

(A free translation of the original in Portuguese)

**Caixa Econômica
Federal – CAIXA**
Financial Statements
at June 30, 2006 and 2005
and Report of Independent Auditors

Caixa Econômica Federal – CEF

Management Report

Management Report – 1st half of 2006

Brazilian citizens,

We are hereby submitting the Management Report and Financial Statements of Caixa Econômica Federal, relating to the 1st half of 2006, in the terms established by the Brazilian Central Bank (BACEN).

1 Introduction

The results now reported contribute towards reaffirming the role of CAIXA as the greatest agent of the federal government's public policies.

To fulfill its role as an instrument of public policies and to provide leverage for credit in the economy, CAIXA is making progress in the implementation of a consistent structure of corporate governance, which fosters management with social responsibility and creation of value for society.

In the first half of 2006, CAIXA reached a new historical mark of housing finance contracts, with R\$ 7.37 billion being contracted, almost 71.3% of the budget set for the whole year of 2006.

Following the guidelines of the federal government, the Family Allowance Program, operated by CAIXA, exceeded the target defined for the quarter, paying out R\$ 682.2 million to 11.2 million families in all the Brazilian municipalities.

The implantation of the New Technological and Logistical Model for the Lottery Shops is at the final stage of execution, reducing operating costs and guaranteeing the business independence aspired to. The new model, which expands the number of suppliers and modernizes all the equipment of the lottery shops, meets the determinations of the controlling and supervisory bodies (TCU, Public Attorney's Office etc.). Furthermore, the changes make it possible to increase by 50% the shops' capacity for attending to customers, with new services and much greater agility.

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2 Economic and financial performance

Net income in the half year of 2006 was R\$ 1,344 million, enabling the amount of R\$ 626 million to be set aside for the federal government in dividends and interest on own capital. Added to the amounts passed on from the lotteries, taxes and charges paid, the amount intended for the National Treasury rises to R\$ 2.9 billion in the half year. The return on stockholders equity was 34.38%. Stockholders' equity at June 30, 2006 is equivalent to 25.72% of the risk-weighted assets, and fixed assets represent 17.89% of stockholders' equity.

Income from financial intermediation showed a positive variation of 15.335% in relation to the same period of the previous year, in which the 25.05% growth of loan transaction revenues is to be highlighted.

Profitability and Performance Indicators (%)

Indicators	2 nd Qtr 05	3 rd Qtr 05	4 th Qtr 05	1 st Qtr 06	2 nd Qtr 06
Gross Margin	36.32	32.67	40.34	44.03	34.34
Operating Margin	10.82	8.89	15.07	11.59	9.69
Net Margin	7.38	4.21	11.62	9.82	9.55
Efficiency	67.14	66.59	66.11	54.71	74.72
Personnel Expenses Coverage	95.88	93.48	84.02	91.98	87.93

3 Carrying out Social Policies and Supporting Public Administration CAIXA Fácil Account

The CAIXA Fácil [Easy CAIXA] account, responsible for the inclusion of thousands of Brazilians in the banking system, reached, in the half year, 4.3 million accounts opened, showing 13.37% growth in relation to December 2005.

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Social interest and market housing programs

In compliance with the strategic guidelines in force, as far as the federal government's housing policy is concerned, which gives priority to serving the low income population, to reducing the housing deficit and the social and regional inequalities, and also to generating new jobs, CAIXA distributed, in the half year, budgets and targets relating to the various programs, with funds from FGTS, FAR, FDS, OGU, CAIXA and FAT - Housing.

Contracts entered into through the intermediary of the various housing programs showed an increase in the half year of 171%, in relation to the volume contracted in the same period of 2005.

As far as the programs backed with funds from the FGTS are concerned, intended for families with an income of up to R\$ 4,900.00 – with priority for the income band of up to 5 minimum salaries -, CAIXA contracted the amount of R\$ 4.07 billion in the quarter, including housing subsidies, benefiting roughly 204 thousand families all over the Brazilian territory and enabling the creation of 390 thousand new jobs. It should be emphasized that the programs with funds from the FGTS showed growth of 120% in the half year, in relation to the volume contracted in the same period of 2005.

The table below shows a summary of the housing contracts, by source of funds, under the auspices of all the programs run by CAIXA.

Source of Funds	Amounts in R\$ thousand / Number of units			
	Amounts contracted	Housing units	Population benefited	Jobs created
FGTS and Subsidies ⁽¹⁾	4,077,108	204,707	973,096	390,837
FAT	40,731	4,004	16,016	3,872
FAR / Residential Leasing	580,009	18,198	72,792	56,722
CAIXA ⁽²⁾	1,807,687	41,228	164,912	172,302
FDS / Joint Credit	40,397	2,004	8,016	3,851
Onlent from OGU ⁽³⁾	828,822	80,217	681,979	93,126
TOTAL	7,374,754	350,358	1,916,811	720,710

Notes: ⁽¹⁾ Includes PSH and Pro-Housing amounts; ⁽²⁾ Includes Construcard; ⁽³⁾ Relating to Housing (FNHIS).

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With regard to transactions with funds from the FGTS, in the first half of 2006, housing subsidies in the amount of R\$ 951 million were granted, with funds originating from the FGTS, which include subsidies intended to supplement the beneficiaries' purchasing capacity and to cover part of the financial costs arising from the financings.

Support for Urban Development

The National Cost and Civil Construction Indices Research System (SINAPI), developed by CAIXA, is used as an official benchmark for the purposes of analyzing the costs of the public works carried out with funds from the budget of the federal government, following the publication of Law 10524/2002 (LDO 2003). The CAIXA has agreements in force with 17 public administration bodies and entities to the effect of using data from the SINAPI, including the Federal Audit Court (TCU), the Comptroller-General's Office of the Federal Government (CGU), the Federal Revenue Secretariat (SRF), the Army, and, more recently, Infraero.

In the half year, CAIXA implanted the Database of the Mass Real Estate Evaluation System, to obtain and to make available indicators of the real estate market, in the areas of its greatest activity. The Mass Real Estate Evaluation System affords greater quality in the credit analyses that depend on information from the real estate market.

CAIXA has signed a contract with the Ministry of Culture to make finance feasible in 26 cities in the IDB Preservation Historical, Cultural Sites Program, which aims at the recovery of private property located in historical areas and whose budget for the 2005-2006 two-year period is R\$ 63 million. At the moment, the Program has operations contracted in the states of SC, RJ and RS, in the total of R\$ 1.1 million, and about 564 projects are now under analysis for contracting.

Sanitation and infrastructure programs

In the sanitation and infrastructure area, CAIXA's activity during the half year was concentrated on contracting credit transactions within the limit of R\$ 2.54 billion authorized by the National Monetary Council (CMN) for contracting credit transactions for entities from the public sector, an amount that takes into consideration:

- . R\$ 2.2 billion, intended for financing environment sanitation measures;

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- . R\$ 300 million, intended for financing environment sanitation measures for urban mobility
- . R\$ 40 million, intended for financing measures in modeling public services aimed at public-private partnership.

The work was concentrated on the 1st half year, because of compliance with the electoral law, which restricts the activity of public agents in the pre-electoral period, and particularly during the whole of the second half of this year, with state governments, prohibited for carrying out credit transactions in the period from July 1 to December 31 of the current year.

Worthy of highlighting is the participation of CAIXA Financial Agent in the authorized limit of R\$ 2.2 billion intended for financing environmental sanitation measures, of which CAIXA had formalized by the end of June 2006 the contracting of transactions in the amount of R\$ 853 million, using the Employees Indemnity Severance Fund (FGTS) as a source of funds.

In the provision of services of passing on international unremunerated funds, CAIXA carried out new contracting under the auspices of the PAT-PROSANEAR program, in the amount of R\$ 1.15 million, which uses funds originating from the International Bank for Reconstruction and Development (IBRD).

Technological Innovation in Urban Development

In the ambit of innovation and technology transfer measures in urban development, CAIXA has concluded the publication of a book that is part of the series “Technological Alternatives for environmental management: CEIVAP and the integrated management of the water resources of the Paraíba do Sul river basin”.

COPPETEC/UFRJ was contracted by CAIXA to prepare the textbook “Treatment of sewage in CAIXA housing developments”, which aims at relating the environmental legislation to the applicable technologies and processes in the control of pollution by sewage from the developments.

CAIXA participated in the preparation of the public notices for the HABITARE and PROSAB programs. Under the auspices of HABITARE, it selected 17 projects referring to the two thematic networks: “Science, technology and innovation for improving the quality and reducing costs of social interest housing” and “Development and dissemination of construction technologies for social interest housing”. The agreements signed between

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CAIXA and the Financier of Studies and Projects (FINEP) for the HABITARE and PROSAB programs will represent an injection of funds of R\$ 1 million and R\$ 1.4 million, respectively.

The Federal University of Rio Grande do Norte (UFRN), through the Rio Grande do Norte Research and Culture Foundation (FUNPEC), was contracted to prepare a sewage treatment technology transfer project, for application in housing developments produced or financed by CAIXA.

A protocol of intent was signed between CAIXA, the Social Service for Trade (SESC) and the Municipal Government of Niterói, in the State of Rio de Janeiro, with the objective of establishing conditions for liaison between the institutions, with a view to promoting the economic and social development of the resident community at the site. Amongst other measures, there are provisions for the implantation of a community development on Morro do Estado, under the auspices of the Social Technology Network (RTS).

CAIXA Hospitals

CAIXA towards meeting the immediate needs for working capital of philanthropic hospitals, by means of a credit transaction called CAIXA Hospitals. No In the half year, 152 transactions were contracted, reaching the amount of R\$ 183.7 million. Compared with the same period of 2005, the amount contracted grew 17.16%.

Support for public management

A Technical Cooperation Agreement between CAIXA and the Ministry for the Cities, with the purpose of implementing the National City Qualification Program, was renewed this half year. The objective is to create ways of qualifying and promoting integration amongst the technicians from CAIXA and from the municipalities. Workshops were organized, as well as seminars and courses all over Brazil, on themes relating to the Master Plan, the Multipurpose Technical Registry and the Qualification of Leaderships, amongst others.

Fiscal Instruments and Urban Policy seminars (RJ, PE, and DF), a Multiplier Training Course – Multipurpose Technical Registry (DF), and a Regional Technical Registry Seminar (SC) were held. The target public of the encounters is the municipal managers and technicians, professionals from the areas of architecture and urbanism, engineering, geography, law and other areas that work with urban territorial planning. Each encounter has about 100

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participants, and the themes discussed include: Multipurpose Territorial Technical Registry and urban development, real estate valuation, real estate taxation and financing.

Also, under the auspices of the agreement, joint qualification workshops were held in the area of housing and sanitation, for municipal and state managers and technicians; municipal and state housing and sanitation councilors; municipal and state legislative branches; trade associations, social movements and NGOs that act in the area of sanitation and urban development; technicians from the managements of CAIXA's Urban Development Support Branch.

A Technical Cooperation Agreement between the Secretariat for Institutional Relations of the Presidency of the Republic, CAIXA, the National Bank for Economic and Social Development (BNDES) and the Institute of Applied Economic Research (IPEA), which provides for the creation of the Federative Portal, was also signed this half year. The objective is to contribute towards the improvement of public management in Brazil, by making available information for the municipal managers relating to finance and public administration of the federal entities. The SIMBRASIL system will in future be made available on this Portal.

Onlending and transfer of funds from the General Federal Government Budget (OGU)

In the half year, 771 transactions were contracted, amounting to R\$ 1 billion and creating an estimated 225 thousand jobs. In the same period of 2005, contracts worth R\$ 13.84 million were entered into.

With regard to the disbursements on account of the onlending contracts previously signed, drawdowns in the amount of R\$ 484 million were made, an increase of 135.06 % over the same period of 2005.

Best Practices in Local Management Program

Under the auspices of the CAIXA Best Practices in Local Management Program, CAIXA held workshops with a focus on the following themes: Local Development, Social Interest Housing; Management of Water Resources and Urban Management. The objective is to disseminate knowledge about the best practices given awards by CAIXA and to inspire partners to adopt the solutions for similar problems. Representatives of 65 municipal government, 14 universities and 16 NGOs took part, from all the Brazilian states.

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CAIXA has also publicized the Brazilian experience abroad, by taking part, in June 2006, in the World Urban Forum 3, in Vancouver/Canada. In the presentations, the Best Practices with a focus on measures in social interest housing.

The 10 best experiences given awards by CAIXA, in 2005, were entered by CAIXA in UN/HABITAT's Best Practices and Local Leadership, to compete for the Dubai/Arab Emirates International Award.

Employees Indemnity Severance Fund (FGTS)

In the capacity of Operating Agent of the FGTS, CAIXA recorded, in the half year, the receipt of contributions to the fund in the amount of R\$ 17.8 billion, by means of 22 million payment slips. In relation to the same period of the previous year, the amount received showed a nominal growth of 13.2%.

11.6 million payments were made in the various modalities of withdrawals, totaling R\$ 14.4 billion. In comparison with the same period of the previous year, these figures proved 17.3% and 13.5% higher, respectively.

About R\$ 5.3 billion was injected into the economy in the form of disbursements referring to the installments of the finance contracts for works of housing, sanitation and urban infrastructure and discounts granted to low income families. In relation to the same period of 2005, this amount was 153.7% higher.

Through the intermediary of CAIXA, the FGTS contributed towards putting back in to circulation in the Brazilian economy the amount of R\$ 21.4 billion, including in this total the withdrawals made of the complementary credits. This total was 21.8% higher than the figure for the same period of the previous year.

Complementary Credits of the FGTS

Over 1 million complementary credits, arising from economic plans, were made to the blocked accounts of the FGTS, in the amount of R\$ 1.9 billion, and a total of R\$ 1.7 billion of this amount was withdrawn by workers that had already acquired this right.

Of the total of 122 million accounts with a right to complementary credits in the half year, 83.3 million credits were made, in the amount of R\$ 38.3 billion. Of this total of credits, about 57 million withdrawals were made, in a total of R\$ 30.0 billion.

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Salary Variations Compensation Fund (FCVS)

As an instrument of the government's social policy, the FCVS subsidizes the housing finance contracts of the National Housing System (SFH), when an economic imbalance occurs in them, brought about by the mismatch between the readjustment of the installments and the debit balances during the term of the contracts.

Of the contracts ratified, 42,335 originated from anticipated settlements, at a discount that varied between 12.5% and 100% of the respective debit balances. This benefited about 160 thousand citizens, whose families had the settlement of their finance confirmed.

In the half year, in the capacity of Administrator of this fund, CAIXA received the ratification of the FCVS of 19,814 contracts, in which the borrowers, using the benefits granted by Law 10150/2000, settled their financings with a discount of 100% of the debit balance.

Housing Insurance of the National Housing System (SH/SFH)

Housing Insurance is one of the instruments to protect the funds of the SFH, and the policy guarantees the housing transactions contracted, in the situations of death or permanent disability of the borrower and in the case of physical damage to the property financed under the auspices of this system.

Premium receipts processed in the half year amounted to R\$ 145.21 million, and the payment of claims added up to R\$ 189.13 million, which is equivalent to serving roughly 5.6 thousand families with properties physically repaired or settled in advanced, as a result of the death or permanent disability of the borrowers.

Joint Credit Program with Funds of the Social Development Fund (FDS)

The Social Development Fund (FDS) has funds in the order of R\$ 728 million to apply in housing finance aimed at the low income population. In the quarter, it directed part of these funds for application in the Joint Credit Program intended to serve families with an income of up to 3 minimum salaries.

The Joint Credit Program offers special subsidized conditions. It is the only housing finance in the market not to charge interest, and with the expenses of the administration fee, the balancing fee for the transaction and the fee for the risk of the financial agent borne by the Fund.

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With the objective of investing in the Joint Credit Program, the FDS contracted a loan in the amount of R\$ 150 million, and set aside another R\$ 30 million for the Guarantee Fund. In the half year, 2,004 housing units were built, benefiting 8,016 citizens in several Brazilian municipalities. These works created 3,851 jobs and made access to regular housing possible for several families, contributing towards their social inclusion.

Delegated services and income transfer programs

As operating agent of the Income Transfer and Delegated Services programs under the management of the federal government, CAIXA made about 85 million payments of social benefits in the half year. The volume of funds totaled R\$ 9 billion, which represents an increase of 17.05% in relation to the same period of the previous year, as evidenced in the following table:

Program	Number in units / Amounts in R\$ thousand			
	1 st half 2005		1 st half 2006	
	Number	Amount	Number	Amount
Income Transfer	88,771,103	3,090,288	70,353,223	3,396,121
Delegated Services	13,856,211	4,617,917	14,555,647	5,626,506
Total	102,627,314	7,708,205	84,908,870	9,022,627

With regard to the Income Transfer programs, represented by the Family Allowance, remaining programs (Food Allowance, School Allowance, Gas Allowance and Food Card), PETI, Young Agent, Crop Guarantee, Student Allowance, Back Home, Pro-Youth and Athlete Allowance, CAIXA made payment of 70.35 million benefits, totaling a volume of R\$ 3.39 billion, as shown in the following table:

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Program	Number in units / Amounts in R\$ thousand			
	1 st half 2005		1 st half 2006	
	Number	Amount	Number	Amount
Family Allowance	37,253,251	2,459,715	48,635,125	3,038,948
School Allowance	22,576,854	338,653	7,907,059	118,606
Food Allowance	330,488	4,957	97,261	1,459
Gas Allowance	26,833,957	201,255	11,812,292	88,592
PETI	772,564	31,922	641,513	25,648
Young Agent	17,501	1,138	15,915	1,034
Food Card	591,907	29,595	366,004	18,300
Student Allowance	265,122	7,954	7,695	231
Crop Harvest	122,848	13,506	551,726	65,953
Back Home	6,611	1,592	13,219	3,181
Pro-Youth	0	0	302,012	30,115
Athlete Allowance	0	0	3,402	4,054
Total	88,771,103	3,090,288	70,353,223	3,396,121

Following the guidelines of the federal government, the Family Allowance program, operated by CAIXA, surpassed in the half year the target defined for the program, making R\$ 682.2 million available to 11.2 million families benefited in all the Brazilian municipalities.

The reduction in the quantity of payments, in relation to the same period of the previous year, evidences the success of the strategy of unifying the Social Programs, considering that, with the migration of the various programs to the Family Allowance, there was a reduction in the payment transactions, although a considerable increase in the funds intended for the payment of the benefits, expanding their average value.

In accordance with the policy of integrating the social programs, the integration of the PETI program with the Family Allowance was finalized, representing the migration of 234.3 thousand families.

Payment was also made of 350.5 thousand benefits, to reach the amount of R\$ 10.4 million, referring to the operation of the 13 agreements integrating the Family Allowance with state and municipal programs. In other federal government Income Transfer programs, including Pro-Youth and Athlete Allowance, benefits were distributed to about 878 thousand citizens, representing a 122% increase in the volume of benefits paid in the same period of 2005.

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In providing the federal government's Delegated Services – Unemployment Insurance, Salary Bonus and PIS Earnings and Quotas – over R\$ 5.6 billion was paid in the half year, benefiting over 14.5 million workers with a right to these benefits, as shown below:

Program	Numbers in units / Amounts in R\$ thousand			
	1 st half 2005		1 st half 2006	
	Number	Amount	Number	Amount
Salary Bonus	859,915	242,697	819,155	270,442
PIS Earnings	1,553,497	29,082	1,494,822	57,374
PIS Quotas	277,119	231,237	253,701	221,121
Unemployment Insurance	11,165,680	4,114,901	11,988,169	5,051,521
Total	13,856,211	4,617,917	14,555,847	5,600,458

On June 30, 2006, the 2005/2006 financial period of the Salary Bonus program was closed off, with CAIXA having made payment to roughly 8.07 million workers, in a total of R\$ 2.38 billion, reaching the mark of 94.69% of the number of workers identified as having a right to the benefit and exceeding the percentage of the previous period, when 94.02% was recorded, a new record, for the 13th consecutive time.

Following the same 2005/2006 financial period calendar, the benefits of the Social Integration Program (PIS) were paid, as follows:

- . The earnings, to which access was afforded to roughly 1.49 million workers in the half year, totaling 14.37 million workers reached in the period, with amounts in excess of R\$ 531.52 million; and,
- . The quotas, in the half year, showed a volume of payments in the order of R\$ 221 million to 253.7 thousand participants in the program, totaling, in the course of the period, 541.1 thousand payments that added up to roughly R\$ 469.3 million.

Centralized registry

To attend to the federal government's income transfer programs, CAIXA manages the registration of the low income citizens by means of the Centralized Registry. In the half year, 1.8 million new families, beneficiaries of the income transfer social programs, were registered, bringing the total in the register of 17.5 million families, considering the migration of the School Allowance program's register to the federal government's Centralized Registry.

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Social Cards

To make feasible the payment of the benefits and social programs, CAIXA issued, in the half year, about 12.6 million cards. The increase recorded in the volume of cards, in relation to the same period of the past year, is due, in part, to fulfilling the target of 11.2 million families served by the Family Allowance Program.

Lottery administration

The products that make up CAIXA Lotteries raised the amount of R\$ 2.1 billion, which represents a 2.06% increase in relation to the same period of the previous year. Of this total, R\$ 999 million (47.53% of receipts, including income tax) was passed on to the federal government and to nongovernmental entities, to be invested in programs in the areas of education, culture, sport and security.

Destination of the receipts from the Federal Lotteries

Destination	Amounts in R\$ thousand	
	1 st half 2005	1 st half 2006
National Culture Fund (FNC)	59,055	60,297
Social Security	350,690	357,510
Higher Education Financing (FIES)	146,036	148,817
National Secretariat for Sports (SNE)	87,113	88,891
National Penitentiary Fund (FUNPEN)	61,881	63,148
Brazilian Olympic Committee (COB)	33,465	34,168
Brazilian Paralympic Committee (CPB)	5,906	6,030
Special Competitions (Red Cross, COB, CPB and APAE)	258	324
Football Clubs	3,331	3,627
Taxes	222,088	236,202
Total passed on	969,823	999,014
Net premium	692,523	696,895
Cost and maintenance expenses	397,095	405,881
Total receipts	2,059,441	2,101,790

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Student Financing Program (FIES)

The Student Financing Program (FIES) is a program of the Ministry of Education (MEC) created in 1999 to replace the former Educational Credit Program and intended to finance the graduation in higher education of students who are regularly matriculated in institutions that are not free, do not have the conditions to bear the costs of their education. By means of the FIES, the federal government seeks to attend to one of the basic prerogatives for the development of any nation; educational qualification, which results in citizens prepared to enter the increasingly more competitive labor market.

The amendments are the half-yearly renewals of the contracts of the FIES, mandatory for the maintenance of the financing. After a period of a decrease on the number of renewals in 2005, in comparison with 2004, due to the growth in the volume of terminations of contracts on conclusion of the courses, the volume of amendments returned to growth this half year, due to the new contracts signed in the last selection process.

Crop Guarantee Fund (FGS)

In December 2005, CAIXA took on the receipt of the contributions from the farmers in municipalities taking part in the Crop Guarantee program, an activity that came to join the financial management of the Crop Guarantee Fund (FGS) and the payment of the program's benefits.

In the half year, this represented an increase of about R\$ 35 million in the Fund's receipts, an amount that in the previous process would only be injected by the States in the 2nd half year, which increased the financial income earned by the FGS.

4 CAIXA service channels

The physical service network, present in all the Brazilian municipalities and abroad, at 6.30.2006 reached 18,317 points of service, and carried out 1,195.4 million banking transactions, distributed as follows:

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<u>Physical Network – Type of Unit</u>	<u>Number of Units</u>	<u>Number of Banking Transactions (in millions)</u>
Branches and Banking Service Stations - PAB	2,400	235.5
Electronic Service Stations - PAE	1,032	32.8
Banking Correspondents – Lottery Shops	8,861	547.5
Banking Correspondents – Others	4,071	31.0
Self-Service Halls	1,953	348.6
Totals	18,317	1,195.4

Of the 1.4 billion transactions processed in the Lottery Shops, 908.4 million were on account of the various lottery games and 547.5 million in banking services; for its social relevance, to be highlighted is the growing preference of the Brazilian population for this channel, for paying their electricity, water and telephone bills, as well as for receiving the federal government's benefits:

<u>Modalities of Transaction</u>	<u>Numbers in units / Amounts in R\$ thousand</u>	
	<u>Number</u>	<u>1st Half 2006 Amount</u>
Bank payment slips	96,592,307	13,201,531
Agreements	315,281,322	19,554,853
Withdrawals, deposits and bank queries	86,365,130	10,311,077
Social benefits	49,319,560	5,544,146
Total of Banking Services	547,588,319	48,611,607

The other banking correspondents, which make CAIXA's presence feasible in all the 5,564 Brazilian municipalities, recorded 31 million transactions, amongst which about 6.3 million payments of the various social benefits of the federal government.

With the expansion of the project to share the terminals of CAIXA and Banco do Brasil, the service is now available in 22 states: CAIXA offers 4,338 points of service, of which 3,775 in the lottery channel and 563 in Electronic Service Stations (PAEs), since Banco do Brasil offers 3,066 points of service. In the half year, 6.3 million transactions were carried out.

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Virtual service channels

The CAIXA portal on the Internet, <http://www.caixa.gov.br/>, received around 240 million accesses, by means of which 1.07 billion visits to its pages in the half year were observed. The highlight is the search for information on the FGTS (balance, statement and alteration of address, amongst others), with roughly 107.7 million accesses, including queries and transactions.

The telemarketing network made 18.8 million calls to Brazilian society, the major part of them involving the federal government's social programs.

5 Loan transactions

Granting commercial credit

In the half year, CAIXA expanded by 31.13% the volume of contracts entered into in commercial transactions, totaling R\$ 21.9 billion, while in the same period of 2005 it closed R\$ 16.7 billion.

The balance of the portfolios at June 2006 reflected an overall 14.3% interest in the total volume of the commercial loan transactions intended for individuals and businesses. There was R\$ 15.4 billion at June 30, 2006, and R\$ 13 billion at the same date in 2005.

The business portfolio recorded 14.79% growth in the period, increasing the market share from 1.69% to 1.94%, while loans to individuals fell from 9.73% to 8.52%, representing a 12.44% downturn.

Individuals

At June 30, 2006, the total balance of loans to individuals reached R\$ 9.4 billion, representing 13.48% growth in relation to the same period of 2005.

Contracts with individuals increased 17.3% in the first half of 2006, in comparison with the volumes contracted in the same period of 2005. To be highlighted is the growth of the Consignment, Construcard, Pawnbroking and Overdraft products, which together added up to R\$ 8.8 billion as an income generating balance in the position at June 30, representing 80.5% of the income generating balance of the loan portfolio.

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At the end of the half year, over 7.5 million transactions intended for individuals were recorded, in contracts that totaled R\$ 10.9 billion.

The fall in the market share was due mainly to the steep growth in the consignment credit market, which had an increase of 14.21% between December 2005 and June 2006, focused mainly on the credits intended for INSS pensioners and beneficiaries, while growth in CAIXA was 3.03% in the same period.

Businesses

In the half year, the volume of contracts entered into with businesses totaled R\$ 10.9 billion, representing growth of 48.6% in relation to the contracts of the same period of the previous year, which totaled R\$ 7.3 billion.

All the portfolios showed growth, but the short-term transactions recorded the largest percentage, in particular the “Discount” product, with a 60% increase in the contracts entered into and an increase from R\$ 2.7 billion to R\$ 4.3 billion in the accumulated figure for the first half year.

In this quarter, CAIXA once again registered a record in the balance of transactions with businesses, to reach R\$ 5.96 billion at June 30, which represents growth of 34%, compared with the balance of R\$ 4.5 billion recorded at June 2005.

Administration and recovery of credits

The renegotiations of commercial credit contracts in the half year were in the order of R\$ 113 million, for a quantity of 23,251 contracts, while in the same period of 2005 R\$ 67 million was renegotiated for 17,297 contracts; accordingly, an increase of in the order of 68.62% and 34.42% is to be seen, in relation to the value and to the number of contracts.

With regard to the amounts at sight, R\$ 317 million was recovered on overdues of more than 60 days, while in the same period of 2005, R\$ 178 million was recovered, which represents growth in the order of 78.23% in recoveries of nonperforming commercial credits.

With regard to the number of 149,439 contracts covering financings and/or loans of the housing portfolio, in the half year R\$ 2.2 billion returned to the ‘performing’ category, were

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renegotiated, or had the debt totally settled, making it possible for other citizens to access this credit.

16,616 housing finance contracts were renegotiated, with a total debt of R\$ 324 million, with a view to their realignment with the current situations and financial conditions of the customers, with an amount equivalent to R\$ 24 million being received at sight. The settlement of 38,357 contracts was also made feasible, the total debt of which, at the time of the settlements, was equivalent to the amount of R\$ 557 million.

Accordingly, with the return to the performing category of the commercial and housing credits, it was possible to increase the funds intended for new loans and/or financings, allowing the borrower of the credit not only access to new modalities of credit, but also the social inclusion of citizens in credit for the acquisition of consumer goods and/or property, as well as the creation of new jobs and income.

Management of credits with financial imbalance and linked to the FCVS

The half year closed with 610,122 contracts under management, on which the amounts received and passed on to the creditors totaled R\$ 995.5 million, generating an income of R\$ 146.4 million for the service rendered.

Measures to recover third party credits affected 28,525 contracts in the half year. Renegotiation of debts involved 4,400 contracts.

In the half year, 4,279 contracts were scheduled in the Reconciliation Hearings Project, involving housing credit lawsuits assigned to the Asset Management Company (EMGEA), with 2,061 agreements entered into and funds in the order of R\$ 35.5 million coming in; the percentage of agreements formalized was 48.2%.

The qualification of credits linked to the FCVS consists of a request to recognize the Financial Agent's expectation of the balance (the expected return of the credit). In the half year, 21,009 contracts in the amount of R\$ 621.2 million were qualified.

The credits are validated with the manifestation of the Financial Agent agreeing or not with the amounts that were ratified by the Administrator of the FCVS. The validated credits provide for the expected return, with novation with the National Treasury Secretariat. Upon formalization of the novation contract, the government securities for the Fund's debt

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securitization are issued. In the half year, 12,459 contracts were validated, in the amount of R\$ 343.8 million.

The ratification of the credits by the Fund makes it possible for the Financial Agent to release the mortgage over the property, through the issue and delivery to the taker of an official communication of settlement. The issue of the official communication of settlement for canceling the mortgage is carried out after a detailed examination of the contracts. In the quarter, 51,759 cancellations of mortgage encumbrances were carried out.

6 Funding and management of funds

Asset management

CAIXA closed the half year with 108 funds and portfolios under its management, of which 53 fixed income funds, 13 variable income funds, 1 real estate fund, 2 credit right funds, 6 social funds and 14 pension funds, besides 19 managed portfolios. In the period, 8 new investment funds were constituted, of which 1 structured fund, the SABESP Credit Rights Investment Fund (FIDC); 2 branch network funds, CAIXA FI Fixed Income Brazil Own Regime and CAIXA FIC Long-term Strategic Multimarket, and 5 exclusive funds, the CAIXA FI Mercúrio Fixed Income, the CAIXA FI SANEPAR I Fixed Income, the CAIXA FI Master Dollar FX, the CAIXA FI Master Long-Term Sovereign Fixed Income, and the CAIXA FI CERES Long-Term Multimarket.

In February, the CAIXA FI Brazil Own Regime RF was launched, to meet the demand on the national level for funds aimed at Pensions Institutes of States, Municipalities and the Federal District. In March, the SABESP I Credit Rights Investment Fund was constituted, and also in March the subscription period for quotas of the FIC FIDC CAIXA PACTUAL ended.

In April, the CAIXA FIC Long-Term Strategic Multimarket was launched, the first CAIXA fund with 100% of the resources invested in quotas of multimarket investment funds with foreign managers.

In the ranking of investment fund managers of the National Association of Investment Banks (ANBID), CAIXA recorded growth of 25.39% in the half year, going up from R\$ 39.65 billion in December 2005 to R\$ 49.72 billion in June 2006, higher than the 12.91% recorded by the rest of the funds industry, which went up from R\$ 687.65 billion in December 2005 to R\$ 776.40 billion in June 2006. In relation to December 2005, CAIXA expanded its market share

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from 5.45% to 6.02% in June 2006, consolidating itself in 4th place in ANBID's ranking of investment fund managers.

The total net equity under management, including investment funds and portfolios, showed growth of 19.90%, going up from R\$ 130.34 billion in December 2005 to R\$ 156.27 billion in June 2006. In relation to June 2005, when it was managing an equity of R\$ 113.49 billion, CAIXA recorded growth in the equity under management of 37.70%.

CAIXA's management of investment funds has been recognized and given awards in the 1st half of 2006 by the following publications: Guide to the Best Investment Funds - *Investidor Individual* magazine – March; Ranking of the Best Funds - *Agência Estado* – March; 17th Top Asset – Ranking of the Biggest and Most Focused – *Investidor Institucional* magazine – March; The Best Investment Funds and the Best Managers – *ValorInveste* magazine – April; The Funds with the Best Return and the Best Managers – *GazetaInvest* magazine – May; The Best Investment Options – *ISTOÉ DINHEIRO* magazine - May.

Transactions

Management reiterates its intention and financial capacity to hold to maturity the securities in the CAIXA portfolio classified in category III, as established by Article 8 of BACEN Circular 3068/2001.

In its activity in the interbank market in the first half of 2006, CAIXA acquired R\$ 10.03 billion in Federal Government Securities, as follows: R\$ 5.67 billion in the primary auctions (of which R\$ 2.46 billion in exchanges) and R\$ 4.36 billion in the secondary market. In the same period, R\$ 6.92 of Federal Government Securities matured and R\$ 11.29 billion was sold on the market, of which R\$ 2.46 in exchanges in the primary auctions and R\$ 8.83 billion in the secondary market.

The portfolio of Federal Government Securities as at June 30 showed a total balance of R\$ 90.93 billion.

Capital market and structured finance transactions

CAIXA took part in the consortium of banks responsible for the launch of the first Credit Rights Investment Fund for the sanitation sector. In the capacity of coordinating bank, it acted in the structuring and distribution of the senior quotas with the community of qualified investors, and is carrying on in the structure as the managing bank of the FIDC during all its existence, which is 60 months.

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The success of the structure set up is evidenced by the demand for the quotas on the part of the investors, exceeding the supply by three times. For a volume on offer of R\$ 250 million, the FIDC had a demand of R\$ 780 million, which brought about a reduction in the final rate of remuneration to be paid to the investors to CDI + 0.70 % p.a., against the initial proposal of CDI + 1.25 % p.a.

Accreditation with BACEN

CAIXA has been qualified as a primary dealer (one of the group of 12 institutions authorized to operate directly with the Central Bank's dealing room) since March 2002. In the half year, it was also qualified by the Brazilian Central Bank in the category of specialist dealer.

In the period, it intermediated the passing on of R\$ 27.82 billion in funds to other institutions, in its activity as a dealer.

Funding products

In the half year, the savings deposits showed a net negative funding of R\$ 645.4 million, ending the half year with a balance of R\$ 54 billion. In the period, there was a 1.82% increase in CAIXA's balance, which represents R\$ 970 million. As an incentive for increasing savings deposits, in January, CAIXA launched Tourism Savings, which has the objective of creating a new motivation for saving, by means of the raffling of travel packages.

CDB/RDB reached a volume of R\$ 14.9 billion, recording growth of 45.6% in relation to the balance of the same period of 2005, with net funding of R\$ 1.3 billion. The market share continues to grow, rising from 5.11% in June 2005 to 6.25% in June 2006.

Demand deposits, regarded as the entrance to and promoter of the expansion of the customer base, reached a total balance of R\$ 6.95 billion in June, representing growth in the order of 22.2%, when compared to the existing balance at the same period of 2005.

CAIXA International

CAIXA International is one axis of CAIXA's activity that is looking for a relationship with Brazilians abroad, providing the opening of accounts and remittances to Brazil. To do so, it operates the Remittance Program, by means of the e-Account of its partner banks (through agreements) and of the correspondent banks (*SWIFT*). In the half year, through the Remittance Program, CAIXA received a total of US\$ 16.1 million and paid the amount of R\$ 35.0 million in international remittances.

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By opening a simplified electronic account over the Internet, Brazilian citizens resident abroad that hold credit cards of the VISA brand can carry out transfers of their savings to Brazil, in an agile and secure manner and with low fees. CAIXA have a total of 3,976 e-accounts open that had a total turnover of R\$ 900.5 million in the half year.

The channels for remittances made available by CAIXA abroad had a total turnover of R\$ 35.9 million, showing a monthly average of R\$ 5.9 million, which represented 1.318% growth in relation to the average shown in the same period of 2005.

In order to strengthen the relationship with Brazilian resident abroad, in March CAIXA signed a partnership agreement with Iwata Shinkin Bank to send remittances originating in Japan, a market that has over three hundred thousand resident Brazilians. The Japanese bank now has attendants who speak the Portuguese language in two branches (Toshincho and Kamoe).

In this half year, it is worth pointing out that foreign currency cash services and dealing with remittances with businesses started.

Supporting the initiative of the federal government, under the coordination of the Ministry of Development, Industry and Foreign Trade (MDIC), the CAIXA has a presence and sponsored the Global Conference of the Organization for Economic Cooperation and Development (OECD) on “Best Financing for the Growth of Entrepreneurism and of Small and Medium Businesses” held in Brasilia, where the presence of delegations from as many as sixty six countries was recorded.

CAIXA took part in the 3rd World Urban Forum in Vancouver. On this occasion, with the Ministry for the Cities, it represented Brazil, affording global visibility for the actions implemented and the advanced occurred in Brazilian urban development.

In order to offer better visibility and to consolidate the role of CAIXA in the foreign scenario, CAIXA sponsored the 47th Annual Meeting of the Governors of the IDB and was present at the stand where there was a presentation of its work in Brazil and abroad, besides contacts with various banks and financial institutions from several countries. In parallel, CAIXA took part in the Annual Meeting of Latin American Bank Chief Executives” organized in Rio de Janeiro by the Institute of International Finance (IIF).

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7 Banking services and loyalty products

Banking services

CAIXA is also a highlight in the provision of banking services, offering society services in various modalities. In this half year, about 516.7 million transactions were carried out, involving R\$ 104.7 billion in salary credits, bank collections, tax receipts, social security (GPS) and public utility payment forms and payments of INSS benefits, amongst others.

Services	Numbers in thousands / Amounts in R\$ thousand			
	1 st Half 2005		1 st Half 2006	
	Number	Amount	Number	Amount
Receipts for public utilities	301,116	37,829,488	291,777	19,602,174
Receipt of taxes	31,286	10,078,660	29,784	10,037,839
Receipt of FGTS	9,833	6,084,324	9,519	6,503,518
Bank Collection	86,658	23,722,494	86,210	27,980,362
Payroll	9,823	9,353,716	19,577	19,687,787
Sundry Receipts	48,082	2,193,675	43,190	5,303,377
GPS Receipt	15,577	4,466,650	15,394	5,031,659
Payments of INSS Benefits	19,776	9,087,474	21,214	10,555,726
Total	522,151	102,816,481	516,665	104,702,442

The item "Receipt of Taxes" is made up of the documents collected for the three spheres of government: federal, state and municipal.

Social Security for States and Municipalities (PEM CAIXA)

In compliance with the federal government policy of carrying out a sustainable adjustment in public accounts, CAIXA provided, in the segment of social security for states and municipalities, services in structuring or restructuring specific social security regimes, with the objective of ensuring their solvency in the long term, notably in the light of the new legal benchmark brought by the Social Security Reform. In the half year, CAIXA signed consultancy contracts for Specific Social Security Regimes in 3 states, 2 capitals and 90 municipalities, showing 255 growth in the portfolio in relation to the same period of the previous year, and contributing towards guaranteeing the payment of the social security benefits of about 247 thousand insured persons, amongst servants on active service, inactive servants and pensioners.

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CAIXA SEGUROS Group

CAIXA offers in its branch network the insurance, private pension plan and capitalization products and the real estate consortium of associated company Caixa Seguradora S/A, with a view to expanding the portfolio of products offered and meeting the needs of its customers.

The positive performance shown by Caixa Seguradora, as in the 1st quarter of this year, continues to be sustained by the performance of the CAIXA Residential Insurance product, the receipts of which, in relation to the 1st half of 2005, represent an increase in the order of 146%.

Products	Numbers in units / Amounts in R\$ thousand			
	1 st Half 2005		1 st Half 2006	
	Number Sold	Amount	Number Sold	Amount
Private Pension Plans*	93,744	367,131	538,428	535,813
Capitalization	2,316,415	182,641	626,886	138,420
Insurance	970,057	82,467	1,032,197	143,467
Real Estate Consortium	23,584	1,121,030	30,310	1,489,827
Total	3,403,800	1,753,269	2,227,821	2,307,527

(*) The quantity in Private Pension Plans refers to the stock.

Card Administration – Credit and Debit

CAIXA closed the half year with 2.95 million credit cards, representing 26% growth in relation to the same period of 2005. 33.4 million transactions were carried out, totaling R\$ 2.6 billion.

CAIXA's debit card base, with the MasterCard Maestro and VISA Electron brands, in the half year, totaled 39.60 million cards, 13.41% more than in the same period of 2005. The total of electronic transactions grew 32.14%, reaching 68 million transactions in the period. The volume transacted in the period was 34.19% larger than in the first half of 2005.

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8 Personnel management

At the end of the half year, CAIXA had the following workforce:

Workers	Numbers in units	
	1st Half 2005	1st Half 2006
Employees admitted after entrance exam	62,293	69,938
Trainees	11,601	11,822
Service providers	23,673	15,904
Minors	3	-
Adolescent apprentices	3,191	3,277
Totals	100,761	100,941

The table below evidences the priority granted to the measures to qualify its workers, in particular as far as concerns the competences necessary for offering a qualified service to its customers.

Activity	Numbers in units	
	1st Half 2005	1st Half 2006
Courses at the Corporate University	91,695	94,173
Professional and Academic Postgraduate Studies	27	37
Higher Education	27	325
Workshops and seminars	4,355	3,948
Total	96,104	98,483

The CAIXA Health Program made it feasible to offer qualified services to 227,632 beneficiaries, including employees and their dependents.

Amongst the initiatives relating to the Quality of Life Program, worth highlighting are:

- . Anti-flu vaccination campaign with the application of 32,571 doses for employees, 712 for adolescent apprentices and 330 retired persons;
- . Internal Prevention of Accidents at Work Week (SIPAT), on the theme “Diversity. The Difference that makes the Difference”; and
- . Workplace Exercise – An activity carried out in 143 units of the company.

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9 Risk management

CAIXA instituted its Policy on Risk, establishing guidelines, principles, premisses and orientating values for risk management, in conformity with its strategies, with the current legislation and with the good corporate governance practices. Procedures, rules and exposure limits were defined that allow the assessment of risk levels as a result of the company's strategic positioning.

With a view to attending to the New Basel Accord, CAIXA has consolidated the operational risk data from its units, obtained by means of the Operational Risk Inventory, and has validated database of losses arising from operational risk. The level of operational risk is now being advised to the Committees and Councils, for mitigating actions to be defined.

New models of value at risk and stress tests based on historical scenarios have been implanted, besides a methodology for measuring market risk for liability transactions without a defined maturity and the establishment of market risk indicators for managing assets and liabilities.

In the half year, to meet the growth in the demand for credit, it implanted and perfected automatic assessment routines, which resulted in 40.5 million risk assessments for the purposes of granting of commercial and real estate credit, while in the same period of 2005 the figure was 23.7 million, which represents a 71% increase in the number of credit risk assessments.

In view of the growing performance in the granting of credits, CAIXA adopted measures to maintain the quality of its portfolios and to preserve the forecasted economic-financial results, which resulted in a great level of activity of the institution and the consequent creation of benefits for society.

To guarantee effectiveness in risk management, CAIXA also promoted the adequacy of the risk management models as to the results expected, the sufficiency of documentation and the preservation of intellectual capital, by means of constant monitoring of the risk in modeling.

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10 Governance and corporate sustainability

Structure of governance

All the levels of authority instituted by CAIXA's Bylaws, approved by Decree 5056 of 4/29/04 and available on www.caixa.gov.br, have now been installed and are operating normally.

CAIXA's overall orientation on business is provided by the Board of Directors.

CAIXA's strategic decisions are taken collectively, by means of the Management Board, and their execution is coordinated by the Executive Board. The accompaniment and control of the company's actions are performed by the following levels of authority: Ministry of Finance, Central Bank, State-Owned Companies Coordination and Control Department, Federal Audit Court, Comptroller-General's Office of the Federal Government, Public Attorney's Office of the Federal Government and, by means of requirements and information, the National Congress.

CAIXA has committees, commissions and councils that take tactical, operational and administrative decisions: Ethics Commission; Credit Commission; Head Office Credit and Renegotiation Committee; Audit Committee; Strategic Funding and Investment Committee; Strategic Funds Management, Programs and Services Delegated by the Federal Government Committee; Strategic Asset Management Committee; Purchasing and Contracting Committee; Risk Committee; Prevention of Money Laundering Crimes Committee; Business Security Council; Disciplinary Councils; Head Office Structured Operations Credit Risk Rating Committee; and SAÚDE CAIXA Users Council.

To fulfill its role as an instrument of public policies and to provide leverage for credit in the economy, CAIXA is making progress in the implementation of a consistent structure of corporate governance, with the adoption of a set of practices that ensures Senior Management the construction of a process focused on corporate sustainability, fostering management with social responsibility and creation of value for society.

Transparency and conformity practices

The company's operational and economic-financial performance in 2005, broadcast publicly by means of its financial statements, were also once again the object of presentations to the directors and associates of the Association of Capital market Investment Analysts and Professionals (APIMEC) and Brazilian Association of Capital Market Analysts (ABAMEC), in Rio de Janeiro, Federal District, Belo Horizonte, São Paulo, Porto Alegre, Fortaleza,

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Uberlândia and Juiz de Fora; these were characterized by an expansion in the scope of the presentations, with more involvement and debates, also, with CAIXA customers connected with the segments of states and municipalities, companies, trade associations, universities and NGOs, invited to take part in the events.

Internal Control System

New methodologies and control tools were implemented, mechanisms for the standardization of corporate normalization consolidated, and instruments for monitoring processes, activities, transactions and norms instituted. A review was also put into effect of the methodology for evaluating controls, which now acts not only on their analysis, but from the construction to the final implementation of any needs for adjustment identified.

New normative standards were also defined that consolidate the principle of the salutary standard, that is, the publication of clear, objective, timely and applicable internal norms, which make the operationalization of business simple and agile. A structuring measure that strengthens business environment and consequently favors the leverage of the operational results.

In March 2006, CAIXA's Board of Directors approved the Internal Control Policy (PCI), made up of premisses and principles that will orientate all the levels of organizational management in taking decisions in relation to internal controls. The definition of the PCI was one more action in line with the good practices of Corporate Governance, and it aims at ensuring the effectiveness of the Internal Control System (SCI).

Prevention of Money Laundering

Discussion has started with the Financial Services Agency (FSA), which regulates banking activities in Japan, for a partnership in the Prevention of Money Laundering in the remittances of currency to Brazil by Brazilian residents in Japan, following an agreement entered into in the period with Iwata Shinkin Bank.

In the half year, CAIXA received a delegation from the Central Bank of Angola, and, in the name of the Brazilian government, offered technical cooperation on the national model for acting in the Prevention of Money Laundering. CAIXA passed on knowledge and explanations about the legislation that regulates the matter.

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11 Social Responsibility

CAIXA Zero Hunger Project

Created in 2003, the CAIXA Zero Hunger project brings together the institution's efforts to take part in the struggle of the government and society in fighting hunger and poverty, as a way of guaranteeing Brazilians the full exercise of citizenship and their rights.

The initiatives of the CAIXA Zero Hunger Project covers five fronts of work – supporting the Fund for Fighting and Eradicating Poverty, guaranteeing basic civil documentation, guaranteeing the rights of children and adolescents, supporting libraries and encouraging reading, and social assistance.

CAIXA publicizes messages encouraging financial donations to the Fund for Fighting and Eradicating Poverty in the electronic service channels of the branches and lottery network. This action contributed towards raising R\$ 115.5 thousand in favor of the Fund. The support for the federal government's Zero Hunger Program includes the donation of 50% of the management fee of the CAIXA FIC Zero Hunger Short Term investment fund – which meant funds of R\$ 124.2 in the half year.

For the third consecutive year, the "Women's Week" institutional action was promoted, in commemoration of the International Women's Day, which resulted in the free issue of 239 thousand CPFs for women from all over the country. Also, in partnership with the National Program for Documentation of the Rural Woman Worker, coordinated by the Ministry of Agrarian Development (MDA) and by INCRA, took part in 16 traveling joint efforts in the first half of 2006, benefiting 1,927 rural workers with the free issue of a CPF.

CAIXA promoted the "With your help, missing someone can come to an end" campaign, with the distribution of posters and folders with photos of disappeared persons and disclosure of the telephone number and Internet page of RedeSap on the self-service terminals of all the branches and lottery network.

In the half year, 11.2 million fractions of Federal Lottery tickets were sold in over 9,000 lottery outlets distributed from the north of the country to the south, with the publication of 50 photos of disappeared children and adolescents, in an effort of nationwide coverage to look for and to locate these persons.

The "Hunger for Reading" campaign received 47,421 books that were donated to 211 reading rooms and community libraries located in 78 municipalities from 23 states.

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The “Warming Hearts” warm clothing campaign, which was run in June 2006, mobilized 437 volunteers in 52 municipalities in 17 states. The campaign brought in 29,771 items of clothing, blankets and shoes, benefiting 100 entities and 9,690 needy persons.

Sports sponsorships

CAIXA’s investment in Brazilian sport, as the implementer of public policies, has as its main objective development and social inclusion, as well as the promotion of the quality of life of the employees.

Athletics adds important social values to the set of principles that sustain CAIXA’s corporate image, strengthening its social and cultural activity, fostering citizenship and the main implementer of the federal government’s social policies, since sport, and athletics in particular, for its undeniable popular appeal, are important factors for recovering youngsters in a situation of risk.

For 206, the renewal of the contract with the Brazilian Athletics Confederation (CBAt) was carried out, in the amount of R\$ 9 million, for the period from January to December 2006.

The main events of the official 2006 calendar of the CBAt held in the half year were: CAIXA Rio Grande do Sul Athletics Meeting; Belém Grand Prix; Fortaleza South American GP; Rio de Janeiro GP; Super 40 Relay Race; São Paulo International Marathon XII; CAIXA Little Marathon Circuit; CAIXA Race Circuit; 3rd CAIXA Run Round the Lake; DescalSOS Club Project; and Londrina 2006 Athletics Project.

In 2006, CAIXA Lotteries is investing R\$ 3.8 million in the sponsorship of the Brazilian Paralympic Committee, making it possible to hold the CAIXA Lotteries Brazil Paralympic Committee in 4 stages, and the CAIXA Lotteries High Level Athletes Program, which this year makes it possible to offer scholarships to 15 athletes, three times more than in 2005.

The World Wheelchair Tennis Championship received sponsorship from CAIXA Lotteries in the amount of R\$ 610 thousand, involving everything from the reception and accreditation of the players to holding all the stages of the World Championship and events, workshops, actions with students, seminars, wheelchair tennis clinics and courses for instructors, and besides the organization of the Annual Assembly of the IWTA (International Wheelchair Tennis Association), of the ProAm (*UP & DOWN*) Tournament.

CAIXA has entered into an unprecedented sponsorship for the Brazilian Gymnastics Confederation (CBG), which covers the period from May 2006 to July 2007, in the amount of R\$ 1.8 million, involving the men’s and women’s Brazilian gymnastics teams. The social

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benefit promoted by the sponsorship is the continuity of the development of Brazilian gymnastics, with a view to contributing towards the strengthening of this culture in Brazilian social and economic development, whether by means of projects for new institutional and financial arrangements, or by supporting the implantation of the CBG's programs and projects.

Events and sponsorships

Amongst the events and sponsorships promoted by June 2006, also worthy of highlighting are CAIXA's participations in the International Conference of the Organization for Economic Cooperation and Development (OECD); Cancer Hospital Social Project - Right to Live CD 6; 47th Annual Meeting of the Governors of the Inter-American Development Bank (IBD); 40th National Social Security Congress; International Seminar on Federalism and Development and Course on Local and Regional Development I; National Conference – 2nd Stage – 4th Brazilian Social Week; 13th FEICOOP – Mercosur's Cooperativism/Joint Economy Fair; World's Biggest St. Johns Festival – Campina Grande; São João de Caruaru 2006; ABF Franchising Expo 2006; Tourism Hall – Routes in Brazil 2006; Greenmeeting; Industry Congress; National Forum 2006 – The True Brazilian Revolution; and the Brasilia March IX in Defense of the Municipalities.

Sociocultural and marketing activities

CAIXA's model for acting in the cultural area has been based on support for cultural events held in its five Cultural Spaces and in spaces of third parties in different localities in Brazil, with a priority focus on the visual arts, theater and dance.

Promoting free access for the population to quality events and cultural projects with a nationwide repercussion, CAIXA is reaffirming itself as an institution focused not only on valuing cultural diversity, but also on recovering, publicizing and supporting Brazilian artistic production and its plurality of manifestations, and on stimulating regional art, contributing towards social inclusion and development in the country.

Amongst the cultural projects of greater importance in the second quarter of 2006, the highlights are the following: Exhibition "Babinski – Drawings, Engravings and Watercolors"; CAIXA Reading – Memory of the Theater in São Paulo: Culture of the Image in Contemporary Society – The Role of Photography; Exhibition "Creation Today", by Pietrina Checacci; Exhibition and Show "Elza in the arms of Sampa"; Exhibition "Strokes from the CAIXA Collection"; Introduction to the History of Art of the 20th Century – 2nd Group; Theater: Urban Visions – Dialogs of the Body with the City; Exhibition "Words and Works", by Bené

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Fonteles; *Chorinho* in CAIXA; Theatrical Spectacle “Tauromachy”; Theatrical Spectacle “A Scene for Lorca”; Exhibition “Beyond the Wall”; Theatrical Spectacle “Thud”; Spectacle “Theater two hundred years hence”; Theatrical Spectacle “The Imaginary Invalid”; Exhibition “The Lines of the Horizon in the CAIXA Collection”; Exhibition “Manfred”; Sound of the City 2006/2007; Dance Spectacle “The Exercise of Don Quijote”; and Always a Chat.

The half year was marked by total visibility of the CAIXA brand. Amongst the various actions of external communication, we highlight the main campaigns published in the media: Cards; Credit for Businesses; Credit for Individuals: Housing; and CAIXA Lotteries.

Customer service (SAC)

During the half year, CAIXA received 1,437 complaints from customers originating from the Central Bank. When compared to the same period of 2005, there was a 5.1% increase in the number recorded. The reason for the highest number of complaints from customers and users with the Central Bank was contested entries and withdrawals in current account.

With Procon, 424 complaints were recorded, 113.1% more than in the first half of 2005. The reason for the highest number of complaints was contested entries and withdrawals in current account.

The external Ombudsman received 110.7 thousand occurrences in the half year, 53.8% more, when compared to the same period of the previous year. Of the total of manifestations, 92.2% corresponded to complaints. Next came praises and suggestions, which were equivalent to 3.5% and 2.7% respectively. Together, requests and denouncements added up to 0.9% of the occurrences.

22.8 thousand occurrences were received by the internal Ombudsman (VIVA VOZ) this half year. This represents a 6.9% increase in relation to 2005.

Complaints corresponded to 68.3% of the occurrences recorded in the channel. Next, suggestions appear, with 27.6% of the total. Added together, praises and denouncements amounted to 4.1%.

This quarter, the Central Bank published a report, with the purpose of evaluating the performance of the banking institutions in relation to the structure and quality of their customer service, as well as their commitment to the subject. This document indicated five positive points in CAIXA's work, three of them relating to the work of the Ombudsman (Positioning of the Ombudsman as a representative of the customer, Traveling Ombudsman,

Caixa Econômica Federal – CEF

Management Report

and Ombudsman's Annual Report). The other points referred to the expansion of the service network and internal audit related to service.

Representing CAIXA's presidency, the Ombudsman took part in the National Seminar I on Diversity in Banks, in Curitiba – PR, promoted by CONTRAF-CUT, FETEC-CUT/PR and SEEB Curitiba. With the theme Caixa Econômica Federal's Gender Equity Program, the Ombudsman's talk was part of the "Experience of the Banks in Relation to the Promotion of Diversity" panel.

Program to rationalize expenditure and eliminate waste (PROGED)

Created to provide permanent adequacy of the bank's level of administrative expenditure to its real capacity for generating operating revenues, PROGED's target for this year is to make it feasible to contain spending and eliminate waste, in the amount of R\$ 250 million. From January to June, savings of R\$ 165.9 million were achieved with actions and projects carried out under the auspices of the PROGED, which corresponds to 66.3% of the target stipulated for the year.

Since its creation, the Program has now recorded savings in the order of R\$ 1.4 billion.

12 Information technology

Information security

In partnership with the Presidency of the Republic, the "Information Security Program" is now at the implementation stage. It has the objective of implanting a culture of security, to ensure the secrecy of information and the interests of the company.

Digital inclusion

The process of donating CAIXA's unserviceable computers has attended to several of the government's digital inclusion programs, such as the program for creating Information and Business Telecenters, of the Ministry of Development, Industry and Foreign Trade; this half year, the percentage of the total of computers removed from the IT installation amounted to 76%.

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Management Report

Internalization of lotteries

This half year, over 4,550 lottery outlets were installed, with over 11,500 active terminals; in the last month, these outlets received over 34 bets on games and 19 million non-games, accounting for over 30% of the total volume of the lottery channel and on some days exceeding 50% of the total volume.

Technological systems

Amongst other implantations of technological systems development, the following are worthy of highlighting:

- . DATACENTER Project – In April, CAIXA signed up for the DATACENTER Operational Consortium, together with Banco do Brasil. The Consortium aims at constructing an environment that will guarantee the banks high availability and business continuity;
- . Family Allowance – Processing of over 60 million records in the Centralized Registry used for the Family Allowance program;
- . Benefits for the Citizen System (SIBEC) – Inclusion in June of 2 million new families in the Family Allowance program, exceeding the federal government's target of 11.1 million families benefited by the Program;
- . School Attendance;
- . Citizen's Card System (SICID) – Implementation of a new modality for delivering social cards, which makes it possible to send them to the citizen's address;
- . PIS and Salary Bonus Payment System (SIPAB);
- . Company Control System in the ambit of the FGTS (SIFGE);
- . Pawnbroking System (SIPEN) – Delivery of the tender modality of Pawnbroking;
- . International Payment Orders for Businesses – Implanted in the SIMEX system the possibility of receiving International Payment Orders for Businesses;
- . BACEN Credit Information System (SIBCN) – Making available, in a restricted manner, to CAIXA's credit systems, a database containing customer credit information, supplied by BACEN, as well as making it feasible to consult credit information in customers of other financial institutions directly on the BACEN database;
- . CAIXA Internet Banking – Payment using bar codes implemented, putting Internet Banking on an equal footing with the market with this functionality and improving security in CAIXA Internet Banking;

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Management Report

- . GovCAIXA – Implementation in April 2006 of the GovPrint tool, for local printing, by the states and municipalities themselves, of statements for a period of up to 5 years.

13 Acknowledgments

The results now reported reflect the professional posture and commitment of the employees and other partners to complying with CAIXA's guidelines. More than this, they come from the dedication of those who believe that the CAIXA's work is a fulcrum for the country's development.

Report of Independent Auditors

To the Board of Directors and Stockholders
Caixa Econômica Federal - CAIXA

- 1 We have audited the balance sheet of Caixa Econômica Federal - CAIXA as of June 30, 2006, and the related statements of income, of changes in stockholders' equity and of changes in financial position for the six-month period then ended. These financial statements are the responsibility of CAIXA's management. Our responsibility is to express an opinion on these financial statements.
- 2 Except for the matter described in the following paragraph, we conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of CAIXA, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 As mentioned in Note 21 (a) to the financial statements, CAIXA is the sponsor of a defined contribution benefit plan REG/REPLAN of the Fundação dos Economiários Federais (CAIXA Employees Foundation) - FUNCEF, which is currently under review and adaptation to new criteria and conditions, including the possibility of the transfer of the participants to a new defined contribution plan, which is estimated to be concluded by the end of 2006. In this context, CAIXA has not yet carried out the studies and calculations required by Accounting Standard and Procedure (NPC) 26 of The Institute of Independent Auditors of Brazil (IBRACON), which determines specific criteria for calculating the costs to provide benefits to employees of sponsors of a private pension fund of a defined benefit nature. Accordingly, we were unable to conclude as to the effects on the financial statements of CAIXA arising from the application of this standard.

- 4 In our opinion, except for the effects of possible adjustments that may arise from the matter mentioned in the preceding paragraph, the financial statements audited by us present fairly, in all material respects, the financial position of Caixa Econômica Federal - CAIXA at June 30, 2006, and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the six-month period then ended, in accordance with accounting practices adopted in Brazil.
- 5 Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The statement of cash flows in Note 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.
- 6 As described in Note 18 (a) to the financial statements, at June 30, 2006 CAIXA had R\$ 8,598 million of income tax and social contribution on net income credits calculated on tax losses, temporary differences and social contribution for offset, and a valuation allowance for the realization of these credits of R\$ 7,229 million. The net amount of R\$ 1,369 million, recorded as an asset, is management's estimate of the realization expected in the following years. The amount to be used for tax offset purposes in the future is subject to the generation of taxable income and may vary from the current management estimate.
- 7 As described in Note 1 to the financial statements, the financial and economic management of CAIXA is considered within the decisions of the Federal Government. In this context, as described in Note 6, CAIXA has credits receivable from the Salary Variation Compensation Fund (FCVS) of R\$ 24,427 million. Housing loans already signed with coverage of the FCVS, but awaiting approval, amount to R\$ 7,078 million and their effective realization depends on the adherence to a set of rules and procedures defined in regulations issued by the FCVS. CAIXA established criteria to estimate the losses arising from transactions that do not comply with these rules and recorded a provision therefor of R\$ 3,292 million. The realization of the credits relating to housing loans already approved by the FCVS, in the net amount of R\$ 16,501 million, is subject to a securitization process, as prescribed by Law 10150/00.

- 8 As described in Note 20 (c), CAIXA was assessed R\$ 10,916 million by the Federal Revenue authorities on the allegation of underpayments and improper offsets of Social Integration Program/Public Service Employee Savings Program (PIS/PASEP) contributions, on which it recorded a provision of R\$ 670 million. Also, CAIXA was assessed R\$ 1,172 million by inspectors from the National Institute of Social Security (INSS), claiming non-payment of social security contributions on certain payments made to its employees, on which a provision of R\$ 220 million was recorded. Based on the opinion of its legal and tax advisors, CAIXA believes that it is not necessary to record additional provisions for contingencies related to these matters.
- 9 The financial statements at June 30, 2005, presented for comparison purposes, were audited by other independent auditors who issued an unqualified opinion thereon dated August 5, 2005, with paragraphs of emphasis relating to: (i) the realization of credits receivable from the Salary Variation Compensation Fund (FCVS) of R\$ 22,829 million; (ii) the realization and maintenance of income tax and social contribution on net income credits in the net amount of R\$ 1,544 million, subject to the generation of future taxable income; (iii) the assessment by the INSS claiming non-payment of the social security contributions on certain payments made to employees, and on the assessment of the Federal Revenue authorities alleging underpayments of PIS/PASEP contributions.

Brasília, August 17, 2006

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" DF

Paulo Sergio Miron
Contador CRC 1SP173647/O-5 "S" DF

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Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

Assets	<u>2006</u>	<u>2005</u>
Current Assets	105,925,551	95,281,516
Cash And Cash Equivalents	<u>1,252,471</u>	<u>741,945</u>
Short-Term Interbank Investments		
Money market investments	<u>15,301,430</u>	<u>8,730,300</u>
	<u>15,301,430</u>	<u>8,730,300</u>
Securities And Derivative Financial Instruments (Note 5)		
Own portfolio	25,609,937	33,737,503
Subject to repurchase agreements	18,982,183	12,992,347
Deposits with the Brazilian Central Bank	39,176	1,224,925
Pledged in guarantee	22	200,744
Subject to repurchase agreements but can be traded freely	499,940	
Derivative financial instruments (Note 5(e))	<u>88,784</u>	<u>51,814</u>
	<u>45,220,042</u>	<u>48,207,333</u>
Interbank Accounts (Note 6)		
Payments and receipts pending settlement	602,621	736,523
Restricted deposits - Brazilian Central Bank deposits (Note 6(a))	20,171,100	18,076,817
Correspondent banks	<u>96,654</u>	<u>72,915</u>
	<u>20,870,375</u>	<u>18,886,255</u>
Interdepartmental Accounts		
Third party funds in transit	97	192
Internal transfers of funds	<u>55,309</u>	<u>137,837</u>
	<u>55,406</u>	<u>138,029</u>
Loan Operations (Note 7)		
Loans, bills discounted and financing	11,549,860	10,607,577
Real estate financing	5,689,135	3,832,623
Allowance for loan losses	<u>(2,154,852)</u>	<u>(1,434,273)</u>
	<u>15,084,143</u>	<u>13,005,927</u>

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

(continued)

Other Receivables (Note 8)		
Receivables from guarantees honored	13,995	16,959
Foreign exchange portfolio	5,699	1,176
Income receivable (Note 8(a))	1,011,355	855,497
Negotiation and intermediation of securities		2
Specific credits	79,590	29,610
Sundry (Note 8(b))	6,061,197	3,663,906
Provision for other losses (Note 8(c))	(60,331)	(54,366)
	7,111,505	4,512,784
Other assets (Note 9)		
Other assets	1,214,977	1,152,597
Provision for losses	(297,519)	(265,146)
Prepaid expenses	112,721	171,492
	1,030,179	1,058,943
Long-term receivables	91,521,564	69,454,327
Securities and derivative financial instruments (Note 5)		
Own portfolio	37,443,165	28,722,383
Subject to repurchase agreements	6,730,720	2,638,780
Deposits with the Brazilian Central Bank	1,996,314	
Pledged in guarantee	405,213	
	46,575,412	31,361,163
Interbank accounts		
SFH - National Housing System (Note 6(b))	20,552,023	18,771,531
	20,552,023	18,771,531
Loan operations (Note 7)		
Loans, bills discounted and financing	5,076,629	3,370,567
Real estate financing	17,710,215	14,361,005
Infrastructure and development financing	1,996,821	1,336,541
Allowance for loan losses	(2,269,709)	(1,889,310)
	22,513,956	17,178,803

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

(continued)

Other receivables (Note 8)		
Income receivable (Note 8(a))	271,041	292,718
Sundry (Note 8(b))	2,188,869	2,421,073
Provision for other losses (Note 8(c))	(579,737)	(570,961)
	1,880,173	2,142,830
Permanent assets	2,104,843	2,225,083
Investments		
Investments in subsidiary and associated companies	482,951	467,124
. Domestic (Note 10 (a))	469,767	449,899
. Foreign	13,184	17,225
Other investments	54,451	23,523
Provision for loss	(11,082)	(11,077)
	526,320	479,570
Property and equipment (Note 10(b))		
Properties in use	208,508	209,728
Revaluations of properties in use	574,837	574,346
Other property and equipment in use	2,026,936	1,867,511
Accumulated depreciation	(1,429,941)	(1,190,653)
	1,380,340	1,460,932
Deferred charges (Note 10(c))		
Organization and expansion costs	979,083	979,638
Accumulated amortization	(780,900)	(695,057)
	198,183	284,581
Total	199,551,958	166,960,926

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

(continued)

Liabilities and Stockholders' Equity	2006	2005
Current liabilities	165,050,068	136,684,567
Deposits (Note 11)		
Demand deposits	7,215,839	5,974,866
Savings deposits	54,384,115	50,173,393
Time deposits	42,635,367	36,217,494
Special deposits and deposits of funds and programs (Note 11(b))	7,622,418	6,846,629
Other deposits	42,090	59,580
	111,899,829	99,271,962
Deposits Received Under Security Repurchase Agreements (Note 11)		
Own portfolio	25,688,761	15,611,768
Third party portfolio	1,670,994	6,880,797
Portfolio which can be freely traded	8,585,637	
	35,945,392	22,492,565
Funds from Acceptances And Issue Of Securities (Note 12)		
Mortgage notes	111,831	778,839
Real estate credit notes	172,213	220,730
	284,044	999,569
Interbank Accounts		
Receipts and payments pending settlement	585,519	482,468
Correspondent banks	1,413	68
	586,932	482,536
Interdepartmental Accounts		
Third party funds in transit	152,478	125,101
Internal transfers of funds	44,187	64,181
	196,665	189,282

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

(continued)

	<u>2006</u>	<u>2005</u>
Derivative Financial Instruments (Note 5(e))	95,651	124,552
Other Liabilities		
Collection and payment of taxes and social contributions	508,275	725,421
Foreign exchange portfolio	5,699	1,176
Social and statutory	706,601	373,911
Taxes and social security contributions (Note 15(a))	1,565,654	1,367,481
Negotiation and intermediation of securities	9,052	1,599
Funds with specific purposes: (Note 15(b))		
Lottery operations	366,700	361,009
Social funds and programs	1,510,118	1,312,368
Financial development funds	1,588,800	1,470,690
Sundry (Note 15(c))	9,780,656	7,510,446
	<u>16,041,555</u>	<u>13,124,101</u>
<u>Long-Term Liabilities</u>	26,146,492	23,498,800
Deposits (Note 11)		
Time deposits	65,288	53,919
	<u>65,288</u>	<u>53,919</u>
Funds From Acceptances And Issue Of Securities (Note 12)		
Mortgage notes	2,918,632	7,224,272
Real estate credit notes	4,000,319	2,535,713
	<u>6,918,951</u>	<u>9,759,985</u>
BORROWINGS (Note 13)		
Foreign borrowings	25,269	32,121
	<u>25,269</u>	<u>32,121</u>

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Balance Sheet

At June 30

(in thousands of reais)

(continued)

Local Onlendings - Official Institutions (Note 14)

Federal Treasury	419,377	470,926
National Bank for Economic and Social Development (BNDES)	566,125	465,337
Government Severance Indemnity Fund for Employees (FGTS)	13,671,339	12,003,236
Other	299,176	239,825
	<u>14,956,017</u>	<u>13,179,324</u>

OTHER LIABILITIES (Note 15)

Taxes and social security contributions (Note 15(a))	124,684	130,613
Sundry (Note 15(c))	412,357	342,838
Subordinated debts eligible for capital (Note 15(d))	3,643,926	
	<u>4,180,967</u>	<u>473,451</u>

Stockholders' Equity (Note 16)

Capital - local residents	5,917,080	5,083,532
Capital reserves		10
Revaluation reserve	383,853	394,989
Revenue reserves	513,748	395,195
Adjustment to market value - securities and derivative financial instruments	55,651	103,501
Retained earnings	1,485,066	800,332
	<u>8,355,398</u>	<u>6,777,559</u>

Total

<u>199,551,958</u>	<u>166,960,926</u>
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The accompanying notes are an integral part of the financial statements.

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Statement of Income

Six-month periods ended June 30

(in thousands of reais)

	<u>2006</u>	<u>2005</u>
Income from Financial Intermediation		
Loans	4,259,140	3,405,883
Securities	7,775,214	6,735,805
Derivative financial instruments	(84,098)	(61,387)
Foreign exchange, net	12,331	142
Compulsory deposits	1,830,440	1,642,254
	<u>13,793,027</u>	<u>11,722,697</u>
Expenses From Financial Intermediation		
Deposits and money market funding	(7,150,794)	(6,197,828)
Borrowings and onlendings	(714,557)	(551,674)
Allowance for loan losses	(500,802)	(267,925)
	<u>(8,366,153)</u>	<u>(7,017,427)</u>
Net Financial Intermediation Income	<u>5,426,874</u>	<u>4,705,270</u>
Other Operating Income (Expenses)		
Service fees (Note 19 (a))	2,746,018	2,468,987
Equity in the earnings of subsidiary and associated companies	42,786	79,203
Personnel expenses (Note 19 (b))	(3,044,859)	(2,536,132)
Other administrative expenses (Note 19 (b))	(2,149,185)	(1,951,233)
Taxes	(529,824)	(467,432)
Other operating income (Note 19 (c))	1,377,223	1,436,976
Other operating expenses (Note 19 (c))	(2,390,012)	(2,370,092)
	<u>(3,947,853)</u>	<u>(3,339,723)</u>
Net Operating Income	<u>1,479,021</u>	<u>1,365,547</u>
Non-Operating Expenses, Net	<u>2,718</u>	<u>(17,561)</u>
Profit Before Taxation And Profit Sharing	<u>1,481,739</u>	<u>1,347,986</u>

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Statement of Income

Six-month periods ended June 30

(in thousands of reais)

Income Tax And Social Contribution On Net Income (Note 18(b))		
Income tax	(28,573)	(170,296)
Social contribution on net income	(7,149)	(44,271)
Deferred tax	(21,760)	(121,525)
	<u>(57,482)</u>	<u>(336,092)</u>
Profit Sharing (Note 19(e))	<u>(80,279)</u>	<u>(74,782)</u>
Net Income for The Period	<u><u>1,343,978</u></u>	<u><u>937,112</u></u>

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

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Statement of Changes in Stockholder's Equity

(in thousands of reais)

	<u>Capital</u>	<u>Capital Reserves</u>	<u>Revaluation Reserve</u>	<u>Revenue Reserves Legal And Other</u>	<u>Adjustment To Market Value</u>	<u>Retained Earnings</u>	<u>Total</u>
At December 31, 2004	5,083,532	10	400,778	302,732	130,548	746,040	6,663,640
Adjustments To Market Value - Securities And Derivative Financial Instruments					(27,047)		(27,047)
Tax Effects On Realization Of Revaluation Reserve			2,982				2,982
Realization Of Reserves			(8,771)			8,771	
Interim Dividends						(500,000)	(500,000)
Net Income For The Period						937,112	937,112
Appropriations Of Net Income: (Note 16)							
Legal reserve				50,594		(50,594)	
Lottery reserve				41,869		(41,869)	
Interest on own capital						(299,128)	(299,128)
At June 30, 2005	5,083,532	10	394,989	395,195	103,501	800,332	6,777,559
Balances At December 31, 2005	5,917,080		389,599	416,666	76,469	1,152,128	7,951,942
Adjustments To Market Value - Securities And Derivative Financial Instruments					(20,818)		(20,818)
Tax Effects On Realization Of Revaluation Reserve			2,961				2,961
Payment Of Taxes On Revaluation Reserve						(2,974)	(2,974)
Realization Of Reserves			(8,707)			8,707	
Interim Dividends						(293,376)	(293,376)
Net Income For The Period						1,343,978	1,343,978
Appropriations Of Net Income: (Note 16)							
Legal Reserve				67,199		(67,199)	
Lottery Reserve				29,883		(29,883)	
Interest On Own Capital						(321,115)	(321,115)
Dividends						(305,200)	(305,200)
At June 30, 2006	5,917,080		383,853	513,748	55,651	1,485,066	8,355,398

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

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Statement of Changes in Financial Position

Six-month Periods ended June 30

(in thousands of reais)

	<u>2006</u>	<u>2005</u>
Financial Resources Were Provided By:	16,987,881	21,707,591
Adjusted Net Income		
Net Income	1,343,978	937,112
Depreciation And Amortization	227,985	212,901
Equity In The Earnings Of Subsidiary And Associated Companies	(42,786)	(79,203)
	<u>1,529,177</u>	<u>1,070,810</u>
Funds Originating From:	15,349,058	20,503,851
Increase In Liabilities		
Deposits	5,065,529	7,553,187
Deposits received under security repurchase agreements	3,633,365	8,441,787
Interbank Accounts	535,634	413,439
Local Onlendings - Official Institutions	2,556,776	1,752,871
Derivative Financial Instruments		52,616
Other Liabilities	1,812,270	2,076,456
	<u>13,603,574</u>	<u>20,290,356</u>
Decrease In Current Assets And Long-Term Receivables		
Securities	1,665,054	
Interdepartmental Accounts	53,549	7,417
Other Receivables		206,078
Other Assets	26,881	
	<u>1,745,484</u>	<u>213,495</u>
Sale Of Assets And Investments:		
Investments	43,950	
Property And Equipment	65,696	132,930
	<u>109,646</u>	<u>132,930</u>
Financial Resources Were Used For:	16,671,120	21,666,203
Adjustment To Market Value - Securities And Derivative Financial Instruments	20,818	27,047

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Caixa Econômica Federal – CEF

Statement of Changes in Financial Position Six-month Periods ended June 30 (in thousands of reais)

Investments In:		
Property And Equipment	96,630	90,527
	96,630	90,527
Increase In Deferred Charges	56,828	50,829
Resources Applied In:	15,577,153	20,698,672
Increase In Current Assets And Long-Term Receivables		
Short-Term Interbank Investments	5,563,425	4,480,315
Securities		6,734,626
Interbank Accounts	2,187,105	3,463,651
Loan Operations	4,175,313	4,621,000
Other Receivables	518,577	
Other Assets		169,172
	12,444,420	19,468,764
Decrease In Liabilities		
Funds From Acceptances And Issue Of Securities	2,791,496	1,001,788
Interdepartmental Accounts	275,070	220,978
Borrowings	4,392	7,142
Derivative Financial Instruments	61,775	
	3,132,733	1,229,908
Interim Dividends	293,376	500,000
Proposed Dividends	305,200	
Interest On Own Capital	321,115	299,128
Increase In Cash And Cash Equivalents	316,761	41,388
Changes In Cash And Cash Equivalents		
At The Beginning Of The Period	935,710	700,557
At The End Of The Period	1,252,471	741,945
Increase In Cash And Cash Equivalents	316,761	41,388

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

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Notes to the financial statements at June 30, 2006 and 2005 in thousands of reais

1 Operations

CAIXA is a financial institution established by Decree-Law 759, dated August 12, 1969, a government company formed in accordance with commercial law, linked to the Ministry of Finance and subject to the general rules, decisions and regulations issued by the National Monetary Council (CMN) and the Brazilian Central Bank (BACEN). The capital of CAIXA belongs to the Federal Government and, within the macroeconomic context, CAIXA's economic-financial management occurs within the decisions of the Federal Government.

Areas of activity

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

In the performance of these activities, CAIXA obtains its funding through savings accounts, mortgage notes, judicial deposits, demand and time deposits, including making investment in loans mainly linked to housing, including onlending of funds from the Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviço -FGTS).

CAIXA also administers lotteries, funds and programs, which include the Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviço - FGTS), the Salary Variation Compensation Fund (Fundo de Compensação de Variações Salariais - FCVS), the Social Integration 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, maintaining their own accounting records and presenting their results of operations in separate financial statements.

2 Presentation of the financial statements

The financial statements are the responsibility of management and are presented and prepared in accordance with accounting practices adopted in Brazil and the rules and regulations of the Brazilian Central Bank (BACEN).

The classification between current and non-current assets and liabilities is carried out in accordance with the Corporation Law, considering a 360-day term.

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3 Significant accounting policies

The significant accounting policies are summarized as follows:

(a) Net Income

Net income is determined on the accrual basis of accounting.

(b) Current assets and long-term receivables

These are recorded at cost plus accrued income and, when applicable, adjusted to market or realizable values.

Securities - The Brazilian Central Bank, through Circular 3068/2001, established criteria 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 purchased with the objective of being frequently and actively traded, and adjusted to market value with a contra entry to income or expense for 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 with a contra entry to a separate account in stockholders' equity, denominated "Adjustment to market value - securities and derivative financial instruments", net of tax, when applicable. Gains and losses, when realized, are recorded as income or expense for the period.
- . Securities held to maturity - Securities which management intends and has the financial capacity to hold to maturity, and stated at cost of purchase plus accrued income.

Regardless of the category in which they are classified, the income from securities is recorded in a statement of income account.

Derivative financial instruments – In accordance with BACEN Circular 3082/02 and subsequent regulations, the Derivative Financial Instruments are classified on the date of their acquisition in accordance with Management's intention of hedging or not.

The transactions carried out by CAIXA involving derivatives aim to meet its own and its customers' needs and, also, to reduce market, currency and interest rate risks. The management of these risks is carried out by defining operating strategies, establishing a system of internal controls and determining limits for the positions. The exposures to be hedged are classified as hedges in accordance with their nature:

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- . Market risk hedge - The financial assets and liabilities, as well as the respective related derivative financial instruments, are adjusted to market value and the realized and unrealized gains and losses recorded directly as income or expense for the period.
- . Cash flow hedge - The effective amount of the hedge of financial assets and liabilities, as well as the respective related financial instruments, is adjusted to market value and the realized and unrealized gains and losses, net of tax, when applicable, recorded in a specific stockholders' equity account. The non-effective portion of the hedge is recorded directly as income or expense for the period.

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

Loan operations and allowance for loan losses - Loans are classified observing: (i) the parameters established by Resolution 2682/99 of the National Monetary Council (CMN), which requires their classification in nine levels, from "AA" (minimum risk) to "H" (maximum risk); and (ii) assessment by management as to the risk level. This assessment, carried out periodically, takes into consideration the economic situation, past experience and the specific and overall risks in relation to the transactions, the debtors and guarantors. Also, the periods of arrears defined in CMN Resolution 2682/99 for attribution of the levels of classification are taken into consideration, as follows:

<u>Period in arrears</u>	<u>Classification of the customer</u>
. 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 interest accrued on loans overdue up to 60 days is recorded as income from loans, and as from the 61st day as 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 allowance and controlled, for a further five years, in memorandum accounts, no longer being recorded in the balance sheet.

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(c) Tax credits

Deferred income tax and social contribution on net income calculated on tax losses and temporary differences are recorded as tax credits and valuation allowances are also recorded based on the expectation of generating future taxable income, in accordance with the rules established by the Brazilian Central Bank.

(d) Permanent Assets

Investments

Investments in subsidiary and associated companies and those equivalent to associated companies are recorded on the equity method of accounting, plus goodwill and less negative goodwill, when applicable.

The other permanent investments are stated at the cost of acquisition, less provision for loss, when applicable.

Property and equipment

Property and equipment is stated at cost plus price-level statements up to December 31, 1995, combined with the following aspects:

- . Revaluations of properties carried out in December 2002 (every four years);
- . Provisions for loss of other investments, when applicable;
- . Depreciation of property and equipment is calculated on the straight-line method at rates that take into account the estimated useful lives of the assets, as follows: properties in use - 4%; equipment - 10%; vehicles - 20%; and other assets in use - 10% to 20%.

Deferred charges

Deferred charges are recorded at cost of acquisition and formation less amortization calculated on the straight-line method in up to five years.

(e) Current and long-term liabilities

These are recorded at known or estimated amounts plus accrued charges and daily “pro rata” monetary and exchange rate variations incurred.

The contribution to Public Services Employees Savings (PASEP) was calculated at the rate of 0.65% and that to Social Contribution on Revenues (COFINS) at the rate of 4%, in accordance with specific applicable legislation.

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The provision for corporate income tax (IRPJ) was calculated at the rate of 15% plus an additional 10% on taxable income above a specific limit. The provision for social contribution on net income (CSLL) was calculated at the rate of 9% on adjusted profit before income tax.

(f) Contingent assets and liabilities

(i) Contingent assets – these are not recognized in the financial statements unless management has evidence that there are collateral guarantees or favorable legal decisions against which no further appeals are possible.

(ii) Contingent liabilities – these are recognized in the financial statements when, on the basis of legal opinions, the risk of loss in judicial or administrative proceedings is considered as probable, considering the nature of CAIXA's activities.

4 Short-term Interbank Investments

The short-term interbank investments are stated at cost plus income accrued to the balance sheet date, less eventual provisions for loss, when applicable.

	<u>2006</u>	<u>2005</u>
Held position		
Financial Treasury Bills	3	1,502
Federal Treasury Bills	4,028,998	1,848,001
Federal Treasury Notes	<u>1,515,798</u>	
	<u>5,544,799</u>	<u>1,849,503</u>
Financed position		
Financial Treasury Bills	970,995	419,051
Federal Treasury Bills	<u>8,785,636</u>	<u>6,461,746</u>
	<u>9,756,631</u>	<u>6,880,797</u>
Total	<u>15,301,430</u>	<u>8,730,300</u>

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5 Securities and derivative financial instruments

(a) Summary of the classification of securities and derivative financial instruments

Category	2006	2005
Trading securities	28,380,297	30,417,255
Securities available for sale	6,992,310	9,408,210
Securities held to maturity	56,334,063	39,691,217
Derivative financial instruments	88,784	51,814
	91,795,454	79,568,496

(b) Analysis of the securities portfolio

	2006	2005
OWN PORTFOLIO	63,053,102	62,459,886
Fixed income securities	62,677,784	62,099,051
Financial Treasury Bills	35,523,190	43,413,447
Federal Treasury Bills	13,744,323	11,558,575
National Treasury Notes	9,564,237	2,198,807
Brazilian Central Bank Notes	65,151	75,295
Financial Treasury Certificates	53,707	53,471
Securitized credits – CVS	3,658,469	4,727,759
Other securities	68,707	71,697
Shares in investment fund	361,558	344,499
Shares in real estate fund	13,760	16,336
SECURITIES SUBJECT TO COMMITMENTS	28,653,568	17,056,796
Securities subject to repurchase agreements	26,212,843	15,631,127
Financial Treasury Bills	25,712,903	15,631,127
National Treasury Bills	499,940	
Deposits with the Brazilian Central Bank	2,035,490	1,224,925
National Treasury Bills		1,224,925
Federal Treasury Notes	2,035,490	
Pledged in guarantee	405,235	200,744
National Treasury Bills		200,744
Federal Treasury Notes	299,238	
Financial Treasury Bills	105,997	
DERIVATIVE FINANCIAL INSTRUMENTS	88,784	51,814
	91,795,454	79,568,496

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(c) Consolidated classification by categories and maturities

Securities	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Book Value	Cost plus accrued income	Market value
TRADING SECURITIES	13,201,497	11,685,388	3,474,529	18,883	28,380,297	28,062,615	28,380,297
Financial Treasury Bills	3,836,133	5,386,109	2,690,519		11,912,761	11,845,379	11,912,761
Federal Treasury Bills	8,846,562	5,397,701			14,244,263	14,011,571	14,244,263
National Treasury Notes	518,802	901,578	784,010		2,204,390	2,187,214	2,204,390
Petrobrás debentures				5,123	5,123	4,691	5,123
Shares in real estate fund				13,760	13,760	13,760	13,760
SECURITIES AVAILABLE FOR SALE	2,542,240	1,549,790	1,643,841	1,256,439	6,992,310	6,908,534	6,992,310
Financial Treasury Bills	1,401,937	277,388		335,059	2,014,384	1,968,346	2,014,384
Federal Treasury Bills	1,075,109	1,270,512	1,643,841	444,464	4,433,926	4,393,429	4,433,926
Brazilian Central Bank Notes	65,151				65,151	64,840	65,151
CFT				53,707	53,707	61,935	53,707
TDA	43			189	232	214	232
Petrobrás Debentures				61,462	61,462	56,288	61,462
State Government securities		1,890			1,890	1,924	1,890
Shares in investment fund – FND				361,558	361,558	361,558	361,558
SECURITIES HELD TO MATURITY	14,208,721	26,390,837	12,070,304	3,664,201	56,334,063	56,334,063	55,329,462
Financial Treasury Bills	12,514,921	22,829,720	12,070,304		47,414,945	47,414,945	47,711,675
Federal							
Treasury Notes	1,693,800	3,561,117		5,732	5,260,649	5,260,649	5,255,985
CVS				3,658,469	3,658,469	3,658,469	2,361,802
DERIVATIVE FINANCIAL INSTRUMENTS	88,784				88,784	88,784	88,784
Total – 2006	30,041,242	39,626,015	17,188,674	4,939,523	91,795,454	91,393,996	90,790,853
Total – 2005	35,136,555	35,996,537	2,539,531	5,895,873	79,568,496	79,354,297	77,538,693

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The market value of the securities is based on quoted prices 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.

The CVS securities, relating to the FCVS debt renewal contracts, mature in 2027 and earn income based on the Referential Interest Rate (TR) plus annual interest of up to 6.17%. Based on Provisional Measure 2196-3 of August 24, 2001, the Federal Government is authorized to exchange them for other securities issued by the Federal Treasury at updated face value. Aware that the exchange, whenever necessary, will be made and taking into consideration the financial capacity of CAIXA, management decided to classify these securities in the held to maturity category.

(d) Adjustment to market value of securities in the period

Securities available for sale	Opening balance	Positive adjustment	Negative adjustment	Net adjustment to stockholders' equity	Balance in stockholders' equity
Financial Treasury Bills	62,251		16,212	(16,212)	46,039
Federal Treasury Notes	53,819	10,247	22,783	(12,536)	41,283
Brazilian Central Bank Notes	1,614	2,711	4,257	(1,546)	68
Petrobrás debentures	5,507		333	(333)	5,174
State Government securities	(79)	45		45	(34)
Agricultural debt securities	19		1	(1)	18
CFT	(8,698)	471		471	(8,227)
CVS	1,433		1,433	(1,433)	
Adjustments in associated companies	(2)	1		1	(1)
	115,864	13,475	45,019	(31,544)	84,320
Taxes on the market value adjustment	(39,395)	10,726		10,726	(28,669)
	76,469	24,201	45,019	(20,818)	55,651

Securities with foreign exchange variations and the derivative financial instruments (swaps) related to them, classified in category II - Securities available for sale, as a result of their market risk hedge characteristics, had their adjustments to market value recorded as income for the six-month period, in the amount of R\$ 544.

(e) Derivative Financial Instruments

CAIXA uses Financial Derivative Instruments, classifying the own positions of future contracts negotiated at BM&F as “Destined for Hedge” of Market Risk, maintaining a position in one-day DI futures contracts to protect from price oscillations of the own positions of pre-fixed Government Securities, thus ensuring the profitability of the transactions.

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DERIVATIVES	2006	2005
Futures contracts (DI)	9,052	1,599
Purchase commitments	9,052	1,599

Swap derivative instruments are used to hedge own positions of Federal Government Securities indexed to foreign exchange variations against price oscillations and foreign exchange fluctuations.

The hedging strategies of the balance sheet positions are in line with the macroeconomic analyses.

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According to the Brazilian Central Bank Circular 3082/02, CAIXA's operations with financial derivative instruments are considered as a Market Risk Hedge.

2005 - Contracts – Hedge Instruments

. All the contracts were traded on the (BM&F) Exchange

<u>Swap contracts</u>	<u>Counterparty</u>	<u>Original amount</u>	<u>Cost plus accrued income</u>	<u>Market value</u>	<u>Unrealized gains/losses</u>	<u>Maturity</u>
Asset						
CDI	Institution	5,588	10,971	10,896	(75)	from 61 to 90 days
CDI	Institution	1,547	2,988	3,009	21	from 91 to 180 days
CDI	Institution	6,702	13,111	13,139	28	from 181 to 360 days
CDI	Institution	111,214	217,579	219,257	1,678	from 1 to 5 years
			244,649	246,301	1,652	
Liability						
Dollar	Institution	5,588	8,182	8,270	88	from 61 to 90 days
Dollar	Institution	1,547	2,274	2,308	34	from 91 to 180 days
Dollar	Institution	6,702	9,946	10,333	387	from 181 to 360 days
Dollar	Institution	111,214	167,110	178,336	11,226	from 1 to 5 years
			187,512	199,247	11,735	

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2006 - Contracts – Hedge Instruments

. All the contracts were traded on the Exchange (BM&F)

<u>Swap contracts</u>	<u>Counterparty</u>	<u>Original amount</u>	<u>Cost plus accrued income</u>	<u>Market value</u>	<u>Unrealized gains (losses)</u>	<u>Maturity</u>
Asset						
CDI	Institution					up to 30 days
CDI	Institution					from 31 to 60 days
CDI	Institution	87,795	205,253	203,754	(1,499)	from 61 to 90 days
CDI	Institution	23,420	54,577	54,871	294	from 91 to 180 days
CDI	Institution					from 181 to 360 days
CDI	Institution					from 1 to 5 years
		111,215	259,830	258,625	(1,205)	
Liability						
Dollar	Institution					up to 30 days
Dollar	Institution					from 31 to 60 days
Dollar	Institution	87,795	135,584	134,923	(661)	from 61 to 90 days
Dollar	Institution	23,420	37,729	37,671	(58)	from 91 to 180 days
Dollar	Institution					from 181 to 360 days
Dollar	Institution					from 1 to 5 years
		111,215	173,313	172,594	(719)	

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The guarantee margin on transactions with derivative financial instruments required at June 30, 2006 amounts to R\$ 405,213, represented by Federal Treasury Notes maturing on December 16, 2009.

The main risks inherent to derivative financial instruments are credit, market and operational risks, all similar to those related to other types of financial instruments.

The market risk is the possibility of loss caused by the impact of fluctuations of prices, indices or rates (interest, foreign exchange, shares, commodities, prices) on the financial instruments that constitute the equity of a company (increase in liabilities, decrease in assets).

Credit risk is the possibility of loss arising from default by the counterparty of any financial instruments, which are recorded in one company's assets, with a resulting lack of receipt by the other party. It is the risk of loss due to changes in the counterparty's capacity to perform the contractual obligations to the creditor. The credit risk exposure in futures contracts is minimized due to the daily cash adjustments. Swap contracts registered with CETIP and BM&F are subject to credit risk if the counterparty does not have the capacity or is not willing to perform its contractual obligations. The total credit exposure in swaps at June 30, 2006 is R\$ 179,757 (2005 - R\$ 348,371).

Operational risk is the possibility of loss arising from shortcomings or inadequacy of systems, of operational processes, of people or of events outside CAIXA. It includes legal risks and excludes strategic and image risks.

The methodology for valuing and measuring the market value of derivative financial instruments uses as a parameter the net probable realizable value obtained through the use of curves of future values of interest rates, foreign exchange rates, price indexes and currencies, disclosed by BM&F, ANDIMA and the Brazilian Central Bank.

The market value measurement model uses the assumption of the construction of interest rate curves for each identified risk factor, using the transaction prices or firm bids for a financial instrument or market prices of a financial instrument derived from some model or independent processing, and has the following sources of information: 1. Public prices or available prices open to all institutions and/or 2. Prices arising from private surveys.

The positions of these derivatives, which refer to swap contracts, have their notional amounts recorded in memorandum accounts and the adjustments in balance sheet accounts. The notional amount of these transactions at June 30, 2006 is R\$ 19,142,768 (2005 - R\$ 15,968,363). The differential payable at this date amounts to R\$ 95,651 (2005 - R\$ 124,552) and the differential receivable to R\$ 88,784 (2005 - R\$ 51,814).

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(f) Securities held to maturity

CMN Resolution N° 3181/04 establishes, in its article 1, that sales of Federal Government Securities classified as securities held to maturity simultaneously with the purchase of new securities of the same nature, with a longer maturity and in an amount equal to or higher than that of the securities sold, do not imply any change in the financial institution's intention as to their classification in this category.

According to the 2005 Annual Plan for Financing the Public Debt, the strategy of the Federal Treasury to reduce the portion of the Public Debt through securities linked to the TRBC – Brazilian Central Bank Referential Interest Rate, known as SELIC, is well-known.

CAIXA has adopted the strategy of “rolling over” Federal Government Securities. Accordingly, LFTs maturing in 2006 were replaced by LFTs maturing in 2008 and 2010, with the following objectives:

- invest funds in accordance with market conditions, implying the maintenance of a conservative position in the securities portfolio as to the exposure to the risks of interest rate fluctuations;
- decentralize the volume of maturities occurring during 2006 and consequently lengthen the maturity profile. This measure made it possible for the concentration of maturities due in less than 1 year do drop from 30.82% at September 30, 2005 to 23.89% at June 30, 2006.

The volume of Federal Government Securities disposed of in the 1st half of 2006 was 700,000, which amounts to R\$ 1,064,430, against the purchase of 739,920 Federal Government Securities (Financial Treasury Bills - LFT), also in the amount of R\$ 1,064,430.

6 Interbank accounts – restricted deposits

- (a) The deposits with the Brazilian Central Bank mainly comprise compulsory deposits which are updated monetarily by official indices and interest rates, except those relating to demand deposits.

	<u>2006</u>	<u>2005</u>
On demand deposits	2,165,483	1,838,571
On savings deposits	10,853,907	10,018,907
Additional requirement	<u>7,151,710</u>	<u>6,219,339</u>
	<u>20,171,100</u>	<u>18,076,817</u>

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- (b) The “National Housing System - SFH” account includes predominantly the residual amounts of terminated contracts to be reimbursed by the FCVS, totaling R\$ 24,426,993, and provisions of R\$ 4,039,641, as per the following table, which are in the process of renewal with the Fund. These contracts currently accrue interest of up to 6.17% a year and are updated monetarily according to the Referential Interest Rate (TR). The effective realization of these credits depends on adherence to a set of rules and procedures defined in regulations issued by the FCVS. CAIXA’s management has implemented a process for analyzing and checking the conditions and details of these contracts as to their qualifying under the 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.

Contracts status	Balance	Provision
Not qualified	1,932,855	(546,996)
Qualified and not ratified	5,145,368	(2,644,781)
Qualified and ratified	17,348,770	(847,864)
June 2006	24,426,993	(4,039,641)
June 2005	22,829,033	(4,215,815)

Based on the same reasons for which the CVS securities are recorded in the securities portfolio in the held to maturity category and are, as a consequence, stated at updated cost, no provision was recorded to adjust these credits to market value (see Note 5(c)).

The credits qualified and ratified represent contracts already analyzed and accepted by the FCVS and depend on a securitization process, as prescribed in Law 10150/00, for their realization.

7 Loan portfolio

(a) Analysis of the loan portfolio by type of transaction

Description	2006	2005
Loans, bills discounted and financing (i)	16,626,489	13,978,144
Real estate financing	23,399,350	18,193,628
Infrastructure and development financing	1,996,821	1,336,541
Other receivables	1,360,145	1,147,354
	43,382,805	34,655,667

(i) Includes R\$ 419,176 of INSS consigned credits of pensioners and beneficiaries, acquired from Banco BMG.

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(b) Analysis of loans by sector of activity

Description	2006	%	2005	%
FEDERAL GOVERNMENT	1,027,835	2.37	1,045,338	3.02
Government – Direct and indirect administration	1,024,159	2.37	988,827	2.85
Business activities	3,676		56,511	0.16
Industry	477		63	0.00
Commerce	2,057		328	0.00
Other services	1,142		56,120	0.16
STATE GOVERNMENT	1,589,173	3.66	1,000,235	2.89
Government – Direct and indirect administration	946,439	2.18	618,737	1.79
Business activities	642,734	1.48	381,498	1.10
Industry	626,183	1.44	368,412	1.06
Financial intermediaries	13,439	0.04	12,694	0.04
Other services	3,112		392	0.00
MUNICIPAL GOVERNMENT	278,373	0.64	171,273	0.49
Government – Direct administration	219,273	0.50	130,635	0.38
Business activities	59,100	0.14	40,638	0.12
Industry	57,535	0.14	40,261	0.12
Other services	1,565		377	0.00
PRIVATE SECTOR	40,487,424	93.33	32,438,821	93.60
Rural	7,701	0.02	5,487	0.02
Industry	614,656	1.41	348,793	1.01
Commerce	1,517,438	3.50	971,581	2.80
Financial intermediaries	303,344	0.70	303,376	0.88
Other services	5,756,337	13.27	4,467,059	12.89
Individuals	9,948,660	22.93	9,046,710	26.10
Housing – Individuals/Companies	22,339,288	51.50	17,295,815	49.91
	43,382,805	100.00	34,655,667	100.00

(c) Concentration of the main debtors

	2006	% of the portfolio	2005	% of the portfolio
Main debtor (*)	686,330	1.58	681,460	1.97
10 largest debtors	2,851,644	6.57	2,666,966	7.70
20 largest debtors	3,501,622	8.07	3,051,343	8.80
50 largest debtors	4,017,119	9.26	3,425,428	9.88
100 largest debtors	4,218,884	9.72	3,596,253	10.38

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(*) Refers to financing to the public sector of refinancing of Federal Government contracts, based on Law 8727/93, whereby the Federal Government is responsible for their settlement. Provisional Measure 2181-45 (formerly Provisional Measure 2103-42), dated August 24, 2001, authorized the Federal Government to prepay these contracts. The contracts have an annual interest rate of 12%, plus monetary restatement according to the Referential Interest Rate (TR). These refinancing operations are guaranteed by the State and Municipality Participation Fund (Fundo de Participação dos Estados e Municípios).

(d) Analysis of loan operations and other receivables with loan characteristics, by maturity

			2006	2005
	Public sector	Private sector	Total	Total
Current		15,598,176	15,598,176	13,114,428
From 0 to 90 days		6,487,273	6,487,273	5,335,172
From 91 to 360 days		9,110,903	9,110,903	7,779,256
Long-term	2,892,794	22,786,844	25,679,638	20,117,409
From 1 year to 3 years	485,904	12,930,057	13,415,961	10,914,795
From 3 years to 5 years	287,000	6,239,772	6,526,772	5,399,994
From 5 years to 15 years	704,009	3,435,332	4,139,341	3,253,174
Over 15 years	1,415,881	181,683	1,597,564	549,446
Total normal	2,892,794	38,385,020	41,277,814	33,231,837
Total overdue		2,104,991	2,104,991	1,423,830
Total	2,892,794	40,490,011	43,382,805	34,655,667

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(e) Classification by type and risk level of loan operations and other receivables with loan characteristics

Risk level	Loans and bills discounted	Financing	Financing for real estate, Infrastructure and development	Other receivables	Total in 2006	%	Total in 2005	%
AA	777,898	686,651	791,546	773	2,256,868	5.20	1,923,084	5.55
A	6,658,439	979,646	9,785,301	80,915	17,504,301	40.35	10,911,253	31.48
B	1,775,770	711,887	3,547,022	456,136	6,490,815	14.96	5,278,190	15.23
C	1,779,614	156,110	6,425,507	71,383	8,432,614	19.44	5,844,936	16.87
D	979,495	142,861	2,338,559	361,985	3,822,900	8.81	7,189,989	20.75
E	260,294	103,716	356,750	43,222	763,982	1.76	694,098	2.00
F	135,414	42,849	193,828	7,111	379,202	0.87	419,010	1.21
G	206,363	27,094	151,959	824	386,240	0.89	358,336	1.03
H	815,375	387,013	1,805,699	337,796	3,345,883	7.72	2,036,771	5.88
	13,388,662	3,237,827	25,396,171	1,360,145	43,382,805	100.00	34,655,667	100.00

(f) Analysis of the allowance for loan losses by risk level and for other receivables with loan characteristics

Risk Level	Loans and bills discounted	Financing	Financing for real estate, Infrastructure and development	Other receivables	Total in 2006	%	Total in 2005	%
A – 0.5	33,292	4,898	48,925	404	87,519	1.81	54,556	1.47
B – 1.0	17,757	7,118	35,469	4,561	64,905	1.35	52,782	1.42
C – 3.0	53,388	4,683	192,766	2,141	252,978	5.24	175,348	4.73
D – 10.0	97,924	14,285	233,908	36,184	382,301	7.93	718,999	19.4
E – 30.0	78,088	31,113	107,025	12,966	229,192	4.75	208,230	5.62
F – 50.0	67,707	21,424	96,914	3,555	189,600	3.93	209,505	5.65
G – 70.0	144,454	18,965	106,371	577	270,367	5.61	250,835	6.77
H – 100.0	815,375	387,013	1,805,699	337,796	3,345,883	69.38	2,036,771	54.94
	1,307,985	489,499	2,627,077	398,184	4,822,745	100.00	3,707,026	100.00

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(g) Movement of the allowance for possible loan losses in loan operations and other receivables with loan characteristics.

	<u>2006</u>	<u>2005</u>
Opening balance - December 2005/2004	4,163,950	3,836,656
Additional allowances	500,802	267,925
Loans transferred to loss for the period	157,993	(397,555)
	<u>4,822,745</u>	<u>3,707,026</u>

(h) Loans renegotiated, written off and recovered

	<u>2006</u>	<u>2005</u>
Loans renegotiated	582,039	528,759
Loans written off and recovered	197,802	272,606

8 Other receivables

(a) Income receivable

Income receivable refers to amounts receivable for services rendered.

	<u>2006</u>	<u>2005</u>
Dividends and interest on own capital receivable from the National Development Fund (FND)	271,042	292,718
FGTS	148,628	145,511
Unemployment insurance	76,828	77,097
General Federal Government Budget	197,299	167,923
INSS	66,499	56,854
Social Register	157,821	140,034
Family allowance	130,075	87,628
EMGEA - Empresa Gestora de Ativos	26,358	28,432
School grant program	9,857	10,015
PIS	88,447	68,095
FIES	50,110	34,885
Others	59,432	39,023
	<u>1,282,396</u>	<u>1,148,215</u>

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(b) Sundries

	<u>2006</u>	<u>2005</u>
Advances	320,933	498,336
Tax credits (Note 18)	1,369,140	1,544,368
Receivables from guarantee deposits	2,632,733	1,809,834
Taxes and contributions to offset	145,749	76,960
Payments to be reimbursed	25,257	35,472
Prepaid profit sharing (Note 16 (e))	642,649	15,563
Other receivables with loan characteristics	1,346,151	1,130,395
Receivables from sale of assets and rights	20,753	25,808
Securities and credits receivable	1,325,398	1,104,587
Amounts receivable - Bamerindus (iii)	302,941	302,941
Credit cards	750,866	565,767
Government of the State of Bahia - EMBASA (ii)	268,781	233,069
Other securities and credits receivable	2,810	2,810
Other receivables without loan characteristics	721,102	359,301
Securities and credits receivable	721,102	359,301
Government of the State of Pernambuco - COMPESA (i)	241,884	241,884
Credit cards	18,787	15,178
Provisioning fund - VISANET	35,897	17,743
PAMS and Saúde CAIXA Health Care Plan (vi)	424,012	83,787
Others	522	709
Sundry debtors	1,235,269	860,292
Amounts to allocate – Loans and financing (iv)	930,263	548,162
Insurance receivable	134,923	158,969
Other debtors	61,885	57,158
Credits purchased	108,198	96,003
Provision for losses – Sundry (v)	(188,917)	(245,542)
	<u>8,250,066</u>	<u>6,084,979</u>

- (i) Advance of privatization funds to the Government of the State of Pernambuco (COMPESA), which is fully provided.
- (ii) Debt confession contract with the Government of the State of Bahia (EMBASA), with agreement for the rescission of the purchase and sale of shares, resulting in the reclassification of the transaction from “Other receivables with loan characteristics” to “Other receivables without loan characteristics”.
- (iii) Credits with the bankrupt estate of Banco Bamerindus, originating preponderantly from the acquisition of real estate credits, which are fully provided.
- (iv) Mainly amounts recorded as debits to real estate financing, not classified by the SIACI – Sistema de Controle de Financiamentos, being identified for allocation to the corresponding contracts. These amounts relate to credits of the same nature, explained in Note 15(c).

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- (v) Mainly the provision for definitive net loss and indemnity claims for housing financing.
- (vi) Amounts paid by CAIXA to those accredited under the CAIXA Health Care Plan, by virtue of the impossibility of classification until the implementation of a new control system.

(c) Provision for loss of other receivables

In accordance with BACEN Circular 3048/02, securities and credits receivable are classified as “with loan characteristics” - R\$ 398,184 (2005 - R\$ 383,443) and “without loan characteristics”, R\$ 241,884 (2005 - R\$ 241,884).

9 Other assets

- (i) The assets not in use mainly refer to adjudicated properties, properties received as payments in kind for loans and also properties no longer used in CAIXA’s own operations. The provision for loss of these properties is recorded based on an appraisal report prepared by specialized companies.
- (ii) The amount relating to “Prepaid expenses” - R\$ 112,721 (2005 - R\$ 171,492) refers mainly to goodwill on the purchase of INSS consignment credits of R\$ 56,275, updated on the basis of the maturity of the credits purchased, in up to 35 months, and R\$ 43,191 of advertising and publicity costs for the 2007 Pan-American Games.

10 Permanent assets

(a) Investments

The investments in subsidiaries substantially relate to CAIXA SEGUROS S.A. and are recorded on the equity method of accounting. The main details of the investee and investment at June 30, 2006 are presented as follows:

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	<u>2006</u>	<u>2005</u>
Investee		
Stockholders' equity (A)	1,236,382	1,151,722
Capital	400,000	360,000
Capital increase under approval	200,000	40,000
Number of shares (B)	16,930,108	16,930,108
Retained earnings	271,733	361,367
Revaluation reserve/retained earnings	406	623
Unrealized gains and losses with securities	(1)	
Goodwill reserve	174,539	218,448
Net income for the period	189,705	171,284
Book value per share (A/B)- R\$	73.03	68.03
Investment		
Number of shares held	8,161,426	8,161,426
Shareholding interest (%)	48.20658	48.20658
Book value of the investment	469,767	449,899
Equity in earnings	49,345	82,576
Dividends proposed and included in the equity in earnings	43,955	
Total of investments in associated companies	<u>469,767</u>	<u>449,899</u>

(b) Property and equipment in use

	<u>Cost</u>	<u>Depreciation</u>	<u>2006 Net</u>	<u>2005 Net</u>
Properties in use	783,345	(88,698)	694,647	718,381
- Buildings	138,254	(22,203)	116,051	121,494
- Revaluation of buildings	433,214	(66,495)	366,719	384,158
- Land	70,254		70,254	71,584
- Revaluation of land	141,623		141,623	141,145
Construction in progress	103,954		103,954	138,559
Furniture, installations and equipment in use	429,202	(246,334)	182,868	179,802
Communications system	54,496	(35,887)	18,609	19,215
Data processing system	1,352,066	(1,020,793)	331,273	364,428
Transport and security system	87,218	(38,229)	48,989	40,547
	<u>2,810,281</u>	<u>(1,429,941)</u>	<u>1,380,340</u>	<u>1,460,932</u>

Based on the option provided in BACEN Circular 2824/98, CAIXA adopts the procedure of revaluing property in use (every four years). Accordingly, following the rules of this Circular, a revaluation of 100% of property in use was carried out in December 2002.

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(c) Deferred charges

	<u>2006</u>	<u>2005</u>
Expenses with leasehold properties	227,176	234,375
Expenses with logistical projects	646,783	615,080
Improvements to own properties	105,124	130,183
Accumulated amortization	<u>(780,900)</u>	<u>(695,057)</u>
	<u>198,183</u>	<u>284,581</u>

(d) Compliance with the capitalization ratio

The capitalization ratio is 17.90% and CAIXA is therefore in compliance with the limits defined by National Monetary Council (CMN) Resolution 2669/99, which establishes the limit of 50% as from December 31, 2002.

11 Deposits and deposits received under security repurchase agreements

- (a) Time deposits include judicial deposits totaling R\$ 27,758,969 (2005 - R\$ 26,008,487), which are remunerated based on the Referential Interest Rate (TR). They also include deposits in CDB FLEX, of R\$ 12,828,554 which, despite of having a maturity of over 360 days, are classified as having no maturity since they have the option of early redemption. The judicial deposits of a labor and state government nature also incur interest of 6% p.a. The deposits are distributed as follows:

Deposits					<u>2006</u>	<u>2005</u>
	<u>Demand</u>	<u>Time</u>	<u>Savings</u>	<u>Others</u>	<u>Total</u>	<u>Total</u>
Current	7,215,839	42,635,367	54,384,115	42,090	104,277,411	84,476,766
No maturity	7,215,839	40,587,523	54,384,115	42,090	102,229,567	82,216,326
From 31 to 90 days		1,272,739			1,272,739	1,144,180
From 91 to 360 days		775,105			775,105	1,116,260
Long-term		65,288			65,288	8,002,486
	<u>7,215,839</u>	<u>42,700,655</u>	<u>54,384,115</u>	<u>42,090</u>	<u>104,342,699</u>	<u>92,479,252</u>

The deposits received under security repurchase agreements of R\$ 35,945,392 (2005 - R\$ 22,492,565), are guaranteed by federal government securities, and these transactions are carried out in the short term.

- (b) The special deposits and deposits of funds and programs comprise those of the Fundo de Garantia do Tempo de Serviço - FGTS and of other funds and programs. 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, of February 17 and August 26, 1998, and the others - Special remunerated deposits, FAS, FISANE and PRODEC, are restated by the TR. The PIS deposits are updated by the extramarket rate:

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	<u>2006</u>	<u>2005</u>
Deposits – FGTS	3,069,021	2,616,125
Deposits – Special with remuneration	792,735	822,154
Deposits – FAS	5,318	352,860
Deposits – FAT (*)	2,906,635	2,541,712
Deposits – FISANE	236,503	206,868
Deposits – PRODEC	30,580	28,246
Deposits – PIS	150,624	77,636
Deposits – FIEL	41,661	38,211
CAIXA Health Care Program	369,893	88,932
Others	19,458	73,885
	<u>7,622,418</u>	<u>6,846,629</u>

(*) 73.61% of the resources of the Fund for Workers' Assistance (FAT) is intended for the Program for Generating Employment and Income (PROGER), in the amount of R\$ 2,139,702, 26.17% for Housing, in the amount of R\$ 760,699, and 0.21% for Other Lines of Credit (Digital Inclusion and BCD – Durable Consumer Goods), in the amount of R\$ 6,234. The resources free for investment, updated on the basis of the SELIC rate, in the amount of R\$ 256,899, correspond to 8.84% of the total resources. The balance of the resources invested, of R\$ 2,649,736, equivalent to 91.16% of the total of funds, is updated by the TJLP.

12 Funds from Acceptances and Issue of Securities

Paper	Index	Minimum redemption term				Balance in 2006
		3 months	12 months	3 years	5 years	
LH	IGPM	110.881			368.217	479.098
LH	INPC	813			8.062	8.875
LH	TR		2.350.959	2.137	189.394	2.542.490
LCI	IGPM	64.830	54.150	23.645	11.602	154.227
LCI	INPC		46.295		27.906	74.201
LCI	TR	53.233	3.890.871			3.944.104
		<u>229.757</u>	<u>6.342.275</u>	<u>25.782</u>	<u>605.181</u>	<u>7.202.995</u>

These refer to funds from mortgage notes and real estate credit notes which are restated by the Referential Interest Rate (TR), or the IGP-M or INPC inflation indexes.

The issues in TR (including all original transactions with and without swap, weighted in accordance with the updated balance) also incur average interest of 7.6% per annum and have a minimum redemption term of three months.

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The issues in IGP-M and INPC also incur average interest of 10.81% and 10.94% per annum, respectively, and have a minimum redemption term of three months.

The issues of LCIs indexed to the IGP-M and INPC also incur average interest of 10.92% and 10.82% per annum, respectively, and have a minimum redemption term of three months.

13 Borrowings

Foreign borrowings incur interest of up to 5.32% per annum and exchange variation of the currency to which they are stated, mainly U.S. dollars, with maturity dates up to 2013.

14 Local onlendings – Official institutions

These are mainly funds transferred by the FGTS for investment in infrastructure, urban development and real estate loan operations. These obligations are subject to monetary restatement in accordance with the Referential Rate (TR) and an average interest rate of 6.17% per year. The average term for maturity for these operations is 15 years.

	<u>2006</u>	<u>2005</u>
FGTS	13,671,339	12,003,236
BNDES	566,125	465,337
UNIÃO	18,148	24,500
PIS	421,046	464,316
INCRA	205,841	177,650
PRODEC	15,440	14,827
Other institutions	58,078	29,458
	<u>14,956,017</u>	<u>13,179,324</u>

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15 Other liabilities

(a) Taxes and social security

	<u>2006</u>	<u>2005</u>
Taxes and contributions on profits	52,042	65,193
Income tax		12,894
Social contribution on net income		158
COFINS	44,944	46,176
PASEP	7,098	5,965
Taxes and contributions payable	234,472	187,219
On salaries	198,193	148,164
On services	36,068	38,822
Others	211	233
Deferred taxes and contributions	261,180	196,764
Income tax (IR) on revaluation reserve – Buildings	91,680	96,039
Social contribution (CS) on revaluation reserve – Buildings	33,004	34,574
IR on adjustments to market value – Securities available for sale	21,080	39,205
CS on adjustments to market value – Securities available for sale	7,589	14,114
IR on adjustments to market value – Trading securities	79,285	9,435
CS on adjustments to market value – Trading securities	28,542	3,397
Provision for tax risks (Note nº 20 (b))	1,142,644	1,048,918
PASEP	669,976	606,202
INSS	220,460	215,984
ISS	210,429	187,256
Others	41,779	39,476
	<u>1,690,338</u>	<u>1,498,094</u>

(b) Funds with specific purposes

These refer to obligations arising from funds from operations related to lotteries, from funds or special programs managed by CAIXA and from funds or special programs funded by the government or public entities, administered by CAIXA.

	<u>2006</u>	<u>2005</u>
Lottery operations	366,700	361,009
Social funds and programs	1,510,118	1,312,368
FGTS	675,422	338,523
FISANE	24,475	32,314
School grants	74,070	110,262
Gas allowance	86,470	114,186
Food supplement	24,423	27,444
Housing Subsidy Program (PSH)	349,070	333,888
Family allowance	196,848	304,709
Income allowance	14,400	13,302
Others funds and programs	64,940	37,740
Financial development funds	1,588,800	1,470,690
PIS	1,525,837	1,458,726
Others	62,963	11,964
	<u>3,465,618</u>	<u>3,144,067</u>

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(c) Sundry

	<u>2006</u>	<u>2005</u>
Contributions to the SFH	18,544	17,478
Official agreements	37,656	24,979
Accrued expenses	1,294,664	954,833
Personnel expenses	958,428	816,053
FUNCEF (Note nº 21)	142,489	77,982
Other administrative expenses	4,668	3,281
Other payments	189,079	57,517
Provision for contingent liabilities	4,299,227	3,526,349
PREVHAB – Technical reserves (1)	412,357	342,838
Provision for contingencies (Note nº 20 (a))	3,886,870	3,183,511
Labor	1,295,000	1,456,874
Lawsuits	2,174,301	1,400,573
Others	417,569	326,064
Post-employment benefits (i)	688,195	
Funds linked to loans (2)	96,240	58,232
FGTS funds	1,841	1,941
Capital subscriptions payable	1,309	1,309
Sundry creditors – overseas	9	468
Sundry creditors – Brazil	3,755,328	3,267,695
Credit cards	781,378	606,176
Accounts payable	376,974	366,687
EMGEA - Empresa Gestora de (3)	349,489	1,020,950
Credits acquired	435,191	422,661
Amounts to allocate – Loans and financing (Note 8 (b)(iv))	1,063,950	694,869
Other sundry creditors	748,346	156,352
	<u>10,193,013</u>	<u>7,853,284</u>

(i) As a result of litigation settlements to pay food allowances to retired employees, the amount of R\$ 668,195 was provisioned in 2005 and supplemented in the 1st half of 2006, as a post-employment benefit.

(1) PREVHAB – Technical reserves

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

In compliance with this Decree, a voluntary process was launched in September, 1997 for PREVHAB's active members to adhere to FUNCEF - Fundação dos Economizários Federais and for retired members and beneficiaries to a Special Benefits Plan under the auspices of SASSE - Cia. Nacional de Seguros Gerais S.A., currently CAIXA SEGUROS S.A.

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

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

On November 1, 2002, a termination agreement was signed between CAIXA and CAIXA SEGUROS, with respect of the contract of the Special Benefit Plan, transferring all the plan's guaranteeing resources to CAIXA.

As a result of the cancellation of this contract, the total guaranteeing resources of the Special Benefit Plan were transferred by CAIXA SEGUROS to CAIXA, and to avoid a lapse in the payment of the complementary benefits to the participants of that plan, payment of the benefits was authorized by the Department of Complementary Pensions (SPC), through Notice 2099/SPC/CGAJ, of December 13, 2002. Payment was authorized on an exceptional basis, from November 2002 until the implementation of the necessary conditions for FUNCEF to be able to administer the plan(s) to be instituted for this group of participants, at which time a provision was recorded for the payments to the retired members and beneficiaries until the full adherence thereof to the existing plans or those to be instituted at FUNCEF.

As from April 15, 2003, the process for transferring retired members and beneficiaries from PREVHAB to FUNCEF was launched, through adherence to the Benefit Plan (REB), and up to the present moment 2,070 members have now been transferred to that entity.

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

(2) Funds linked to loans

These refer to funds recorded in accounts linked to loans in the name of customers, not used by them, and remunerated with the same charges as those of the respective financing transactions.

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(3) EMGEA - Empresa Gestora de Ativos

These refer to responsibilities of CAIXA arising from the management of contracts, in loans and assets not for use.

(d) Subordinated debts eligible for capital

Under National Monetary Council – CMN Resolution nº 2837/01, part of the existing debt relating to CAIXA's loan obligations with the Government Severance Indemnity Fund for Employees (FGTS) was converted into subordinated debt, which is included in the referential equity used in the calculation of the Basel limits. This transaction was approved by the Brazilian Central Bank in October 2005 and totals R\$ 3,643,926 at June 30, 2006. The return of the debt thus contracted will start on March 20, 2013. The grace period of 88 (eighty eight) months for payment of the subordinated debt will be extended until February 20, 2013, and will be automatically extended should the CAIXA not comply with the minimum capitalization required by the current legislation, as from March 20, 2013, or in the case of the payment itself resulting in noncompliance. The total amount of debt, during the grace or noncompliance periods, will incur monetary restatement and interest capitalized monthly at the rate of 6.125%, corresponding to the effective rate of 6.300% p.a., equivalent to the average rate considered in the agreements in effect.

16 Stockholders' equity

(a) Capital

CAIXA's capital amounts to R\$ 5,917,080 and is held exclusively by the Federal Government.

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

In conformity with Resolution 2099/94 and later regulations, which establish the minimum levels of referential equity for financial institutions, based on the volume of their operations, CAIXA has R\$ 11,759,965 at June 30, 2006, equivalent to 25.72% of the weighted assets, whereas the minimum required in Brazil is 11%.

(c) Revaluation reserves

In December 2002, CAIXA revalued 100% of its properties for own use. The revaluation was carried out by accredited engineering companies, specialized in the valuation of real estate, with monitoring and accompanying of their work by professionals from the staff of CAIXA.

(d) Revenue reserves

The revenue reserves comprise a legal reserve of R\$ 67,199 (2005 - R\$ 50,594) calculated at 5% of the annual net income, and a reserve for incorporation as capital arising from the income from the management of lotteries, of R\$ 29,883 in the six-month period ended June 30, 2006 (2005 - R\$ 41,869).

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(e) Dividends and interest on own capital

The Federal Government is guaranteed a minimum dividend of 25% of adjusted net income in accordance with Decree 2673, dated July 16, 1998. In the six-month period ended June 30, 2006, dividends of R\$ 626,315 (2005 R\$ 299,128) have been distributed, equivalent to 50% of the net income for the six-month period, of which R\$ 305,200 in dividends and R\$ 321.115 (2005 – R\$ 299,128) as interest on own capital, calculated on net equity based on the Long-Term Interest Rate (TJLP), as provided for in article 9 of Law 9249 of December 26, 1995. This latter amount, which is considered a tax-deductible expense, reduced corporate income tax and social contribution on net income expense by approximately R\$ 109,179 in the six-month period (2005 - R\$ 101.704). The Federal Government received interim dividends in the six-month period ended June 30, 2006 of R\$ 919,691, updated by the SELIC interest rate, totaling R\$ 936,025.

	<u>2006</u>
Net income	1,343,978
Legal reserve	(67,199)
Realization of the revaluation reserve	5,733
Lottery reserve	(29,883)
Basis for the calculation of the dividends	1,252,629
Dividends proposed - 50%	626,315
Interest on own capital	321,115
Supplementary dividends	305,200

17 Remuneration Paid to Employees and Management

The remuneration paid to employees and management is shown below, without the payments disallowed referred to in Decree-Law N° 2355/87 and Law N° 8852/94.

<u>June 2006 remuneration</u>	<u>Management</u>	<u>Employees</u>
Highest	21,204.00	16,178.00
Average	20,309.00	3,939.00
Lowest	19,414.00	758.00

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

(a) Tax credits

The principal amounts included in the "Tax credits" are:

- CSLL credits, relating to the tax years ended up to December 1998, calculated at the rate of 18%, based on article 8 of Provisional Measure 2158-35/2001;
- IR credits relating to accumulated tax losses, which do not prescribe, and temporary differences; and
- CSLL credits relating to accumulated losses and temporary differences determined as from 1999.

The tax credits recorded amount to R\$ 6,780,502 (2005 - R\$ 6,402,456) for IRPJ and R\$ 1,817,820 (2005 - R\$ 1,709,095) for CSLL, totaling R\$ 8,598,322 (2005 - R\$ 8,111,551). As a result of studies with respect to the realization of the tax credits in the next following tax years, management decided to record valuation allowances of R\$ 7,229,182 (2005 - R\$ 6,567,183) resulting in total tax credits net of valuation allowances of R\$ 1,369,140 (2005 - R\$ 1,544,368).

Management is presently reviewing the conditions for realizing the tax credits, in the light of the results achieved in the last five years, the forecasts, and the premisses provided for in CMN Resolution 3355/06.

Origin of the tax credits

	2006		2005	
	IRPJ	CSLL	IRPJ	CSLL
Allowance for loan losses	1,412,168	23,824	1,305,834	12,200
Provision SFH	1,009,910	139,456	1,053,954	155,311
Provision for contingencies	1,242,290	447,179	1,052,206	378,794
Others	629,056	331,845	394,666	220,764
Subtotal of temporary differences	4,293,424	942,304	3,806,660	767,069
Tax losses	2,890,572		2,890,572	
Write-offs up to the period	(403,494)		(294,776)	
Tax losses up to 2000		512,595		512,595
Tax loss in 1998 - 18%		176,291		176,291
Temporary differences 1998 - 18%		448,223		448,223
write-offs up to the beginning of the period		(261,593)		(195,083)
Total tax credits	6,780,502	1,817,820	6,402,456	1,709,095

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Expected realizations of the tax credits

Book value

Year	2nd half 2006	2007	2008	2009	2010	2011	2012 to 2014	TOTAL
IRPJ	140,092	79,872	146,659	154,009	155,779	133,884	398,932	1,209,227
CSLL	85,737	37,482	36,694					159,913
	225,829	117,354	183,353	154,009	155,779	133,884	398,932	1,369,140

Present value

Year	2nd half 2006	2007	2008	2009	2010	2011	2012 to 2014	TOTAL
IRPJ	129,491	68,669	117,660	115,826	110,382	89,382	227,830	859,240
CSLL	79,248	32,224	29,439					140,911
	208,739	100,893	147,099	115,826	110,382	89,382	227,830	1,000,151

The present value of the credits was calculated in compliance with BACEN Circular N° 3171/02, at the average funding rate, net of tax effects.

The technical studies were based on projected income, considering the targets and rules established for the Company's products, as well as the market prospects and evaluation of the projected economic indicators based on the trends of the Brazilian economic scenario.

(b) Calculation of IRPJ and CSLL

	2006		2005	
	IRPJ	CSLL	IRPJ	CSLL
Profit before IRPJ and CSLL	1,481,739	1,481,739	1,347,986	1,347,986
IRPJ and CSLL expense at the rates of 25% and 9%	(370,423)	(133,357)	(336,985)	(121,319)
Tax effects of the additions and deductions	225,067	81,047	(7,786)	(2,679)
Provision for SFH	19,389	6,980	152,022	54,728
Provision for contingencies	(100,734)	(34,054)	(315,463)	(113,567)
Allowance for loan losses	23,847	8,585	(33,889)	(12,200)
Result from the FGTS	341,113	122,801	179,342	64,501
Others	(58,548)	(23,265)	10,202	3,859
Realization of the revaluation reserve	2,172	782		
Interest on own capital	80,279	28,900	74,782	26,922
Profit sharing	20,070	7,225	18,696	6,730
Deferred tax asset	13,506	8,254	75,450	46,075
Tax incentive	756		5,547	
Total IRPJ and CSLL expense	(28,573)	(7,149)	(170,296)	(44,271)

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(c) Changes in the tax credits

	<u>Gross Amount</u>	<u>Provision</u>	<u>Net</u>
Balance at December 31, 2005	8,457,865	(7,066,965)	1,390,900
Realization of tax credits (i)	(18,361)		(18,361)
Write off of tax credits - 2002 MP 2158-35/01	(3,399)		(3,399)
Additional tax credits	162,217	(162,217)	
Balance at June 30, 2006	<u>8,598,322</u>	<u>(7,229,182)</u>	<u>1,369,140</u>

In accordance with the projections in 2005, the estimated realization of tax credits in 2006 for IRPJ and CSLL was R\$ 70,146. The actual amount realized in the six-month period ended June 30, 2006 was R\$ 21,760.

19 Statement of income

(a) Service fee income

	<u>2006</u>	<u>2005</u>
Administration of the FGTS	778,405	744,427
Administration of the FCVS	56,182	59,022
Administration of the PIS	20,688	21,819
Administration of lotteries	211,976	204,761
FGTS – Collection and payment fees	154,777	128,999
Unemployment insurance	21,335	16,959
General Federal Government Budget (OGU)	19,093	13,966
Family allowance	111,972	113,049
INSS – Collection and payment fees and GFIP	41,621	24,851
Management of investment funds	274,120	185,735
Fees from agreements	317,210	320,263
Check and paper clearing services	76,985	52,442
Current account maintenance fees	162,014	141,289
Collection of bills	118,788	116,278
EMGEA – Administration of contracts	149,672	183,034
Other services	231,180	142,093
	<u>2,746,018</u>	<u>2,468,987</u>

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(b) Personnel and administrative expenses

	<u>2006</u>	<u>2005</u>
Personnel expenses		
Salaries	(1,924,402)	(1,666,177)
Benefits	(428,966)	(303,643)
Social charges:		
FGTS	(142,068)	(118,716)
Social security	(409,313)	(341,104)
Supplementary social security pensions	(90,122)	(62,809)
Others	(49,988)	(43,683)
	<u>(3,044,859)</u>	<u>(2,536,132)</u>
	<u>2006</u>	<u>2005</u>
Administrative expenses		
Communication	(117,329)	(153,536)
Maintenance and repairs of assets	(164,252)	(148,367)
Water and electricity	(94,198)	(78,894)
Rent	(235,479)	(188,071)
Materials	(52,356)	(57,266)
Data processing	(578,590)	(580,344)
Promotions and public relations	(24,973)	(29,479)
Advertising and publicity	(127,988)	(77,010)
Financial system services	(82,244)	(78,693)
Third party services	(172,630)	(132,322)
Specialized services	(63,646)	(54,272)
Surveillance and security services	(130,145)	(93,725)
Depreciation and amortization	(227,985)	(212,901)
Other administrative expenses	(77,370)	(66,353)
	<u>(2,149,185)</u>	<u>(1,951,233)</u>

(c) Other operating income/expenses

	<u>2006</u>	<u>2005</u>
Other operating income		
Commissions and fees on operations	564,956	230,168
Expenses recovered	182,785	133,386
Reversal of other operating provisions	249,443	743,331
Revenues from other credits - EMBASA (Note N° 8(b)(ii))	19,800	19,139
Credit card revenues	100,924	72,489
Dividend income	37,656	50,994
Tax credits – monetary restatement	5,724	53,766
Restatement of guarantee deposits	164,711	59,720
Other operating income	51,224	73,983
	<u>1,377,223</u>	<u>1,436,976</u>

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	<u>2006</u>	<u>2005</u>
Other operating expenses		
Expenses with actuarial reserves - FUNCEF/PREVHAB	(56,687)	(22,083)
Expenses with FCVS receivable – Residual amounts	(131,498)	(124,819)
Expenses with obligations with funds and programs	(125,633)	(70,527)
Remuneration of lottery resellers	(1,324)	(74,291)
Provision for contingencies	(568,521)	(1,273,834)
Provision for taxes on trading securities	(33,944)	
EMGEA/Federal Government	(355,259)	(29,547)
Expenses with lottery resellers	(142,683)	(116,618)
Expenses with credit cards	(107,104)	(71,714)
Expenses with automated services	(92,361)	(56,336)
Discounts on loans	(25,063)	(96,020)
Banking correspondents	(186,693)	(102,441)
Losses from fraudulent electronic withdrawals	(52,219)	(66,759)
Premiums paid on the purchase of commercial portfolios	(33,940)	(19,749)
Expenses with business promotion	(47,147)	
Expenses with FUNCEF - PMPP/PREVHAB transactions	(91,398)	
Expenses with determining sundry responsibilities	(52,612)	(10,588)
Expenses with receivables managed by third parties	(54,159)	(11,466)
Expenses with financial management of pension funds	(25,203)	(16,634)
Other operating expenses	(206,564)	(206,666)
	<u><u>(2,390,012)</u></u>	<u><u>(2,370,092)</u></u>

(d) Non-operating expenses, net

Refers mainly, to the expenses from transactions with assets which are not for own use.

(e) Employee profit sharing

R\$ 80,279 (2005 - R\$ 74,782) was provided for payment of employee profit sharing.

20 Contingent assets and liabilities

CAIXA is a party to judicial and administrative proceedings of a tax, civil and labor nature. Based on opinions of its legal advisors, management records full provisions for cases where the risk of loss is classified as probable. In addition, certain tax cases considered as having a possible or remote risk of loss, and where a legal obligation is characterized, are also partially provided.

In accordance with its lawyers, CAIXA does not have contingent assets considered as practically assured, and the recognition of contingent assets in the financial statements is therefore not appropriate.

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CAIXA is currently of reviewing and adjusting its contingent liabilities to the new criteria provided for in the accounting standards Resolution 1066/05 of the Federal Accounting Council and NPC 22, of the Brazilian Institute of Independent Auditors – IBRACON, which determine specific criteria for recognition and bases for measurement applicable to provisions and contingent liabilities and assets.

The provisions for contingencies are shown as follows:

(a) Provisions recorded

(i) Analysis of balance sheet balances

	Judicial Deposits		Provisions	
	2006	2005	2006	2005
Labor (Note 15 (c))	886,351	764,181	1,295,000	1,456,874
Lawsuits (Note 15 (c))	352,844	314,187	2,174,301	1,400,573
Tax (Note 15 (a))	1,393,538	709,437	1,142,644	1,048,918
Other (Note 15 (c))			417,569	326,064
	2,632,733	1,787,805	5,029,514	4,232,429

(ii) Analysis by risk classification

	2006	
	Amount	Provision
Probable		
Losses and damages	1,464,717	1,464,717
Housing	336,254	336,254
Mortgage	52,602	52,602
Savings	288,050	288,050
Labor	1,295,000	1,295,000
Tax	252,208	252,208
Others	425,693	425,693
	4,114,524	4,114,524
Possible		
Tax	12,088,257	890,436
Others	122,770	24,554
	12,211,027	914,990
	16,325,551	5,029,514

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(b) Labor and civil lawsuits

CAIXA has contingent liabilities from labor and civil lawsuits, lawsuits relating to disagreements with indices applied to asset and liability operations, including those related to economic plans, numerous lawsuits relating to real estate financing, lotteries, losses and damages, tax lawsuits, amongst others. These claims are periodically evaluated and reviewed, including with regard to the historical average amounts of labor lawsuit losses.

Management believes, based on reports from its legal advisors, that the procedures followed by CAIXA are in accordance with existing laws and regulations and that these lawsuits will not cause significant losses in excess of the balance of the provision for these contingencies, of R\$ 3,886,870 (2005 - R\$ 3,183,511), sufficient to cover eventual legal decisions unfavorable to CAIXA.

(c) Tax lawsuits

(i) On December 6, 1996, CAIXA was notified by the Federal Revenue authorities on the allegation of underpayment of PIS/PASEP from January 1991 to December 1995, a period in which Decree Laws 2445 and 2449/1988 were in force, and offsetting, supposedly improperly, overpayments from January 1992 to May 1993, of R\$ 2,691,943 in principal, R\$ 2,011,254 in fines and R\$ 6,213,221 in interest, at June 30, 2006 price levels.

CAIXA presented an appeal to the Taxpayers Council which analyzed the process on February 3, 1999. In accordance with the vote of the Reporting Councilor, the facts included in the proceedings by the tax authorities do not permit the identification of the deductions from the taxable basis of PASEP that were considered improper and the reason 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 an investigation by the Federal Revenue Secretariat - SRF, for the authorities to clarify the facts and justify the disallowance made, informing CAIXA of the contents of this procedure and giving adequate time to reply. The Federal Revenue Secretariat in Brasilia advised CAIXA, on October 21, 1999, of the investigation report, in which the Federal Treasury maintained the same reasons reported in the assessment. CAIXA sent a challenge on the tax diligence report to the Second Taxpayers Council, which analyzed the process on November 7, 2000. According to the resolution of the members of the Council, the judgment was converted into a further investigation by the SRF. CAIXA was informed of the Tax Investigation Report on April 26, 2001 in which the tax authorities maintained the same reasons reported in the assessment, stating that an examination of the identification of the accounts disallowed would no longer be possible. On May 28, 2001, CAIXA sent a new challenge to the Second Taxpayers Council, where the process awaits a new judgment. If the possibilities in the administrative sphere are exhausted, appeals can still be made at the judicial sphere. Based on the opinion of its legal and tax advisors and considering the existing case laws on the issue and the possibilities of success expected, management believes that the provision of R\$ 669,976 (2005 - R\$ 606,202) is sufficient to cover possible unfavorable decisions in certain parts of the proceedings.

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(ii) CAIXA was assessed by inspectors from the National Institute of Social Security (INSS) for the nonpayment of social security 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\$ 1,171,839 (2005 - R\$ 1,197,920) restated to June 30, 2005.

CAIXA believes that these payments are not subject to social security contribution due to their indemnity nature and the applicable legal provisions, which is the reason the amounts are being litigated.

In accordance with the opinion of its legal and tax advisors and due to the possibility of success expected for the proceedings, management established percentages of provision for each action, which are shown separately in "Provision for contingencies INSS" and amount to R\$ 220,460 (2005 - R\$ 215,984).

Of the total social security liabilities of R\$1,171,839, 53% relates to assessments in respect of the payment in cash of long service leave and leave of absence to deal with personal matters. Based on numerous judicial decisions, sustained by STJ Abstracts of Record 125 and 136, and in the declaratory acts of the Federal Revenue in compliance with PGFN/CRJ Opinion 1643/03, which defined these payments as indemnities and not subject to taxation, these assessments were considered as having a full probability of success for CAIXA, with no impact on the amount of the provision.

(iii) CAIXA was assessed by municipal tax inspectors in various municipalities of Brazil on the allegation of lack of payment or underpayment of the Services Tax - ISS, amounting to R\$ 210,429 (2005 - R\$ 187,256) at June 30, 2006 and fully provided.

21 Employees Benefits

(a) Private pensions plan

CAIXA is the sponsor of the Fundação dos Economiários (FUNCEF), which administers pension funds, in accordance with their regulations, and there currently exist defined benefit and defined contribution plans.

In order to meet FUNCEF's objectives and to complement the contributions of the participants, CAIXA makes contributions in accordance with the percentage determined by actuarial formulae. The amount disbursed in the first six-month period of 2006 totaled R\$ 90,122 (2005 - R\$ 62,809). The entity's costing plan considers a defined benefit plan for 40,646 members and a defined contribution plan for 12,355 members.

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CAIXA, as a sponsor, submitted the amendment in the Regulation of the Benefit Plan to the Ministry of Finance and obtained its approval, as well as the favorable response by the Department of Coordination and Control of State-Owned – DEST, with respect to (i) partial adaptation to Complementary Laws 108 and 109, both of May 29, 2001, (ii) the introduction of new conditions for costing of the Plan by the participants and the sponsor; and (iii) the establishment of criteria for transfer of the participants of the REPLAN/REB benefit plans to the new version of the defined contribution REB plan. To implement the transfer process, CAIXA recorded a provision of R\$ 142,489 (2005 - R\$ 77,982).

In addition, the defined benefit plan (REPLAN) is currently under review and adaptation to new criteria and conditions, including the possibility of the transfer of the participants to a new defined contribution plan, the possibility of which is estimated to be concluded by the end of 2006. In this context, CAIXA has not yet carried out the studies and calculations required by Accounting Standard and Procedure 26 of the Brazilian Institute of Independent Auditors - IBRACON, which determines specific criteria for calculating the effects on the financial statements of entities sponsoring pension funds of a defined benefit nature.

The present value of the actuarial obligations of the plans is covered by the net assets of the plans.

(b) SAÚDE CAIXA - Health plan

On August 1, 2002, Saúde CAIXA was launched. This is a health program instituted and administered by CAIXA, on a self-management basis, offering medical, hospital, dental, psychological, and nutritional assistance, physiotherapy, phonoaudiology, occupational therapy and social and nutritional services, with services provided by an accredited network with coverage throughout Brazil. It is a benefit granted by CAIXA to opting members and their respective inscribed beneficiaries. By titleholders are understood employees and retired persons linked to FUNCEF, PREVHAB, CAIXA SEGUROS, PMPP Fund or the INSS.

As a result of extensive discussions between CAIXA, the pensioners' associations and employees representatives, various changes were implemented in the CAIXA health program in July 2004.

The changes include various aspects of the benefits and the establishment of a Council of Users to bring users and CAIXA closer together. The Council will monitor the performance of the program to ensure greater transparency of Saude CAIXA's administration.

Accordingly, CAIXA participates with 70% of the welfare expenses, with a minimum contribution of 3.5% of the personnel payroll, and the member contributes with 30% of the welfare expenses, through a monthly payment of 2% of his/her base salary, by family group, plus a 20% coparticipation when using the assistance, limited to the reinsurance, characterized as a defined contribution plan.

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22 Other information

(a) Administration of social entities

A list of the net assets of the social funds and programs administered by CAIXA follows:

Entity	2006	2005
PIS	23,789,594	21,579,987
FGTS	19,808,420	19,757,884
FAR	3,000,797	2,820,333
FDS	709,913	656,804
FAS	378,952	382,473
PCE	36,635	85,324
FGS	16,471	31,174
FIEL	37,417	35,872
	47,778,199	45,349,851

FCVS (i) (72,936,896) (76,324,627)

(i) The responsibility for covering the negative equity of the FCVS is the exclusive liability of the Federal Government.

(b) Guarantees provided to third parties

These amount to R\$ \$ 61,299 (2005 - R\$ 64,900) and refer to properties pledged as guarantees provided to third parties, relating to litigation against CAIXA.

(c) FGTS

The credit risk of operations contracted as from June 1, 2001 lies with CAIXA in its capacity of Operating Agent, whereas the Federal Government assumes the risk in loans made up to that date, as established in article 9 of Law 8036, of May 11, 1990, amended by article 12 of Provisional Measure 2196-3, of August 24, 2001.

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23 Related parties

The operations are carried out in the context of CAIXA's operational activities and its responsibilities established in specific regulations.

Operations/Entities	2006		2005	
	Assets/ liabilities	Income/ expenses	Assets/ liabilities	Income/ Expenses
INTEREST ON OWN CAPITAL AND DIVIDENDS				
Caixa Seguros		69,141		82,570
FEES RECEIVABLE				
STN – Federal Treasury Secretariat	387,800	149,717	307,491	126,811
PIS	3,850	20,688	3,720	21,819
PCE	55	711	728	1,123
FIEL	3,090	215	2,648	219
FGTS	148,628	933,183	145,511	863,656
FCVS		56,182		59,022
FAS	67	426	63	402
FAR	7,379	23,950	5,307	17,536
FGS	1,969	799	217	264
FDS	14,026	20,528		6,347
FIES	50,110	33,691	34,885	27,910
SH	3,055	(1,016)	3,765	1,487
OGU	178,909	19,093	167,713	13,966
Caixa Seguros		9,155		6,883
REMUNERATED DEPOSITS OF FUNDS AND PROGRAMS				
SH	(23)	(11)	(72)	(74)
PIS	(150,624)	(104,225)	(77,636)	(111,522)
PCE	(178)	(81)	(153)	(42)
FIEL	(41,661)	(1,622)	(38,211)	(1,607)
FGTS	(3,069,021)	(305,493)	(2,616,125)	(276,950)
FGS	(1,212)	(703)	(29,319)	(3,250)
FCVS	(106)	(11)	(90)	(124)
FAS	(5,318)	614	(352,860)	(4,542)
FDS	(27,175)	(1,982)		
FAR	(14,930)	(3,648)	(29,219)	(3,473)
THIRD PARTY FUNDS IN TRANSIT				
FCVS	(97)		(52)	
ONLENDINGS – OTHER OFFICIAL INSTITUTIONS				
FGTS	(13,671,339)	(651,556)	(12,003,236)	(500,585)
FDS	(18,687)	(66)		
STN – Federal Treasury Secretariat	(419,377)		(470,927)	
FUNDS WITH A SPECIFIC PURPOSE				
STN – Federal Treasury Secretariat	(399,683)	(32,317)	(568,773)	(44,330)
PIS	(1,519,179)		(1,454,990)	
FIES	(6,833)		(3,946)	

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Notes to the financial statements at June 30, 2006 and 2005 in thousands of reais

Operations/Entities	2006		2005	
	Assets/ liabilities	Income/ expenses	Assets/ liabilities	Income/ Expenses
OTHER OPERATING INCOME				
FCVS		6,877		4,966
FGTS		532,165		164,953
FAR		20,287		16,627
FDS		538		2
OGU				28
FIES		1,493		1,563
OTHER OPERATING EXPENSES				
FAR		(6,542)		(3,408)
Caixa Seguros		(25,203)		(16,634)

24 Cash flow statement

The Cash Flow Statement was prepared on the indirect method and in accordance with the definitions of the Accounting Chart for institutions of the National Financial System (COSIF), whose objective is to clarify and more adequately inform users of financial statements.

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	1,343,978	937,112
ADJUSTMENTS TO RECONCILE NET INCOME WITH NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Allowance for loan losses	500,802	267,925
Depreciation and amortization	227,985	212,901
Equity in the earnings of subsidiary and associated companies	(42,786)	(79,203)
CHANGES IN ASSETS AND LIABILITIES:		
Decrease (increase) in short-term interbank investments	(5,563,425)	(4,480,315)
Decrease (increase) in securities and derivative financial instruments	1,665,054	(6,734,626)
Decrease (increase) in interbank accounts	(915,223)	(2,804,190)
Decrease (increase) in interdepartmental accounts	(221,521)	(213,561)
Decrease (increase) in loan operations	(4,834,108)	(4,491,367)
Decrease (increase) in other receivables	(518,577)	206,078
Decrease (increase) in other assets	26,881	(169,172)
Write-off of allowance for loan losses	157,993	(397,555)
Increase (decrease) in other liabilities	1,812,270	2,076,456
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(7,704,655)	(16,606,629)

(A free translation of the original in Portuguese)

Caixa Econômica Federal – CEF

Notes to the financial statements at June 30, 2006 and 2005 in thousands of reais

	<u>2006</u>	<u>2005</u>
INVESTMENTS		
Increase (decrease) in compulsory deposits with the Brazilian Central Bank	(736,248)	(246,024)
Sale of investments	43,950	
Sale of property and equipment in use	65,696	132,930
Purchase of property and equipment in use		(90,527)
Decrease in deferred charges	(96,630)	
Increase in deferred charges	(56,828)	(50,829)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(780,060)	(254,450)
FINANCING		
Increase (decrease) in deposits		
Increase (decrease) in deposits received under security repurchase agreements	5,065,529	7,553,187
Increase (decrease) in funds from acceptance and issue of securities	3,633,365	8,441,787
Increase (decrease) in derivative financial instruments	(2,791,496)	(1,001,788)
Increase (decrease) in borrowings and onlendings	(61,775)	52,616
Interim dividends paid	2,552,384	1,745,728
Proposed dividends	(293,376)	(500,000)
Interest on own capital paid and/or provided	(305,200)	
Adjustment to market value	(321,115)	(299,128)
	(20,818)	(27,047)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	7,457,498	15,965,355
INCREASE IN CASH AND CASH EQUIVALENTS	316,761	41,388
CHANGES IN CASH AND CASH EQUIVALENTS		
At the beginning of the period		
At the end of the period	<u>935,710</u>	<u>700,557</u>
Increase in cash and cash equivalents	<u>1,252,471</u>	<u>741,945</u>
	<u>316,761</u>	<u>41,388</u>

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President

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