1.031.449</u>
Financial Treasury Bills	325,885	1,026,929
National Treasury Bills	8,232	4,520
Derivative financial instruments	<u>15.882</u>	<u>7.253</u>
	<u>77.525.952</u>	<u>57.367.478</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

c. Consolidated classification by categories and maturity dates:

Securities	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Up to 5 years	Book value	Accrued value	Market Value
Trading securities	<u>6.602.752</u>	<u>16.207.955</u>	<u>239.297</u>	<u>4.400</u>	<u>23.054.404</u>	<u>22.874.597</u>	<u>23.054.404</u>
Financial Treasury Bills	1,390,734	15,703,850	-	-	17,094,584	16,984,574	17,094,584
National Treasury Bills	5,192,601	155,386	-	-	5,347,987	5,304,818	5,347,987
National Treasury Notes	3,232	348,719	239,297	-	591,248	565,150	591,248
Petrobras Debentures	-	-	-	4,400	4,400	3,870	4,400
Variable Income Fund Quotas - Real Estate Fund	16,185	-	-	-	16,185	16,185	16,185
Securities available for sale	<u>1.351.498</u>	<u>4.502.975</u>	<u>1.022.837</u>	<u>1.321.710</u>	<u>8.199.020</u>	<u>7.897.970</u>	<u>8.199.020</u>
Financial Treasury Bills	163,806	3,620,352	887,946	296,284	4,968,388	4,783,039	4,968,388
National Treasury Bills	149,642	23,588	-	-	173,230	172,710	173,230
National Treasury Notes	479,440	583,901	20,025	369,117	1,452,483	1,343,556	1,452,483
Central Bank Notes	168,109	99,199	-	-	267,308	232,762	267,308
CFT	68,483	133,170	109,781	147,840	459,274	495,798	459,274
CVS	-	-	-	455,685	455,685	455,684	455,685
ELET	-	41,845	-	-	41,845	39,636	41,845
TODA	1,269	920	13	-	2,202	2,143	2,202
Petrobras Debentures	-	-	-	52,784	52,784	46,438	52,784
State Securities - Union Investment fund quotas - FND	-	-	5,072	-	5,072	5,455	5,072
	320,749	-	-	-	320,749	320,749	320,749
Securities held to maturity	<u>20.173.571</u>	<u>23.041.565</u>	<u>2.981.960</u>	<u>59.550</u>	<u>46.256.646</u>	<u>46.256.646</u>	<u>46.312.487</u>
Financial Treasury Bills	20,173,571	22,959,622	2,981,960	-	46,115,153	46,115,153	46,193,952
National Treasury Notes	-	-	-	59,550	59,550	59,550	37,991
SUNA	-	81,943	-	-	81,943	81,943	80,544
Derivative financial instruments	<u>15.882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15.882</u>	<u>15.882</u>	<u>15.882</u>
Total - 2003	<u>28.143.703</u>	<u>43.752.495</u>	<u>4.244.094</u>	<u>1.385.660</u>	<u>77.525.952</u>	<u>77.045.095</u>	<u>77.581.793</u>
Total - 2002	<u>9.253.317</u>	<u>33.563.886</u>	<u>12.232.831</u>	<u>2.317.444</u>	<u>57.367.478</u>	<u>57.937.628</u>	<u>56.338.625</u>

The market value of the securities is determined in accordance with the market price at the balance sheet date. If there is no market price quotation, the values are estimated based on quotations by distributors, price definition models, quotation models or quotations of prices for instruments with similar characteristics.

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Notes to the financial statements

(In thousands of Reais)

d. Adjustment to market value of securities and derivative financial instruments in the year

	Positive adjustment	Negative adjustment	Net adjustment in shareholders' equity
Securities available for sale			
Financial Treasury Bills	251,743	-	251,743
National Treasury Bills	9,511	-	9,511
National Treasury Notes	403,808	-	403,808
Central Bank Notes	137,377	-	137,377
Petrobras Debentures	4,390	-	4,390
Siderbras Debentures	662	-	662
State Securities	-	383	(383)
Agricultural debt securities	441	-	441
CFT	223	36,747	(36,524)
ELETRONIC	2,405	-	2,405
CVS	2,938	-	2,938
Adjustments in affiliated companies	9	-	9
Derivative financial instruments (SWAP)	-	395,354	(395,354)
Taxes on market value	<u>10,249</u>	<u>-</u>	<u>10,249</u>
	<u>823,756</u>	<u>432,484</u>	<u>391,272</u>

e. Derivative financial instruments

The values of the positions of those derivatives that are related to swap contracts are recorded in memorandum accounts and the adjustments in equity accounts. The referential value of these operations is R\$ 8,500,389 (2002 - R\$ 7,769,981). The differential payable at this date amounts to R\$ 184,845 (2002 - R\$ 196,975) and the differential receivable to R\$ 15,882 (2002 - R\$ 7,253).

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Notes to the financial statements

(In thousands of Reais)

6 Interbank accounts

a. Term deposits

(I) The deposits made with BACEN are mainly comprised of compulsory payments that accrue monetary correction based on official indices and interest rates, except for those resulting from demand deposits.

(II) The “National Housing System - SFH” account includes prevalently the residual values of terminated contracts to be paid by the FCVS, in the amount, net of provisions, of R\$ 20,805,774, as follows (2002 - R\$ 20,336,143), which are in the process of novation with that Fund. Currently, these contracts earn an annual interest rate of 6.17% plus monetary correction according to the variation of the Referential Rate (*TR*). Effective realization of these receivables depends on adherence to a set of rules and procedures defined in regulations issued by the FCVS. CAIXA management has been implementing a process for analyzing and checking the conditions and data of these contracts for conformity to such rules and procedures, which justified the establishment of criteria to estimate the probable losses arising from contracts that do not meet the rules and procedures defined by the FCVS. These estimates provided the provisioning for the amount of the difference existing between the expectations of receipt and the confirmed amount, following the rules of the FCVS for the contracts already authorized and homologated, and the application of the rate of 10% (based on the existing history of losses upon the occurrence of loan novations) for the balance of the contracts still not authorized.

Specification	2003	2002
Loans originating in CAIXA	13,089,021	11,882,458
Loans assigned to and acquired from third parties	11,255,789	8,517,542
Acquired and managed by third parties	<u>2,305,214</u>	<u>2,839,764</u>
	<u>25,650,024</u>	<u>23,239,764</u>
Provision for possible losses and rejections	(<u>4,844,250</u>)	(<u>2,903,621</u>)
	<u>20,805,774</u>	<u>20,336,143</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

As a result of a commitment assumed by the Union, for the purpose of exchange of CVSSs in novation, for Federal Public Securities, at their face value, mark-to-market was not necessary for these loans. The exchange forecast for 2003, in the amount of R\$ 8,206,309 related to loans already homologated and with novation still not concretized, is in the process of negotiation of a time chart with the Federal Government.

7 Loans

a. Composition of loans per type of operation

Description	2003	2002
Financing, discounted loans and loans (1)	8,054,746	7,489,164
Real estate financing operations	16,420,058	14,752,029
Infrastructure and development financing operations	793,459	493,452
Other receivables	<u>877,838</u>	<u>789,000</u>
	<u>26,146,101</u>	<u>23,523,645</u>

(1) Refers to public sector financing related to refinancing contracts of Federal Government, in the amount of R\$ 667,566 (2002 - R\$ 640,159), based on Law 8727/93, whereby the Union is responsible for their settlement. Provisional Measure 2181-45 (formerly Provisional Measure 2103-42), dated August 24, 2001, authorized the Union to settle these contracts in advance. The said contracts have an annual interest rate of 12% plus monetary correction according to the Referential Rate (TR) variation. These refinancing operations are guaranteed by the State and Municipality Participation Fund (*Fundo de Participação dos Estados e Municípios*).

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

b. Breakdown of loans by activities

Description	2003	%	2002	%
Federal public sector	<u>936,133</u>	<u>3.58</u>	<u>648,272</u>	<u>2.75</u>
Government:	935,843	3.58	7,904	0.03
Direct administration	935,843	3.58	-	-
Indirect administration	-	-	7,904	0.03
Business activities:	290	-	640,368	2.72
Financial intermediaries	258	-	640,368	2.72
Other services	32	-	-	-
State public sector	<u>380,895</u>	<u>1.45</u>	<u>364,877</u>	<u>1.55</u>
Government - Direct administration	130,224	0.50	39,639	0.17
Business activities	250,671	0.95	325,238	1.38
Industry	238,878	0.91	319,020	1.35
Financial intermediaries	11,738	0.04	6,218	0.03
Other services	55	-	-	-
Municipal public sector	<u>96,163</u>	<u>0.37</u>	<u>153,421</u>	<u>0.66</u>
Government	83,292	0.32	71,365	0.30
Direct administration	83,276	0.32	70,522	0.30
Indirect administration	16	-	843	-
Business activities - Industry	12,871	0.05	82,056	0.36
Industry	12,740	0.05	82,056	0.36
Other services	131	-	-	-
Private sector	<u>24,732,910</u>	<u>94.60</u>	<u>22,357,075</u>	<u>95.04</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

Description	2003	%	2002	%
Rural	3,927	0.02	-	-
Industry	123,604	0.47	101,519	0.43
Commerce	452,551	1.73	680,979	2.89
Financial Intermediaries	303,088	1.16	9,282	0.04
Other services	3,039,041	11.62	818,636	3.48
Individuals	5,113,815	19.56	6,015,614	25.57
Housing - Individuals/legal entities	<u>15,696,884</u>	<u>60.04</u>	<u>14,731,045</u>	<u>62.63</u>
	<u>26,146,101</u>	<u>100.00</u>	<u>23,523,645</u>	<u>100.00</u>

c. Concentration of main debtors

	2003	% of portfolio	2002	% of portfolio
Main debtor	667,566	2.55	640,159	2.72
10 main debtors	1,586,040	6.06	862,873	3.67
20 main debtors	1,780,612	6.81	965,446	4.10
50 main debtors	2,006,339	7.67	1,110,494	4.72
100 main debtors	2,138,681	8.17	1,186,935	5.04

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

d. Composition of loans according to maturity of operations

	2003			2002
	Public sector	Private sector	Total	Total
Current assets	<u>62,710</u>	<u>8,721,840</u>	<u>8,784,550</u>	<u>2,776,489</u>
0 to 90 days	20,917	3,535,366	3,556,283	1,437,733
91 to 360 days	41,793	5,186,474	5,228,267	1,338,756
Noncurrent assets	<u>1,347,890</u>	<u>14,588,279</u>	<u>15,936,169</u>	<u>18,723,631</u>
From 1 to 3 years	115,844	7,716,701	7,832,545	2,431,526
From to 5 years	145,457	4,465,032	4,610,489	1,128,839
From 5 to 15 years	677,879	2,406,240	3,084,119	6,931,076
More than 15 years	<u>408,710</u>	<u>306</u>	<u>409,016</u>	<u>8,232,190</u>
Total - Normal	<u>1,410,600</u>	<u>23,310,119</u>	<u>24,720,719</u>	<u>21,500,120</u>
Total - Overdue	<u>2,591</u>	<u>1,422,791</u>	<u>1,425,382</u>	<u>2,023,525</u>
Total	<u>1,413,191</u>	<u>24,732,910</u>	<u>26,146,101</u>	<u>23,523,645</u>

e. Classification according to modality and risk level

Risk level	Loans and discounted loans	Financing	Real estate financing	Other receivables	Total 2003	%	Total 2002	%
AA	554,841	668,506	507,879	-	1,731,226	6.62	1,333,525	5.67
A	1,402,891	524,218	6,221,414	37,843	8,186,366	31.31	6,231,767	26.47
B	934,477	411,016	1,806,141	428,410	3,580,044	13.69	2,969,792	12.67
C	845,213	200,242	2,740,606	13,725	3,799,786	14.53	3,916,128	16.64
D	1,025,624	469,858	3,895,174	18,978	5,409,634	20.69	6,161,913	26.18
E	71,742	22,420	447,796	2,380	544,338	2.08	454,013	1.93
F	48,633	83,597	280,068	500	412,798	1.58	358,476	1.52
G	61,034	16,638	167,817	331	245,820	0.94	198,901	0.85
H	<u>463,804</u>	<u>249,992</u>	<u>1,146,622</u>	<u>375,671</u>	<u>2,236,089</u>	<u>8.56</u>	<u>1,899,130</u>	<u>8.07</u>
	<u>5,408,259</u>	<u>2,646,487</u>	<u>17,213,517</u>	<u>877,838</u>	<u>26,146,101</u>	<u>100.00</u>	<u>23,523,645</u>	<u>100.00</u>

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Notes to the financial statements

(In thousands of Reais)

f. Composition of the provision for doubtful loans by risk level

Risk level	(%)	Loans and discounted loans	Financing	Real estate financing	Other receivables	Total 2003	%	Total 2002	%
A	0.5	7,014	2,622	31,107	189	40,932	1.08	31,159	0.90
B	1.0	11,323	4,111	20,929	4,287	40,650	1.08	29,817	0.87
C	3.0	26,438	11,008	118,840	411	156,697	4.15	164,548	4.76
D	10.0	122,563	56,594	575,425	1,897	756,479	20.04	874,977	25.33
E	30.0	21,522	6,726	134,813	714	163,775	4.34	136,204	3.94
F	50.0	24,316	41,799	140,036	250	206,401	5.47	179,237	5.19
G	70.0	42,723	11,647	119,952	231	174,553	4.62	139,231	4.03
H	100.0	<u>463,804</u>	<u>249,992</u>	<u>1,146,622</u>	<u>375,671</u>	<u>2,236,089</u>	<u>59.23</u>	<u>1,899,130</u>	<u>54.98</u>
		<u>719,703</u>	<u>384,499</u>	<u>2,287,724</u>	<u>383,650</u>	<u>3,775,576</u>	<u>100.00</u>	<u>3,454,303</u>	<u>100.00</u>

We point out that in the CAIXA's loan risk policy, the stratification of the percentages is calculated at intervals of one point, which is respected at the moment of recording the provision.

g. Changes in the provision for doubtful loans

Description	2003	2002
Opening balance	3,454,303	3,722,470
Additions	1,403,462	1,382,477
Reversals	(141,418)	(641,014)
Write-offs against provision	(940,771)	(1,009,630)
	<u>3,775,576</u>	<u>3,454,303</u>

h. Renegotiated loans, posted as loss and recovered

	2003	2002
Total renegotiated loans for the year	631,341	979,364
Total loans entered as loss for the year	940,771	1,009,630
Total recovered loans for the year	13,424	3,766

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Notes to the financial statements

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8 Other receivables

a. Income receivable

“Income receivable” refers to amounts receivable on behalf of rendering of services.

	2003	2002
Dividends and JCP receivable from FND - National Development Fund	249,854	174,666
FGTS	141,931	128,738
Unemployment insurance	52,381	1,932
General Budget of Brazil	121,637	92,610
INSS	507,169	301,895
Social register	136,212	49,057
EMGEA - Empresa Gestora de Ativos (Asset Management Company)	28,444	55,671
School grant program	11,084	9,193
Others	<u>81,161</u>	<u>37,944</u>
	<u>1,329,873</u>	<u>851,706</u>

b. Others

	2003	2002
Sundry advances	274,579	279,730
Tax Credits (note 19)	1,704,894	1,913,055
Guarantee deposit debtors	1,066,754	806,037
Taxes and contributions to compensate	20,128	22,856
Payments to reimburse	47,863	36,845
Other receivable with characteristics of extension of credit	877,838	789,000
Debtors for purchase of securities and assets	91,847	57,591
Securities and credits receivable	785,991	731,409
Amounts receivable - BAMERINDUS (ii)	302,941	302,941
Credit card	475,550	366,275
Other securities and credits receivable	7,500	62,193
Other receivable without characteristics of extension of credit	412,588	341,860

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Notes to the financial statements

(In thousands of Reais)

	2003	2002
Securities and credits receivable	412,588	341,860
Pernambuco State Government - COMPESA (i)	213,286	180,802
Bahia State Government - EMBASA (i)	184,032	149,200
Credit Card	15,270	11,858
Other debtors	662,889	634,480
Accrual - Loans and financing (iii)	409,449	408,337
Insurance receivable	197,413	168,812
Other debtors	56,027	57,331
Provision for losses	<u>(328,340)</u>	<u>(315,991)</u>
	<u>4,739,193</u>	<u>4,507,872</u>

- i. Refers to the advance of privatization funds to the Bahia State Government (EMBASA) remunerated by the SELIC (Special System for Settlement and Custody) rate, and to the Government of the State of Pernambuco (COMPESA), remunerated by the TR plus 12% per annum.
- ii. Refer to credits with the bankrupt estate of Banco Bamerindus, originating preponderantly from the acquisition of property credits, which are totally provisioned.
- iii. Refers mainly to values recorded as debits in real estate financing, not classified by the Financing Control System (*Sistema de Controle de Financiamentos - SIACI*), in the phase of identification for appropriation to the corresponding contracts. These amounts are correlated to creditor records of the same nature as indicated in Note 15 (c).

c. *Provision for other receivables*

In accordance with BACEN Circular Letter 3048/2002, credit securities receivable are classified as “with credit extension features” and “without credit extension features”, as follows:

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Notes to the financial statements

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	2003	2002
Provision - Other receivables with credit extension features (Note 7(f))	(383,650)	(362,567)
Provision - Other receivables without credit extension features	<u>(39,732)</u>	<u>(44,982)</u>
	<u>(423,382)</u>	<u>(407,549)</u>

9 Other assets

The assets not for own use mainly refer to awarded properties, properties received as payments in kind for loans and also properties no longer used in CAIXA's operations. The provision for devaluation of these properties is recorded, based on an appraisal report prepared by specialized company.

10 Permanent assets

a. Investments

The investments in subsidiaries are substantially formed by CAIXA SEGUROS S.A. and are evaluated according to the equity method. The main information on the investee and the investment, as of December, are presented as follows:

Investee	2003	2002
Shareholders' equity	879,124	728,125
Capital	360,000	360,000
Quantity of shares	16,930,108	16,930,108
Revaluation/retained earnings reserve	89,972	1,222
Gains and losses in the realization of securities	19	-
Goodwill reserve	285,252	285,252
Retained earnings	143,881	81,651
Book value per share - R\$	51.93	43.01

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Notes to the financial statements

(In thousands of Reais)

Investment	2003	2002
Quantity of shares held	8,161,426	8,161,426
Participation (%)	48.20658	48.20658
Book value of the investment	287,705	220,534
Equity income	67,171	47,945
Other investments	<u>317</u>	<u>589</u>
Total equity in earnings of subsidiaries and affiliated companies	<u><u>288,022</u></u>	<u><u>221,123</u></u>

b. Premises and equipment

	2003		2002	
	Cost	Depreciation	Residual value	Residual Value
Properties for own use	793,777	(29,974)	763,803	876,094
Buildings	138,952	(8,218)	130,734	137,416
Revaluation of buildings	439,944	(21,756)	418,188	478,840
Lands	72,053	-	72,053	67,495
Revaluation of lands	142,828	-	142,828	192,343
Fixed assets in progress	216,323	-	216,323	105,040
Furniture, fixtures and equipment in use	359,542	(205,119)	154,423	172,532
Communications system	49,259	(24,461)	24,798	29,733
Data processing system	1,134,988	(756,889)	378,099	439,839
Transport and security system	58,685	(20,468)	38,217	35,332
Other fixed assets	<u>16</u>	<u>-</u>	<u>16</u>	<u>787</u>
	<u><u>2,612,590</u></u>	<u><u>(1,036,911)</u></u>	<u><u>1,575,679</u></u>	<u><u>1,659,357</u></u>

In compliance with Circular 2824/1998, in December 2002 CAIXA revalued 100% of the properties for own use.

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Notes to the financial statements

(In thousands of Reais)

c. *Deferred charges*

	2003	2002
Expenses in third party properties	295,322	324,237
Expenses with logistical projects	593,572	507,116
Improvements to own property	179,452	242,410
Accumulated amortizations	<u>(588,103)</u>	<u>(513,093)</u>
	<u>480,243</u>	<u>560,670</u>

d. *Compliance with index of investment in fixed assets*

The index of investment in fixed assets is 41.32%, thus CAIXA is in compliance with the limit defined by National Monetary Council (CMN) Resolution 2669/99, which establishes the limit of 50% as from December 31, 2002.

11 Deposits and money market repurchase commitments

- a. Time deposits include judicial deposits in the amount of R\$ 22,989,626 (2002 - R\$ 21,352,062), which are remunerated based on the Referential Rate (TR). On Judicial deposits of a labor and state nature there is also interest at 6% p.a. The deposits are distributed as follows:

	<u>2003</u>			<u>2002</u>	
	Demand	Time	Savings	Total	Total
■ Short-term	<u>4.986.788</u>	<u>25.011.231</u>	<u>43.872.307</u>	<u>73.870.326</u>	<u>71.700.925</u>
Without maturity	4,986,788	22,989,626	43,872,307	71,848,721	68,941,573
From 31 to 90 days	-	1,092,027	-	1,092,027	1,211,278
From 91 to 360 days	-	929,578	-	929,578	1,548,074
Long-term	<u>-</u>	<u>1.135.917</u>	<u>-</u>	<u>1.135.917</u>	<u>1.101.760</u>
More than 360 days	-	1,135,917	-	1,135,917	1,101,760
More than 360 days	<u>4.986.788</u>	<u>26.147.148</u>	<u>43.872.307</u>	<u>75.006.243</u>	<u>72.802.685</u>

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Notes to the financial statements

(In thousands of Reais)

Money market and interbank funds

From 31 to 90 days	29,424,846	12,778,799
From 91 to 360 days	<u>4,691,558</u>	<u>6,158,060</u>
	<u>34,116,404</u>	<u>18,936,859</u>

- b. Special deposits for funds and programs are composed of the Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço - FGTS*) and deposits from other funds and programs, where the FGTS deposits are restated by the SELIC rate, and the other deposits in accordance with Resolutions 279 and 295 of the FGTS Trustee Council (*Conselho Curador do FGTS*), of February 17 and August 26, 1998, and the others - Special remunerated deposits, FAS, FISANE and PRODEC, are restated by the TR; the deposits of PROGER and FAT are updated by the SELIC rate and invested at the TJLP and the deposits of PIS, restated by interest extra-market, shown as follows:

	2003	2002
Deposits - FGTS	2,517,839	816,874
Deposits - Special with remuneration	2,711,031	2,376,431
Deposits - FAS	335,634	313,271
Deposits - PROGER	168,692	142,117
Deposits - FISANE	24,237	32,612
Deposits - PRODEC	114,990	56,825
Deposits - PIS	<u>145,681</u>	<u>65,491</u>
Others	<u>6,018,104</u>	<u>3,803,621</u>

12 Mortgage note funds

Refer to funds from mortgage notes and property credit notes, on which there are financial charges equivalent to the Referential Rate (TR), IGP-M or INPC.

Average interest of 11.82% is added to the issues in TR (including all original operations with and without swap, weighted in accordance with the updated balance) and a minimum redemption term of 180 days.

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Average interest of 10.83% and 10.93% per annum respectively is added to the issues in IGP-M and INPC, and a minimum redemption term of 5 years.

Average interest of 10.79% per annum is added to the issues of LCIs indexed to IGP-M, and a minimum redemption term of 3 years.

13 Borrowings

Foreign loans are subject to interest of up to 5.32% per annum and exchange variation of the currency to which they are related, mainly U.S. dollars, with maturity dates until 2013.

14 Repass borrowings from public sector

They are mainly composed of funds transferred by the FGTS for investments in infrastructure, urban development and real estate loan operations. These obligations are subject to monetary correction in accordance with the Referential Rate (TR) variation and an average interest rate of 6.10% per year. The average term for maturity of these operations is 15 years.

15 Other liabilities

a. Taxes payable

	2003	2002
Taxes and contributions payable	3	71,597
Income taxes	3	71,597
Taxes and contributions payable	252,871	212,109
COFINS	44,029	50,356
PASEP	7,106	13,674
On salaries	111,148	91,008
On services	90,588	57,071

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	2003	2002
Deferred taxes and contributions	245,084	275,984
Income tax on revaluation reserve - Buildings	104,946	120,130
Social contribution on revaluation reserve - Buildings	37,781	43,247
Income tax on adjustments to market value - Securities available for sale	75,263	82,799
Social contribution on adjustments to market value - Securities available for sale	27,094	29,808
Provision for tax risks	847,635	762,414
PASEP (i)	567,789	529,209
INSS (ii)	102,831	99,341
ISS (iii)	163,414	123,342
Other	<u>13,601</u>	<u>10,522</u>
	<u>1,345,593</u>	<u>1,322,104</u>

- (i) CAIXA, on December 6, 1996, was notified by agents from the Federal Income Department (*Receita Federal* - SRF), on allegation of insufficiency in the collection of PIS/PASEP, related to the period from January 1991 to December 1995, a period in which Decree Laws 2445 and 2449/1988 were in force, and offsetting, supposedly unjustified, of collections made in excess in the period from January 1992 to May 1993, in the amounts of R\$ 2,691,943 in principal, R\$ 2,011,254 in fines and R\$ 5,130,797 in interest, at December 31, 2003.

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CAIXA presented an appeal to the Taxpayers Council, which evaluated the process on February 3, 1999, In accordance with the vote of the Counselor Relater, the elements brought to the proceeding by the agents do not permit identification of what exclusions of the taxable basis of PASEP were considered without basis and what the motivation was for the tax authorities to make the disallowance. According to a resolution of the members of the Second Chamber of the Second Taxpayers Council, the judgment was converted into diligence at the Federal Income Department - SRF, so that the inspectors may clarify the facts and justify the disallowance made, informing CAIXA of the contents of this procedure and giving an adequate term to reply, The Federal Revenue Service in Brasilia advised CAIXA, on October 21, 1999, of the diligence report, in which the National Treasury maintained the same reasons reported in the assessment. CAIXA sent a pronouncement on the tax diligence report to the Second Taxpayers Council, which evaluated the process on November 7, 2000. According to the resolution of the members of the council, the judgment was converted into a new diligence to SRF. CAIXA was informed of the Tax Diligence Report, on April 26, 2001. In this report the tax authorities maintained the same reasons reported in the assessment, mentioning that an examination of the identification of the disallowance accounts would not be possible. On May 28, 2001, CAIXA sent a new pronouncement to the Second Taxpayers Council, where the process awaits a new judgment. If there are no more possibilities in the administrative sphere, there are still appeals in the judicial sphere. Based on the opinion of its legal and tax advisors, and considering the case laws already disclosed on the issue, and due to the possibilities of success, Management understands that the provision recorded in the amount of R\$ 567,789 (2002 - R\$ 529,209) is sufficient to cover possible unfavorable decisions on some parts of the proceeding.

- (ii) CAIXA was assessed by the agents of the National Institute of Social Security (INSS) for the collection of social contributions on payments made to its employees, for the period from January 1982 to August 1999, which according to an INSS report, amount to R\$ 844,061 (2002 - R\$ 797,059) repositioned to December 31, 2003;

CAIXA understands that the payments assessed are not subject to the collection of social contribution, due to their indemnificatory characteristics and the applicable legal dispositions, for which reason the debits are being legally questioned.

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(In thousands of Reais)

In accordance with the opinion of its legal and tax advisors, Management, due to the possibility of success foreseen for the other proceedings, defined percentages of provision related to each action that, as from 2003, are separated in "Provision for contingencies - INSS" and amounted to R\$ 102,831 (2002 - R\$ 99,341).

(iii) CAIXA was assessed by municipal agents in various municipalities of the Federation, on the allegation of lack of collection or insufficient collection of ISS, the total amount of which in December 31, 2003 corresponds to the amount of R\$ 163,414 (2002 - R\$ 123,342), which is totally provisioned.

b. Funds with specific destinations

They refer to obligations arising from funds from operations related to lotteries, obligations arising from funds or special programs generated by the company and resources from funds or special programs sustained with resources from the government or public entities, managed by the institution.

	2003	2002
Obligations from operations with lotteries	218,904	262,718
Obligations with funds and social programs	1,154,797	1,561,286
FGTS	302,847	852,147
Unemployment insurance	2,355	265,014
FISANE	42,426	46,694
School grants	154,681	120,684
Gas assistance	132,028	112,481
Food supplement	50,463	26,497
Housing subsidy program/PSH	272,281	90,322
Family grant	150,934	-
Other funds and programs	46,782	47,447
Obligations with financial development funds	527,819	56,516
PIS	526,583	54,620
Others	<u>1,236</u>	<u>1,896</u>
	<u>1,901,520</u>	<u>1,880,520</u>

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Notes to the financial statements

(In thousands of Reais)

c. Others

	2003	2002
Obligations for SFH contributions	72,302	181,896
Obligations for official agreement	83,564	71,461
Provision for payments to be made	773,863	758,710
Personnel expenses	606,600	564,201
Other administrative expenses	67,049	76,234
Other payments	100,214	118,275
Provision for contingent liabilities	2,125,689	5,499,187
FUNCEF - Technical Reserves (1)	-	3,347,709
PREVHAB/FUNCEF - Technical Reserves (2)	299,740	836,466
Provision for contingencies (3)	1,825,949	1,315,012
FGTS funds	1,924	5,659
Capital subscriptions to pay in	1,309	-
Other creditors - abroad	881	-
Other creditors - domestic	2,809,184	2,188,705
Credit cards	488,613	694,826
Accounts payable	497,121	347,625
EMGEA - <i>Empresa Gestora de Ativos</i> (Asset management company)	737,869	308,059
Union	51,818	14,645
Acquired credits	399,432	-
Amounts to accrue - Loans and financing (Note 8 b iii)	576,451	665,982
Other sundry creditors	<u>57,880</u>	<u>157,568</u>
	<u>5.868.716</u>	<u>8.705.617</u>

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Notes to the financial statements

(In thousands of Reais)

(1) FUNCEF - Technical Reserves

- (i) In the first semester of 2003 FUNCEF and CAIXA signed an agreement for settlement of the debit that the Sponsor had with its pension fund. "CAIXA's debt" originated upon the creation of FUNCEF and was worsened by later events (plans for positions and salaries).

In conformity with Resolution 041, minute 239 of the Deliberative Council of FUNCEF, in a meeting held on April 14, 2003, the Council approved the settlement of CAIXA's debt with FUNCEF in the amount of R\$ 2,732,998, based on an agreement between the parties, which reduced the amount originally provisioned. Consequently, CAIXA reverted part of the provision in the amount of R\$ 917,784.

(2) PREVHAB/FUNCEF - Technical Reserves

Due to the extinction of the National Housing Bank (BNH) determined by Decree 2291, dated November 21, 1986, CAIXA took on the employees of the extinct Bank, who were associated to the BNH Complementary Pension Plan (PREVHAB).

In compliance with the said Decree, in September, 1997, a voluntary adhesion process for active members from PREVHAB to FUNCEF (*Fundação dos Economistas Federais*) and for retired and pension members to the Special and Exclusive Benefit Plan of SASSE - Cia., Nacional de Seguros Gerais S.A., currently CAIXA SEGUROS S.A., was established.

Of the 4,758 active members of PREVHAB, 4,571 (96%) signed terms of adhesion and assignment of rights relative to pension reserves, formally accepted by CAIXA, in the condition of sponsor, and by FUNCEF, in the condition of closed private pension entity, in conformity with the rights and obligations specified in the Private Instrument of Assumption of Obligations and Other Covenants, between CAIXA and FUNCEF, with mediation of PREVHAB. The mathematical reserves of PREVHAB relative to the active members were liquidated on December 2002, with utilization of securities (LFT).

Of PREVHAB's 2,772 retired and pension members, 2,239 (80.77%) signed contracts to join CAIXA SEGUROS's Special and Exclusive Benefit Plan, governed by the Contract for Institution of a Special Benefit Plan between CAIXA and CAIXA SEGUROS, with mediation of PREVHAB, and the contract for Administration of the Securities Portfolio, both signed between CAIXA SEGUROS and CAIXA, in the amount of R\$ 625,689, related to the mathematical reserves appraised and positioned on October 1st, 1998, and repositioned in the amount of R\$ 784,655 in June 2002, including provisions for legal matters.

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Notes to the financial statements

(In thousands of Reais)

On November 1st, 2002, there was an agreement for dissolution between CAIXA and CAIXA SEGUROS, with regards to the contract of the Special Benefit Plan, transferring to CAIXA all the plan's guarantor resources.

As a result of the cancellation of the aforementioned contract, the total guarantor resources of the Special Benefit Plan were transferred by the insurance company to CAIXA, and to avoid a solution of continuity in the payment of the complementary benefits to the participants of that plan, the payment of the benefits was authorized by the Department of Complementary Pensions - SPC, through Notice 2099/SPC/CGAJ, of December 13, 2002, in an exceptional character, from November 2002, until the implementation of the necessary conditions for FUNCEF to be able to administer the plan(s) to be instituted for the aforementioned group of participants.

As from April 15, 2003 the process for transfer of the retired and pension members originating from PREVHAB to FUNCEF was set in action, through adherence to the Benefit Plan - REB, and up to the present moment 1,899 members have already been transferred from that entity.

The members that still continue to receive their pension from CAIXA will be transferred to a plan identical to that to which they belonged, called "Mirror" Plan, to be instituted by FUNCEF.

(3) Contingent liabilities

CAIXA has contingent liabilities from labor and civil lawsuits, lawsuits related to contestation of indexes applied to asset and liability operations, including those related to economic plans, lawsuits related to real estate financing, lotteries, losses and damages, tax lawsuits, amongst others. These claims are periodically evaluated and reviewed.

Management understands, based on reports from its legal advisors, that such proceedings adopted by CAIXA are in accordance with existing legal rules and such processes will not cause relevant losses, which exceed the provision for these contingencies, of R\$ 1,825,849 (2002 - R\$ 1,315,012), sufficient to cover eventual legal decisions, unfavorable to CAIXA.

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Notes to the financial statements

(In thousands of Reais)

16 FGTS

According to Article 9 of Law 8036, dated May 11, 1990, amended by Article 12 of Provisional Measure 2196-3, dated August 24, 2001, CAIXA is responsible for the full settlement of loans owed to the FGTS relative to operations contracted as of June 1st, 2001.

17 Shareholders' equity

a. Capital

In conformity with Resolution 244, of February 21, 2003, of the Directors' Council, report of the Fiscal Council of CAIXA, Resolution of the Management Council of CAIXA and authorization by the Minister of Finance, the paid-in capital was changed from R\$ 3,345,727 to R\$ 3,885,000, through incorporation of reserves and retained earnings.

b. Compliance with levels required by Resolution 2099/94 (Basel Agreement)

In conformity with Resolution 2099/94 and later regulations, which establish the minimum levels of shareholders' equity for financial institutions, based on the volume of their operations, CAIXA presents the following situation:

Security/risk factors	2003		2002	
	Balance	Weighted risk	Shareholders' equity required	Shareholders' equity required
Zero risk - 0%	97,954,338	-	-	-
Reduced risk - 20%	25,716,661	5,143,332	565,766	448,992
Reduced risk - 50%	17,345,763	8,672,882	954,017	849,429
Normal risk - 100%	9,360,297	9,360,297	1,029,633	1,362,179
Tax credits 300%	1,704,894	5,114,682	562,615	631,308
Swap credit risk	318,040	578,254	63,608	59,688
Market risk - interest rate	<u>123,547</u>	<u>1,123,153</u>	<u>123,547</u>	<u>116,369</u>

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Notes to the financial statements

(In thousands of Reais)

	<u>2003</u>		<u>2002</u>	
Security/risk factors	Balance	Weighted risk	Shareholders' equity required	Shareholders' equity required
Total	<u>152.523.540</u>	<u>29.992.600</u>	<u>3.299.186</u>	<u>3.467.965</u>
Reference Shareholder's equity			<u>5.771.552</u>	<u>4.628.121</u>
Sufficiency			<u>2.472.366</u>	<u>1.160.156</u>
Basel Index			<u>19.24%</u>	<u>14.68</u>

c. Revaluation reserves

On December 2002, CAIXA revalued 100% of the property for own use. The revaluation is performed by accredited engineering companies, specialized in the valuation of real estate, with monitoring and accompanying of the execution of the services by professionals from the staff of CAIXA.

d. Revenue reserves

The revenue reserve is formed by a legal reserve in the amount of R\$ 80,807 (2002 - R\$54,055) calculated at 5% of the net income, and a reserve for incorporation of capital arising from the income from the management of lotteries, in the amount of R\$ 68,645 in the year of 2003 (2002 -R\$ 162,761).

e. Dividends

The Union is guaranteed a minimum dividend as provided for in Decree 2673, dated July 16, 1998, of 25% of adjusted net income. In this year dividends were distributed in the amount of R\$ 310,991 (2002 - R\$221,699) and interest on own capital in the amount of R\$ 498,924, totaling 50.00% of the adjusted net income for the year.

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Notes to the financial statements

(In thousands of Reais)

18 Remuneration of employees and administrators

The remuneration paid to employees and administrators is demonstrated below, without deducting the payments disallowed addressed in Decree-Laws 2355/1987 and 8852/1994.

Remuneration in December 2003	Administrators	Employees
Highest	17,892.00	14,910.00
Average	17,892.00	3,552.61
Lowest	17,892.00	572.70

19 Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL)

a. Tax credits

“Tax credits” have as relevant amounts:

- credits from CSLL, related to the periods of verification ended before December 1998, calculated at the rate of 18%, based on article 8 of Provisional Measure 2158-35/2001;
- credits from IR originating in accumulated imprescriptible tax losses and temporary differences; and
- credits from CSLL originating from the negative calculation basis and temporary differences verified as from 1999.

The tax credit recognized is R\$ 5,070,975 (2002 - R\$ 5,668,604) for IRPJ and R\$ 1,219,386 (2002 - R\$ 1,812,814) for CSLL totaling R\$ 6,290,361 (2002 - R\$ 7,481,418). In keeping with Management’s understanding, arising from studies with respect to the realization of the tax credits, provisions were recorded in the amount of R\$ 4,585,467, (2002 - R\$ 5,568,363) resulting in a total of tax credits net of provision of R\$ 1,704,894 (2002 - R\$ 1,913,055)

There were not tax credits recorded in the amount of R\$ 1,488,059.

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Notes to the financial statements

(In thousands of Reais)

Origin of the tax credits

	2003		2002	
	IRPJ	CSLL	IRPJ	CSLL
Provision for doubtful loans	1,192,529	63,105	1,081,116	-
Provision SFH	1,211,063	184,705	645,333	232,321
Provision - Liability with FUNCEF	-	-	571,443	205,719
Provision for contingencies	652,492	234,897	446,604	101,300
Others	<u>319,929</u>	<u>128,024</u>	<u>315,006</u>	<u>173,430</u>
Sub-total	3,376,012	610,732	3,059,502	712,770
Credit from temporary differences not recorded	<u>(1,089,493)</u>	<u>(398,566)</u>	-	-
Total credit from temporary differences	2,286,519	212,166	3,059,502	712,770
Tax loss	2,784,456	-	2,693,209	-
Negative Basis	-	436,190	-	512,595
Social contribution MP 2.158-35/2001	-	<u>571,030</u>	-	<u>624,514</u>
Total Tax Credits	<u>5,070,975</u>	<u>1,219,386</u>	<u>5,752,711</u>	<u>1,849,879</u>

Expectations of realization of the tax credits

Book value:

Year	2004	2005	2006	2007	2008	Subtotal	2009 a 2013	Total
IRPJ	42,460	48,467	121,408	141,078	193,388	546,802	866,475	1,413,277
CSLL	<u>25,986</u>	<u>29,662</u>	<u>74,302</u>	<u>86,340</u>	<u>75,327</u>	<u>291,617</u>	-	<u>291,617</u>
	<u>68,446</u>	<u>78,129</u>	<u>195,710</u>	<u>227,418</u>	<u>268,715</u>	<u>838,419</u>	<u>866,475</u>	<u>1,704,894</u>

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Notes to the financial statements

(In thousands of Reais)

Present value:

Year	2004	2005	2006	2007	2008	Subtotal	2009 a 2013	Total
IRPJ	38,955	40,794	94,182	100,867	127,434	402,231	458,146	860,377
CSLL	<u>23,840</u>	<u>24,966</u>	<u>57,639</u>	<u>61,730</u>	<u>49,638</u>	<u>217,813</u>	—	<u>217,813</u>
	<u>62,795</u>	<u>65,760</u>	<u>151,821</u>	<u>162,597</u>	<u>177,072</u>	<u>620,044</u>	<u>458,146</u>	<u>1,078,190</u>

The technical studies were made based on projected income, considering the targets and rules established for the institution's products, as well as the market prospects and evaluation of the projected economic indicators in keeping with the trends of the economic scenario of Brazil.

BACEN Resolution 3059/02 establishes that the portion of tax credits whose expectation of realization is more than five years should be excluded for the purposes of calculation of level I of the Reference Equity (PR), used as a parameter for definition of the operating limits of financial institutions, in accordance with of the schedule defined by the Resolution.

Management, based on the technical studies that defined the expectation of realization of the tax credits, does not foresee that the reduction of its Reference Equity (PR), which will be made as a result of the exclusion mentioned in the previous paragraph, will result in operating limits lower than the minimum required by the Monetary Authority.

The present value of the credits was calculated in compliance with BACEN Circular 3171/2002, taking into consideration the average funding rate, net of tax.

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b. Statement of IRPJ and CSLL

	2003		2002	
	IRPJ	CSLL	IRPJ	CSLL
Income before income taxes (IR and CS)	<u>1,596,646</u>	<u>1,596,646</u>	<u>1,484,566</u>	<u>1,484,566</u>
Total IRPJ and CSLL at the rates of 25% and 9%	(399,138)	(143,698)	(371,118)	(133,611)
Tax effects of the additions and inclusions	<u>45,442</u>	<u>11,227</u>	<u>90,871</u>	<u>10,065</u>
Provision for doubtful loans	(111,413)	(63,104)	60,533	-
Provision for SFH	(565,729)	(203,663)	(217,701)	(78,372)
Provisions for contingencies	(147,586)	(53,131)	(32,520)	46,768
FGTS expenses	318,538	114,674	295,411	106,347
Provision - Liability with FUNCEF	571,443	205,719	(83,972)	(30,230)
Other	(19,810)	10,732	71,816	(34,448)
Interest on own capital	6,429	2,316	-	-
Deferred tax assets	106,116	67,561	84,108	37,063
Tax incentive	<u>6,741</u>	<u>-</u>	<u>319</u>	<u>-</u>
Total expenses with IRPJ and CSLL	(<u>240,839</u>)	(<u>64,610</u>)	(<u>195,820</u>)	(<u>86,483</u>)

c. Movement of tax credit

	Gross amount	Provision	Total
Balance at December 31, 2002	7,481,419	(5,568,363)	1,913,056
Realization of tax credit	(173,676)	-	(173,676)
Write-off of tax credit - Year 2002 MP 2158-35/01	(34,486)	-	(34,486)
Reversal	(<u>982,896</u>)	<u>982,896</u>	<u>-</u>
Balance at December 31, 2003	<u>6,290,361</u>	<u>(4,585,467)</u>	<u>1,704,894</u>

The amount estimated in 2002 for realization of the tax credit in 2003 was R\$ 137,526.

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(In thousands of Reais)

20 Other information

a. Service fee income

	Second Semester 2003	Year ended December 31	
		2003	2002
Administration of FGTS	607,100	1,188,933	1,035,142
Administration of FCVS	89,436	142,796	92,131
Administration of PIS	49,327	91,981	108,754
Administration of lotteries	186,489	360,857	313,493
FGTS - Tariffs	191,828	421,766	467,283
Unemployment insurance	17,210	110,942	195,522
Social register	66,225	120,122	109,142
General Budget of the Union - OGU	19,065	36,342	50,616
INSS - Tariffs	32,515	65,272	33,893
Administration of investment funds	144,387	261,140	214,435
Tariffs for agreements	322,164	605,003	574,513
Check and paper clearing services	55,541	112,511	95,497
Tariffs on current accounts	99,235	200,215	210,196
Collection of securities	106,539	205,037	182,037
EMGEA - Services rendered	168,926	348,890	327,231
Other services	<u>177,751</u>	<u>322,135</u>	<u>224,005</u>
	<u>2,333,738</u>	<u>4,593,942</u>	<u>4,233,890</u>

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b. Administrative and personnel expenses

Personnel expenses	Second Semester 2003	Year ended December 31	
		2003	2002
Provisions	(1,412,435)	(2,589,959)	(2,470,125)
Benefits	(251,530)	(462,162)	(451,673)
Social charges:			
FGTS	(103,546)	(192,597)	(184,426)
Social security	(298,687)	(552,493)	(585,208)
Complementary social security	(57,295)	(115,274)	(110,259)
Other	(64,254)	(117,715)	(114,494)
	<u>(2.187.747)</u>	<u>(4.030.200)</u>	<u>(3.916.185)</u>

Administrative expenses	Second Semester 2003	Year ended December 31	
		2003	2002
Communications	(170,340)	(340,624)	(339,140)
Maintenance and preservation of assets	(120,374)	(236,159)	(222,843)
Water and electricity	(54,080)	(106,983)	(87,706)
Rents	(160,373)	(289,741)	(150,288)
Material expenses	(70,743)	(141,403)	(91,165)
Data processing	(496,580)	(952,812)	(921,606)
Promotions and public relations	(20,669)	(30,867)	(27,592)
Advertising and publicity	(66,530)	(76,288)	(78,881)
Financial system services	(83,581)	(156,048)	(136,662)
Third-party services	(130,721)	(240,386)	(234,086)
Specialized services	(183,688)	(377,187)	(383,913)
Vigilant and security services	(76,792)	(144,567)	(131,505)
Depreciation and amortization	(230,541)	(481,303)	(529,649)
Other administrative expenses	(59,896)	(108,748)	(138,487)
	<u>(1.924.908)</u>	<u>(3.683.116)</u>	<u>(3.473.523)</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

c. Composition of "Other operating income and expenses"

Other operating income	Second Semester 2003	Year ended December 31	
		2003	2002
Commissions and taxes on operations	295,137	728,101	867,995
Expenses recovered	84,138	173,127	616,117
Credits with the Union	14,772	30,144	43,410
Interest and monetary correction on INSS tariffs	48,571	88,595	6,237
Reversal of other operating income provision	32,700	1,151,264	948,432
Other credits income - COMPESA (Note 8 (b) (I))	16,373	32,484	23,925
Other credits income - EMBASA (Note 8 (b) (I))	17,204	34,832	140,539
Credit card income	64,624	109,580	149,407
Income from securitization credits	-	-	26,529
Dividend income	72,613	109,690	180,095
Income from supplying magnetic files	27,138	51,260	45,338
Other operating income	<u>139,864</u>	<u>252,843</u>	<u>194,173</u>
	<u>813,134</u>	<u>2,761,920</u>	<u>3,242,197</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

	Second Semester 2003	Year ended December 31	
		2003	2003
Other operating expenses			
Expenses with actuarial reserves - FUNCEF/PREVHAB	(14,333)	(456,676)	(563,204)
Expenses with FCVS receivable - Residuals (Note 6(a))	(44,861)	(2,352,386)	(2,348,226)
Expenses with fund and program obligations	(75,419)	(191,103)	(267,733)
Remuneration - Lottery dealerships	(130,870)	(241,269)	(229,403)
Contingent provisions	(603,514)	(875,773)	(367,265)
EMGEA/UNIÃO	(99,411)	(253,028)	(171,169)
Expenses - Lottery dealership	(113,026)	(217,753)	(205,647)
Expenses - 24 hour ATMs	(45,819)	(86,811)	(86,764)
Expenses with credit cards	(93,184)	(162,538)	(15,017)
Savings prizes			(25,946)
Expenses with automated services	(42,268)	(89,981)	(62,282)
Expenses with unfavorable legal judgments	(20,477)	(25,781)	(45,582)
Other operating expenses	(234,059)	(430,780)	(418,293)
	<u>(1,517,241)</u>	<u>(5,383,879)</u>	<u>(4,806,531)</u>
d. Administration of social entities			

The shareholders' equity balances of the entities managed by CAIXA (Note 1) are negative in the amount of R\$ 37,860,429 (2002 - R\$ 39,432,236). The main balance refers to the Fund for Compensation of Salary Variations (*Fundo de Compensação de Variações Salariais - FCVS*) negative in the amount of R\$ 74,483,253 (2002 - R\$ 70,734,426), for which the Federal Union is responsible for meeting all obligations, in conformity with Law 10150, dated December 21, 2000.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

Fund	2003	2002
PIS	19,181,060	17,948,482
FGTS	13,869,901	10,381,881
FAR	2,353,268	1,914,514
FCVS	(74,483,253)	(70,734,426)
FDS	546,865	456,966
FAS	366,944	333,442
PCE	272,720	237,816
FIEL	<u>32,066</u>	<u>29,089</u>
	<u>(37,860,429)</u>	<u>(39,432,236)</u>

e. “Employment and Income Generation Program” - PROGER

The funds from the Fund for Workers’ Assistance (FAT), for application in the Employment and Income Generation Program (*Programa de Geração de Emprego e Renda - PROGER*), in the amount of R\$ 1,882,535, has funding costs based on the SELIC rate, while not applied to credit operations, and based on TJLP, after release to the borrowers. The average term of the investments is 4 years and the final maturity date is in 2012. The funds free for investment, updated based on the SELIC rate, amounted to R\$ 571,093. The balance of the funds invested is R\$ 1,311,442.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

f. Benefits for employees

(I) Benefit plan - private pension

CAIXA is the sponsor of the Bank's Employees' Foundation - *Fundação dos Economistas Federais* (FUNCEF), whose objective is the administration of pension funds, in accordance with its regulations, and there currently exist defined benefit and defined contribution plans.

In order to meet FUNCEF's objectives and in complementation to the contributions of the participants, CAIXA makes contributions in accordance with the percentage determined by actuarial formulas. The amount disbursed in the first semester of 2003 totaled R\$ 123,671 (2002 - R\$ 119,086). The costing plan of the entity is considered a defined benefit plan for 42,701 members, while for 4,797 members it is a defined contribution plan.

CAIXA, as a sponsor, submitted to the appreciation of the Ministry of Finance and obtained its approval, as well as a favorable manifestation by the Department of Coordination and Control of State-Owned Companies (*Departamento de Coordenação e Controle das Empresas Estatais* - DEST), the amendment in the Regulation of the Benefit Plan of FUNCEF, with respect to (i) partial adaptation of Complementary Laws 108 and 109, both of May 29, 2001, (ii) the incorporation of new conditions for costing of the Plan by the participants and the sponsor; and (iii) the establishment of criteria for migration of the participants of the REPLAN/REB benefit plans to the new version of the defined contribution REB plan. To implement the migration process, CAIXA recorded a provision in the amount of R\$ 81,414 (2002 - R\$ 74,429).

The present value of the actuarial obligations of the plans, calculated by an independent actuary, is covered by the equity of the plans.

(II) Health plan - SAÚDE CAIXA

On February 1st, 2002, SAÚDE CAIXA was launched. This is a health program instituted and administered by CAIXA, in a self-management modality, offering medical, hospital, dental, psychological, and nutritional assistance; physiotherapy, phono-audiology, occupational therapy and social and nutritional services, with attendance provided by an accredited network with national coverage. It is a benefit granted by CAIXA to opting titleholders and respective inscribed beneficiaries. By titleholders are understood employees and retired persons linked to FUNCEF, PREVHAB, CAIXA SEGUROS, PMPP Fund or INSS.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

The resources of SAÚDE CAIXA are constituted as follows:

- Monthly contribution by CAIXA, corresponding to 3.5% of the payroll, including social charges;
- Monthly payment by the titleholder, of R\$ 38.26, per family group; and
- Monthly payment by the titleholder, of R\$ 21.67, for each dependant.

The plan is actuarially balanced, counts on an adhesion of 96.6% and is foreseen in the Collective Labor Agreement 2003 and 2004.

g. Net non-operating result

Refers mainly to the expenses with provisions for the devaluation of its own properties not in use, deducted from the profit on the sale of properties.

h. Guaranties provided to third parties

The amount of R\$ 65,312, is recorded, related to real estate equity pledged in guarantees provided to third parties, related to judicial processes against CAIXA.

i. Employee profit sharing

A provision was recorded for payment of profit sharing - PLR, in the amount of R\$ 149,909.

Caixa Econômica Federal

Jorge Eduardo Levi Mattoso
President

Aser Cortines Peixoto Filho
Vice President

Fábio Lenza
Vice President

Fernando Nogueira da Costa
Vice President

João Aldemir Dornelles
Vice President

João Carlos Garcia
Vice President

Marcos José Rodrigues Torres
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