



**Financial
Statements**
December 2006

MANAGEMENT REPORT

We present the financial statements of Banco Itaú BBA S.A. ("Itaú BBA") for the year 2006. As of December 31 2006, assets totaled R\$ 54.8 billion, net equity was R\$ 5.3 billion and net profits for the year were R\$ 1.1 billion.

In 2006, Itaú BBA focus on attending its 1,100 economic groups through the following actions: (i) sustainability and leadership in investment banking activities, which was crowned by the election of the bank as the Best Investment Bank in Brazil by the influential Latin Finance Magazine; (ii) intensification of international activities; (iii) growth in structured and derivatives transactions and (iv) growth in credit operations.

In investment banking activities, Itaú BBA participated in 2006 in transactions totaling R\$ 24.2 billion and R\$ 1.7 billion, respectively in the fixed income instruments (debentures and promissory notes) and FIDCs (credit receivables funds). Itaú BBA ranked first in the ANBID (National Association of Investment Banks) ranking, covering transactions up to November 2006, in both fixed income and FIDCs, with market shares of 25% and 50% correspondingly.

In equities, Itaú BBA was coordinator and bookrunner in seven initial public offerings totaling R\$ 3.9 billion and in four secondary offerings totaling R\$ 3.4 billion. Based on the ANBID rankings these volumes represented 26% of all public offerings rolled out in 2006, placing Itaú BBA among the three most active institutions in the equities market.

According to Thomson Financial, Itaú BBA ranked second in mergers and acquisitions, with 19 transactions totaling R\$ 13.7 billion.

Internationally, the bank focused on the following product lines and initiatives: (i) foreign exchange transactions, (ii) structuring of long-term bilateral and syndicated loans; and (iii) refining of systems to better meet client needs and, consequently, to increase businesses volume.

It is also noteworthy the sizeable increase in derivatives transactions in 2006, due primarily to (i) a high demand for hedging from exporters wishing to neutralize the impact of a strengthening real and (ii) the offering of an increased variety of innovative derivative products.

Credit portfolio presented a growth of 14%, or 20% including guarantees, when compared with the previous year. This growth is even more relevant considering that the corporate segment sought after new financing alternatives through capital markets over the year. Noteworthy was the excellent credit quality at the end of 2006, where 98% of loans were assigned "AA", "A", and "B" risk ratings according to the criteria of Brazilian Central Bank Resolution 2.682.

The financial statements herein presented are in line with Central Bank regulatory requirements on the marking to market of securities and derivative instruments. Bonds classified as "held to maturity" reflect the intent of the institution and its financial capacity to maintain them until maturity.

We wish to thank our shareholders, clients and the financial community for their indispensable support and trust, as well as our employees who have made the bank's performance possible.

(Approved by the Board of Directors of Itaú BBA)

BALANCE SHEETS AT DECEMBER 31

In thousands of reais

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and banks	89,976	116,505
Interbank investments		
Investments in the open market	2,699,089	1,594,456
Interbank deposits	7,598,224	7,326,983
	10,297,313	8,921,439
Securities and derivative financial instruments		
Own portfolio	4,453,313	2,443,852
Subject to repurchase agreements	2,447,998	1,081,442
Deposits with the Brazilian Central Bank	-	24,173
Trading securities given in guarantee	1,342,469	386,247
Derivative financial instruments	1,458,970	2,179,626
	9,702,750	6,115,340
Interbank accounts		
Deposits with the Brazilian Central Bank	3,758	9,437
Interbank onlendings	1,424	-
Correspondents	24,868	64,210
	30,050	73,647
Loan and other credit operations		
Operations with credit assignment characteristics	10,404,695	8,735,249
Allowance for loan losses	(97,116)	(47,271)
	10,307,579	8,687,978
Other receivables		
Foreign exchange portfolio	1,774,343	2,100,918
Income receivable	15,372	8,239
Negotiation and intermediation of securities	199,304	413,622
Sundry receivables	146,981	417,960
	2,136,000	2,940,739
Other assets		
Other assets	16,168	3,314
Prepaid expenses	4,555	5,342
	20,723	8,656
TOTAL CURRENT ASSETS	32,584,391	26,864,304
LONG-TERM RECEIVABLES		
Interbank investments		
Investments in the open market	7,423,526	3,234,272
Interbank deposits	2,438,715	1,193,048
	9,862,241	4,427,320
Securities and derivative financial instruments		
Own portfolio	2,787,725	1,668,482
Subject to repurchase agreements	638,596	692,805
Deposits with the Brazilian Central Bank	-	88,972
Trading securities given in guarantee	135,318	147,955
Derivative financial instruments	849,459	647,424
	4,411,098	3,245,638
Interbank accounts - interbank onlendings	-	1,546
Loan and other credit operations		
Operations with credit assignment characteristics	6,715,744	6,258,068
Allowance for loan losses	(181,767)	(192,915)
	6,533,977	6,065,153
Other receivables		
Foreign exchange portfolio	2,137	-
Income receivable	1,280	1,074
Sundry receivables	424,630	419,625
	428,047	420,699
Other assets - prepaid expenses	5,443	7,142
TOTAL LONG-TERM RECEIVABLES	21,240,806	14,167,498
PERMANENT ASSETS		
Investments		
Investments in subsidiaries	957,088	106,549
Other investments	23,937	19,597
Provision for loss	(361)	(361)
	980,664	125,785
Fixed assets		
Properties for own use	10,713	10,713
Other fixed assets	49,773	50,418
Accumulated depreciation	(34,460)	(33,772)
	26,026	27,359
Deferred charges		
Organization and expansion expenses	7,245	6,059
Accumulated amortization	(2,251)	(1,505)
	4,994	4,554
TOTAL PERMANENT ASSETS	1,011,684	157,698
TOTAL ASSETS	54,836,881	41,189,500

BALANCE SHEETS AT DECEMBER 31

In thousands of reais

	2006	2005
LIABILITIES		
CURRENT LIABILITIES		
Deposits		
Demand deposits	114,590	78,807
Interbank deposits	8,607,954	9,720,803
Time deposits	2,349,264	3,540,792
Other deposits	3,498	1,470
	<u>11,075,306</u>	<u>13,341,872</u>
Securities sold under repurchase agreements		
Own portfolio	2,649,501	988,759
Third party portfolio	3,703,139	629,270
	<u>6,352,640</u>	<u>1,618,029</u>
Funds from acceptances and issue of securities - issue of securities abroad	65,410	49,574
Interdepartmental accounts - third party funds in transit	298,822	261,156
Borrowings and onlendings		
Local borrowings - other institutions	1,486	1,457
Foreign borrowings	2,514,063	2,440,423
Local onlendings - official institutions - National Bank for Economic and Social Development (BNDES)	624,249	600,374
Local onlendings - official institutions - Government Agency for Machinery and Equipment (FINAME)	368,329	269,975
Local onlendings - official institutions - OTHERS	3,159	46,251
	<u>3,511,286</u>	<u>3,358,480</u>
Derivative financial instruments	1,444,106	2,053,898
Other liabilities		
Collection and payment of taxes	1,162	642
Foreign exchange portfolio	1,850,674	2,175,434
Social and statutory	219,898	230,593
Taxes and social security contributions	342,340	345,331
Negotiation and intermediation of securities	296,552	336,663
Subordinated debt	62	67
Sundry liabilities	99,727	423,571
	<u>2,810,415</u>	<u>3,512,301</u>
TOTAL CURRENT LIABILITIES	25,557,985	24,195,310
LONG-TERM LIABILITIES		
Deposits		
Interbank deposits	13,211,950	3,775,293
Time deposits	2,499,565	1,443,794
	<u>15,711,515</u>	<u>5,219,087</u>
Securities sold under repurchase agreements		
Own portfolio	284,014	554,259
Third party portfolio	3,198,524	1,856,479
	<u>3,482,538</u>	<u>2,410,738</u>
Funds from acceptances and issue of securities - issue of securities abroad	417,687	388,204
Borrowings and onlendings		
Foreign borrowings	920,842	1,168,971
Local onlendings - official institutions - BNDES	1,253,679	1,570,835
Local onlendings - official institutions - FINAME	711,393	654,831
Local onlendings - official institutions - OTHERS	31,347	17,617
	<u>2,917,261</u>	<u>3,412,254</u>
Derivative financial instruments	740,914	505,937
Other liabilities		
Foreign exchange portfolio	2,148	-
Taxes and social security contributions	560,334	385,359
Subordinated debt	106,745	116,835
Sundry liabilities	-	3,352
	<u>669,227</u>	<u>505,546</u>
TOTAL LONG-TERM LIABILITIES	23,939,142	12,441,766
DEFERRED INCOME	21,631	12,275
STOCKHOLDERS' EQUITY		
Capital - local	2,877,207	2,755,795
Capital reserves	100,919	97,348
Revenue reserves	2,057,531	1,414,248
Adjustments to market value - securities and derivative financial instruments	37,187	27,479
Retained earnings	245,279	245,279
TOTAL STOCKHOLDERS' EQUITY	5,318,123	4,540,149
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	54,836,881	41,189,500

STATEMENTS OF INCOME

In thousands of reais, except net income per share

	2 nd six-month period of 2006	Years ended December 31	
		2006	2005
INCOME FROM FINANCIAL INTERMEDIATION			
Credit operations	723,655	1,264,369	1,385,886
Securities	1,457,636	2,607,570	2,564,011
Derivative financial instruments	377,168	909,677	1,104,730
Compulsory deposits	-	-	1,117
	2,558,459	4,781,616	5,055,744
EXPENSES ON FINANCIAL INTERMEDIATION			
Funds obtained in the market	(1,513,477)	(2,699,226)	(2,675,224)
Borrowings, credit assignments and onlendings	(179,186)	(224,432)	(164,831)
Foreign exchange, net	(17,942)	(27,676)	(24,393)
Allowance for loan losses	(11,137)	(40,149)	(45,716)
	(1,721,742)	(2,991,483)	(2,910,164)
NET INCOME FROM FINANCIAL INTERMEDIATION	836,717	1,790,133	2,145,580
OTHER OPERATING INCOME (EXPENSES)			
Commissions and fees	140,629	263,134	155,866
Personnel expenses	(91,781)	(178,690)	(155,072)
Other administrative expenses	(88,243)	(163,466)	(173,379)
Taxes	(53,628)	(131,151)	(131,498)
Equity in the earnings of subsidiaries	24,427	29,670	52,285
Other operating income	35,730	172,013	74,158
Other operating expenses	(49,822)	(78,336)	(47,827)
	(82,688)	(86,826)	(225,467)
NET OPERATING INCOME	754,029	1,703,307	1,920,113
NON-OPERATING INCOME (EXPENSES), NET	(736)	1,497	(5,644)
PROFIT BEFORE TAXATION AND PROFIT SHARING	753,293	1,704,804	1,914,469
INCOME TAX	(70,738)	(319,498)	(295,685)
SOCIAL CONTRIBUTION ON NET INCOME	(23,975)	(117,564)	(124,680)
NET DEFERRED TAXES	(41,659)	12,593	(78,222)
PROFIT SHARING	(91,208)	(174,771)	(129,440)
NET INCOME	525,713	1,105,564	1,286,442
NET INCOME PER SHARE - in reais	49.74	104.60	124.70

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In thousands of reais

	Capital	Capital increase	Capital reserves Fiscal incentives and other	Revenue reserves Legal	Statutory	Adjustments to market value - securities and derivative financial instruments	Retained earnings	Total
Balances at December 31, 2004	2,715,795	40,000	93,277	123,541	473,610	40,772	245,279	3,732,274
Approval of capital	40,000	(40,000)	-	-	-	-	-	-
Revaluation of stock exchange membership certificates and others	-	-	4,071	-	-	-	-	4,071
Adjustments to market value - securities and derivative financial instruments	-	-	-	-	-	(13,293)	-	(13,293)
Net income for the year	-	-	-	-	-	-	1,286,442	1,286,442
Appropriation to legal reserve	-	-	-	64,323	-	-	(64,323)	-
Dividends paid/provided (R\$10.987 per share)	-	-	-	-	(55,896)	-	(57,449)	(113,345)
Interest on own capital paid/provided (R\$34.510 per share)	-	-	-	-	-	-	(356,000)	(356,000)
Constitution of statutory reserves	-	-	-	-	808,670	-	(808,670)	-
Balances at December 31, 2005	2,755,795	-	97,348	187,864	1,226,384	27,479	245,279	4,540,149
Changes in the period	40,000	(40,000)	4,071	64,323	752,774	(13,293)	-	807,875
Capital increase	121,412	-	-	-	-	-	-	121,412
Revaluation of stock exchange membership certificates	-	-	3,571	-	-	-	-	3,571
Adjustments to market value - securities and derivative financial instruments	-	-	-	-	-	9,708	-	9,708
Net income for the year	-	-	-	-	-	-	1,105,564	1,105,564
Appropriation to legal reserve	-	-	-	55,278	-	-	(55,278)	-
Dividends paid/provided (R\$10.529 per share)	-	-	-	-	(111,281)	-	-	(111,281)
Interest on own capital paid/provided (R\$33.210 per share)	-	-	-	-	-	-	(351,000)	(351,000)
Constitution of statutory reserves	-	-	-	-	699,286	-	(699,286)	-
Balances at December 31, 2006	2,877,207	-	100,919	243,142	1,814,389	37,187	245,279	5,318,123
Changes in the period	121,412	-	3,571	55,278	588,005	9,708	-	777,974
Balances at June 30, 2006	2,755,795	-	99,314	216,857	1,544,615	9,710	245,279	4,871,570
Capital increase	121,412	-	-	-	-	-	-	121,412
Revaluation of stock exchange membership certificates	-	-	1,605	-	-	-	-	1,605
Adjustments to market value - securities and derivative financial instruments	-	-	-	-	-	27,477	-	27,477
Net income for the six-month period	-	-	-	-	-	-	525,713	525,713
Appropriation to legal reserve	-	-	-	26,285	-	-	(26,285)	-
Dividends provided (R\$1.030 per share)	-	-	-	-	(10,888)	-	-	(10,888)
Interest on own capital paid/provided (R\$20.699 per share)	-	-	-	-	-	-	(218,766)	(218,766)
Constitution of statutory reserves	-	-	-	-	280,662	-	(280,662)	-
Balances at December 31, 2006	2,877,207	-	100,919	243,142	1,814,389	37,187	245,279	5,318,123
Changes in the period	121,412	-	1,605	26,285	269,774	27,477	-	446,553

STATEMENTS OF CHANGES IN FINANCIAL POSITION

In thousands of reais

	2nd six-month period of 2006	2006	2005
FINANCIAL RESOURCES WERE PROVIDED BY:			
Adjusted net income			
Net income	525,713	1,105,564	1,286,442
Amortization and depreciation	4,693	7,787	38,492
Equity in the earnings of subsidiaries	(24,427)	(29,670)	(52,285)
Amortization of goodwill	35,846	35,846	-
	541,825	1,119,527	1,272,649
Adjustments to market value - securities and derivative financial instruments	27,477	9,708	(13,293)
Changes in deferred income	10,287	9,356	1,707
Resources from Stockholders - capital increase	121,412	121,412	-
Revaluation of stock exchange membership certificates and others	1,605	3,571	4,071
Third party resources provided by:			
Increase in current and long-term liabilities			
Deposits	9,390,350	8,225,862	5,611,132
Securities sold under repurchase agreements	4,848,980	5,806,411	1,519,187
Funds from acceptances and issue of securities	-	45,319	-
Interbank accounts	-	37,666	56,292
Borrowings and onlendings	918,034	-	-
Derivative financial instruments	-	-	1,409,839
Other liabilities	35,800	-	128,279
	15,193,164	14,115,258	8,724,729
Decrease in current assets and long-term receivables			
Interbank investments	36	45,143	53,963
Other receivables and other assets	256,433	787,023	-
	256,469	832,166	53,963
Dividends received	38,087	38,087	-
Decrease in investments in subsidiaries	32,048	40,084	-
Disposal of investments	237	768	90
Disposal of fixed assets	39	298	903
	16,222,650	16,290,235	10,044,819
FINANCIAL RESOURCES WERE USED FOR:			
Dividends paid/provided	10,888	111,281	113,345
Interest on own capital paid/provided	218,766	351,000	356,000
Investments in:			
Subsidiaries	165,012	167,544	33,120
Goodwill on purchase of investments	767,874	767,874	-
Other investments	2,610	4,576	4,834
Fixed assets	3,500	6,109	4,040
Increase in deferred income	1,083	1,083	6,220
Increase in current assets and long-term receivables			
Interbank investments	8,102,358	6,810,795	4,417,370
Securities and derivative financial instruments	3,456,939	4,752,870	1,939,441
Loan and other credit operations	2,583,659	2,088,425	733,258
Other assets	-	-	690,037
	14,142,956	13,652,090	7,780,106
Decrease in current and long-term liabilities			
Funds from acceptances and issue of securities	96,424	-	415,412
Interbank accounts	829	-	-
Interdepartmental accounts	152,862	-	-
Borrowings and onlendings	-	342,187	1,329,593
Derivative financial instruments	705,676	374,815	-
Other liabilities	-	538,205	-
	955,791	1,255,207	1,745,005
	16,268,480	16,316,764	10,042,670
INCREASE (DECREASE) IN CASH AND BANKS	(45,830)	(26,529)	2,149
CASH AND BANKS			
At the beginning of the six-month-period/year	135,806	116,505	114,356
At the end of the six-month-period/year	89,976	89,976	116,505
INCREASE (DECREASE) IN CASH AND BANKS	(45,830)	(26,529)	2,149

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

All amounts in thousands of reais, unless otherwise indicated

1. OPERATIONS

Banco Itaú BBA S.A. ("Itaú BBA") develops its businesses within a wholesale bank structure, directed towards rendering quality customer service.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of Itaú BBA have been prepared in conformity with Brazilian corporate legislation together with the rules and regulations of the Brazilian Central Bank (BACEN), and the National Monetary Council (CMN). As determined by BACEN Circular 2804/98, the financial information of the foreign branches is included in the consolidated financial statements of Itaú BBA, converted into Brazilian reais at the exchange rates prevailing on the balance sheet dates.

As determined in the sole paragraph of article 7 of BACEN Circular 3068/01, securities classified as trading securities are presented in the balance sheet under current assets, regardless of their maturity dates.

Advances on exchange contracts are reclassified from Other liabilities – Foreign exchange portfolio. The result on foreign exchange operations is presented on an adjusted basis, with the reclassification of income and expenses, in order to only present the impact of variations and differences of exchange rates on the balance sheet accounts in foreign currencies.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Interbank investments, Deposits with the BACEN, Remunerated deposits, Securities sold under repurchase agreements, Funds from acceptances and issue of securities, Borrowings and onlendings and Other receivables and payables

Transactions subject to monetary restatements and exchange variations and transactions with prefixed charges are recorded at present values, calculated "pro rata diem" based on the variation of the contracted index and interest rate.

b) Securities

In accordance with BACEN Circular 3068/01 and complementary regulations, securities are classified in three specific categories, based on the Bank's intention of negotiation. Accordingly, securities are being presented in conformity with the following criteria for recording and accounting valuation, in the following categories:

- i - Trading securities – securities acquired to be actively and frequently traded, adjusted to market value with a corresponding entry to income or expense for the period;
- ii - Securities available for sale – securities that can be negotiated but are not acquired to be actively and frequently traded, adjusted to market value with a corresponding entry to the stockholders' equity account "Adjustments to market value – securities and derivative financial instruments"; and
- iii - Securities held to maturity – securities, except for non-redeemable shares, for which there is the intention or obligation and financial capacity of the Bank to hold them in the portfolio up to their maturity, recorded at cost of acquisition or market value when transferred from another category. The securities are updated by accrued income up to their maturity date and are not adjusted to market value.

The gains and losses on securities available for sale, when realized, are recognized in the statement of income at the date of negotiation, with a corresponding entry to the stockholders' equity account, "Adjustments to market value – securities and derivative financial instruments".

Decreases in the market value of securities available for sale and those held to maturity, below their updated costs, resulting from reasons considered not to be temporary, are recorded as realized losses in the statement of income.

c) Derivative financial instruments

The derivative financial instruments are classified on the date of their acquisition in accordance with the intention of the Bank to use them for hedge purposes or not, in accordance with BACEN Circular 3082/02.

The derivative financial instruments which do not meet the criteria for hedge, particularly those used to manage overall risk exposure, are accounted for at market value with the realized and unrealized gains and losses recognized directly in the statement of income.

The derivatives used for protection against risk exposure or to modify the characteristics of assets and liabilities which might be highly associated to changes in the market value of the item being protected, both at the beginning or throughout the duration of the contract, and which are deemed to be effective in reducing the risk-related exposure being protected, are classified as a hedge, in accordance with their nature:

- i - "Market risk hedge" – Financial assets and liabilities, as well as their related financial instruments, are accounted for at market value with the realized and unrealized gains and losses recognized directly in the statement of income;
- ii - "Cash flow hedge" – The effective amount of the hedge of financial assets and liabilities, as well as their related financial instruments, are accounted for at their market value with the realized and unrealized gains and losses, net of tax effects, when applicable, recorded in a specific account in stockholders' equity. The ineffective amount of the hedge is recorded directly in the statement of income;
- iii - However, if the hedging instrument is a security classified as "securities held to maturity", the security as well as the derivative financial instrument are recorded in the accounts in accordance with the intrinsic contractual conditions, and are not adjusted to market value.

d) Loans and other credits operations (Operations with credit assignment characteristics)

These transactions are recorded at present values and calculated "pro rata diem" based on the variation of the contracted index and interest rate, and are recorded on the accrual basis until 60 days overdue. After the 60th day, income is recognized upon the effective receipt of the amounts.

e) Allowance for loan losses

The allowance for loan losses is constituted based on an analysis of the credit risk in an amount considered sufficient to cover losses and in accordance with the rules determined by CMN Resolution 2682/99, among which are:

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

- i - The allowances are recorded from the date of the loan disbursements, based on the client risk classification, and through a periodic analysis of the quality of the client and the industry and not just in the event of default;
- ii - Based exclusively on default, the write-offs of credit operations may be carried out 360 days after the due date of the credit or after 540 days for operations that mature in a period in excess of 36 months.

f) Investments

The investments in subsidiaries are stated on the equity method of accounting. The consolidated financial statements of foreign branches are adapted to comply with Brazilian accounting practices and converted into reais. Other investments are recorded at cost plus price-level restatements up to December 31, 1995 and, when applicable, are adjusted to market value through a provision for loss, in accordance with current standards.

The Goodwill is being amortized based on the expected future profitability (10 years) or by the realization of investments.

g) Fixed assets

Fixed assets are stated at cost plus price-level restatements up to December 31, 1995, less accumulated depreciation. Depreciation is calculated on the straight-line method, on the restated cost. Installations and equipment with residual value up to R\$3 are fully depreciated. Depreciation is calculated at the following annual rates:

Properties for own use	4%
Communication systems, installations, furniture and fixtures	10%
Vehicles and data processing equipment	20%

h) Deferred charges

Deferred organization and expansion expenses, which basically represent leasehold improvements and the purchase of *software*, are amortized on the straight-line method over the contractual terms, limited to ten and five years, respectively.

i) Contingent assets and liabilities and legal liabilities – Tax and social security

These assets and liabilities are recognized and disclosed according to the provisions established in CVM (Brazilian Securities Commission) Resolution 489/05.

i - Contingent assets and liabilities:

These assets and liabilities refer to potential rights and obligations arising from past events and whose occurrence is dependent upon future events.

- Contingent assets: these assets are not recognized, except on evidence assuring a high possibility of realization, usually represented by the award of a final unappealable judgment with the recovery confirmed by the ability to receive the amounts or to offset against another liability.
- Contingent liabilities: these liabilities basically arise from administrative proceedings and lawsuits, in the normal course of business, filed by third parties, former employees and government entities, in connection with civil, labor, tax and social security lawsuits and other risks. The contingencies are calculated based on conservative practices, being usually recorded based on the opinion of legal advisors of the probability that financial resources will be required to settle the liabilities and that the amounts may be estimated with sufficient accuracy. Contingencies are classified as probable, for which provisions are recorded, possible, which are disclosed but not recorded, or remote, for which neither recognition nor disclosure is required. Any contingent amounts are measured through the use of models and criteria which allow their adequate measurement despite the uncertainty of their term and amounts.

ii - Legal liabilities – Tax and social security:

These liabilities are represented by amounts payable relating to tax liabilities, whose legality or constitutionality is subject to administrative or judicial challenge; they are recorded at the full amount under discussion.

Escrow deposits are restated in accordance with the current legislation.

j) Taxes

The provisions are calculated according to current legislation at the rates shown below, on calculation bases determined in accordance with current legislation for each tax.

Income tax	15.00%
Additional income tax	10.00%
Social contribution on net income	9.00%
PIS - Social Integration Program	0.65%
COFINS - Social Contribution on Revenues	4.00%
ISS - Services Tax	up to 5.00%
CPMF – Tax on Bank Outflows	0.38%

Itaú BBA recognizes deferred income tax and social contribution on net income on temporarily non-deductible provisions recorded, income tax and social contribution losses; and on adjustments to market value of its own securities and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

k) Deferred income

Deferred income refers basically to income received in advance of the obligation to which it refers and for which there is no prospect of payment, and which will be recorded as effective income over the term of the transaction.

l) Determination of net income

Net income is recorded on the accrual basis of accounting.

4. INTERBANK INVESTMENTS

Interbank investments can be summarized as follows:

	2006					2005				
	Balance	Due up to three months	Due from three to six months	Due from six to 12 months	Due after 12 months	Balance	Due up to three months	Due from three to six months	Due from six to 12 months	Due after 12 months
Investments in the open market										
Funded position										
Without free movement	2,702,717	252,174	36,274	353,834	2,060,435	1,173,317	598,455	-	-	574,862
With free movement ^(*)	52,339	688	51,651	-	-	958,389	958,389	-	-	-
	2,755,056	252,862	87,925	353,834	2,060,435	2,131,706	1,556,844	-	-	574,862
Financed position	7,367,559	1,371,677	275,895	356,896	5,363,091	2,697,022	37,612	-	-	2,659,410
	10,122,615	1,624,539	363,820	710,730	7,423,526	4,828,728	1,594,456	-	-	3,234,272
Interbank deposits	10,036,939	3,613,394	2,235,301	1,749,529	2,438,715	8,520,031	3,326,757	1,042,609	2,957,617	1,193,048
Total	20,159,554	5,237,933	2,599,121	2,460,259	9,862,241	13,348,759	4,921,213	1,042,609	2,957,617	4,427,320

(*) At December 31, 2006 there were no securities pledged in guarantee (2005 - R\$684,025 restricted to guarantee of operations in the Futures and Commodities Exchange (BM&F)).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

5. SECURITIES

	2006							
	Cost of acquisition^(b)	Market value^(c)	Adjustment (cost less market)		Due up to three months	Due from three to six months	Due from six to 12 months	Maturity
			Gross amount	Net amount				Due after 12 months
Trading:^(a)								
Brazilian government securities	1,794,097	1,812,901	18,804		208,671	48,509	339,359	1,216,362
Foreign government securities	1,610,716	1,614,066	3,350		37,354	4,162	-	1,572,550
Debentures and commercial paper	80,580	73,854	(6,726)		18,422	-	3,154	52,278
Shares	79,033	87,125	8,092		87,125	-	-	-
Bank certificates of deposit	225,236	225,236	-		225,236	-	-	-
Real estate receivables certificates	94,873	99,448	4,575		-	-	15,809	83,639
Term of energy certificates	121,326	122,377	1,051		33,372	33,376	55,629	-
Eurobonds	131,559	139,219	7,660		-	1,853	-	137,366
Funds	477,566	477,566	-		477,566	-	-	-
	<u>4,614,986</u>	<u>4,651,792</u>	<u>36,806^(d)</u>		<u>1,087,746</u>	<u>87,900</u>	<u>413,951</u>	<u>3,062,195</u>
Available for sale:								
Brazilian government securities	568,267	572,641	4,374	2,900	223,579	48,696	94,266	206,100
Foreign government securities	214,900	211,178	(3,722)	(2,342)	-	-	-	211,178
Debentures and commercial paper	2,366,144	2,368,391	2,247	1,414	388,401	37,994	146,163	1,795,833
Shares	550,371	556,204	5,833	3,671	556,204	-	-	-
Real estate receivables certificates	76,594	76,916	322	203	217	8,231	3,155	65,313
Notes	2,143,548	2,194,878	51,330	33,878	595,068	81,441	392,530	1,125,839
Eurobonds	76,942	73,099	(3,843)	(2,537)	9,428	176	27,721	35,774
Funds	945,619	945,619	-	-	945,619	-	-	-
	<u>6,942,385</u>	<u>6,998,926</u>	<u>56,541</u>	<u>37,187^(e)</u>	<u>2,718,516</u>	<u>176,538</u>	<u>663,835</u>	<u>3,440,037</u>
Held to maturity:								
Brazilian government securities	125,622	162,544			14,301	1,533	14,604	95,184
Foreign government securities	20,216	23,393			577	-	-	19,639
Debentures and commercial paper	8,863	8,858			549	530	1,005	6,779
	<u>154,701</u>	<u>194,795^(f)</u>			<u>15,427</u>	<u>2,063</u>	<u>15,609</u>	<u>121,602</u>
Total	<u>11,712,072</u>	<u>11,845,513</u>			<u>3,821,689</u>	<u>266,501</u>	<u>1,093,395</u>	<u>6,623,834</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

	2005							
	Cost of acquisition ^(b)	Market value ^(c)	Adjustment (cost less market)		Due up to three months	Due from three to six months	Due from six to 12 months	Maturity Due after 12 months
			Gross amount	Net amount				
Trading:^(a)								
Brazilian government securities	1,014,322	1,051,765	37,443		31,940	521	-	1,019,304
Foreign government securities	59,178	63,122	3,944		585	-	-	62,537
Shares	1,674	1,251	(423)		1,251	-	-	-
Bank certificates of deposit	146,868	146,868	-		90,385	56,483	-	-
Real estate receivables certificates	98,005	96,860	(1,145)		-	-	15,436	81,424
Term of energy certificates	27,678	29,002	1,324		-	1,633	9,742	17,627
Eurobonds	61,197	64,262	3,065		-	852	-	63,410
Funds	273,161	273,161	-		273,161	-	-	-
	<u>1,682,083</u>	<u>1,726,291</u>	<u>44,208^(d)</u>		<u>397,322</u>	<u>59,489</u>	<u>25,178</u>	<u>1,244,302</u>
Available for sale:								
Brazilian government securities	543,159	549,483	6,324	4,124	42,998	49,691	213,162	243,632
Debentures	1,511,056	1,511,617	561	353	43,461	14,198	68,003	1,385,955
Shares	658,732	669,092	10,360	6,466	669,092	-	-	-
Real estate receivables certificates	60,314	58,036	(2,278)	(1,434)	215	8,173	409	49,239
Notes	892,480	922,985	30,505	20,134	3,893	31,248	179,262	708,582
Eurobonds	747,782	744,552	(3,230)	(2,164)	577,150	100,505	6,892	60,005
Funds	152,149	152,149	-	-	152,149	-	-	-
	<u>4,565,672</u>	<u>4,607,914</u>	<u>42,242</u>	<u>27,479^(e)</u>	<u>1,488,958</u>	<u>203,815</u>	<u>467,728</u>	<u>2,447,413</u>
Held to maturity:								
Brazilian government securities	155,650	208,251			16,102	1,739	16,518	121,291
Foreign government securities	22,201	24,145			635	-	-	21,566
Debentures	10,158	10,155			585	563	1,066	7,944
Eurobonds	11,714	11,878			-	11,714	-	-
	<u>199,723</u>	<u>254,429^(f)</u>			<u>17,322</u>	<u>14,016</u>	<u>17,584</u>	<u>150,801</u>
Total	<u>6,447,478</u>	<u>6,588,634</u>			<u>1,903,602</u>	<u>277,320</u>	<u>510,490</u>	<u>3,842,516</u>

(a) Securities classified as trading securities are presented in the balance sheet as current assets regardless of their maturity dates.

(b) Cost of acquisition plus income accrued up to the balance sheet date.

(c) The market value is determined considering cash flows discounted to present value using interest rates or prices considered as representative of market conditions on the closing of the balance sheet, applicable for each type of security.

(d) Recognized directly in the statement of income.

(e) The unrealized gains/losses are recorded in a special stockholders' equity account at their amounts net of taxes.

(f) Securities held to maturity are not stated at market values for accounting purposes and the amounts presented are therefore only informative.

Comments:

i - Securities given in guarantee amount to R\$1,477,787 (2005 - R\$534,202) and basically refer to derivative financial instrument transactions in the BM&F.

ii - No reclassifications or changes to the current guidelines were carried out in the period.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

6. DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with BACEN Circular 3082/02 and later regulations, derivative financial instruments are understood to be those whose value varies as a result of changes in the underlying assets, which can be interest rates, the price of the security, the price of the merchandise, foreign exchange rate, stock exchange index, price index, credit index or classification, or any other similar specific variable, whose initial investment is non-existent or small in relation to the value of the contract, and which will be liquidated at a future date.

The globalization of the markets in recent years has resulted in a high level of sophistication in the financial products used. As a result of this process, there has been an increasing demand for derivative financial instruments to manage market risks mainly arising from fluctuations in interest and foreign exchange rates and asset prices. As a result, Itaú BBA is operating in the derivatives markets, either in response to increasing customer needs, or in the performance of its own risk management policy. This policy is based on the use of derivative instruments to minimize the risks resulting from commercial and financial transactions.

The derivatives negotiated by Itaú BBA are acquired for three basic purposes:

- Credit risk hedge - to provide insurance against losses related to loan operations;
- Market risk hedge - to perform hedges of the structural portfolio, arising from commercial bank operations; and
- Trading - to serve as instruments for Itaú BBA to assume own and risk management positions for the derivatives traded with large customers.

Most derivative contracts traded with customers in Brazil are swap and futures contracts, which are registered at the BM&F or at the Clearing House for the Custody and Financial Settlement of Securities (CETIP). BM&F futures contracts involving interbank deposit rates and U.S. dollars are mainly used to lock the financing rates offered to customers with maturities or in a currency which are mismatched with the resources used to fund these operations. Itaú BBA carries out transactions overseas with futures contracts, forwards, options and swaps, with registration mainly in the Chicago, New York and London exchanges.

The main risk factors of the derivatives assumed by Itaú BBA at December 31, 2006 are related to foreign exchange rates, interest rates, U.S. dollar coupon, Reference Rate (TR), Libor and variable income. The management of these and other market risk factors is supported by an infrastructure of sophisticated statistical and deterministic models. Based on this management model, the Bank, with the use of transactions involving derivatives, has been able to maximize the relation of risk and return, even under situations of high volatility.

Itaú BBA has an independent Risk Management Area, which monitors the risks inherent to the derivative financial instruments by means of a specific methodology and in accordance with specific rules for risk assumption. Models employed for the control of risk are evaluated daily through the study of "back test" - comparison of the predicted risks with the results obtained as a result of the actual market behaviour. These constant assessments ratify the good quality of the controls utilized.

The adjustment of the positions to the pre-established limits is monitored daily and communicated through appropriate reports to the various levels of management.

The risk measurement and pricing models used are proprietary, developed internally and equivalent to prudent international standards.

The pricing of the derivative instruments and the determination of the reference prices and of the term structures of interest rates by currency are activities under the responsibility of the risk management area and independent of the business areas that perform transactions.

The pricing models used are compatible with the complexity of the transactions and appropriate for the financial instruments negotiated. The techniques used are based on asset valuation models contingent to the options (*such as the Black & Scholes models*) and models of non-arbitration for the futures and swap contracts.

The establishment of the market values of derivative instruments is determined using the available market information, such as from brokers, external information providers and even comparisons with rates and prices of other banks, thereby achieving a consistent valuation of the actual market values of the priced instruments.

The senior management of Itaú BBA is responsible for, and directly involved in, the promotion and spread of the risk management culture throughout the organization. The control activities are an integral part of the management process of the Bank and of the daily activities of the senior management and the other management levels.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

Derivative financial instruments can be summarized as follows:

a) SWAP and arbitrage transactions ^(*)

	2006				2005			
	Amounts per contracted rates and indices			Market value	Amounts per contracted rates and indices			Market value
	Assets	Liabilities	Net position	Net position	Assets	Liabilities	Net position	Net position
i) Index:								
a) Foreign currency	20,527,591	18,318,209	2,209,382	2,619,005	12,025,069	16,542,694	(4,517,625)	(3,986,725)
b) Floating rates	19,575,125	58,657,538	(39,082,413)	(39,000,936)	103,081	383,933	(280,852)	(276,927)
c) Fixed rates	68,815,760	11,245,770	57,569,990	57,048,701	8,849,089	5,925,109	2,923,980	2,604,084
d) Interbank market	13,806,808	33,899,073	(20,092,265)	(20,106,599)	16,527,965	14,147,423	2,380,542	2,341,523
e) Indices	4,255,112	4,647,920	(392,808)	(420,546)	4,055,368	4,610,099	(554,731)	(522,516)
f) Others	126,219	127,602	(1,383)	(1,803)	21,492	25,260	(3,768)	(3,620)
	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>
ii) Counterparties:								
a) Companies	15,873,258	15,358,217	515,041	397,929	9,802,056	9,482,586	319,470	443,553
b) BM&F	11,345,130	11,338,611	6,519	(347)	8,592,156	8,578,018	14,138	35,007
c) Financial institutions	60,081,912	60,180,491	(98,579)	(90,476)	4,777,192	4,774,286	2,906	15,397
d) Related parties	<u>39,806,315</u>	<u>40,018,793</u>	<u>(212,478)</u>	<u>(169,284)</u>	<u>18,410,660</u>	<u>18,799,628</u>	<u>(388,968)</u>	<u>(338,138)</u>
	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>
iii) Maturity:								
a) Due up to three months	72,891,634	72,955,547	(63,913)	(61,968)	14,817,672	14,887,774	(70,102)	(45,282)
b) Due from three to six months	7,816,333	7,791,427	24,906	32,525	5,942,536	5,894,435	48,101	76,479
c) Due from six to 12 months	10,367,865	10,329,304	38,561	47,943	9,271,842	9,327,847	(56,005)	(28,672)
d) Due after 12 months	<u>36,030,783</u>	<u>35,819,834</u>	<u>210,949</u>	<u>119,322</u>	<u>11,550,014</u>	<u>11,524,462</u>	<u>25,552</u>	<u>153,294</u>
	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>
iv) Market:								
a) BM&F	11,357,946	11,346,462	11,484	4,531	10,380,118	10,353,969	26,149	39,524
b) Over-the-counter market	<u>115,748,669</u>	<u>115,549,650</u>	<u>199,019</u>	<u>133,291</u>	<u>31,201,946</u>	<u>31,280,549</u>	<u>(78,603)</u>	<u>116,295</u>
	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>

^(*) The arbitrage transactions are classified in Other receivables and Other liabilities - foreign exchange portfolio.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

b) Options

	Premium paid or (received)			
	2006		2005	
	Cost	Market value	Cost	Market value
i) Contractual rights:				
a) Foreign currency	19,843	9,677	65,010	117,940
b) Reais	1,567	1,562	4,575	202
c) Securities	8,151	6,437	17,075	7,997
d) Indices	19,286	11,108	32,001	76,856
e) Shares	175,163	194,520	4,500	84,289
f) Others	3,657	5,264	670	822
	<u>227,667</u>	<u>228,568</u>	<u>123,831</u>	<u>288,106</u>
ii) Contractual obligations:				
a) Foreign currency	(25,193)	(11,000)	(50,167)	(56,433)
b) Reais	(19,688)	(10,276)	(50,790)	(177,542)
c) Securities	(6,302)	(3,823)	(12,505)	(5,352)
d) Indices	(18,985)	(10,621)	(27,757)	(2,707)
e) Others	-	-	(669)	(839)
	<u>(70,168)</u>	<u>(35,720)</u>	<u>(141,888)</u>	<u>(242,873)</u>
Total	<u>157,499</u>	<u>192,848</u>	<u>(18,057)</u>	<u>45,233</u>
iii) Counterparties:				
a) Companies	174,317	193,986	4,597	73,388
b) BM&F/BOVESPA (São Paulo Stock Exchange)	(8,811)	(5,653)	22,417	133,752
c) Financial institutions	(9,300)	1,373	(45,071)	(161,907)
d) Related parties	1,293	3,142	-	-
	<u>157,499</u>	<u>192,848</u>	<u>(18,057)</u>	<u>45,233</u>
iv) Maturity:				
a) Due up to three months	(9,789)	3,364	(25,363)	(44,507)
b) Due from three to six months	174,213	193,518	7,336	97,055
c) Due from six to 12 months	(9,456)	(7,875)	(30)	(7,315)
d) Due after 12 months	2,531	3,841	-	-
	<u>157,499</u>	<u>192,848</u>	<u>(18,057)</u>	<u>45,233</u>
v) Market:				
a) BM&F/BOVESPA	(8,812)	(5,653)	22,417	133,752
b) Over-the-counter market	166,311	198,501	(40,474)	(88,519)
	<u>157,499</u>	<u>192,848</u>	<u>(18,057)</u>	<u>45,233</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

c) Futures contracts

	2006			2005		
	Cost	Market value	Net position	Cost	Market value	Net position
i) Index:						
a) US dollar coupon (DDI)						
Purchase contracts	5,945,579	5,950,421	4,842	4,048,667	4,064,763	16,096
Sale contracts	(5,750,075)	(5,754,749)	(4,674)	(3,199,616)	(3,212,163)	(12,547)
b) Interest rate (DI1)						
Purchase contracts	17,252,496	17,261,007	8,511	15,162,892	15,172,989	10,097
Sale contracts	(5,081,780)	(5,084,270)	(2,490)	(6,675,570)	(6,679,934)	(4,364)
c) Foreign currency						
Purchase contracts	1,120,329	1,120,413	84	2,799,882	2,799,912	30
Sale contracts	(82,870)	(82,894)	(24)	(1,553,361)	(1,553,512)	(151)
d) Indices						
Purchase contracts	2,224,352	2,224,352	-	9,830,957	9,830,957	-
Sale contracts	(59,640,743)	(59,640,707)	36	(1,174,400)	(1,174,399)	1
e) Securities						
Purchase contracts	86,613	86,095	(518)	118,310	118,302	(8)
Sale contracts	(8,789)	(8,731)	58	(2,081,593)	(2,081,601)	(8)
f) Others						
Purchase contracts	2,279	2,279	-	-	-	-
Sale contracts	(933)	(933)	-	-	-	-
	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
ii) Counterparties:						
a) BM&F						
	13,475,193	13,481,018	5,825	10,685,680	10,694,826	9,146
b) Financial institutions						
	(57,408,735)	(57,408,735)	-	6,590,488	6,590,488	-
	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
iii) Maturity:						
a) Due up to three months						
	(50,509,417)	(50,508,873)	544	160,962	153,339	(7,623)
b) Due from three to six months						
	10,747,314	10,755,301	7,987	13,262,581	13,270,852	8,271
c) Due from six to 12 months						
	3,409,259	3,412,036	2,777	2,486,747	2,488,578	1,831
d) Due after 12 months						
	(7,580,698)	(7,586,181)	(5,483)	1,365,878	1,372,545	6,667
	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
iv) Market:						
a) BM&F						
	13,475,193	13,481,018	5,825	10,685,680	10,694,826	9,146
b) Over-the-counter market						
	(57,408,735)	(57,408,735)	-	6,590,488	6,590,488	-
	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

d) Other derivative financial instruments - over-the-counter market

	2006		2005	
	Cost	Market value	Cost	Market value
i) Index:				
a) Foreign currency				
Purchase contracts	569,453	575,301	1,114,244	1,120,226
Sale contracts	(719,664)	(747,989)	(1,078,597)	(1,080,974)
b) Reais				
Purchase contracts	5,150	5,150	5,098	5,133
Sale contracts	(56,089)	(56,089)	-	-
c) Fixed rates				
Purchase contracts	4,830	46,716	12,873	17,563
Sale contracts	(6,095)	(36,215)	(960)	(3,910)
d) Others				
Purchase contracts	284	284	-	-
Sale contracts	(249)	(249)	-	-
	<u>(202,380)</u>	<u>(213,091)</u>	<u>52,658</u>	<u>58,038</u>
ii) Counterparties:				
a) Companies	(156,147)	(178,666)	53,079	55,592
b) Financial institutions	(46,652)	(34,888)	(1,358)	741
c) Related parties	419	463	937	1,705
	<u>(202,380)</u>	<u>(213,091)</u>	<u>52,658</u>	<u>58,038</u>
iii) Maturity:				
a) Due up to three months	(50,115)	(50,697)	20,736	21,124
b) Due from three to six months	(39,469)	(42,820)	24,813	27,392
c) Due from six to 12 months	(89,486)	(104,956)	20,827	21,329
d) Due after 12 months	(23,310)	(14,618)	(13,718)	(11,807)
	<u>(202,380)</u>	<u>(213,091)</u>	<u>52,658</u>	<u>58,038</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

e) Credit derivatives

Itaú BBA carries out operations involving credit derivatives for the following purposes: a) reducing or eliminating its exposure to specific risks to the assets of its balance sheet based on the concept of credit portfolio management; and b) assuming risk positions by way of hedging purchases or sales based on the trading concept. The transactions carried out for credit portfolio management mitigate the specific risks of the counterparty debtor, transferring these risks, totally or partially, to the institution that sells the hedge. These risks are monitored daily in view of the credit limits established for each counterparty, thus ensuring that they are properly managed. The transactions realized by the Treasury Department are controlled daily through of sophisticated pricing and risk market measurement models, affecting the VaR and VaR Stress limits established by it.

The transactions which existed at December 31 can be summarized as follows:

	Amount of credit risk		Effect in the calculation of the minimum stockholders' equity required	
	2006	2005	2006	2005
Transferred:				
Credit swaps whose underlying assets are:				
Securities	(438,290)	-	(48,212)	-
Derivatives with companies	(50,000)	-	(5,500)	-
Total return rate swap: Securities	(160,350)	-	(17,639)	-
Received:				
Credit swaps whose underlying assets are:				
Securities	2,019,733	-	38,805	-
Derivatives with companies	100,000	87,500	11,000	9,625
Total	1,471,093	87,500	(21,546)	9,625

The market value of the credit derivative operations described above, recorded in assets, amounted to R\$46,431, and in liabilities, to R\$35,930 (2005 - R\$ 221).

See Note 6d.

During the year, there was no occurrence of a credit event related to the generating facts ("triggers") specified in the agreements.

f) The guarantees

The guarantees given in the derivative financial instrument transactions amounted to R\$1,236,193 (2005 - R\$858,717), represented by securities.

7. LOAN AND OTHER CREDIT OPERATIONS AND ALLOWANCE FOR LOAN LOSSES

Itaú BBA is a wholesale bank and, therefore, concentrates its business mainly on large Brazilian and multinational corporations; consequently, individual loans involve high amounts (an average of approximately R\$18 million (2005 - R\$19 million) per customer).

The recommended credit limits are subject to a strict formal approval process by the Credit Committee, which includes, amongst others, the President, the Commercial Vice-Presidents, two members of the Administrative Council, the Director of Credit and the Commercial Directors, and the decisions of this Credit Committee are reported to the Executive Committee, which includes the President and certain directors of Itaú BBA. The credit limits exceeding certain amounts (related to the risk rating of the economic group) are discussed and evaluated by the Superior Credit Committee (CSC) of Banco Itaú. The CSC is the highest level responsible for credit in the Group. The approvals are valid for periods varying from three months to one year, depending on the risk rating attributed to each company and/or economic group.

In accordance with CMN Resolution 2682/99, Itaú BBA classifies credit operations considering the risk involved regarding each individual debtor and/or transaction. The rating process considers the debtor and transaction quality, including aspects such as: cash flow, economic and financial position of the debtor and of the sector, level of indebtedness, management, payment history, guarantees and defaults on loans, among others.

This Resolution requires the establishment of an allowance for loan losses in an amount at least equivalent to the sum of the amounts calculated by the application of specific percentages, as detailed in item "e" to this note.

Itaú BBA management, in line with its conservative posture, has consistently recorded the allowance for loan losses in an amount higher than the minimum required by CMN Resolution 2682/99. Its main objective is to cover overall loan risks, considering factors such as: (i) the underlying characteristics of Itaú BBA transactions, especially as regards the average amount of each loan subject to risk; (ii) the trend of extending the terms of transactions, chiefly those linked to the onlending of funds from multilateral development agencies, which represents a new element in the loan environment; (iii) a certain level of uncertainty in the worldwide economic activity and market liquidity, in view of possible macroeconomic and social and political events, both in developing countries and in developed economies.

(A free translation of the original in Portuguese)

Banco Itaú BBA S.A.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

a) Analysis of the loan portfolio by type of transaction

	<u>2006</u>	<u>2005</u>
Credit operations:		
Loans and bills discounted	7,336,498	6,049,496
Financing	6,723,891	5,976,567
Foreign currency financing	365,041	354,906
Farming and agribusiness financing	2,125,796	1,820,240
Advances on exchange contracts ⁽¹⁾	516,626	761,387
Other operations ⁽²⁾	52,587	30,721
	<u>17,120,439</u>	<u>14,993,317</u>

⁽¹⁾ Advances on exchange contracts have been reclassified from "Other liabilities – foreign exchange portfolio".

⁽²⁾ Includes sureties paid, income receivable from advances granted, receivables for purchase of assets, and securities and credits receivable reclassified from "Other receivables".

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

b) Analysis of the loan portfolio by sector

	2006	2005
Public sector		
Chemical and petrochemical	159,200	206,128
Electrical energy generation and distribution	513,859	968,773
Others	90,254	82,624
	763,313	1,257,525
Private sector		
Industry		
Food and beverages	1,441,876	1,083,500
Steel and metallurgy	945,929	622,552
Chemical and petrochemical	1,417,577	883,209
Electrical and electronic	507,004	305,084
Paper and pulp	304,613	211,507
Light and heavy vehicles	336,819	558,022
Textile and clothing	296,721	167,606
Mechanical	216,345	198,826
Tobacco	209,976	285,069
Fertilizers, insecticides and crop protection	614,269	573,152
Autoparts and accessories	311,778	182,805
Construction materials	308,520	346,673
Pharmaceuticals	181,218	198,524
Wood and furniture	275,541	284,520
Tractors and agribusiness machinery	49,951	49,515
Industry - others	243,530	157,221
	7,661,667	6,107,785
Commerce		
Retail	526,486	517,220
Wholesale	134,927	103,543
Commerce - others	80,641	268,494
	742,054	889,257
Services		
Telecommunications	853,569	1,014,316
Electrical energy generation and distribution	1,056,849	1,813,894
Financial	402,407	288,256
Service companies	296,622	230,115
Contractors and real estate agents	519,341	416,098
Utility concessionaires	372,184	347,741
Transportation	40,719	73,176
Communication	414,841	73,083
Services - others	921,150	384,343
	4,877,682	4,641,022
Primary sector		
Mining	757,565	158,119
Farming and livestock	2,123,293	1,779,057
Primary – others	10,530	13,344
	2,891,388	1,950,520
Others	184,335	147,208
	16,357,126	13,735,792
	17,120,439	14,993,317

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

c) Credit risk concentration

	2006	2005
Largest borrower	694,829	517,350
Percentage of the total loan portfolio	4.06%	3.45%
20 largest borrowers	5,190,240	5,169,641
Percentage of the total loan portfolio	30.32%	34.48%

d) Analysis of the loan portfolio by maturity

	2006	2005
i) Overdue up to 14 days in normal situation	75,359	129,211
ii) Overdue up to 14 days in abnormal situation	2	-
iii) Overdue from 15 to 60 days	24,551	7,524
iv) Overdue more than 60 days	68,966	571
v) Amounts not due of overdue transactions	64,521	2,275
vi) Due up to 90 days	5,060,383	4,010,452
vii) Due from 91 to 180 days	2,498,502	2,213,368
viii) Due from 181 days to one year	2,643,746	2,373,585
ix) Due after one year	6,684,409	6,256,331
	<u>17,120,439</u>	<u>14,993,317</u>

e) Allowance for loan losses

Risk level	Normal situation		Abnormal situation		Total	Percentage of provision ⁽²⁾	2006	
	Installments not due	Overdue installments ⁽¹⁾	Installments not due	Overdue installments			Allowance for loan losses based on the minimum required percentage ⁽²⁾	Allowance for loan losses recorded
AA	9,303,814	34,517	-	-	9,338,331	-	-	45,758
A	5,844,710	36,206	-	-	5,880,916	0.5%	29,404	58,221
B	1,541,432	3,252	16,294	16,528	1,577,506	1.0%	15,775	47,168
C	42,879	1,384	3,066	2,162	49,491	3.0%	1,485	4,944
D	114,426	-	45,085	24,486	183,997	10.0%	18,400	55,181
E	-	-	44	41,453	41,497	30.0%	12,449	20,744
F	5,999	-	26	85	6,110	50.0%	3,055	4,276
G	-	-	6	6	12	70.0%	8	12
H	33,780	-	-	8,799	42,579	100.0%	42,579	42,579
	<u>16,887,040</u>	<u>75,359</u>	<u>64,521</u>	<u>93,519</u>	<u>17,120,439</u>		<u>123,155</u>	<u>278,883</u>

Risk level	Normal situation		Abnormal situation		Total	Percentage of provision ⁽²⁾	2005	
	Installments not due	Overdue installments ⁽¹⁾	Installments not due	Overdue installments			Allowance for loan losses based on the minimum required percentage ⁽²⁾	Allowance for loan losses recorded
AA	7,247,043	16,789	-	-	7,263,832	-	-	5,737
A	5,697,324	103,118	-	-	5,800,442	0.5%	29,002	57,425
B	1,614,947	7,049	2,215	4,863	1,629,074	1.0%	16,291	48,709
C	122,334	2,216	60	2,000	126,610	3.0%	3,798	12,648
D	20,263	-	-	1,176	21,439	10.0%	2,144	6,430
E	13,345	-	-	-	13,345	30.0%	4,003	6,671
F	119,991	-	-	-	119,991	50.0%	59,996	83,982
G	-	-	-	15	15	70.0%	11	15
H	18,489	39	-	41	18,569	100.0%	18,569	18,569
	<u>14,853,736</u>	<u>129,211</u>	<u>2,275</u>	<u>8,095</u>	<u>14,993,317</u>		<u>133,814</u>	<u>240,186</u>

⁽¹⁾ Includes overdue installments up to 14 days.⁽²⁾ Minimum percentage provision required by CMN Resolution 2682/99 per risk level.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

f) Restricted credit operations

The credit operations which are linked to funding, in accordance with CMN Resolution 2921/02, can be summarized as follows:

	Assets		Liabilities		Income/(expenses)		
	2006	2005	2006	2005	2 nd six-month period of 2006	Year 2006	Year 2005
Loans	175,531	197,471	-	-	6,450	12,380	5,043
Financing	351,458	248,158	-	-	16,072	37,015	48,272
Farming and agribusiness financing	29,736	-	-	-	1,094	1,094	-
Time deposits	-	-	29,746	-	(1,678)	(1,678)	-
Liabilities for overseas securities	-	-	226,673	248,158	(15,839)	(36,547)	(47,743)
Foreign borrowings	-	-	299,977	197,274	(6,154)	(11,779)	(4,953)
Total	556,725	445,629	556,396	445,432	(55)	485	619

g) Changes in the allowance for loan losses

	2 nd six-month period of 2006	2006	Year 2005
Balance at the beginning of the six-month period/year	269,365	240,186	210,039
Provision recorded	11,137	40,149	45,716
Exchange variation on the allowances of the foreign branches	135	317	(477)
Loans written off	(1,754)	(1,769)	(15,092)
Balance at the end of the six-month period/year	278,883	278,883	240,186

h) Recoveries of loans previously written off

	2 nd six-month period of 2006	2006	Year 2005
.....	16,179	33,245	239,954

i) Renegotiated loans

	2 nd six-month period of 2006	2006	Year 2005
.....	998	998	160,068

j) Assignment of credit without co-obligation

In the 2nd six-month period of 2006, in accordance with CMN Resolution 2836/01, credit assignments were realized, without co-obligation, in the amount of R\$471,145. The book value of the credits amounted to R\$471,149. There were no effects resulting from these transactions on stockholders' equity and on results.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

8. FOREIGN EXCHANGE PORTFOLIO

The foreign exchange portfolio is represented by:

	<u>2006</u>	<u>2005</u>
Assets - Other receivables		
Foreign exchange purchases pending settlement	888,336	943,292
Foreign currency bills of exchange and term documents	1,443	1,931
Rights on foreign exchange sales	958,036	1,234,499
(-) Advances received	(71,335)	(78,804)
	<u>1,776,480</u>	<u>2,100,918</u>
Liabilities - Other liabilities		
Foreign exchange sales pending settlement	957,238	1,243,231
Liabilities for purchases of foreign exchange	895,311	931,597
Other	273	606
	<u>1,852,822</u>	<u>2,175,434</u>
Memorandum accounts		
Outstanding import credits	57,901	26,948
Confirmed export credits	38,771	18,626
	<u>96,672</u>	<u>45,574</u>

9. NEGOTIATION AND INTERMEDIATION OF SECURITIES

	<u>2006</u>		<u>2005</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Accounts receivable and payable on sale and purchase of assets	40,087	275,975	190,696	315,400
Contracts for loan of securities	-	10,499	-	21,263
Margin deposits	149,136	-	222,926	-
Other	10,081	10,078	-	-
	<u>199,304</u>	<u>296,552</u>	<u>413,622</u>	<u>336,663</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

10. PERMANENT ASSETS**a) Investments recorded on the equity method of accounting**

The principal information on the investments of Itaú BBA in subsidiaries is as follows:

	Capital - number		Percentage		Net income/(loss)		Stockholders' equity		Book value of		Equity in earnings (loss)		Year
	of shares held		ownership %		for the year				the investments		2 nd six-month period of		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
Itaú BBA Trading S.A. ⁽ⁱ⁾	3,078,040,844	3,078,040,844	100.00	100.00	10,681	7,523	36,698	26,017	36,698	26,017	9,268	10,681	7,523
Puerto Cia Securitizadora de Créditos Financeiros ⁽ⁱ⁾	178,687,269	364,012,478	99.99	99.99	10,471	44,762	13,003	57,601	13,003	80,532	6,676	10,471	44,762
Itaú BBA Securitizadora S.A. ⁽ⁱⁱ⁾	1,999,994	-	99.99	-	129	-	2,129	-	2,129	-	94	129	-
Delle Holdings S.A. ⁽ⁱⁱⁱ⁾	1,425,996	-	34.00	-	(535)	-	14,218	- ⁽ⁱⁱⁱ⁾	11,625	-	(182)	(182)	-
Banco Itaúsaga S.A. ^{(i) (iv)}	32,007	-	99.99	-	8,571	-	168,400	- ^(iv)	893,633	-	8,571	8,571	-
									<u>957,088</u>	<u>106,549</u>	<u>24,427</u>	<u>29,670</u>	<u>52,285</u>

The indirect subsidiaries of Itaú BBA, through Itaú BBA Trading S.A., are the followings: Nevada Woods S.A., IF Participações Ltda., Karen International Ltd., Mundostar S.A. (since January 2006), Peroba Ltd. (since June 2006). The net income of Itaú BBA Trading S.A. mainly arises from its equity in the earnings of the subsidiaries.

(i) See Note 18h.

(ii) This company was established on February 22, 2006.

(iii) As from September, 2006, includes goodwill on the purchase of investments of R\$6,790.

(iv) As from October, 2006, includes goodwill on the purchase of investments of R\$725,238. On January 31, 2007, Banco Itaúsaga was merged by Itaú BBA.

	Balance at 12/31/2005			Changes			Balance at 12/31/2006		
	Cost	Accumulated depreciation	Net	Purchases	Disposals	Depreciation and amortization expense	Cost	Accumulated depreciation	Net
b) Fixed assets									
Properties for own use ⁽ⁱ⁾									
Land	2,536	-	2,536	-	-	-	2,536	-	2,536
Buildings	8,177	(4,028)	4,149	-	-	(409)	8,177	(4,437)	3,740
	<u>10,713</u>	<u>(4,028)</u>	<u>6,685</u>	<u>-</u>	<u>-</u>	<u>(409)</u>	<u>10,713</u>	<u>(4,437)</u>	<u>6,276</u>
Other fixed assets for own use									
Installations	9,798	(2,083)	7,715	300	-	(857)	10,239	(3,081)	7,158
Furniture and equipment... ..	6,416	(3,881)	2,535	1,133	(60)	(1,403)	6,588	(4,383)	2,205
Communication system	8,604	(4,225)	4,379	552	(109)	(753)	7,645	(3,576)	4,069
Data processing system	24,561	(19,099)	5,462	4,107	(129)	(3,563)	24,318	(18,441)	5,877
Security system	794	(211)	583	17	-	(159)	738	(297)	441
Transport system	245	(245)	-	-	-	-	245	(245)	-
	<u>50,418</u>	<u>(29,744)</u>	<u>20,674</u>	<u>6,109</u>	<u>(298)</u>	<u>(6,735)</u>	<u>49,773</u>	<u>(30,023)</u>	<u>19,750</u>
	<u>61,131</u>	<u>(33,772)</u>	<u>27,359</u>	<u>6,109</u>	<u>(298)</u>	<u>(7,144)</u>	<u>60,486</u>	<u>(34,460)</u>	<u>26,026</u>
c) Deferred charges									
Leasehold improvements and others	6,059	(1,505)	4,554	1,083	-	(643)	7,245	(2,251)	4,994
Total - (b + c)	<u>67,190</u>	<u>(35,277)</u>	<u>31,913</u>	<u>7,192</u>	<u>(298)</u>	<u>(7,787)</u>	<u>67,731</u>	<u>(36,711)</u>	<u>31,020</u>

(i) Includes assets given in guarantee in connection with legal defense processes (Note 18h).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

11. CONTINGENT ASSETS AND LIABILITIES AND LEGAL LIABILITIES – TAX AND SOCIAL SECURITY

Itaú BBA has the following contingencies in the ordinary course of its activities:

a) **Contingent Assets:** in the period from January 1 to December 31, 2006, no contingent assets were recorded and there are no lawsuits in progress the realization of which is considered will result in probable gains.

b) Contingent Liabilities considered as:

i - **Probable loss** - the changes in the 2nd six-month period and of the year 2006, in the provisions for contingent liabilities, can be summarized as follows:

	2 nd six-month period of 2006			Year 2006		
	Civil	Labor	Total	Civil	Labor	Total
Balance at the beginning of the six-month period/year	41,297	7,663	48,960	38,394	8,466	46,860
Changes in the period reflected in net income for the period						
Restatements/charges	2,694	443	3,137	5,546	686	6,232
Provision recorded	910	182	1,092	961	232	1,193
Reversals	(557)	(246)	(803)	(557)	(1,342)	(1,899)
	3,047	379	3,426	5,950	(424)	5,526
Payments	(28)	(1,194)	(1,222)	(28)	(1,194)	(1,222)
Balance at the end of the six-month period/year	44,316	6,848	51,164	44,316	6,848	51,164

ii - **Possible loss** - represented by Civil Lawsuits amounting to R\$349 and Labor Lawsuits amounting to R\$3,787.

c) **Legal Liabilities – Tax and Social Security** - represented by amounts payable relating to tax liabilities, the legality or constitutionality of which are subject to administrative or judicial defense. They are recognized at the full amount under discussion. The changes in the 2nd six-month period and of the year 2006 can be summarized as follows:

	2 nd six-month period of 2006	Year 2006
Balance at the beginning of the six-month period/year	445,126	386,849
Changes in the period reflected in net income for the period		
Restatements/charges	15,290	51,931
Provision recorded	44,062	65,698
	59,352	117,629
Payments	(1)	(1)
Balance at the end of the six-month period/year	504,477	504,477
Escrow deposits on litigation (Note 18 a)		315,481

According to the opinion of its legal advisors, Itaú BBA is not involved in any administrative proceedings or lawsuits that may significantly affect the results of its operations. The combined evaluation of all existing provisions for all contingent liabilities and legal obligations, which are recorded based on the analysis of internal and external legal advisors, confirms that the amounts provided are within the requirements of CVM Resolution 489/05.

The adaptation to this Resolution's new requirements did not have any effects on the results of operations and stockholders' equity.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

12. INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME**a) Calculation of the income tax and social contribution expense**

	2nd six- month period of 2006	2006	Year 2005
Profit before taxation and profit sharing	753,293	1,704,804	1,914,469
Income tax and social contribution calculated at 25% and 9%, respectively	256,120	579,633	650,920
Effects of permanent and temporary additions or (deductions) in the tax calculation:			
(i) Exchange variation on foreign investments	7,771	52,093	65,597
(ii) Equity in the earnings of subsidiaries	(8,305)	(10,088)	(17,777)
(iii) Interest on own capital	(74,380)	(119,340)	(121,040)
(iv) Other net deductions net of other additions	(44,834)	(77,829)	(79,113)
Income tax and social contribution on net income	<u>136,372</u>	<u>424,469</u>	<u>498,587</u>

b) Origin and changes in tax credits and deferred tax liabilities

	December/ 2005	Provision or (realization), net	December/ 2006
Allowance for loan losses	92,544	(226)	92,318
Other temporarily non-deductible provisions	77,370	12,820	90,190
Social contribution to be offset (Provisional Measure 2158-35)	79,380	(44,443)	34,937
Adjustments to market value - securities and derivative financial instruments	-	22,436	22,436
Total tax credits	249,294	(9,413)	239,881
Deferred tax liabilities	(167,507)	107,285	(60,222)
Tax credits, net of deferred tax liabilities	<u>81,787</u>	<u>97,872</u>	<u>179,659</u>

The tax credits and deferred tax liabilities are calculated at the current tax rates on the balance sheet dates.

c) Estimated realization of the tax credits

The estimated realization and present value of the deferred income tax and social contribution credits at December 31, 2006, in accordance with the estimates of future taxable income based on technical studies, are:

Expected realization	Tax credits		Total
	Temporary differences	Social contribution to be offset (PM 2158/35)	
2007	115,038	14,765	129,803
2008	25,409	14,765	40,174
2009	3,216	5,407	8,623
2010	36,311	-	36,311
2011	2,045	-	2,045
2012 to 2016	22,925	-	22,925
Total	204,944	34,937	239,881
Present value (*)	<u>173,905</u>	<u>30,803</u>	<u>204,708</u>

(*) The present value of the tax credits was calculated based on the curves of pre-fixed interest rates in reais, considering the realizations within each period, and the applicable tax effects.

The projections of future taxable income include estimates relating to macroeconomical variables, foreign exchange rates, interest rates, amongst others, and could differ in relation to actual data and amounts.

Net income does not present a direct relationship to taxable income for income tax and social contribution calculation purposes, mainly because of differences between accounting practices and tax legislation, as well as corporate aspects. Accordingly, the realization of the tax credits arising from temporary differences should not be taken as being indicative of future net income.

There were no unrecorded tax credits.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

13. FOREIGN BRANCHES

Itaú BBA S.A. carries out transactions through its branches in Nassau, Bahamas and in Montevideo, Uruguay. The balance sheets and statements of income accounts of these branches, consolidated with those of Itaú BBA, after eliminations of intercompany assets, liabilities, income and expenses, were:

	2006	2005
Current assets and long-term receivables	10,159,263	7,442,188
Permanent assets	74	113
Current and long-term liabilities	11,393,831	10,233,958
Deferred income	5,002	2,817
Net income for the 2 nd six-month period	24,900	10,140
Net income for the year	(65,354)	(77,629)

The financial statements of the Bahamas and Uruguay branches of Itaú BBA were originally prepared in local currency in accordance with International Financial Reporting Standards and show no differences in relation to accounting practices adopted in Brazil. These financial statements were converted into Brazilian reais at the foreign exchange rates prevailing on the year-end closing dates. The gains/losses in Brazilian reais arising from the conversion of these financial statements into Brazilian reais were allocated to the following accounts:

Accounts	2nd six-month period of 2006	2006	Year 2005
Credit operations	(36,328)	(175,872)	(205,348)
Securities	(73,166)	(308,278)	(513,314)
Derivative financial instruments	198	2,123	4,271
Funds obtained in the market	51,234	259,483	216,364
Borrowings, credit assignments and onlendings	32,347	59,741	303,837
Allowance for loan losses	369	2,124	3,191
Commissions and fees	(19)	(66)	(182)
Personnel expenses	1	3	2
Other administrative expenses	12	40	29
Other operating income	2,497	7,487	-
Other operating expenses	-	-	(1,783)
	<u>(22,855)</u>	<u>(153,215)</u>	<u>(192,933)</u>

14. LONG-TERM LIABILITIES

These liabilities are principally represented by: (a) interbank deposits, time deposits and securities sold under repurchase agreements with remuneration predominantly in post-fixed interest rates; (b) local onlendings from Brazilian government institutions (mainly, BNDES and FINAME); and (c) issue of securities abroad and foreign borrowings, at rates ranging from 4.08% to 10.97% per annum plus withholding income tax, when applicable.

The maturity dates of these liabilities can be summarized as follows:

Due up to	Interbank deposits		Time deposits		Securities sold under repurchase agreements		Local onlendings from official institutions		Issue of securities abroad and foreign borrowings	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
12/31/2007	-	653,640	-	524,205	-	2,300,113	-	810,978	-	834,538
12/31/2008	2,485,308	630,815	1,321,325	273,584	3,314,919	88,687	653,877	413,572	681,997	352,052
2009	2,218,686	1,197,333	303,112	170,425	162,036	1,188	422,301	318,607	490,879	281,012
2010	1,433,798	905,668	389,493	313,031	-	20,750	328,242	247,580	69,304	75,361
2011	268,620	60	224,324	110,533	-	-	224,983	164,465	81,383	14,212
2012 to 2013	70,365	61,075	261,311	52,016	5,583	-	235,973	191,916	14,966	-
2013 onwards	6,735,173	326,702	-	-	-	-	131,043	96,165	-	-
	<u>13,211,950</u>	<u>3,775,293</u>	<u>2,499,565</u>	<u>1,443,794</u>	<u>3,482,538</u>	<u>2,410,738</u>	<u>1,996,419</u>	<u>2,243,283</u>	<u>1,338,529</u>	<u>1,557,175</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

15. SUBORDINATED DEBT

In accordance with CMN Resolution 2837/01, a subordinated debt of US\$50 million was issued on June 26, 2002, equivalent to R\$106,807 (2005 - R\$116,902), maturing on June 28, 2012, earning interest up to June 28, 2007 of 10.375% p.a. and, after this date and up to maturity, at 13.625% p.a., with half-yearly payment of interest and payment of the principal on maturity.

16. STOCKHOLDERS' EQUITY**a) Capital**

The capital of Itaú BBA comprises 10,569,052 (2005 - 10,315,908) nominative shares with no par value, equally distributed among common and preferred shares and held by local residents.

On September 1, 2006, an increase in capital of R\$121,412 was approved, which was fully paid-up through the issue of 253,144 new nominative shares with no par value, being common shares and preferred shares. This capital increase was approved by BACEN on September 25, 2006.

b) Dividends and interest on own capital

The corporate bylaws establish a minimum mandatory distribution of 25% of net income for the year through dividends or interest on own capital, adjusted in accordance with the requirements of Brazilian corporate legislation. The preferred shares have no voting rights but have priority in the reimbursement of capital in the event of liquidation, and rank equally with the common shares in all other aspects.

17. GUARANTEES TO THIRD PARTIES

Guarantees to third parties amount to R\$5,351,097 (2005 - R\$3,730,974), represented by guarantees, sureties and other co-obligations.

18. OTHER INFORMATION

	2006	2005
a) Other receivables - sundry:		
Deferred income tax and contributions	239,881	249,294
Escrow deposits on litigation ⁽¹⁾	315,481	259,646
Taxes and contributions for offset	794	891
Securities and credits receivable without characteristics of loan operations - future exchange	-	261,194
Amounts receivable from related companies	6,744	65,324
Others	8,711	1,236
	<u>571,611</u>	<u>837,585</u>
b) Other liabilities - sundry:		
Debt assumptions	4,630	4,953
Accrued liabilities	30,392	17,540
Provision for contingent liabilities	51,164	46,860
Provision for volatility in the foreign exchange and interest markets	-	77,343
Accounts payable for acquisition of assets and rights – future exchange	-	251,677
Subscription of capital to be paid	-	22,931
Others	13,541	5,619
	<u>99,727</u>	<u>426,923</u>
c) Taxes and social security contributions payable		
Taxes and contributions on profits	260,971	115,721
Taxes and contributions payable	77,004	60,613
Provision for deferred taxes and contributions	60,222	167,507
Legal liabilities – taxes and social security contributions	504,477	386,849
	<u>902,674</u>	<u>730,690</u>

⁽¹⁾ Substantially linked to tax litigation.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

d) Other operating income:

	2nd six- month period of 2006	2006	Year 2005
Exchange gains – futures	-	-	26,368
Exchange gains – foreign branches	2,497	7,487	-
Reversal of provision	-	-	3,607
Reversal of provision for volatility	-	77,374	-
Income tax recoverable of the foreign branches	27,003	73,611	30,938
Charges and expenses recovered	1,222	2,664	3,483
Income on transactions of foreign branches	3,890	8,672	5,336
Other	1,118	2,205	4,426
	<u>35,730</u>	<u>172,013</u>	<u>74,158</u>

e) Other operating expenses:

Goodwill amortizations	(35,846)	(35,846)	-
Provision for volatility	-	-	(26,297)
Exchange loss – foreign branches	-	-	(1,783)
Commission and financial intermediation expenses	(6,216)	(13,105)	(7,838)
Provision for accrued liabilities	(2,686)	(5,471)	(5,586)
Expenses on export and import transactions and others related to foreign trade	(3,192)	(10,392)	(4,779)
Exchange losses – futures	-	(9,517)	-
Other	(1,882)	(4,005)	(1,544)
	<u>(49,822)</u>	<u>(78,336)</u>	<u>(47,827)</u>

f) Non-operating income and expenses, net, refers basically to reversals of provisions, the loss on disposal of others assets and revenues received from debtors for the purchase of assets.

g) The assets given as guarantee totalled R\$1,588,725 (2005 - R\$1,240,217), of which R\$1,477,787 (2005 - R\$1,218,227) related to securities and investments in the open market, principally to guarantee operations in the BM&F.

h) Permanent assets totaling R\$110,938, represented by properties for own use of R\$6,168 and investments (shares) of the following subsidiaries: (i) Itaú BBA Trading S.A. - R\$36,698; (ii) Puerto Cia Securitizadora de Créditos Financeiros - R\$2,098; and (iii) Banco Itaúsaga S.A. - R\$65,974, have been given in guarantee of litigation defense filed in administrative proceedings (in accordance with article 32 of Law 10,522/02).

i) In accordance with CMN Resolution 3198/04, Banco Itaú BBA S.A. adhered to the single Audit Committee formed by the Itaú Financial Group, through the leading institution Banco Itaú Holding Financeira S.A. A summary of the Committee's report will be disclosed together with the financial statements of the leading institution on February 13, 2006.

j) Agreements for the offset of obligations within the National Financial System

In accordance with CMN Resolution 3263/05, some agreements were signed by public instrument for the offset and settlement of obligations, to enable the offset of credits and debits maintained with the same counterparty, where the due dates of rights and obligations can be advanced to the date of an event of default by one of the parties or in case of the bankruptcy of the debtor.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006 AND 2005

(continued)

All amounts in thousands of reais, unless otherwise indicated

19. RELATED PARTY TRANSACTIONS

Itaú BBA enters into transactions with its stockholders and related companies and between them, which are carried out under normal market conditions, and can be summarized as follows:

	Assets/(liabilities)			Income/(expenses)	
	2006	2005	2 nd six-month period of 2006	2006	Year 2005
Investments in the open market	8,466,745	3,775,891	345,119	624,275	615,176
Interbank deposits	7,546,016	4,714,035	391,596	705,590	928,722
Securities and derivative financial instruments	1,195,141	1,019,395	890,490	3,239,456	1,744,658
Interbank accounts	24,868	64,210	-	-	-
Other receivables:					
Foreign exchange portfolio	418,227	247,203	3,860	21,592	19,997
Income receivable	193	33	1,518	3,841	5,156
Negotiation and intermediation of securities	10,081	-	-	-	-
Amounts receivable from subsidiaries	6,744	65,324	-	-	-
Sundry receivables	408	217	28	55	-
Deposits	(24,280,597)	(15,706,203)	(1,104,548)	(2,150,963)	(2,268,111)
Securities sold under repurchase agreements	(984,509)	(11,062)	(22,161)	(28,100)	(31,003)
Issue of securities abroad	(1,741)	(9,880)	4	(319)	(1,412)
Interdepartmental accounts	(5,721)	-	-	-	-
Derivative financial instruments	(778,306)	(850,457)	(851,713)	(3,138,765)	(2,296,180)
Other liabilities:					
Foreign exchange portfolio	(485,243)	(245,964)	(3,264)	(24,278)	(18,413)
Social and statutory	(139,950)	(194,385)	-	-	-
Subordinated debt	(64,341)	(70,470)	(3,287)	(6,655)	(7,285)
Sundry liabilities	(1,765)	(23,141)	(28,349)	(45,288)	(35,542)

20. RECLASSIFICATION FOR COMPARISON PURPOSES

Certain reclassifications of balances at December 31, 2005 were made for comparison purposes, as a result of the regrouping of the following accounts.

	Prior disclosure	Reclassifications	Reclassified balances
Current assets and long-term receivables	40,270,415	761,387	41,031,802
Other receivables	2,600,051	761,387	3,361,438
Foreign exchange portfolio	1,339,531	761,387	2,100,918
Total assets	40,428,113	761,387	41,189,500
Current and long-term liabilities	35,875,689	761,387	36,637,076
Other liabilities	3,256,460	761,387	4,017,847
Foreign exchange portfolio	1,414,047	761,387	2,175,434
Total liabilities	40,428,113	761,387	41,189,500
Statement of income			
Income from financial intermediation	5,041,233	14,511	5,055,744
Credit operations	1,383,052	2,834	1,385,886
Securities	2,552,334	11,677	2,564,011
Net income from financial intermediation	2,131,069	14,511	2,145,580
Other operating income (expenses)	(210,956)	(14,511)	(225,467)
Commissions and fees	159,348	(3,482)	155,866
Other operating income	88,669	(14,511)	74,158
Other operating expenses	(51,309)	3,482	(47,827)
Net income	1,286,442		1,286,442

THE BOARD OF DIRECTORS

Mario Luiz Ambile
Accountant CRC 1SP129089/0-1

(A free translation of the original in Portuguese)

Banco Itaú BBA S.A.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Banco Itaú BBA S.A.

1. We have audited the accompanying balance sheets of Banco Itaú BBA S.A. as of December 31, 2006 and 2005, and the related statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended and for the second six-month period of 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audits 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 the Bank, (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. In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Banco Itaú BBA S.A. at December 31, 2006 and 2005, and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the years then ended and for the second six-month period of 2006, in accordance with accounting practices adopted in Brazil.

São Paulo, February 12, 2007

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
Auditores Independentes
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