

Caixa Econômica Federal

Financial statements

June 30, 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 Brazilian citizens,

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

1 - Introduction

CAIXA and the new Government

The new government elected last year established the strategic objectives listed below as the focal point of its policy:

- Social inclusion and reduction of social differences;
- Growth with the generation of jobs and income, environmentally sustainable and with the reduction of regional disparities; and
- Promotion and expansion of citizenship and strengthening of democracy.

The Government's Multiannual Plan designated "A Brazil for Everyone - PPA 2004-2007", which is currently in preparation, establishes this orientation as a basis for the specific definitions of each Federal Government unit.

Hence CAIXA, a financial institution established in the form of a public corporation, and focused, by its history and its vocation, on contributing to the economic and social development of the Country and the improvement of the quality of life of its citizens, has been committed to the attainment of these goals since the very beginning of the current government.

This commitment can be seen in the "FOME ZERO" (ZERO HUNGER) Program, to which CAIXA has offered its structure to enable it to act immediately, either in the form of Food Card Program - PCA benefit payments, with the launching of the CAIXA FIF FOME ZERO Investment Fund, or with intense participation in the new definitions for social programs.

Present throughout Brazil, CAIXA has been able to provide the necessary support to the federal authorities in charge of managing the PPA preparation process, in the public hearings held in all the Brazilian states.

It is with this spirit of integration with the new governmental policies that CAIXA presents its Management Report, which evidences its natural vocation as a privileged agent for the changes that the country desires. CAIXA's activities in the area of economic and social development is given without prejudice to its economic/financial stability.

2 - Economic/financial performance

In the 1st semester of 2003, CAIXA showed its capacity and determination in broadening the actions to fulfill its social mission, without sacrificing the quality of its economic/financial stability. Net income recorded for the period amounted to R\$ 860 million, with a projected annual return of 34.9% in Final Net Equity, well over the 28% recorded for the 1st semester of 2002.

Equity recorded at June 30, 2003 after the distribution of income for the semester, equivalent to 18.4% of the assets weighted according to risk, is well above the required minimum percentage, which is 11.0%. CAIXA is also classified in the Fixed Asset-to-Equity Ratio, having recorded fixed assets corresponding to 43.7% of its Net Equity, when the permitted ceiling is 50%. The computed efficiency indicator was 52.9%, which percentage maintains its performance among the best in the market.

These results provided for the appropriation of R\$ 458.9 million, to be transferred to the Federal Government as dividends and interest on own capital.

3 - Assets under management

Besides its own assets, which are detailed in the financial statements presented herein, CAIXA is also responsible for the management and/or operation, by delegation of the Federal Government or legal determination, of the assets of various Funds and Social Programs, for which specific financial statements are prepared.

It also manages third party assets, established in the form of fixed income and variable income investment funds as well as pension and social funds, which also have their management and financial statements separated from those related to the Financial Institution “Caixa Econômica Federal”.

Considering the total assets under the responsibility of CAIXA, the amount of R\$ 328.8 billion is obtained, distributed as follows:

Assets under management at June 30, 2003

Holder	RS billion
Caixa Econômica Federal - CAIXA	134.3
Government Severance Indemnity Fund for Employees - FGTS	145.3
Employees' Profit Participation Scheme - PIS	19.8
Financial Investment Funds	18.3
Residential Lease Fund - FAR	4.8
Fund for Compensation of Salary Variations - FCVS	4.8
Other funds and social programs	<u>1.5</u>
Total	<u><u>328.8</u></u>

4 - Operating performance

4.1 - Channels for attending clients and the society

CAIXA remains firm in its purpose to permit the exercise of and access to banking activities by all the segments of the Brazilian population, especially those presently excluded from the National Financial System.

With this mission, it is present in all the Brazilian municipalities through a physical network comprising over 16 thousand outlets, which from January to June 2003 were responsible for the finalization of 1.8 billion transactions:

Physical Network - Type of Unit	In units	
	Number of units	Number of transactions
Branches and outlets - PAB	2,111	229,534,721
Electronic outlets - PAE	1,081	17,778,335
Lottery shops	8,936	1,230,880,364
Banking Correspondents	2,108	9,987,759
24-hr ATMs	<u>2,111</u>	<u>303,507,093</u>
Total	<u>16,347</u>	<u>1,791,688,272</u>

CAIXA's portal (www.caixa.gov.br), on the Internet (world wide web) received 6.1 million accesses, generating 207 million visits to its electronic pages.

Electronic accesses to FGTS-related information (balance, statement and change of address, among others) deserve special mention, which benefited 5.6 million workers, with a total of 48.8 million accesses during the period.

Approximately 720 thousand people are registered at CAIXA's portal to automatically receive electronic messages about the products and services that the bank performs, including lottery results. In the 1st semester of 2003 the bank sent 123.3 million messages.

The Electronic Bank *Internet Banking CAIXA* has 2 million registered clients, with a movement of R\$ 4 billion in 36 million transactions, presenting a growth of 50% in service volume in comparison to the same period of 2002.

CAIXA's *Telemarketing* network furnished information to 37.7 million Brazilians, of which around 25% were provided by attendants and the rest by electronic service centers.

Through the Customer Care Service - SAC implemented in 2001 with the purpose of receiving criticisms, suggestions and approvals regarding the company's products, services and customer care from clients and addressing them, the Ombudsman Department received 54.1 thousand calls in the 1st semester of 2003, consolidating its position as yet another efficient client relationship channel.

In the 1st semester of this year, CAIXA ceased to appear in the ranking of the five Banks with the highest rate of complaints from clients, as prepared and divulged by BACEN.

4.2 - Collection and payment of social benefits

FGTS

Among the Funds and Social Programs managed and/or operated by CAIXA, special mention should be made to the FGTS, with the management of a portfolio containing over 439 million accounts, of which 121 million refer to accounts entitled to complementary credit and 318 million to active and dormant accounts of Brazilian workers. Of this total, 170 million accounts have a zero balance but remain in the portfolio for information purposes for the legal period of 30 years. The other 148 million accounts present balances of R\$ 95.4 billion, distributed as follows:

Accounts with a balance	Number (million)	Amount (billions of R\$)
Active accounts	47	82.0
Dormant accounts	<u>101</u>	<u>13.4</u>
Total	<u>148</u>	<u>95.4</u>

CAIXA is responsible for the centralization of all the deposits and withdrawals made in the workers' blocked accounts, which, in the 1st semester of 2003, recorded 19.8 million collection transactions and 8.9 million payment transactions, involving R\$ 12.1 billion and R\$ 10.1 billion, respectively.

The increase in the collection of contributions in the first six months of 2003 was higher than the withdrawals made by workers, resulting in a net collection of R\$ 2.0 billion, maintaining the phase of growth and surpluses begun in the year 2000. In comparison to the same period of the prior year, the net collection had a nominal increase of 68.6%, thereby representing a record for net collection in the history of FGTS.

The factors that contributed to this result were the effort made to recover credits and avoid tax evasion, as well as the improvement in collection and inspection process and the use of efficient technological resources, notably social connectivity, which makes the electronic flow of information among the various segments of society viable and permits the exchange of files related to the payment of FGTS and to the presentation of information to the Social Security authorities.

Besides the movement reported above, the bank also effectuated 5.8 million complementary credits resulting from economic plans, in the total amount of R\$ 3.2 billion in blocked FGTS accounts, whereas workers withdrew the sum of R\$ 3 billion from this total.

Other social benefits

In line with its social role, CAIXA has consolidated its position as the leading social benefit collection and payment agent in the Country.

In the 1st semester alone of the year, in addition to FGTS payments, the bank made over 143 million payments related to social benefits operated by CAIXA, recording an increase of 47% in relation to payments made in the 1st semester of the previous year:

Benefits	Amounts in R\$			
	1 st semester of 2002		1 st semester of 2003	
	Number	Amount	Number	Amount
Social Protection Network	70,674,556	884,814,170	114,746,306	1,439,391,697
INSS	13,729,629	4,309,409,316	14,490,415	5,125,029,000
Bonus	578,180	101,449,217	777,671	170,800,946
PIS	2,632,987	239,272,992	2,864,192	278,150,861
Unemployment Insurance	10,053,915	2,702,766,281	10,448,826	3,132,442,441
Total	<u>97,669,267</u>	<u>8,237,711,976</u>	<u>143,327,410</u>	<u>10,145,814,945</u>

The Social Protection Network, which comprises specific programs, benefited around 6.8 million families with the payment of 114.7 million benefits totaling R\$ 1.4 billion. It is notable that 97.5% of the benefits paid were withdrawn by the families using magnetic cards.

Programs	Amounts in R\$			
	1 st semester of 2002		1 st semester of 2003	
	Number	Amount	Number	Amount
Educational Allowance	46,565,170	698,477,550	47,739,193	716,086,695
Food Allowance	581,325	8,719,875	8,949,842	133,978,470
PETI	2	50	352,738	15,190,625
Young Agent	-	-	43,519	2,828,735
Gas Assistance	23,494,270	176,207,025	51,555,531	386,666,482
Income Allowance	-	-	5,541,859	166,255,770
PCA	-	-	73,810	3,690,500
Student allowance	<u>33,789</u>	<u>1,013,670</u>	<u>489,814</u>	<u>14,694,420</u>
Total	<u>70,674,556</u>	<u>884,418,170</u>	<u>114,746,306</u>	<u>1,439,391,697</u>

A further 15.0 million collection transactions were carried out on behalf of the INSS, in the amount of R\$ 3.9 billion, which, in the same period of 2002, were 13.9 million and R\$ 3.5 billion, respectively, thereby recording an increase of 7.6% in the number and of 11.8% in the sum collected.

4.3 - Management of lotteries

The millions in prizes distributed by lotteries represent a small fraction of the funds obtained during the year, and an expressive part of them was returned to the benefit Brazilian society through taxes and social contributions or of transfers to agencies and entities of social interest.

A total of R\$ 824.7 million was transferred in the 1st semester of this year for a total collection of R\$ 1,691.4 million, corresponding to an increase of 17.6% compared to the same period of the previous year:

Apportionment of funds collected by Federal Lotteries

Distribution	Amounts in R\$	
	1st semester of 2002	1st semester of 2003
National Culture Fund - FNC	39,906,074.88	48,490,802.81
Social Security	231,834,417.67	281,103,909.89
Educational Credit	93,734,168.45	116,336,962.44
National Sports Secretariat	3,563,188.91	3,399,494.19
National Penitentiary Fund - FUNPEN	39,891,183.30	50,815,928.02
Brazilian Olympic Committee - COB	22,585,598.65	27,478,120.95
Brazilian Para-Olympic Committee - CPB	3,985,692.66	4,849,079.01
Special Tests (APAE ¹ , Red Cross, COB and CPB)	260,526.83	252,605.80
Sports Entities	3,393,513.29	3,237,613.53
Additional National Sports Secretariat	63,858,331.79	76,789,947.97
Assessments	175,247,466.07	211,980,944.45
Transfers	<u>678,260,162.50</u>	<u>824,735,409.06</u>
Defraying and Maintenance Expenses	271,538,560.50	328,001,718.55
Prizes	<u>443,766,259.85</u>	<u>538,624,975.51</u>
Total Collection	<u>1,393,564,982.85</u>	<u>1,691,362,103.12</u>

(1) Association of Parents and Friends of Handicapped Children

4.4 - Funding

CAIXA operates obtaining funds through all the usual funding methods practiced by the various Financial Institutions that operate in the Brazilian market. The performance presented by CAIXA in the 1st semester of 2003 for Savings Accounts deserves mention, where it obtained an increase of R\$ 0.5 billion in comparison to the balance presented at December 31, 2002, while the market presented a loss of R\$ 2.9 billion for the same period. CAIXA's share of this market, which was 30.6% in December 2002, rose to 31.0%.

The number of savings accounts at the end of the 1st. semester of 2003 is 22.6 million, of which 22.3 million accounts belong to individuals, with approximately 60% containing balances of less than one minimum wage, evidencing respect for the statutory objective of encouraging the habit of saving.

The performance attained in the offer of Mortgage Notes executed in the distribution network is also noteworthy, where it recorded net funding of R\$ 1.1 billion for the semester.

At the end of April 2003, with a view to offering an option for investor public that seeks a higher return, pegged to the lengthening of the term, CAIXA launched the Mortgage Note increasing yields, available on the distribution network for clients interested in investments of R\$ 20 thousand and higher.

4.5 - Electronic Account CAIXA AQUI

In keeping with the objective of enabling access to banking services by the segment of the Brazilian population formerly excluded from the National Financial System, CAIXA prioritized actions targeted at the diffusion of the Electronic Account CAIXA AQUI, one of its major instruments for the government's strategy of social inclusion throughout Brazil. At June 30 there were already 221 thousand accounts open, with a total balance of R\$ 9.6 million and an average balance of R\$ 43.00, and on August 7, 2003, this type of account already exceeded the mark of 400 thousand.

4.6 - Banking services

CAIXA is also present in the Rendering of Banking Services, offering the society an assortment of services where more than 369 million transactions were executed, involving R\$ 39.0 billion:

Service	Quantity (million)	Amount (billions of R\$)
Salary Credits	8.2	7.1
Banking Collection	72.3	16.5
Collection Agreements	286.0	15.1
Union Contribution	<u>2.6</u>	<u>0.3</u>
Total	<u>369.1</u>	<u>39.0</u>

Also in relation to its Banking Services, CAIXA offers the States and Municipalities technical advisory services in Pension Benefits, an activity that called for the signing of 30 new contracts in the semester, contributing toward guaranteeing the retirement and pensions of approximately 35 thousand civil servants. Currently CAIXA manages funds in the amount of R\$ 2 billion, and is one of the top three financial asset managers in the area of Public Pension Benefits.

4.7 - Cards - Debit and credit

As of the second semester of 2002, CAIXA began to directly manage its entire card portfolio, only maintaining outsourced data processing work and recording a significant improvement in the performance of products. In the 1st semester of 2003, pursuant to the data given below, CAIXA's credit card sales grew 16.4% in relation to the same period of 2002:

Event	1st semester of 2002	1st semester of 2003	Variation
Billings (R\$)	1,282,927,169	1,493,350,092	16.40%
Transactions (number in units)	21,272,707	22,944,475	7.86%

4.8 - Loyalty-building products

In partnership with its associated company “CAIXA SEGUROS S.A.”, CAIXA operates in the Private Pension, Special Savings and Insurance markets, which enabled it to place more than 1.6 million loyalty-building products with its clients in the 1st semester of 2003:

Product	Number (thousand)	Amount (millions of R\$)
Private Pension - Individual	123.0	21.9
Private Pension - Corporate	6.2	1.3
Special savings - lump-sum payment	545.0	68.4
Special savings - monthly payments	249.0	7.0
Insurance	<u>707.0</u>	<u>64.4</u>
Total	<u>1,630.2</u>	<u>163.0</u>

4.9 - Trade credit

In the 1st semester of 2003, loans were made individuals and legal entities in the total amount of R\$ 8.2 billion, surpassing the loans made in the same period of the prior year by 10.4%.

Operations with individuals totaled R\$ 5.8 billion, with emphasis on revolving credit, which totaled R\$ 2.6 billion; loans under consignment on the payroll amounted to R\$ 0.7 billion; Direct Consumer Credit - Automatic CDC, amounted to R\$ 0.3 billion and jewelry pawning operations totaled R\$ 2.0 billion.

In operations with legal entities, which totaled R\$ 2.4 billion, the highlights were revolving credit, with R\$ 0.6 billion; working capital operations, which amounted to R\$ 1.2 billion, and company billing support operations, especially discount portfolios, which totaled R\$ 0.3 billion. The latter presented a growth of over 300% compared with the same period of the prior year, accounting for a total of 370 thousand discounted bills.

4.10 - Financing for University Students - FIES

FIES was launched in 1999 to substitute the Educational Credit Program and has since provided more than 220 thousand students with the opportunity to pursue their studies at university level. A total of 67,318 professionals graduated with the support of FIES, and their loan agreements are already being amortized.

During the 1st semester of 2003, 133 thousand students renewed their loan agreements for another study period, which resulted in the transfer of R\$ 274.5 million to teaching institutions.

4.11 - Access to housing

CAIXA provides the society several ways of gaining access to housing, either through financing, residential leases, purchasing pools, capitalization bonds or the transfer of funds originating from public policies.

Investments in housing of social interest enabled the construction of 125.7 thousand housing units, catering to an estimated population of 510.4 thousand people and generating approximately 175.0 thousand direct jobs.

Contracting - 1st semester of 2003

Origin/Program	Amounts in millions of R\$ / Quantities in units			
	Contracted Amounts	Residential Units	Population Served	Jobs Generated
FGTS/Individual Letter of Credit	1,167	87,944	357,053	111,254
FGTS/Property at Plan Stage	169	5,082	20,633	16,111
Subtotal origin FGTS	<u>1,336</u>	<u>93,026</u>	<u>377,686</u>	<u>127,365</u>
FAT/Individual Letter of Credit	102	1,814	7,365	9,724
FAT/ Property at Plan Stage	10	162	658	953
Subtotal origin FAT	<u>112</u>	<u>1,976</u>	<u>8,023</u>	<u>10,677</u>
PAR	243	9,855	40,011	23,166
PSH	<u>155</u>	<u>21,026</u>	<u>85,366</u>	<u>14,814</u>
Total	<u>1,846</u>	<u>125,883</u>	<u>511,086</u>	<u>176,022</u>

Operations with CAIXA's own financial resources involved R\$ 261.8 million, distributed between the financing of construction material, letters of credit, the financing of property at the plan stage and loans related to real estate loan savings.

Access to housing, in the 1st semester of 2003 the company recorded 7,178 new adhesions to the property purchasing pool, for housing at R\$ 357.3 million in letters of credit. Since it was launched at the end of 2002, the purchasing pool has already awarded 282 participants through draws and bids, with the issuance of 265 letters of credit.

4.12 - Management of third party assets

CAIXA ended the 1st semester of 2003 with 62 investment funds under its management, consisting of fixed income funds, variable income funds, pension and social funds and 15 third party portfolios, attaining total net equity of R\$ 70.6 billion, with a real increase of 6.5%, in comparison to the figure recorded at the end of December 2002, thereby moving up from seventh to sixth place in the ranking of Investment Funds according to the criteria of the National Association of Investment Banks - ANBID - Network Funds.

The Almirante Barroso Real Estate Investment Fund - FAMB II, the public offer of which closed on February 3, 2003, sold all of the 104,800 quotas available before the expiration of the legal period, scheduled for May 18, 2003. The Fund has 5,259 owner-investors, with an average investment of R\$ 18,024.34.

Another significant event during the period was the launch on February 24, 2003, of CAIXA FIF Fome Zero, in which CAIXA transfers 50% of its gross management fee to the Fome Zero program. The Net Assets of this Fund amount to R\$ 40.6 million, with accumulated revenue from the management fee amounting to R\$ 557 thousand at the end of the 1st semester of 2003.

4.13 - Urban Development and Social Housing

Under the orientation of the Federal Government, CAIXA seeks to operate with a focus on the promotion of Brazilian urban development, through participatory processes, forming a network of partners and fostering technological innovations that result in improved quality and productivity of intermediations.

Partnerships in the area of housing involve the construction of homes, implementation of basic infrastructure, training of labor and sanitary and environmental education through joint management systems, especially with the participation of municipalities and beneficiary communities.

Throughout the 1st semester of 2003, CAIXA developed new partnerships within the sphere of its various housing programs of social interest and of urban management and development, such as the Program for Subsidies for Housing of Social Interest - PSH, the Residential Lease Program - PAR and the Program for Revitalization of Historical Sites - PRSH.

PRSH

In the sphere of PRSH, CAIXA is seeking new partners to promote the rehabilitation of deteriorated downtown regions of Brazilian cities, with a view to integrating the conservation and preservation of historical and cultural sites with urban development.

In the 1st semester of 2003, 6 PAR - reform operations were contracted within the sphere of PRSH, totaling 164 housing units. Financial resources from the Workers' Support Fund - FAT should be made available this year for the recuperation of residential and commercial property located in central urban areas.

CAIXA's Best Practices in Local Management Program

CAIXA's Best Practices in Local Management Program is mainly targeted at awarding, disseminating and motivating support for successful actions that constitute sources of innovation, application, inspiration and knowledge for new approaches related to housing, sanitation, infrastructure and environment issues.

In relation to the previous edition of CAIXA's Award for Best Practices, in which 133 projects were entered, in this edition the number of registrants practically doubled, with 259 projects originating in 22 states of Brazil, showing that this initiative on the part of CAIXA has spurred a great deal of interest among governmental entities, companies, civil society, NGOs and the population in general. The result of the selection of the 20 best practices from each region will be known in the second half of this year.

Sanitation and Infrastructure Programs

The current uncertainties surrounding the concession of loans to the Public Sector represent a challenge to CAIXA's operations in this segment. Thus, during 2003, the institution has been seeking alternatives for to make projects related to Sanitation and Infrastructure viable, in order to make use of the funds available in the FGTS budget, intended for the various programs linked to the fund, in the amount of R\$ 1.4 billion.

Economic and Social Development Programs

Since 1997 CAIXA has been operating National Programs for Support for Tax Administration for Brazilian States - PNAFE and Programs for Support for Administrative and Tax Management of Brazilian Municipalities - PNAFM, targeted, respectively, toward strengthening and modernizing the Treasury, Finance and Taxation Departments and agencies responsible for the administration of the fiscal area of States, and towards helping Brazilian municipalities to improve the efficiency and transparency of administrative and fiscal managements, seeking a balance between their income and expenses.

These programs involve funds contracted by the Federal Government from IDB, in the amount of US\$ 1.6 billion. In the 1st semester of 2003, the sum of R\$ 30.5 million was released for PNAFE, which is in the final phase of execution, and the sum of R\$ 17.2 million was released for PNAFM, which is in the preliminary stage of execution.

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

The cycle of release of funds from OGU in the 1st semester of 2003 was influenced by the provisions contained in Decree 4594, of February 13, 2003. Payments were authorized totaling R\$ 112 million, maintaining requests for disbursement amounting to R\$ 260.5 million undergoing processing at the end of the semester, as shown in the following table:

	<u>Amounts in thousands of R\$</u>	
Manager	Releases	Undergoing processing
ANA - National Water Agency	69.0	10,394.8
EMBRATUR - Brazilian Tourism Institute	23,890.4	17,592.1
FNMA - National Environmental Fund	1,623.2	2,151.9
MAPA - Ministry of Agriculture, Animal Husbandry and Supply	14,462.2	27,974.1
MCIDADES - Ministry of Cities	58,632.8	66,877.2
MDA - Ministry of Agrarian Development	11,840.2	65,470.2
MDA/INCRA - National Institute of Agrarian Reform	152.5	62,710.8
MESPORTE - Ministry of Sports	<u>1,461.4</u>	<u>7,308.7</u>
Total	<u>112,131.7</u>	<u>260,479.8</u>

Health support programs

In the 1st semester of 2003, CAIXA was also present in the health area, performing 61 working capital operations in the amount of R\$ 39.8 million, within the sphere of the CAIXA Hospitals program, for non-profit philanthropic hospitals, in the form of the advance of funds receivable from the Ministry of Health, related to outpatient and hospital admission services rendered for the Single Health System - SUS. An additional 145 operations have been approved and are currently in the contracting phase, in the amount of R\$ 79.2 million.

CAIXA also participates in the transfer of funds linked to the Program for Financial Restructuring and Managerial Modernization of Public Hospitals and Philanthropic Hospitals Associated to SUS, operating in partnership with the Ministry of Health and BNDES. This Program is designed to provide for the economic/financial stability and improvement of the management capacity of the Public and Philanthropic Hospitals, and is currently undergoing reevaluation by CAIXA and the Ministry of Health.

CAIXA also transfers resources intended for autonomous or foundational agencies and entities of the direct public administration, and government business enterprises or private philanthropic entities, through agreements with the National Health Fund - FNS and the National Health Foundation - FUNASA. These transfers are applied for by means of Work Plans submitted to the Agreement Services and Health Coordination in the capital cities of the states. In the 1st semester of 2003 the bank transferred R\$ 9.8 million on behalf of FNS and R\$ 94.6 million on behalf of FUNASA.

5 - Securities transactions

CAIXA's security portfolio

CAIXA's security portfolio presented income of R\$ 6.2 billion during the period, of which R\$ 6.1 billion refers to the allocation of revenue and R\$ 0.1 billion to discounts.

The amounts referring to "securities held to maturity" mentioned in the Notes to the Financial Statements reflect Management's intention, which confirms its full financial capacity to maintain them as determined by Art. 8 of Circular 3068/2001.

CAIXA's Dealer activities

BACEN undertakes a monthly evaluation of the performance of institutions authorized to operate directly with the open market trading desk of that monetary authority - Dealer Institutions. During all the months, CAIXA was ranked in first place among the licensed institutions.

The evaluation considers the activities of financial institutions in the secondary market - final purchase and sale of securities, participation in primary auctions; volume of interbank repurchase commitments and relationship with BACEN.

6 - Risk management

On the basis of the policies defined in National Monetary Council Resolutions 2099/94, 2682/99 and 2554/99, concerning capital allocation and the control of risk exposure, CAIXA obtained effective results in the reduction of operating, credit, market and corporate risks in the 1st semester of 2003.

To identify and assess the operating risks, CAIXA implemented a management model with the following focus:

- **Qualitative:** which aims at identifying and qualifying risks, in order to implement the actions necessary to minimize them; and
- **Quantitative:** which aims at calculating the value at risk (Operating VaR), which is done based on the frequency - number of occurrences - and severity - value - of operating losses related to operations conducted in the company.

In relation to the credit risk, the main objective was to guarantee effectiveness in customer and partner attendance, through the development of processes and routines geared towards the satisfaction of their needs and expectations, involving the review of the numerous evaluation models employed.

CAIXA also deployed tools for measuring market and liquidity risks, derived from positions assumed in the market, enabling the company to define policies and to implement models for the management of these risks.

CAIXA has also been developing the “Global Risk Monitoring Model” Project, the objectives of which are to develop and provide global risk management tools, and to consolidate and monitor exposure to risks in the company.

7 - Prevention of Money Laundering Crimes

Recognizing CAIXA as a reference in money laundering crime prevention activities, the Council for Control of Financial Activities - COAF recommended the company as a point of contact and information in January 2003, during a visit paid to the country by the representative of the Inter-American Committee on Drug Abuse Control of the Organization of American States - CICAD/OEA. The Committee sent the representative with the purpose of getting to know the Brazilian institutions involved in combating money laundering crimes, and thus developing the Technical Cooperation program designated “Support for the Creation and Development of Financial Intelligence Units in South America”, capable of dealing with the particularities of the Brazilian reality.

In the 1st semester of 2003, CAIXA attained the index of 98.5% employees trained in its second Money Laundering Prevention course.

8 - Internal controls, transparency and compliance

CAIXA continues investing in the improvement of controls and in the development of a compliance culture at the organization.

In the 1st semester of 2003, the bank trained the internal control and compliance teams of all the management areas, which permitted the participation of these professionals in the preparation and implementation of plans for the improvement of processes that support CAIXA’s business.

New methodologies and control tools were implemented in the management of the improvement of CAIXA’s internal controls, including, among others, the monitoring of the process for launching systems, products and services and the online transaction evaluation system.

In June 2003, in partnership with the Association of Analysts and Capital Market Investment Professionals - APIMEC, a meeting was held with capital market professionals with the objective of presenting them with the results obtained by CAIXA in the first quarter of this year.

9 - Program for the Streamlining of Expenditures and the Elimination of Wastage - PROGED

PROGED was created with the objective of preparing the improvement and of providing a permanent analysis and balance of the level of CAIXA’s administrative expenses with its real capacity to generate operating income.

This program is a strategic initiative that acts on existing inefficiencies on a timely basis and indicates and stimulates the adoption of innovative solutions. It achieved savings of over R\$ 81 million in the 1st semester of 2003. These savings at July 31, 2003 have already reached the figure of R\$ 103 million, guaranteeing a minimum reduction of R\$ 212 million for the year.

10 - Social/cultural and marketing activities

Awards and Certifications Obtained by CAIXA

Marketing Best/Social Responsibility, with the Programs “Revitalization of Historical Sites and Rural Housing”, which generated significant institutional gains by reinforcing the image of the company with the opinion forming public. The Rural Housing project arose from the need to seek an improvement in the quality of life and working conditions and income of families of small scale farmers from Rio Grande do Sul, through a partnership between CAIXA, the Small Scale Farmers Movement of Rio Grande do Sul, the Housing Secretariat of that state, the Rio Grande do Sul Incentive Agency and the Rural Credit Cooperative Horizontes Novos of Sarandi/RS.

Top Marketing from ADVB - Brazilian Association of Sales and Marketing Executives, with the project “CAIXA Aqui”.

iBest award - CAIXA’s site was ranked among the best three sites in the country in the Public Utilities, Banks and Regional/DF categories.

Certificate of partner in the Fome Zero Program, granted by the Extraordinary Ministry of Food Assurance and Combat against Hunger - MESA.

Social/cultural

In line with the Federal Government’s new policy, CAIXA has been contributing toward the appearance of new talents and the generation of jobs. The entire income of the Voices of Brazil Project which is being presented at CAIXA’s Cultural Complex in Brasilia, is destined to the CAIXA Fome Zero project, and is providing room for the presentation of local musicians and bands, offering traineeships to underprivileged youths in the area of stage assembly, illumination and sound effects of the show.

Sponsorships

CAIXA’s official sponsorship of sports set aside R\$ 3.35 million this year for the athletes of the Brazilian Athletics Confederation - CBAt, which permitted, among other things, the formation of a delegation of 34 athletes for the Pan-American games in Santo Domingo. Athletics provided Brazil with a total of 16 medals in those games; four gold, six silver and six bronze.

11 - CAIXA’s Fome Zero Project

CAIXA’s participation in the Fome Zero Program occurs within the different kinds of relationship with MESA.

Activities developed through the initiative of CAIXA

- **FIF Caixa Fome Zero:** launched in February 2003, the Fund transfers 50% of the management fee to MESA, for allocation to the Fome Zero program. From its launch until June 2003, the Fund has already invested the sum of R\$ 278.5 thousand in the Program;
- **First Job - Adolescent Apprentice Program:** launched in April 2003 and aligned with the Learning Law (Law 10097/2000), it provides for the opening of 3 thousand job vacancies, 700 of which were filled in 2003.

Activities delegated by MESA to CAIXA

- **PCA:** launched in March 2003, the objective of the Program is to pay R\$ 50.00 to families in a precarious situation in relation to food, directly in their municipalities of residence by magnetic card. From its launch until June 2003, the Program has benefited 74 thousand families in 93 municipalities, in the total amount of R\$ 3.7 million;
- **Account for the receipt of financial donations:** opened with number 2003-3, operation 006, Capital-Federal District branch (0647), in February 2003, and available at 14 thousand of CAIXA's outlets for the receipt of donations in favor of the Fund for the Combat and Eradication of Poverty. By the end of the semester, it had raised R\$ 567 thousand in 40 thousand donations, including those of the Voices of Brazil project.

Activities developed in partnership

- **Collection of non-perishable food at CAIXA's network of branches:** launched in March 2003; by June 2003, the activity had provided 44,679 donations totaling 420 tons of food for entities indicated by the Municipal Councils indicated by MESA;
- **Cooperation agreement:** signed between CAIXA, MESA, the Institute of Applied Economic Research - IPEA, the United Nations Program for Development of Brazil - PNUD and the Department of Financial Institutions - DFID - a cooperation agency from England, with the objective of conducting studies and implementing Local Development projects, as a means for consolidating the structuring actions of the Fome Zero Program.

12 - Training of the customer care workforce

Human Resources

At present CAIXA has a staff of 55 thousand employees, comprising Clerks, Banking Technicians and Senior and Professional Career Banking Technicians.

A total of 93.3 thousand employees signed up for the training sessions in the 1st semester of 2003, which evidences the priority that CAIXA gives to the training of its employees, which is considered as an essential factor for the expansion of its business:

	<u>In units</u>
Courses/Others	Number of Employees
CAIXA University Courses	31,986
<i>Lato and Strictu Senso</i> post graduate courses	143
Workshops and Seminars	878

In the same period, the CAIXA Health Program provided around 500 thousand consultations for 207 thousand beneficiaries, CAIXA employees and their dependants.

Technology and physical network resources

Investments made in the semester

Resources	Amounts in thousands of R\$
Data processing equipment	56,921
Basic programs	74,380
ATMs	7,000
Communication equipment	<u>458</u>
Total	<u>138,759</u>

Investments were mainly targeted at projects with a view to the expansion and improvement of the physical network and attendance for the public and for the qualification and streamlining of CAIXA's internal controls. Besides the investments, the sum of R\$ 409 million was also used in the period to finance technology activities - production and development.

13 - Acknowledgment

The Board of Directors wishes to express its gratitude to all of CAIXA's employees, who made every effort to execution the various government programs; to provide daily its customer care channels; to constantly improve its resources, products and services; to develop simplified loans and financing and alternatives for the various segments of society, in total harmony with the Bank's mission of continual pursuit of better alternatives that contribute to the Federal Government in its efforts for the social inclusion of Brazilians and for the economic development of the country.



KPMG Auditores Independentes

Mail address
Caixa Postal 8723
70312-970 Brasília, DF
Brazil

Office address
SBS Quadra 2 - Bl. A, nº 1, sl. 502
Edifício Casa de São Paulo
Setor Bancário Sul
70078-900 Brasília, DF
Brazil

Central tel 55 (61) 223-2024
Fax National 55 (61) 224-0473
www.kpmg.com.br

Independent auditors' report

To
The Administrative Council
Caixa Econômica Federal
Brasília - DF

1. We have examined the balance sheets of Caixa Econômica Federal as of June 30, 2003 and 2002, and the related statements of income, changes in shareholders' equity and changes in financial position for the semesters 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 Econômica Federal; (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 Econômica Federal management, as well as the presentation of the financial statements taken as a whole.
3. As mentioned in Note 6 (b), Caixa Econômica Federal 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 and acquired from other agents, with coverage by FCVS. The realization of these credits depends on adherence to a set of rules and procedures defined in regulations issued by FCVS. Caixa Econômica Federal 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 June 30, 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 Econômica Federal 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 due to 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\$ 4,919 million, at June 30, 2003 (R\$ 1,908 million at June 30, 2002), cannot be predicted at this moment.



4. In our opinion, except for the possible effects arising from the subject discussed in the previous paragraph, the financial statements mentioned above present, fairly, in all material respects, the financial position of Caixa Econômica Federal as of June 30, 2003 and 2002, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the semesters then ended, in conformity with accounting practices adopted in Brazil.
5. Caixa Econômica Federal, as demonstrated in Note 19(b), has an amount of R\$ 1,872 million (R\$ 1,998 million at June 30, 2002), recorded as assets, 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 no. 3059/02 of the Central Bank of Brazil.
6. As mentioned in Note 15(a), Caixa Econômica Federal was assessed 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 Econômica Federal 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\$ 101 million (INSS) and R\$ 551 million (PIS/PASEP), at June 30, 2003 (INSS - R\$ 218 million and PASEP - R\$ 500 million, at June 30, 2002).

July 31, 2003

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

June 30, 2003 and 2002

(In thousands of Reais)

Assets	2003	2002	Liabilities	2003	2002
Current assets	52,883,204	26,356,002	Current liabilities	110,454,259	95,393,552
Cash and cash equivalents	536,118	525,608	Deposits (Note 11)	77,187,528	72,689,713
Interbank funds applied (Note 4)	1,799,052	3,986,754	Demand deposits	4,297,877	4,087,659
Money market funds applied	1,799,052	3,927,585	Savings deposits	42,909,024	39,763,966
Interbank deposits		59,169	Interbank deposits	-	20,009
Securities and derivative financial instruments (Note 5)	22,417,740	8,768,879	Time deposits	24,666,333	25,372,029
Own portfolio	19,458,026	6,430,634	Special deposits, funds and programs	5,314,294	3,444,011
Subject to repurchase commitment:	2,957,060	2,316,859	Deposits in foreign currency	-	2,039
Subject to guarantee services:	2,519	6,719	Money market repurchase commitment (Note 11)	23,246,740	7,910,620
Derivative financial instruments	135	14,667	Own portfolio	18,893,817	2,285,611
Interbank accounts	16,147,586	7,904,656	Third party portfolios	4,352,923	5,625,009
Collections in transit	865,257	630,818	Acceptances and endorsements	531,181	6,669,948
Term deposits - Brazilian Central Bank deposits	15,170,735	7,143,330	Mortgage note funds (Note 12)	531,181	6,669,948
Correspondents	111,594	130,508	Interbank accounts	647,912	708,488
Interbranch accounts	278,730	76,752	Payments and receivables in transit	647,794	708,387
Third party funds in transit	42,131	33,014	Correspondents	118	101
Own funds in transit	236,599	43,738	Interbranch accounts	208,473	200,972
Loans (Note 7)	8,243,448	3,340,319	Third party funds in transit	85,185	86,129
Loans, discounted loans and financing	6,262,166	3,934,759	Own funds in transit	123,288	114,843
Real estate financing	3,326,391	363,089	Derivative financial instruments	205,960	142,288
Provision for doubtful loans	(1,345,109)	(957,529)	Other liabilities (Note 15)	8,426,465	7,071,523
Other receivables	2,598,716	816,877	Collection of taxes	355,569	404,050
Foreign exchange portfolio	11		Foreign exchange portfolio	1	-
Income receivable (Note 8 (a))	884,790	605,607	Due to shareholders	508,892	129,051
Specific credits	21,307	20,385	Taxes payable (Note 15a)	1,028,889	1,065,316
Other (Note 8 (b))	1,692,608	190,885	Securities clearing accounts	11,809	84,766
Other assets (Note 9)	861,814	936,157	Funds to specific destination: (Nota 15b)		
Assets received in settlement of deb	1,254,500	1,342,793	Lottery operations	285,320	265,914
Valuation allowance	(407,753)	(421,307)	Social program and fund obligations	1,010,295	498,089
Prepaid expenses	15,067	14,671	Obligation to financial and development funds	205,488	270,884
Noncurrent assets	79,121,069	84,613,998	Other (Note 15 (c))	5,020,202	4,353,453
Interbank funds applied (Note 4)	2,571,938	4,398,031	Noncurrent liabilities	18,554,476	13,724,047
Money market funds applied	2,571,938	4,398,031	Deposits (Note 11)	1,199,712	821,481
Securities and derivative financial instruments (Note 5)	41,128,239	39,895,741	Time deposits	1,199,712	821,481
Own portfolio	24,020,789	38,561,133	Money market repurchase commitment (Note 11)	27,201	243,811
Subject to repurchase commitment:	16,136,430	239,861	Own portfolio	27,201	243,811
Deposits with Central Bank	539,002	809,635	Acceptances and endorsements	9,802,909	4,383,406
Subject to guarantees rendered	432,018	285,112	Mortgage notes	-	169,109
Interbank accounts	19,892,788	20,719,571	Mortgage note funds (Note 12)	9,360,165	4,214,297
Housing Finance System - SFH (Note 6 (b))	19,892,788	20,719,571	Real estate credit notes	442,744	-
Loans (Note 7)	12,733,976	14,905,369	Borrowings (Note 13)	50,643	116,788
Loans, discounted loans and financing	1,768,616	2,983,078	Foreign currency trade finance borrowing:	50,643	116,788
Real estate financing	12,447,815	13,419,637	Repass borrowings from public sector (Note 14)	7,271,279	4,429,115
Infrastructure and development financing	703,885	401,273	National treasury	376,737	421,177
Provision for doubtful loans	(2,186,340)	(1,898,619)	BNDES (Federal Development Bank)	345,499	292,715
Other receivables	2,794,128	4,695,286	FGTS (Government Severance Indemnity Fund for Employee	6,350,887	3,391,716
Income receivable (Note 8 (a))	181,981	14,695	Other	198,156	323,507
Specific values	-	230,960	Other liabilities (Note 15)	202,732	3,729,446
Other (Note 8 (b))	2,989,373	4,795,346	Taxes payable (Nota 15a)	146,014	
Provision for doubtful receivables (Note 8 (c))	(377,226)	(345,715)	Social program and fund obligations (Note 15b)	56,718	48,838
Permanent assets	2,325,087	2,448,734	Other (Note 15c)	-	3,680,608
Investments	290,076	226,903	Shareholders' equity (Note 17)	5,320,625	4,301,135
Subsidiaries and affiliates (Note 10a)	249,287	190,081	Capital - Domestic	3,885,000	3,345,727
Other investments	64,630	58,544	Capital reserves	54,973	54,973
Provision for losses	(23,841)	(21,722)	Revaluation reserves:	425,616	485,060
Premises and equipment (Note 10b)	1,482,392	1,601,860	Revenue reserve:	136,778	112,645
Premises	206,716	342,882	Adjustment to Market Value - Securities		
Revaluation of premises	583,374	701,616	and derivative financial instruments	91,181	(126,680)
Other fixed assets	1,637,135	1,420,745	Retained earnings	727,077	429,410
Accumulated depreciator	(944,833)	(863,383)	Deferred charges (Note 10c)	552,619	619,971
Deferred charges (Note 10c)	552,619	619,971	Deferred charges	1,110,763	1,133,832
Deferred charges	1,110,763	1,133,832	Accumulated amortizator	(558,144)	(513,861)
Accumulated amortizator	(558,144)	(513,861)			
	134,329,360	113,418,734		134,329,360	113,418,734

See the accompanying notes to the financial statements

Caixa Econômica Federal

Statements of income

Semesters ended June 30, 2003 and 2002

(In thousands of Reais)

	2003	2002
Financial operations income	<u>12,810,623</u>	<u>7,150,578</u>
Loans	2,691,523	1,695,746
Securities	7,311,749	4,368,087
Derivative financial instruments	349,267	(83,555)
Trade finance and foreign exchange	-	406
Compulsory investments	2,458,084	1,169,894
Financial operations expenses	<u>(8,269,845)</u>	<u>(4,237,169)</u>
Deposits, money market and interbank funds	(7,334,959)	(3,839,374)
Borrowings and repasses	(378,784)	(200,436)
Trade finance and foreign exchange	(1,320)	-
Provision for losses on doubtful receivables	(554,782)	(197,359)
Net income on financial operations	<u>4,540,778</u>	<u>2,913,409</u>
Other operating income/expense	<u>(3,570,287)</u>	<u>(2,168,343)</u>
Service fee income (Note 20(a))	2,260,204	2,016,161
Equity in earnings of subsidiaries	31,962	12,090
Personnel expenses (Note 20(b))	(1,842,453)	(1,703,588)
Other administrative expenses (Note 20(b))	(1,758,208)	(1,573,948)
Tax expenses	(343,940)	(312,572)
Other income (Note 20 (c))	1,948,786	761,657
Other expenses (Note 20 (c))	(3,866,638)	(1,368,143)
Operating income	<u>970,491</u>	<u>745,066</u>
Non-operating income (Note 20(g))	<u>(24,038)</u>	<u>(61,416)</u>
Net income before income taxes and profit sharing	<u>946,453</u>	<u>683,650</u>
Income tax and social contribution tax expenses	<u>(36,447)</u>	<u>(119,216)</u>
Income tax expenses	(15,744)	(34,098)
Social contribution tax expenses	(5,289)	(85,118)
Deferred tax assets	(15,414)	-
Profit sharing (Note 20(i))	(50,000)	-
Net income for the semester	<u><u>860,006</u></u>	<u><u>564,434</u></u>

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Statements of changes in shareholders' equity

Semesters ended June 30, 2003 and 2002

(In thousands of Reais)

	<u>Capital reserves</u>		<u>Revenue reserves</u>				
	Capital	Special reserve Law 8200	Revaluation reserve	Legal and other	Adjustment to market value - Securities and derivative financial instruments	Retained earnings (loss)	Total
Balances at January 1, 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	-	-	-	-	347,911	-	347,911
Capital increase	539,273	-	-	(162,761)	-	(376,512)	-
Reversal of reserves	-	-	(9,677)	-	-	-	(9,677)
Taxes on revaluation	-	-	17,363	-	-	-	17,363
Revaluation reserve to subsidiaries and affiliates	-	-	(24)	-	-	-	(24)
Realization of reserve	-	-	(90,314)	-	-	90,314	-
Net income for the semester	-	-	-	-	-	860,006	860,006
Destination of net income:							
Legal reserve	-	-	-	43,000	-	(43,000)	-
Lottery reserve	-	-	-	39,723	-	(39,723)	-
Dividends distributed in prior years	-	-	-	-	-	(64,183)	(64,183)
Interest on own capital	-	-	-	-	-	(248,204)	(248,204)
Dividends	-	-	-	-	-	(210,688)	(210,688)
Balances at June 30, 2003	<u>3,885,000</u>	<u>54,973</u>	<u>425,616</u>	<u>136,778</u>	<u>91,181</u>	<u>727,077</u>	<u>5,320,625</u>
Balances at January 1, 2002	12,350,000	54,973	490,770	316,375	-	(9,320,649)	3,891,469
Prior year adjustments	-	-	-	-	-	96,635	96,635
Adjustment to market value - Securities and derivative financial instruments	-	-	-	-	(126,680)	-	(126,680)
Capital increase	316,375	-	-	(316,375)	-	-	-
Capital decrease	(9,320,648)	-	-	-	-	9,320,648	-
Reversal of reserves	-	-	(79)	-	-	-	(79)
Taxes on revaluation	-	-	3,742	-	-	-	3,742
Revaluation reserve to subsidiaries and affiliates	-	-	665	-	-	-	665
Realization of reserve	-	-	(10,038)	-	-	10,038	-
Net income for the semester	-	-	-	-	-	564,434	564,434
Distribution of net income:							
Reserves	-	-	-	112,645	-	(112,645)	-
Dividends	-	-	-	-	-	(129,051)	(129,051)
Balances at June 30, 2002	<u>3,345,727</u>	<u>54,973</u>	<u>485,060</u>	<u>112,645</u>	<u>(126,680)</u>	<u>429,410</u>	<u>4,301,135</u>

See the accompanying notes to the financial statements.

Caixa Econômica Federal

Statements of changes in financial position

Semesters ended June 30, 2003 and 2002

(In thousands of Reais)

	2003	2002
Sources of funds	<u>13,253,349</u>	<u>14,644,109</u>
Adjusted net income	<u>1,078,806</u>	<u>775,206</u>
Net income for the semester	860,006	564,434
Depreciation and amortization	250,762	222,862
Equity in earnings of subsidiaries	(31,962)	(12,090)
Adjustment to market value - Securities and derivative financial instruments	<u>(347,911)</u>	<u>-</u>
Prior year adjustments	-	96,635
Investment subsidy	<u>11,715,020</u>	<u>13,753,698</u>
Increase in current and noncurrent liabilities	<u>9,301,574</u>	<u>12,601,038</u>
Deposits	1,780,934	4,253,928
Money market repurchase commitments	4,337,082	5,587,918
Acceptances and endorsements	1,218,742	887,957
Interbank accounts	502,850	640,151
Repass borrowings from public sector	1,452,981	1,088,796
Derivative financial instrument	8,985	142,288
Decrease in current and noncurrent assets	<u>2,413,446</u>	<u>1,152,660</u>
Interbank funds applied	2,226,474	-
Interbranch accounts	137,343	14,923
Other receivables	-	985,174
Other assets	49,629	152,563
Disposal of assets and investments	<u>101,898</u>	<u>1,264</u>
Investments	605	-
Premises and equipment	101,293	1,264
Decrease in deferred charges	<u>3</u>	<u>-</u>
Interest on own capital	<u>9,711</u>	<u>17,306</u>
Application of funds	<u>13,314,953</u>	<u>14,594,951</u>
Adjustment to market value - Securities and derivative financial instruments	<u>-</u>	<u>126,680</u>
Investment in:	<u>59,825</u>	<u>64,476</u>
Investments	-	3,100
Premises and equipment	59,825	61,376
Deferred charges	<u>116,895</u>	<u>113,217</u>
Funds applied:	<u>12,615,158</u>	<u>14,161,527</u>
Increase in current and noncurrent assets	<u>8,549,846</u>	<u>13,243,234</u>
Interbank funds applied	-	3,561,034
Securities and derivative financial instrument	6,178,501	6,032,237
Interbank accounts	747,285	1,681,415
Loans	1,334,515	1,968,548
Other receivables	289,545	-
Decrease in current and noncurrent liabilities	<u>4,065,312</u>	<u>918,293</u>
Interbranch accounts	451,186	191,011
Borrowings	56,917	254,862
Other liabilities	3,557,209	472,420
Dividends distributed in prior years	<u>64,183</u>	<u>-</u>
Dividends	<u>210,688</u>	<u>129,051</u>
Interest on own capital	<u>248,204</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	<u>(61,604)</u>	<u>49,158</u>
Changes in cash and cash equivalents:		
Beginning of the period	597,722	476,450
End of the period	<u>536,118</u>	<u>525,608</u>
Increase (decrease) in cash and cash equipments	<u>(61,604)</u>	<u>49,158</u>

See the accompanying notes to the financial statements

Caixa Econômica Federal

Notes to the financial statements

Semesters ended June 30, 2003 and 2002

(In thousands of Reais)

1 Operations

Caixa Econômica Federal 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 Econômica Federal 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 Econômica Federal 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 Econômica Federal 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 Econômica Federal 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.

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).

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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

Current assets and noncurrent assets are 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 "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.

- **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 - 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.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

The operations performed by Caixa Econômica Federal 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.

Loans and provision for possible loan losses - 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:

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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 but 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);
- Provisions for devaluations of other investments, when applicable;
- Depreciation of premises, plant 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.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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%, in accordance with prevailing legislation.

The provision for income taxes (IRPJ), when applicable, 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 before income tax.

4 Interbank funds applied

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

	2003	2002
Money market funds applied	<u>4,370,990</u>	<u>8,325,616</u>
Held position	<u>18,067</u>	<u>2,704,209</u>
Financial Treasury Bills	16,466	53,682
National Treasury Bills	1,601	1,570,034
National Treasury Notes	-	995,347
Central Bank Notes	-	85,146
Financed position	<u>4,352,923</u>	<u>5,621,407</u>
Financial Treasury Bills	1,645,458	65,171
National Treasury Bills	2,538,991	671,396
National Treasury Notes	122,273	2,701,451
Central Bank Notes	46,201	2,183,389
Interbank deposit	<u>-</u>	<u>59,169</u>
	<u>4,370,990</u>	<u>8,384,785</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

5 Securities and derivative financial instruments

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

Category	2003	2002
Trading securities	11,568,071	8,563,413
Securities available for sale	8,298,352	4,469,016
Securities held to maturity	43,679,421	35,617,524
Derivative financial instruments	<u>135</u>	<u>14,667</u>
	<u>63,545,979</u>	<u>48,664,620</u>

b. Composition of securities

	2003	2002
Own portfolio	<u>43,478,815</u>	<u>44,991,767</u>
Fixed Rate Securities	<u>43,146,965</u>	<u>44,695,162</u>
Financial Treasury Bills	40,124,367	40,274,257
National Treasury Bills	204,807	2,378,522
National Treasury Notes	1,160,171	548,364
Central Bank Notes	41,052	163,861
Treasury Financial Certificates	816,431	801,748
Securitized Credits	735,432	505,900
Other securities	64,705	22,510
Investments funds quotas - FND	<u>320,340</u>	<u>296,605</u>
Investments funds quotas - Real Estate Fund	<u>11,510</u>	<u>-</u>
Securities subject to commitments	<u>20,067,029</u>	<u>3,658,186</u>
Subject to repurchase commitments	<u>19,093,490</u>	<u>2,556,720</u>
Financial Treasury Bills	17,308,519	141,718
National Treasury Bills	567,791	2,415,002
National Treasury Notes	849,875	-
Central Bank Notes	367,305	-
Deposited with Central Bank	<u>539,002</u>	<u>809,635</u>
Financial Treasury Bills	539,002	809,635
Pledged as guarantees	<u>434,537</u>	<u>291,831</u>
Financial Treasury Bills	434,537	291,831
Derivative financial instruments	<u>135</u>	<u>14,667</u>
	<u>63,545,979</u>	<u>48,664,620</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	<u>1,546,875</u>	<u>7,977,381</u>	<u>2,039,789</u>	<u>4,026</u>	<u>11,568,071</u>	<u>11,556,725</u>	<u>11,568,071</u>
Financial Treasury Bills	893,703	7,676,639	1,760,668	-	10,331,010	10,302,141	10,331,010
National Treasury Bills	638,444	-	-	-	638,444	639,379	638,444
National Treasury Notes	3,218	300,742	279,121	-	583,081	599,723	583,081
Petrobras Debentures	-	-	-	4,026	4,026	3,972	4,026
Variable Income Fund Quotas - Real Estate Fund	11,510	-	-	-	11,510	11,510	11,510
Available for sale	<u>1,119,056</u>	<u>3,482,650</u>	<u>1,960,314</u>	<u>1,736,332</u>	<u>8,298,352</u>	<u>8,084,198</u>	<u>8,298,352</u>
Financial Treasury Bills	26,625	2,893,178	1,368,524	264,536	4,552,863	4,391,187	4,552,863
National Treasury Bills	134,154	-	-	-	134,154	136,249	134,154
National Treasury Notes	412,965	251,078	360,896	345,323	1,370,262	1,343,074	1,370,262
Central Bank Notes	151,296	166,845	90,216	-	408,357	376,437	408,357
CFT	67,295	134,590	134,590	479,956	816,431	816,431	816,431
CVS	-	-	-	598,211	598,211	601,703	598,211
TBA	1,371	-	-	-	1,371	1,371	1,371
ELET	-	35,684	-	-	35,684	36,554	35,684
TDA	1,139	1,275	27	-	2,441	2,852	2,441
Siderbrás Debentures	3,871	-	-	-	3,871	4,285	3,871
Petrobras Debentures	-	-	-	48,306	48,306	47,654	48,306
State Securities - Union	-	-	6,061	-	6,061	6,061	6,061
Investment fund quotas - FND	320,340	-	-	-	320,340	320,340	320,340
Held to maturity	<u>9,730,478</u>	<u>28,794,937</u>	<u>5,097,303</u>	<u>56,703</u>	<u>43,679,421</u>	<u>43,679,421</u>	<u>43,441,354</u>
Financial Treasury Bills	9,730,478	28,694,771	5,097,303	-	43,522,552	43,522,552	43,289,575
National Treasury Notes	-	-	-	56,703	56,703	56,703	56,703
SUNA	-	100,166	-	-	100,166	100,166	95,076
Derivative financial instruments	<u>135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135</u>	<u>135</u>	<u>135</u>
Total	<u>12,396,544</u>	<u>40,254,968</u>	<u>9,097,406</u>	<u>1,797,061</u>	<u>63,545,979</u>	<u>63,320,479</u>	<u>63,307,912</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.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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

Available for sale	Positive adjustment	Negative adjustment	Net adjustment in shareholders' equity
Financial Treasury Bills	179,755	(18,078)	161,677
National Treasury Bills	-	(2,095)	(2,095)
National Treasury Notes	36,536	(9,347)	27,189
Central Bank Notes	31,920	-	31,920
Petrobras Debentures	651	-	651
Siderbras Debentures	-	(414)	(414)
Agricultural debt securities	24	(436)	(412)
CVS	-	(3,492)	(3,492)
ELETROBRÁS	<u>-</u>	<u>(870)</u>	<u>(870)</u>
Adjustments in associated companies	<u>-</u>	<u>(6,329)</u>	<u>(6,329)</u>
Derivative financial instruments (SWAP)	<u>-</u>	<u>(43,832)</u>	<u>(43,832)</u>
Taxes on market value	<u>-</u>	<u>(72,812)</u>	<u>(72,812)</u>
	<u>248,886</u>	<u>(157,705)</u>	<u>91,181</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\$ 8,302,320 (2002 - R\$ 9,010,873), the differential payable at this date amounts to R\$ 205,960 (2002 - R\$ 65,906) and the differential receivable to R\$ 135 (2002 - R\$ 14,667).

Caixa Econômica Federal

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 the residual values of terminated contracts to be paid by the FCVS, in the amount, net of provisions, of R\$ 19,669,168, as follows (2002 - R\$ 20,700,575), 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 Econômica Federal	12,328,511	11,869,203
Loans received in lieu of payment	3,150,192	3,191,529
Acquired from internalized third parties	6,693,457	4,344,282
Acquired and managed by third parties	<u>2,416,287</u>	<u>3,203,217</u>
	24,588,447	22,608,231
Provision for possible losses and rejections	(4,919,279)	(1,907,656)
	<u>19,669,168</u>	<u>20,700,575</u>

As a result of a commitment assumed by the Union, for the purpose of exchange of CVSs in novation, for Federal Public Securities, at their face value, mark-to-market was not necessary for these loans. The exchange forecast for 2002, in the amount of R\$ 5,438,956 related to loans already homologated and still not concretized is in the process of negotiation of a time chart with the Federal Government.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

7 Loans

a. Composition of loans per type of operation

Description	2003	2002
Financing, discounted loans and loans (1)	8,030,782	6,917,837
Real estate financing operations	15,774,206	13,782,726
Infrastructure and development financing operations	703,885	401,273
Other receivables	<u>708,005</u>	<u>406,589</u>
	<u>25,216,878</u>	<u>21,508,425</u>

(1) Refers to public sector financing in the amount of R\$ 656,448 (2002 - R\$ 634,885), related to refinancing contracts of state and municipal government debts, 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.

b. Breakdown of loans by client/activity

Description	2003	%	2002	%
Federal public sector	<u>910,675</u>	<u>3.61</u>	<u>642,254</u>	<u>2.99</u>
Government:	<u>907,735</u>	<u>3.60</u>	<u>7,183</u>	<u>0.03</u>
Direct administration	907,725	3.60	-	-
Indirect administration	10	-	7,183	0.03
Business activities - Financial intermediaries	<u>2,940</u>	<u>0.01</u>	<u>635,071</u>	<u>2.96</u>
State public sector	<u>326,992</u>	<u>1.30</u>	<u>292,300</u>	<u>1.36</u>
Government - Direct administration	<u>98,446</u>	<u>0.39</u>	<u>31,394</u>	<u>0.15</u>
Business activities	<u>228,546</u>	<u>0.91</u>	<u>260,906</u>	<u>1.21</u>
Industry	216,968	0.86	252,667	1.17
Financial intermediaries	11,578	0.05	5,445	0.03
Housing companies	-	-	2,794	0.01

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

Description	2003	%	2002	%
Municipal public sector	<u>74,748</u>	<u>0.29</u>	<u>132,716</u>	<u>0.62</u>
Government	<u>66,813</u>	<u>0.26</u>	<u>60,965</u>	<u>0.28</u>
Direct administration	66,800	0.26	60,369	0.28
Indirect administration	13	-	596	-
Business activities - Industry	<u>7,935</u>	<u>0.03</u>	<u>71,751</u>	<u>0.34</u>
Private sector	<u>23,904,463</u>	<u>94.80</u>	<u>20,441,155</u>	<u>95.03</u>
Rural	4,764	0.02	-	-
-Industry	101,763	0.40	93,034	0.43
Commerce	420,731	1.67	650,906	3.03
Financial Intermediaries	302,951	1.20	1,547	0.01
Other services	2,850,477	11.30	764,040	3.55
Individuals	5,002,507	19.84	5,028,297	23.38
Housing - Individuals/legal entities	<u>15,221,270</u>	<u>60.37</u>	<u>13,903,331</u>	<u>64.63</u>
	<u>25,216,878</u>	<u>100.00</u>	<u>21,508,425</u>	<u>100.00</u>

c. Concentration of main debtors

	2003		2002	
	Amount	% of portfolio	Amount	% of portfolio
Main debtor	656,448	2.60	666,083	2.96
10 main debtors	1,832,637	7.27	2,308,616	10.25
20 main debtors	2,013,241	7.98	2,442,852	10.85
50 main debtors	2,225,505	8.83	2,552,687	11.34
100 main debtors	2,357,674	9.35	2,611,464	11.60

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>204,535</u>	<u>7,785,925</u>	<u>7,990,460</u>	<u>1,477,306</u>
0 to 90 days	556	3,430,395	3,430,951	758,546
91 to 360 days	203,979	4,355,530	4,559,509	718,760
Noncurrent assets	<u>1,107,482</u>	<u>14,520,839</u>	<u>15,628,321</u>	<u>17,210,577</u>
From 1 to 3 years	-	7,807,907	7,807,907	2,595,596
From to 5 years	-	4,380,821	4,380,821	1,076,291
From 5 to 15 years	1,107,482	2,331,465	3,438,947	7,294,021
More than 15 years	-	<u>646</u>	<u>646</u>	<u>6,244,669</u>
Total - Normal	<u>1,312,017</u>	<u>22,306,764</u>	<u>23,618,781</u>	<u>18,687,883</u>
Total - Overdue	<u>398</u>	<u>1,597,699</u>	<u>1,598,097</u>	<u>2,820,542</u>
Total	<u>1,312,415</u>	<u>23,904,463</u>	<u>25,216,878</u>	<u>21,508,425</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	468,687	656,448	417,355	-	1,542,490	6.11	1,258,004	5.85
A	1,133,203	417,959	5,393,725	41,734	6,986,621	27.71	5,399,981	25.11
B	886,565	309,331	1,764,963	306,586	3,267,445	12.95	2,279,593	10.60
C	929,503	301,223	2,728,212	9,917	3,968,855	15.74	4,742,131	22.05
D	1,206,227	382,135	4,367,325	16,628	5,972,315	23.68	5,306,043	24.67
E	78,909	36,258	442,872	566	558,605	2.22	398,680	1.85
F	69,663	87,517	279,852	578	437,610	1.74	302,048	1.40
G	73,367	31,423	183,939	285	289,014	1.15	181,506	0.84
H	<u>549,431</u>	<u>412,933</u>	<u>899,848</u>	<u>331,711</u>	<u>2,193,923</u>	<u>8.70</u>	<u>1,640,439</u>	<u>7.63</u>
	<u>5,395,555</u>	<u>2,635,227</u>	<u>16,478,091</u>	<u>708,005</u>	<u>25,216,878</u>	<u>100.00</u>	<u>21,508,425</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

<u>Risk level</u>	<u>%</u>	<u>Loans and discounted loans</u>	<u>Financing</u>	<u>Real estate financing</u>	<u>Other receivables</u>	<u>Total 2003</u>	<u>%</u>	<u>Total 2002</u>	<u>%</u>
A	0.5	5,666	2,090	26,969	208	34,933	0.90	27,000	0.85
B	1.0	11,591	5,818	23,101	3,065	43,575	1.13	33,701	1.06
C	3.0	27,886	18,239	112,366	297	158,788	4.10	203,709	6.40
D	10.0	122,623	39,553	629,388	4,914	796,478	20.57	882,565	27.71
E	30.0	23,673	11,033	188,614	169	223,489	5.77	119,604	3.76
F	50.0	34,831	43,759	139,926	289	218,805	5.65	151,024	4.74
G	70.0	51,356	21,997	128,758	199	202,310	5.22	127,054	3.98
H	100.0	<u>549,431</u>	<u>412,933</u>	<u>899,848</u>	<u>331,711</u>	<u>2,193,923</u>	<u>56.66</u>	<u>1,640,439</u>	<u>51.50</u>
		<u>827,057</u>	<u>555,422</u>	<u>2,148,970</u>	<u>340,852</u>	<u>3,872,301</u>	<u>100.00</u>	<u>3,185,096</u>	<u>100.00</u>

g. Changes in the provision for doubtful loans

<u>Description</u>	<u>2003</u>	<u>2002</u>
Opening balance	3,454,303	3,704,904
Additions	682,029	752,893
Reversals	(127,247)	(577,781)
Write-offs against provision	(<u>136,784</u>)	(<u>694,920</u>)
	<u>3,872,301</u>	<u>3,185,096</u>

h. Renegotiated loans, posted as loss and recovered

	<u>2003</u>	<u>2002</u>
Total renegotiated loans for the semester	479,261	335,113
Total loans entered as loss for the semester	136,784	359,875
Total recovered loans for the semester	8,673	211

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

8 Other receivables

a. Income receivable

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

	2003	2002
Dividends receivable from FND	181,940	-
FGTS	134,282	125,272
Unemployment insurance	60,879	3,966
General Budget of Brazil	106,874	87,408
INSS	398,205	247,222
Social register	69,988	45,775
EMGEA - <i>Empresa Gestora de Ativos</i> (Asset Management Company)	25,607	43,604
School grant program	30,374	16,044
Others	<u>58,622</u>	<u>51,011</u>
	<u>1,066,771</u>	<u>620,302</u>

b. Others

	2003	2002
Sundry advances	277,485	677,762
Tax Credits (note 19)	1,871,976	1,998,339
Guarantee deposit debtors	952,930	774,338
Taxes and contributions to compensate	208,089	84,864
Payments to reimburse	48,275	27,690
Other receivable with characteristics of extension of credit	<u>708,005</u>	<u>406,843</u>
Debtors for purchase of securities and assets	67,345	33,890
Securities and credits receivable	<u>640,660</u>	<u>372,953</u>
Amounts receivable - BAMERINDUS (ii)	302,941	302,941
Credit card (iv)	331,348	-
Other securities and credits receivable	6,371	70,012
Other receivable without characteristics of extension of credit	<u>363,741</u>	<u>1,007,615</u>
Securities and credits receivable	<u>363,741</u>	<u>1,007,615</u>
Pernambuco State Government - COMPESA (i)	196,913	167,666
Bahia State Government - EMBASA (i)	166,828	666,083
CAIXA SEGUROS/PREHVAB	-	173,866
Other debtors	<u>251,480</u>	<u>9,325</u>
Accrual - Loans and financing (iii)	192,840	-
Insurance receivable	178,638	122,526
Other debtors	46,024	21,231
Provision for losses - Other debtors	<u>(166,022)</u>	<u>(134,432)</u>
	<u>4,681,981</u>	<u>4,986,776</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

- 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. Refer to amounts to invoice and receivable from credit cards and 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).
- iv. In October 2002 Caixa Econômica Federal internalized its credit card portfolio.

c. Provision for other receivables

In accordance with BACEN Circular Letter 3048/2002, credit securities receivable should be classified as “with credit extension features” and “without credit extension features”, presented by Caixa Econômica Federal as follows:

	2003	2002
Provision - Other receivables with credit extension features (Note 7(f))	(340,852)	(328,948)
Provision - Other receivables without credit extension features	(<u>36,374</u>)	(<u>16,767</u>)
	(<u>377,226</u>)	(<u>345,715</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 Econômica Federal’s operations. The provision for devaluation of these properties is recorded, based on an appraisal report prepared by Caixa Econômica Federal valuers.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

10 Permanent assets

a. Investments

The investments in subsidiaries are substantially formed by Caixa Seguros S.A (formerly SASSE CAIXA SEGUROS), and are evaluated according to the equity method. The main information on the investee and the investment, as of June, are presented as follows:

Investee	2003	2002
Shareholders' equity	810,489	664,313
Capital	360,000	360,000
Quantity of shares	16,930,108	16,930,108
Revaluation/retained earnings reserve	1,172	2,047
Goodwill reserve	285,252	285,252
Retained earnings	76,163	17,013
Book value per share - R\$	47,87	39,24
Investment		
Quantity of shares held	8,161,426	8,116,707
Corporate interest (%)	48,20658	48,20658
Book value of the investment	248,721	181,745
Equity income	32,451	182
Other investments	<u>566</u>	<u>8,336</u>
Total equity in earnings of subsidiaries and affiliated companies	<u>249,287</u>	<u>190,081</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

b. Premises and equipment

	2003			2002		
	Cost	Depreciation	Residual value	Cost	Depreciation	Residual Value
Properties for own use	790,090	(17,326)	772,764	1,044,498	(109,733)	934,765
Buildings	135,764	(5,167)	130,597	243,938	(34,895)	209,043
Revaluation of buildings	440,482	(12,159)	428,323	494,389	(74,838)	419,551
Lands	70,952	-	70,952	98,944	-	98,944
Revaluation of lands	142,892	-	142,892	207,227	-	207,227
Investments in fixed assets in progress	38,560	-	38,560	42,809	-	42,809
Furniture, fixtures and equipment in use	358,384	(196,719)	161,665	359,865	(177,721)	182,144
Communications system	49,260	(22,233)	27,027	61,631	(17,000)	44,631
Data processing system	1,133,452	(690,741)	442,711	906,645	(545,900)	360,745
Transport and security system	57,463	(17,814)	39,649	47,953	(13,029)	34,924
Other fixed assets	16	-	16	1,842	-	1,842
	<u>2,427,225</u>	<u>(944,833)</u>	<u>1,482,392</u>	<u>2,465,243</u>	<u>(863,383)</u>	<u>1,601,860</u>

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

c. Deferred charges

	2003	2002
Expenses in third party properties	324,847	319,528
Expenses with logical projects	586,818	427,875
Improvements to own property	199,098	386,429
Accumulated amortizations	<u>(558,144)</u>	<u>(513,861)</u>
	<u>552,619</u>	<u>619,971</u>

d. Compliance with index of investment in fixed assets

The index of investment in fixed assets is 43.70%, thus Caixa Econômica Federal is in compliance with the limit defined by National Monetary Council (CMN) Resolution 2669/99, which establishes the limit of 50% as from November 31, 2002.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

11 Deposits and money market and interbank funds

- a. Time deposits include judicial deposits in the amount of R\$ 22,474,079 (2002 - R\$ 20,934,964), 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:

	2003			2002	
	Demand	Time	Savings	Total	Total
Short-term	<u>4,297,877</u>	<u>24,666,333</u>	<u>42,909,024</u>	<u>71,873,234</u>	<u>69,223,654</u>
Without maturity	4,297,877	22,474,079	42,909,024	69,680,980	64,766,389
31 to 90 days	-	1,170,879	-	1,170,879	1,705,764
91 to 360 days	-	1,021,375	-	1,021,375	2,751,501
Long-term	<u>-</u>	<u>1,199,712</u>	<u>-</u>	<u>1,199,712</u>	<u>821,481</u>
	<u>4,297,877</u>	<u>25,866,045</u>	<u>42,909,024</u>	<u>73,072,946</u>	<u>70,045,135</u>
Money market and interbank funds					
31 to 90 days				22,632,219	7,616,808
91 to 360 days				614,521	293,812
More than 360 days				<u>27,201</u>	<u>243,811</u>
				<u>23,273,941</u>	<u>8,154,431</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) deposits 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 DEDIP, shown as follows:

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

	2003	2002
FGTS deposits	2,166,365	1,315,416
Special deposits with remuneration	829,690	700,733
FAS deposits	325,030	304,518
PROGER deposits	1,557,628	855,281
FISANE deposits	155,192	131,215
PRODEC deposits	24,532	44,151
PIS deposits	93,118	21,570
FAT deposits	30,056	-
Others	<u>132,683</u>	<u>71,127</u>
	<u>5,314,294</u>	<u>3,444,011</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.

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.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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
Income taxes and contributions payable	<u>3</u>	<u>80,674</u>
Income taxes	3	29,678
Social contribution	-	50,996
Taxes and contributions payable	<u>160,313</u>	<u>159,147</u>
COFINS	28,945	48,581
PASEP	6,271	10,528
On salaries	63,575	47,563
On services	61,522	52,475
Deferred taxes and contributions	<u>218,827</u>	<u>142,647</u>
Income tax on revaluation reserve - Buildings	107,364	104,887
Social contribution on revaluation reserve - Buildings	38,651	37,760
Income tax on adjustments to market value - Securities available for sale	53,538	
Social contribution on adjustments to market value - Securities available for sale	19,274	-
Provision for tax risks	<u>795,760</u>	<u>682,848</u>
PASEP (i)	551,309	500,000
INSS (ii)	100,803	
ISS (iii)	130,125	118,740
Other	<u>13,523</u>	<u>64,108</u>
	<u>1,174,903</u>	<u>1,065,316</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

- (i) Caixa Econômica Federal, 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\$ 4,864,833 in interest, at June 30, 2003.

Caixa Econômica Federal 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 Econômica Federal of the contents of this procedure and giving an adequate term to reply. The Federal Revenue Service in Brasilia advised Caixa Econômica Federal, on October 21, 1999, of the diligence report, in which the National Treasury maintained the same reasons reported in the assessment. Caixa Econômica Federal 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 Econômica Federal 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 Econômica Federal 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\$ 551,309 (2002 - R\$ 500,000) is sufficient to cover possible unfavorable decisions on some parts of the proceeding.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

- (ii) Caixa Econômica Federal 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\$ 818,196 (2002 - R\$ 955,112) repositioned to June 30, 2003, Caixa Econômica Federal 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. 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\$ 100,803 at June 2003
- (iii) Caixa Econômica Federal 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 June 30, 2003 corresponds to the amount of R\$ 130,125, 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 bank 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	<u>285,320</u>	<u>265,914</u>
Obligations with funds and social programs	<u>1,067,013</u>	<u>546,927</u>
FGTS	265,838	276,202
Unemployment insurance	104,236	37,073
FISANE	44,855	48,836
School grants	153,032	108,160
Gas assistance	140,643	62,683
Food supplement	42,808	6,247
Housing subsidy program/PSH	268,010	-
Other funds and programs	47,591	7,726
Obligations with financial development funds	<u>205,488</u>	<u>270,884</u>
PIS	204,247	227,295
Others	<u>1,241</u>	<u>43,589</u>
	<u>1,557,821</u>	<u>1,083,725</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

c. Others

	2003	2002
Obligations for SFH contributions	62,653	47,536
Obligations for official agreement	77,844	62,811
Provision for payments to be made	<u>783,592</u>	<u>820,438</u>
Personnel expenses	617,143	587,725
Other administrative expenses	60,098	20,057
Other payments	106,351	212,656
Provision for contingent liabilities	<u>1,726,815</u>	<u>5,242,201</u>
FUNCEF - Technical Reserves (1)	-	2,983,414
PREVHAB/FUNCEF - Technical Reserves (2)	375,304	300,329
Provision for contingencies (3)	1,351,511	1,958,458
FGTS funds	<u>1,914</u>	<u>84,335</u>
Capital subscriptions to pay in	<u>1,309</u>	<u>-</u>
Sundry creditors - abroad	<u>38</u>	<u>-</u>
Other creditors - Domestic	<u>2,366,037</u>	<u>1,776,740</u>
Credit cards	364,773	-
Accounts payable	322,344	190,617
EMGEA - <i>Empresa Gestora de Ativos</i> (Asset management company)	486,993	499,606
UNION	52,415	456,246
Judicial deposits - Interest to accrue	-	439,014
Acquired Credits	522,596	-
Amounts to accrue - Loans and financing (Note 8 b iii)	531,881	-
Other sundry creditors	61,337	191,257
Provision for sundry creditors	<u>23,698</u>	<u>-</u>
	<u>5,020,202</u>	<u>8,034,061</u>

Caixa Econômica Federal

Notes to the financial statements

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(1) FUNCEF - Technical Reserves

(i) In the first semester of 2003 FUNCEF and Caixa Econômica Federal signed an agreement for settlement of the debit that the Sponsor had with its pension fund. “Caixa Econômica Federal’s debt” originated upon the creation of FUNCEF and was worsened by later events (plans for positions and salaries). The proposal for conciliation was approved by the top management of FUNCEF on December 16, 2002.

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 Econômica Federal’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 Econômica Federal 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 Econômica Federal 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 Seguradora 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 Econômica Federal 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 Special, Exclusive Benefit Plan, governed by the Contract for Institution of a Special Benefit Plan between Caixa Econômica Federal and CAIXA SEGUROS, with mediation of PREVHAB, and the contract for Administration of the Securities Portfolio, both signed between CAIXA SEGUROS and Caixa Econômica Federal, 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.

Caixa Econômica Federal

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On November 1st, 2002, there was an agreement for dissolution between Caixa Econômica Federal and CAIXA SEGUROS, with regards to the contract of the Special Benefit Plan, transferring to Caixa Econômica Federal 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 Econômica Federal, 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 Econômica Federal 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 Econômica Federal has contingent liabilities from labor and civil lawsuits, lawsuits related to contestation of indexers applied to asset and liability operations, including those related to economic plans, lawsuits related to real estate financing, lotteries, losses and damages, and tax lawsuits, amongst others. These claims are periodically evaluated and reviewed.

Management understands, based on reports from its legal advisors, that such proceedings are in accordance with existing legal rules and such processes will not cause relevant losses, which exceed the provision for these contingencies, of R\$ 1,315,511 (2002 - R\$ 1,958,458), sufficient to cover eventual legal decisions, unfavorable to Caixa Econômica Federal.

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Notes to the financial statements

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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 Econômica Federal 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 Econômica Federal, Resolution of the Management Council of Caixa Econômica Federal 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 Econômica Federal presents the following situation:

Security/risk factors	2003			2002		
	Balance	Weighted risk	Shareholders' equity required	Balance	Weighted risk	Shareholders' equity required
Zero risk - 0%	83,580,008	-	-	64,279,219	-	-
Reduced risk -20%	25,456,580	5,091,316	560,045	21,338,541	4,267,708	469,448
Reduced risk - 50%	16,450,769	8,225,385	904,792	14,533,188	7,266,594	799,325
Normal risk - 100%	8,216,438	8,216,437	903,808	11,955,061	11,955,061	1,315,057
Tax credits 300%	1,871,976	5,615,928	617,752	1,998,339	5,995,017	659,452
Swap credit risk	361,986	658,157	72,398	321,580	584,690	64,316
Market risk - interest rate	-	1,062,803	116,908	-	1,373,864	151,125
Total	135,937,757	28,870,026	3,175,703	114,425,928	31,442,934	3,458,723
Reference Shareholder's equity	-	-	5,320,625	-	-	4,301,135
Sufficiency	-	-	2,144,922	-	-	842,412
Basel Index	-	18,43%	-	-	13,68%	-

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BACEN resolution 3059/02 establishes that the quota of tax credits the expectation of realization of which is more than five years should be excluded for purposes of the 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 a schedule defined by the resolution.

Management, based on technical studies that define the expectations for 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 limits currently required by the Monetary Authority.

c. Revaluation reserves

On December 2002, Caixa Econômica Federal revalued 100% of the property for own use, having requested authorization from the Central Bank of Brazil, in the terms of written notice DENOR/GABIN 98/380-A, of September 30, 1998. The revaluation was 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 Econômica Federal.

d. Revenue reserves

The revenue reserve is formed by a legal reserve in the amount of R\$ 43,000 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\$ 39,723 in the first semester of 2003 (2002 - R\$ 84,423).

e. Dividends

The Union is guaranteed a minimum dividend of 25% of adjusted net income, as provided for in Decree 2673, dated July 16, 1998. In this semester dividends were distributed in the amount of R\$ 210,688 and interest on own capital in the amount of R\$ 248.204, totaling 53.36% of the adjusted net income for the semester.

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Notes to the financial statements

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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 June 2003	Administrators	Employees
Highest	17,040.00	14,200.00
Average	17,040.00	3,186.42
Lowest	17,040.00	507.68

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\$ 4,882,492 (2002 - R\$ 5,766,532) for IRPJ and R\$ 1,498,936 (2002 - R\$ 2,003,887) for CSLL totaling R\$ 6,381,428 (2002 - R\$ 7,770,419) 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\$ 4,509,452, (2002 - R\$ 5,772,082) resulting in a total of tax credits net of provision of R\$ 1,871,976 (2002 - R\$ 1,998,337)

There were not tax credits recorded in the amount of R\$ 1,122,839.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

Origin of the tax credits

	2003		2002	
	IRPJ	CSLL	IRPJ	CSLL
Allowance for possible loan losses	1,003,179	-	777,432	-
Provision SFH	645,333	232,320	416,210	-
Provision for contingencies	303,501	109,260	637,131	11,707
Provision - Liability with FUNCEF	-	-	510,054	8,130
Others	133,353	89,051	414,070	842,620
Tax loss	2,797,126	-	3,011,636	-
Negative Basis	-	472,122	-	745,461
Social contribution MP 2.158-35/2001	-	596,183	-	395,969
Total Tax Credits	<u>4,882,492</u>	<u>1,498,936</u>	<u>5,766,533</u>	<u>2,003,887</u>

Expectations of realization of the tax credits

Book value:

Year	2003	2004	2005	2006	2007	Subtotal
IRPJ	109,954	63,695	68,038	54,592	45,060	341,339
CSLL	67,209	38,981	41,639	33,411	27,577	208,817
Year 2008 to 2012	2013 to 2017	2018 to 2022	2023 to 2027	2028 to 2032	2033	Total
IRPJ	225,301	225,301	225,301	225,301	51,432	1,519,276
CSLL	126,135	17,748	-	-	-	352,700

Current value:

Year	2003	2004	2005	2006	2007	Subtotal
IRPJ	98,613	52,169	51,125	37,809	28,762	268,478
CSLL	60,277	31,928	31,288	23,139	17,602	164,234
Year 2008 to 2012	2013 to 2017	2018 to 2022	2023 to 2027	2028 to 2032	2033	Total
IRPJ	113,341	75,377	38,986	25,928	22,171	547,730
CSLL	63,454	6,944	-	-	-	234,632

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Notes to the financial statements

(In thousands of Reais)

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

b. Statement of income tax and social contribution

	<u>2003</u>		<u>2002</u>	
	IRPJ	CSLL	IRPJ	CSLL
Income before income taxes (IR and CS)	<u>946,453</u>	<u>946,453</u>	<u>683,650</u>	<u>683,650</u>
Total IRPJ and CSLL at the rates of 25% and 9%	(236,601)	(85,181)	(170,901)	(61,529)
Tax effects of the additions and inclusions	<u>139,735</u>	<u>50,144</u>	<u>136,403</u>	<u>(23,589)</u>
Allowance for doubtful loans	15,482	5,670	99,031	(58,804)
Provision for SFH	(584,487)	(210,415)	11,423	(2,641)
Provisions for contingencies	(16,341)	(5,883)	(32,520)	(11,707)
FGTS expenses	166,122	59,805	160,259	57,693
Provision - Liability with FUNCEF	571,443	205,719	(22,584)	(8,130)
Other	(12,484)	(4,752)	(79,206)	-
Interest on own capital	62,052	22,338	-	-
Deferred tax assets	9,337	6,076	10,354	25,535
Tax incentive	735	-	400	-
Other amounts	<u>8,998</u>	<u>1,334</u>	<u>-</u>	<u>-</u>
Total expenses with IRPJ and CSLL	(15,744)	(5,289)	(23,744)	(59,583)

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

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	(15,414)	-	(15,414)
Write-off of tax credit - Year 2002 MP 2158-35/01	(25,666)	-	(25,666)
Reversal	<u>(1,058,911)</u>	<u>1,058,911</u>	<u>-</u>
Balance at June 30, 2003	<u>6,381,428</u>	<u>(4,509,452)</u>	<u>1,871,976</u>

20 Other information

a. Service fee income

	2003	2002
Administration of FGTS	581,833	490,313
Administration of FCVS	53,360	38,372
Administration of PIS	42,654	40,931
Administration of lotteries	174,368	146,358
FGTS - Tariffs	229,938	204,801
Unemployment insurance	93,732	89,448
Social register	53,897	48,141
General Budget of the Union - OGU	17,277	36,141
Administration of investment funds	116,753	106,680
Tariffs for agreements	289,560	272,326
Check and paper clearing services	56,970	44,693
Tariffs on current accounts	100,980	97,967
Collection of securities	98,498	87,799
EMGEA - Services rendered	179,964	202,337
Other services	<u>170,420</u>	<u>109,854</u>
	<u>2,260,204</u>	<u>2,016,161</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

b. Administrative and personnel expenses

	As of June 30, 2003	As of June 30, 2002
Personnel expenses		
Provisions	(1,177,524)	(1,051,070)
Benefits	(210,632)	(231,485)
Social charges:		
FGTS	(89,051)	(79,429)
Social security	(253,806)	(231,459)
Complementary social security	(57,979)	(56,924)
Other	<u>(53,461)</u>	<u>(53,221)</u>
	<u>(1,842,453)</u>	<u>(1,703,588)</u>
 Administrative expenses		
Communications	(170,284)	(155,351)
Maintenance and preservation of assets	(115,785)	(103,680)
Water and electricity	(52,903)	(39,315)
Rents	(129,368)	(82,185)
Material expenses	(70,660)	(42,307)
Data processing	(456,232)	(426,913)
Promotions and public relations	(10,198)	(11,185)
Advertising and publicity	(9,758)	(44,252)
Financial system services	(72,467)	(64,374)
Third-party services	(109,665)	(99,631)
Specialized services	(193,499)	(159,223)
Vigilant and security services	(67,775)	(63,420)
Depreciation and amortization	(250,762)	(222,862)
Other administrative expenses	<u>(48,852)</u>	<u>(59,250)</u>
	<u>(1,758,208)</u>	<u>(1,573,948)</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

c. Composition of “Other operating income and expenses”

	<u>As of June 30</u>	
	2003	2002
Other operating income		
Commissions and taxes on operations	432,964	303,018
Expenses recovered	88,989	93,633
Credits with the Union	15,372	31,846
Reversal of other operating income provision	1,118,564	125,650
Other credits income - COMPESA (Note 8 (b) (I))	16,111	10,788
Other credits income - EMBASA (Note 8 (b) (I))	17,628	40,307
Credit card income	44,956	58,596
Income from securitization credits		26,529
Dividend income	37,077	
Other operating income	<u>177,125</u>	<u>71,290</u>
	<u>1,948,786</u>	<u>761,657</u>
Other operating expenses		
Expenses with actuarial reserves - FUNCEF/PREHVAB	(442,343)	(186,337)
Expenses with FCVS receivable - Residuals (Note 6(a))	(2,307,525)	(340,033)
Expenses with fund and program obligations	(115,684)	(81,622)
Remuneration - Lottery dealerships	(110,399)	(106,887)
Contingent provisions	(272,259)	(189,485)
EMGEA/UNIÃO	(153,617)	(137,485)
Expenses - Lottery dealership	(104,727)	(105,829)
Expenses - 24 hour ATMs	(40,992)	(36,635)
Expenses with credit cards	(69,354)	-
Savings bank prizes	-	(20,749)
Expenses with unfavorable legal judgments	(45,778)	-
Other operating expenses	<u>(203,960)</u>	<u>(163,081)</u>
	<u>(3,866,638)</u>	<u>(1,368,143)</u>

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

d. Administration of social entities

The shareholders' equity balances of the entities managed by Caixa Econômica Federal (Note 1) are negative in the amount of R\$ 37,420,078 (2002 - R\$ 31,420,767). 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\$ 72,516,386 (2002 - R\$ 63,075,398), for which the Federal Union is responsible for meeting all obligations, in conformity with Law 10150, dated December 21, 2000.

Fund	2003	2002
PIS	19,738,785	18,600,781
FGTS	12,049,150	10,208,782
FAR	2,181,281	1,705,433
FCVS	(72,516,386)	(63,075,398)
FDS	503,097	422,548
FAS	358,339	326,817
SH	-	128,573
PCE	235,025	233,780
FIEL	<u>30,631</u>	<u>27,917</u>
	<u>(37.420.078)</u>	<u>(31,420,767)</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\$ 1,557,628, 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\$ 353,940. The balance of the funds invested is R\$ 1,203,688.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

f. Benefits for employees

(I) Benefit plan - private pension

Caixa Econômica Federal 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 Econômica Federal makes contributions in accordance with the percentage determined by actuarial formulas. The amount disbursed in the first semester of 2003 totaled R\$ 62,117 (2002 - R\$ 59,634). The costing plan of the entity is considered a defined benefit plan for 42,999 members, while for 4,334 members it is a defined contribution plan.

Caixa Econômica Federal, as a sponsor of the Bank's Employees' Foundation - *Fundação dos Economistas Federais* (FUNCEF), 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 Econômica Federal recorded a provision in the amount of R\$ 81,386 (2002 - R\$ 168,527).

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

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

(II) Health plan - SAÚDE CAIXA

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

The resources of SAÚDE CAIXA are constituted as follows:

- Monthly contribution by Caixa Econômica Federal, corresponding to 3.5% of the payroll, including social charges;
- Monthly payment by the titleholder, of R\$ 38.26, per family group;
- 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 2002 and 2003.

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 Econômica Federal.

i. Employee profit sharing

A provision was recorded for payment of profit sharing - PRX, in the amount of R\$ 50,000.

Caixa Econômica Federal

Notes to the financial statements

(In thousands of Reais)

21 Reclassification for comparison purposes

For better comparability of these financial statements, reclassifications were made in the balance sheets as of June 2002, to adjust accounting procedures/classifications.

Balance sheet	Published amount	Reclassified amount	Amount in the balance sheet
Assets - Current and noncurrent			
Other receivables - Income receivable	620,556	(254)	620,302
Other receivables - Other	4,986,776	(545)	4,986,231
Valuation allowance - Other receivables	(346,514)	799	(345,715)
Liabilities - Current and noncurrent			
Other liabilities - liabilities for funds and social programs	509,853	37,074	546,927
Other liabilities - liabilities for financial and development funds	307,958	(37,074)	270,884
Statements of income			
Financial operating expenses	(4,214,922)	(22,247)	(4,237,169)
Provision for loss on doubtful receivables	(175,112)	(22,247)	(197,359)
Net income (gross) on financial operations	2,935,656	(22,247)	2,913,409
Other operating income/expenses	(2,190,590)	22,247	(2,168,343)
Equity in earnings of subsidiaries	29,396	(17,306)	12,090
Other operating income	744,351	17,306	761,657
Other operating expenses	(1,390,390)	22,247	(1,368,143)

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
Vice President

Paulo Roberto Paixão Bretas
Vice President

Telmo Marques Costa
National Accounting Superintendent
Accountant - CRC-CE-5.031/O-4 T - DF

José Rogério Krticka
National Accounting Manager
Accountant - CRC-RS-035890/T-2 - DF