

MANAGEMENT REPORT

We present the financial statements of Banco Itaú BBA S.A. ("Itaú BBA") for the fiscal year 2005. As of December 31 2005, assets totaled R\$ 40.4 billion, net equity was R\$ 4.5 billion and net profits for the year were R\$ 1.3 billion.

Itaú BBA operates in the corporate segment, offering a complete range of financial products and services. With a highly qualified staff and supported by a solid operational structure, Itaú BBA has established close relationships with about 1,100 economic groups, allowing it to develop products and services customized to the needs of these clients.

The year 2005 was characterized by a series of initiatives toward the consolidation of Itaú BBA as a major Brazilian wholesale bank through the continuous improvement in the relationship with clients. Among these initiatives, particularly noteworthy were the consolidation of investment banking activities, the growth in structured operations and derivative products, the increase in the supply of banking services, and the intensification of overseas activities.

Itaú BBA has elected the growth of activities in the investment banking market as one of its priorities, with the objective of becoming the top Brazilian investment bank within a period of three to five years. The bank's activities will be focused on the fixed income market, in which Itaú BBA has traditionally held an outstanding position, the equity markets, and mergers and acquisitions. In line with this objective, 2005 was characterized by valuable hires in the investment banking team.

In 2005, Itaú BBA led fixed income operations totaling R\$ 16.9 billion, of which R\$ 13.2 billion in the form of debentures, R\$ 3.1 billion in FIDCs, R\$ 570 million in Promissory Notes, and R\$ 30.5 million in Real Estate Receivable Certificates (CRIs). As a result, excluding transactions between financial institutions, the bank achieved first place in the Anbid (National Association of Investment Banks) ranking for fixed income origination and distribution, with market share of 21.0% in origination and 20.9% in distribution.

In the equity markets, 2005 witnessed some large operations in which Itaú BBA played a significant role. Of particular note was the initial public offering for EDP – Energias do Brasil S.A., amounting to R\$ 1,184 million, and the new issue of PIBB – Papéis de Índice Brasil Bovespa for R\$ 2,285 million – the largest offering in Brazil in the last two years. The bank was also the arranger and bookrunner for the secondary public share offering of R\$ 1,051 million for Tractebel Energia. According to the Anbid ranking, Itaú BBA is in second and third place in equity origination and distribution, respectively, with market share of 15.2% and 10.3%.

During 2005, Itaú BBA concluded important financial advisory works in mergers and acquisitions and corporate restructuring areas. These included work done for Cia. Brasileira de Distribuição in the acquisition of the CooperCitrus supermarket chain, Copersucar in the sale of Açúcar União to Nova América; Carlos Lyra Group in the sale of Profertil S.A. to French Roullier Group; the controlling shareholder of Panex with respect to its sale to SEB, and for Suzano Petroquímica S.A. in its acquisition of Basell International Holdings BV's stake in Polibrasil S.A, one of the year's largest transactions at US\$ 315 million.

In relation to the local credit market, demand was strong during 2005, resulting in an increase in the domestic loan portfolio. This was a reflection of the migration from foreign currency loans - such as advances against foreign exchange contracts and import finance - to local currency loans, and of the demand for longer-term transactions.

In terms of derivatives market, there was an increase in the number of structured transactions customized to individual client needs, as well as in the number of clients using more sophisticated instruments. Despite important progress and diversification in Itaú BBA portfolio, the volume of derivative transactions fell due to lower client demand for hedging.

The international area of the bank focused mainly on the financing of overseas subsidiaries of Brazilian companies in more than 20 countries, in various currencies. The area was also active in the spot exchange market with transactions in excess of US\$ 13 billion, and in the opening up of new markets for its client's exports involving several different countries in Africa, East Europe, and the Middle East.

Itaú BBA continued to benefit from an abundant supply of trade finance lines, with funding costs reaching record low levels.

In light of the importance of China for its clients, in March 2005 Itaú BBA concluded the formal process to open a representative office in Shanghai. Itaú BBA is currently the only Brazilian private bank with an office in China, thus being well-placed to support clients seeking to begin or to further develop business in that country.

Finally, Itaú BBA recorded an outstanding position in the on-lending of BNDES (Brazilian Economic and Social Development Bank) funds for financing large projects for improving domestic infrastructure and increasing the installed capacity of various industrial sectors.

The on-lending to large project finance operations complies with the standards established in the Equator Principles, a set of social and environmental policies to which the institution formally adhered in 2004.

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)

(A free translation of the original in Portuguese)

Banco Itaú BBA S.A.

BALANCE SHEET AT DECEMBER 31, 2005

In thousands of reais

ASSETS

CURRENT ASSETS

Cash and banks	116,505
Interbank investments	
Investments in the open market	1,594,456
Interbank deposits	7,326,983
	<u>8,921,439</u>
Securities and derivative financial instruments	
Own portfolio	2,443,852
Subject to repurchase agreements	1,081,442
Restricted to Central Bank of Brazil	24,173
Trading securities given in guarantee	386,247
Derivative financial instruments	2,179,626
	<u>6,115,340</u>
Interbank accounts	
Deposits with Central Bank of Brazil	9,437
Correspondents	64,210
	<u>73,647</u>
Loan and other credit operations	
Operations with credit assignment characteristics	8,735,249
Allowance for loan losses	(240,186)
	<u>8,495,063</u>
Other receivables	
Foreign exchange portfolio	1,339,531
Income receivable	8,239
Negotiation and intermediation of securities	413,622
Sundry receivables	417,960
	<u>2,179,352</u>
Other assets	
Other assets	3,314
Prepaid expenses	5,342
	<u>8,656</u>
TOTAL CURRENT ASSETS	<u>25,910,002</u>

LONG-TERM RECEIVABLES

Interbank investments	
Investments in the open market	3,234,272
Interbank deposits	1,193,048
	<u>4,427,320</u>
Securities and derivative financial instruments	
Own portfolio	1,668,482
Subject to repurchase agreements	692,805
Restricted to Central Bank of Brazil	88,972
Trading securities given in guarantee	147,955
Derivative financial instruments	647,424
	<u>3,245,638</u>
Interbank accounts - interbank onlendings	1,546
Loan and other credit operations - operations with credit assignment characteristics	6,258,068
Other receivables	
Income receivable	1,074
Sundry receivables	419,625
	<u>420,699</u>
Other assets - prepaid expenses	7,142
TOTAL LONG-TERM RECEIVABLES	<u>14,360,413</u>

PERMANENT ASSETS

Investments	
Investments in subsidiaries	106,549
Other investments	19,597
Allowance for losses	(361)
	<u>125,785</u>
Fixed assets	
Property for own use	10,713
Other fixed assets	50,418
Accumulated depreciation	(33,772)
	<u>27,359</u>
Deferred charges	
Organization and expansion expenses	6,059
Accumulated amortization	(1,505)
	<u>4,554</u>
TOTAL PERMANENT ASSETS	<u>157,698</u>
TOTAL ASSETS	<u>40,428,113</u>

(A free translation of the original in Portuguese)

Banco Itaú BBA S.A.

BALANCE SHEET AT DECEMBER 31, 2005

In thousands of reais

LIABILITIES

CURRENT LIABILITIES

Deposits

Demand deposits	78,807
Interbank deposits	9,720,803
Time deposits	3,540,792
Other deposits	1,470
	<u>13,341,872</u>

Securities sold under repurchase agreements

Own portfolio	988,759
Third-party portfolio	629,270
	<u>1,618,029</u>

Funds from acceptances and issue of securities - issue of securities abroad 49,574

Interdepartmental accounts - funds in transit - third parties 261,156

Borrowings and onlendings

Local borrowings - other institutions	1,457
Foreign borrowings	2,440,423
Local onlendings - official institutions - National Bank for Economic and Social Development (BNDES)	600,374
Local onlendings - official institutions - Government Agency for Machinery and Equipment Financing (FINAME)	269,975
Local onlendings - official institutions - OTHERS	46,251
	<u>3,358,480</u>

Derivative financial instruments 2,053,898

Other liabilities

Collection and payment of taxes	642
Foreign exchange portfolio	1,414,047
Social and statutory	230,593
Taxes and social security contributions	345,331
Negotiation and intermediation of securities	336,663
Subordinated debt	67
Sundry liabilities	423,571
	<u>2,750,914</u>

TOTAL CURRENT LIABILITIES **23,433,923**

LONG-TERM LIABILITIES

Deposits

Interbank deposits	3,775,293
Time deposits	1,443,794
	<u>5,219,087</u>

Securities sold under repurchase agreements

Own portfolio	554,259
Third-party portfolio	1,856,479
	<u>2,410,738</u>

Funds from acceptances and issue of securities - issue of securities abroad 388,204

Borrowings and onlendings

Foreign borrowings	1,168,971
Local onlendings - official institutions - BNDES	1,570,835
Local onlendings - official institutions - FINAME	654,831
Local onlendings - official institutions - OTHERS	17,617
	<u>3,412,254</u>

Derivative financial instruments 505,937

Other liabilities

Taxes and social security contributions	385,359
Subordinated debt	116,835
Sundry liabilities	3,352
	<u>505,546</u>

TOTAL LONG-TERM LIABILITIES **12,441,766**

DEFERRED INCOME **12,275**

STOCKHOLDERS' EQUITY

Capital - local	2,755,795
Capital reserves	97,348
Revenue reserves	1,414,248
Adjustments to market value - available-for-sale investments and derivative financial instruments	27,479
Retained earnings	245,279
	<u>4,540,149</u>

TOTAL STOCKHOLDERS' EQUITY **4,540,149**

TOTAL LIABILITIES **40,428,113**

STATEMENT OF INCOME

In thousands of reais

	2nd six-month period of 2005	Year ended December 31, 2005
INCOME FROM FINANCIAL INTERMEDIATION		
Credit operations	1,032,469	1,383,052
Securities	1,635,587	2,552,334
Derivatives	438,853	1,104,730
Compulsory deposits	-	1,117
	3,106,909	5,041,233
EXPENSES OF FINANCIAL INTERMEDIATION		
Funds obtained in the market	(1,700,256)	(2,675,224)
Borrowings, credit assignments and onlendings	(266,078)	(164,831)
Foreign exchange, net	(28,986)	(24,393)
Allowance for loan losses	(41,046)	(45,716)
	(2,036,366)	(2,910,164)
NET INCOME FROM FINANCIAL INTERMEDIATION	1,070,543	2,131,069
OTHER OPERATING INCOME (EXPENSES)		
Commissions and fees	92,678	159,348
Personnel expenses	(74,338)	(155,072)
Other administrative expenses	(93,007)	(173,379)
Taxes	(56,945)	(131,498)
Equity in the earnings of subsidiaries	45,666	52,285
Other operating income	58,749	88,669
Other operating expenses	(21,585)	(51,309)
	(48,782)	(210,956)
NET OPERATING INCOME	1,021,761	1,920,113
NON-OPERATING INCOME (EXPENSES)	832	(5,644)
INCOME BEFORE TAXES AND PROFIT SHARING	1,022,593	1,914,469
INCOME TAX	(97,894)	(295,685)
SOCIAL CONTRIBUTION	(37,186)	(124,680)
DEFERRED TAXES	(88,957)	(78,222)
PROFIT SHARING	(63,563)	(129,440)
NET INCOME	734,993	1,286,442
NET INCOME PER SHARE - in reais	71.25	124.70

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In thousands of reais

	Capital	Capital increase	Capital reserves	Revenue reserves		Adjustments to market value - available-for-sale securities and derivative financial instruments	Retained earnings	Total
			Fiscal incentives and other	Legal	Statutory			
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 - available-for-sale investments and derivative financial instruments	-	-	-	-	-	(13,293)	-	(13,293)
Net income for the year	-	-	-	-	-	-	1,286,442	1,286,442
Dividends paid/to be paid (R\$ 10.987 per share) ...	-	-	-	-	(55,896)	-	(57,449)	(113,345)
Appropriation to legal reserve	-	-	-	64,323	-	-	(64,323)	-
Interest on own capital paid / to be paid (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
Balances at June 30, 2005	2,755,795	-	95,996	151,114	417,714	13,313	638,261	4,072,193
Revaluation of stock exchange membership certificates and others	-	-	1,352	-	-	-	-	1,352
Adjustments to market value - available-for-sale investments and derivative financial instruments	-	-	-	-	-	14,166	-	14,166
Net income for the six-month period	-	-	-	-	-	-	734,993	734,993
Dividends to be paid (R\$ 5.569 per share)	-	-	-	-	-	-	(57,449)	(57,449)
Appropriation to legal reserve	-	-	-	36,750	-	-	(36,750)	-
Interest on own capital paid / to be paid (R\$ 21.821 per share)	-	-	-	-	-	-	(225,106)	(225,106)
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	-	-	1,352	36,750	808,670	14,166	(392,982)	467,956

STATEMENT OF CHANGES IN FINANCIAL POSITION

In thousands of reais

	2nd six-month period of 2005	Year ended December 31, 2005
FINANCIAL RESOURCES WERE PROVIDED BY		
Adjusted net income		
Net income	734,993	1,286,442
Amortization and depreciation	12,134	38,492
Equity in the earnings of subsidiaries	(45,666)	(52,285)
	<u>701,461</u>	<u>1,272,649</u>
Adjustments to market value - available-for-sale investments and derivative financial instruments	14,166	(13,293)
Revaluation of stock exchange membership certificates and others	1,352	4,071
Changes in deferred income	3,612	1,707
Third-party resources provided by:		
Increase in liabilities		
Deposits	1,228,012	5,611,132
Securities sold under repurchase agreements	1,022,711	1,519,187
Interdepartmental accounts	-	56,292
Borrowings and onlendings	69,183	-
Derivative financial instruments	1,016,148	1,409,839
Other liabilities	1,025,043	634,805
	<u>4,361,097</u>	<u>9,231,255</u>
Decrease in current assets and long-term receivables		
Interbank accounts	-	53,963
	<u>-</u>	<u>53,963</u>
Disposal of investments	90	90
Disposal of fixed assets	119	903
	<u>5,081,897</u>	<u>10,551,345</u>
FINANCIAL RESOURCES WERE USED FOR		
Interest on own capital / Dividends paid/to be paid	282,555	469,345
Investments in:		
Subsidiaries	33,120	33,120
Other investments	1,959	4,834
Fixed assets	1,425	4,040
Changes in deferred income	9	6,220
Increase in current assets and long-term receivables		
Interbank investments	294,796	4,417,370
Securities and derivative financial instruments	1,639,340	1,939,441
Interbank accounts	38,013	-
Loan and other credit operations	1,237,569	733,258
Other receivables and assets	1,263,788	1,196,563
	<u>4,473,506</u>	<u>8,286,632</u>
Decrease in liabilities		
Funds from acceptances and issue of securities	182,921	415,412
Interbank investments	186	-
Interdepartmental accounts	44,615	-
Borrowings and onlendings	-	1,329,593
	<u>227,722</u>	<u>1,745,005</u>
	<u>5,020,296</u>	<u>10,549,196</u>
INCREASE IN CASH AND BANKS	<u>61,601</u>	<u>2,149</u>
CASH AND BANKS		
At the beginning of the six-month-period/year	54,904	114,356
At the end of the six-month-period/year	116,505	116,505
INCREASE IN CASH AND BANKS	<u>61,601</u>	<u>2,149</u>

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2005

All amounts in thousands of reais, unless otherwise indicated

1. OPERATIONS

Banco Itaú BBA S.A. develops its businesses within a wholesale bank structure, directed towards the attendance of customers.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of Banco Itaú BBA S.A. have been prepared in conformity with the principles of the Brazilian Corporation Law together with the rules and instructions of the BACEN - Central Bank of Brazil. As determined by BACEN Circular 2804/98, the financial information of the foreign branches is being presented on a consolidated basis in the financial statements of Banco Itaú BBA S.A., translated into Brazilian reais at the exchange rates prevailing on the balance sheet dates.

As result of the corporate reorganization in 2004, which was approved by BACEN during the course of 2005, and in accordance with BACEN Circular 3017/00, article 9, item 1, the financial statements of Banco Itaú BBA S.A. are not being presented on a comparative basis with the balances of December 31, 2004.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Determination of net income

Income and expenses are recognized on the accrual basis.

b) Securities

In accordance with BACEN Circular 3068/01 and complementary regulations, securities are classified in three specific categories, based on the intention of the institution to negotiate them. Accordingly, securities are being shown in conformity with the following criteria for recording and accounting valuations, in the following categories:

- i - Trading securities – securities acquired to be actively and frequently traded are adjusted to market value, with a corresponding entry to the result for the period;
- ii - Securities available for sale – securities, which cannot be classified as intended for negotiation or intended to be maintained up to their maturity, are adjusted to their market value with a corresponding entry to an account highlighted in stockholders' equity, "Adjustments to market value - available-for-sale investments 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 institution to hold them in the portfolio up to their maturity, are recorded at cost of acquisition plus accrued income, not being adjusted to market value.

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

c) Derivative financial instruments

The derivative financial instruments are classified on the date of their acquisition in accordance with the intention of the institution 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.

Derivative financial instruments which meet the criteria for hedge, classified as:

- i - "Market risk hedge", as well as the hedging instruments (assets or liabilities) 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 hedged amount of 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 portion of the hedge is recorded directly in the statement of income.

However, if the hedging instrument is a security classified in the category "securities held to maturity", the security as well as the derivative financial instrument will be recorded in the accounts for the intrinsic contracted conditions, and their market value will not be evaluated.

d) Other current assets and long-term receivables

These assets are stated at their realization values including, when applicable, accrued income and monetary and exchange variations up to the balance sheet date. When applicable, provisions for reduction to market values are constituted. The allowance for loan losses is based on an analysis by management of the outstanding loan portfolio in order to determine the appropriate amount to cover estimated losses, and takes into consideration the economic environment, the specific and general portfolio risks, as well as the BACEN regulations.

e) Permanent assets

Permanent assets are stated at cost plus monetary restatement up to December 31, 1995, and consider the following:

- i - Depreciation of property and equipment is calculated using the straight-line method at rates which consider the estimated useful lives of the assets, except that the installations and equipments with residual values up to R\$ 3 are fully depreciated. Depreciation is calculated at the following annual rates: property for own use - 4%; communication systems, installations, furniture and fixtures - 10%; and vehicles and data processing equipment - 20%.
- ii - Valuation of the investments in direct or indirect subsidiaries using the equity method of accounting.
- iii - Deferred organization and expansion expenses, which basically represent leasehold improvements and the acquisition of software, are amortized on a straight-line basis over the contract terms, limited to ten and five years, respectively.

f) Current and long-term liabilities

These liabilities are shown at known or calculated values, including, when applicable, accrued charges and monetary and exchange variations up to the balance sheet date.

g) Income tax and social contribution

The provision for federal income tax is calculated at 15% plus a surcharge of 10% on taxable income exceeding an established limit, and includes fiscal incentives. The provision for social contribution is recorded at 9% of adjusted income before income tax. The Bank recognizes deferred income tax and social contribution assets on the temporary non-deductible portion of provisions recorded, income tax and social contribution loss carry forwards, and adjustments to market values of securities available for sale and derivative financial instruments for its own risk.

4. SECURITIES

	Cost of acquisition ^(a)	Market value ^(b)	Adjustment (cost less market)		Maturity			
			Gross value	Net value	Due up to three months	Due from three to six months	Due from six to 12 months	Due after 12 months
Trading:								
Brazilian government bonds	1,014,322	1,051,765	37,443		31,940	521	-	1,019,304
Foreign government bonds	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 receivable 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^(c)</u>		<u>397,322</u>	<u>59,489</u>	<u>25,178</u>	<u>1,244,302</u>
Available for sale:								
Brazilian government bonds	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 receivable 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^(d)</u>	<u>1,488,958</u>	<u>203,815</u>	<u>467,728</u>	<u>2,447,413</u>
Held to maturity:								
Brazilian government bonds	155,650	208,251			16,102	1,739	16,518	121,291
Foreign government bonds	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^(e)</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) Cost of acquisition plus income up to the balance sheet date.

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

(c) Recognized directly in the statement of income.

(d) The unrealized gains/losses are recognized in a special stockholders' equity account at their value net of taxes and charges.

(e) Securities held to maturity are not evaluated at market value for accounting purposes, and therefore the values herein presented are only informative.

5. 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 the underlying assets, which could be interest rates, the price of the security, the price of the merchandise, 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 the last 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 exchange rates and asset prices. As a result, Banco Itaú BBA S.A. is operating in the derivative markets, either in complying with the growing client needs, or in the performance of their own risk management policy. This policy is based on the use of derivative instruments to minimize the risks resulting from commercial and financial operations.

The derivatives negotiated by the Bank are acquired for two basic purposes:

- Hedge - to perform hedges of the structural portfolio, arising from commercial bank operations;
- Trading - to serve as instruments for the Bank to assume proprietary and risk management positions of the derivatives traded with large clients.

Banco Itaú BBA S.A.

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

The main risk factors of the derivatives assumed by Banco Itaú BBA at December 31, 2005 were related to the foreign exchange rate, interest rate, U.S. dollar coupon, Reference Rate, Libor and variable income. The management of these and other market risk factors is supported by the infrastructure of sophisticated statistical and deterministic models. Based on this management model, the Institution, with the use of transactions involving derivatives, has been able to maximize the relation of risk and return, even under high volatility situations.

Banco Itaú BBA S.A. 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 controls of risk are evaluated daily through the study of "back test" - comparison of the predicted risks with the results obtained as result of the real 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 the administrators. The risk measurement and pricing models used are proprietary, developed internally and appropriate to the prudent standards propagated internationally.

The pricing of the derivative instruments and the determination of the prices of reference 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 the operations.

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

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

The senior administrators of the Bank are 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 institution and of the daily activities of the senior administrators and the other management levels.

Derivative financial instruments can be summarized as follows:

a) SWAP and arbitrage transactions

	Amounts per contracted rates and indexes			Market value
	Assets	Liabilities	Net position	Net position
i) Index:				
a) Interbank Deposit Certificate rate - (CDI)	16,527,964	15,801,847	726,117	848,957
b) Fixed interest rate PRE - R\$	7,894,188	7,848,631	45,557	155,307
c) Dollar interest rate PRE - USD	954,902	952,292	2,610	19,365
d) General Price Index - Market (IGPM)	4,041,832	4,182,719	(140,887)	(162,362)
e) Dollar - PTAX	10,381,516	10,928,689	(547,173)	(555,379)
f) Other currencies	1,643,553	1,785,614	(142,061)	(151,417)
g) Others	138,109	134,726	3,383	1,348
	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>
ii) Counterparties:				
a) Companies	9,802,056	9,482,586	319,470	443,553
b) BM&F	8,592,156	8,578,018	14,138	35,007
c) Financial institutions	4,777,192	4,774,286	2,906	15,397
d) Related parties	18,410,660	18,799,628	(388,968)	(338,138)
	<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	14,817,672	14,887,774	(70,102)	(45,282)
b) Due from three to six months	5,942,536	5,894,435	48,101	76,479
c) Due from six to 12 months	9,271,842	9,327,847	(56,005)	(28,672)
d) Due after 12 months	11,550,014	11,524,462	25,552	153,294
	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>
iv) Market:				
a) BM&F	10,380,118	10,353,969	26,149	39,524
b) Counter market	31,201,946	31,280,549	(78,603)	116,295
	<u>41,582,064</u>	<u>41,634,518</u>	<u>(52,454)</u>	<u>155,819</u>

Banco Itaú BBA S.A.**b) Options**

	Premium paid or (received)	
	Cost value	Market value
i) Contractual rights:		
a) Dollar	55,914	102,804
b) Reais	4,575	202
c) Bonds (mainly Brazilian debt)	17,075	7,997
d) Indexes	32,001	76,856
e) Other currencies	9,096	15,136
f) Others	5,170	85,111
	<u>123,831</u>	<u>288,106</u>
ii) Contractual obligations:		
a) Dollar	(39,748)	(46,082)
b) Reais	(50,790)	(177,542)
c) Bonds (mainly Brazilian debt)	(12,505)	(5,352)
d) Indexes	(27,757)	(2,707)
e) Other currencies	(10,419)	(10,351)
f) Others	(669)	(839)
	<u>(141,888)</u>	<u>(242,873)</u>
Total	<u><u>(18,057)</u></u>	<u><u>45,233</u></u>
iii) Counterparties:		
a) Companies	4,597	73,388
b) BM&F/BOVESPA (São Paulo Stock Exchange)	22,417	133,752
c) Financial institutions	(45,071)	(161,907)
	<u>(18,057)</u>	<u>45,233</u>
iv) Maturity:		
a) Due up to three months	(25,363)	(44,507)
b) Due from three to six months	7,336	97,055
c) Due from six to 12 months	(30)	(7,315)
	<u>(18,057)</u>	<u>45,233</u>
v) Market:		
a) BM&F/BOVESPA	22,417	133,752
b) Counter market	(40,474)	(88,519)
	<u>(18,057)</u>	<u>45,233</u>

c) Forward operations realized with financial institutions in the counter market

	Cost value
i) Purchases receivables - CDI	40,000
ii) Obligations to pay - CDI	(40,000)
iii) Maturity - due up to three months	40,000

Banco Itaú BBA S.A.**d) Futures contracts**

	Cost value	Market value	Net position
i) Index:			
a) Dollar coupon (DDI)			
Purchase contracts	4,048,667	4,064,763	16,096
Sale contracts	(3,199,616)	(3,212,163)	(12,547)
b) Interest rate (DI1)			
Purchase contracts	15,162,892	15,172,989	10,097
Sale contracts	(6,675,570)	(6,679,934)	(4,364)
c) Dollar			
Purchase contracts	2,799,882	2,799,912	30
Sale contracts	(1,553,361)	(1,553,512)	(151)
d) Index rate			
Purchase contracts	9,830,957	9,830,957	-
Sale contracts	(1,174,400)	(1,174,399)	1
e) Bonds			
Purchase contracts	118,310	118,302	(8)
Sale contracts	(2,081,593)	(2,081,601)	(8)
	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
ii) Counterparties:			
a) BM&F	10,685,680	10,694,826	9,146
b) Financial institutions	6,590,488	6,590,488	-
	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
iii) Maturity:			
a) Due up to three months	160,962	153,339	(7,623)
b) Due from three to six months	13,262,581	13,270,852	8,271
c) Due from six to 12 months	2,486,747	2,488,578	1,831
d) Due after 12 months	1,365,878	1,372,545	6,667
	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>
iv) Market:			
a) BM&F	10,685,680	10,694,826	9,146
b) Counter market	6,590,488	6,590,488	-
	<u>17,276,168</u>	<u>17,285,314</u>	<u>9,146</u>

e) Other derivative financial instruments - counter market

	Cost value	Market value
i) Index:		
a) Dollar		
Purchase contracts	191,621	193,726
Sale contracts	(255,734)	(261,460)
b) Euro		
Purchase contracts	230,053	236,959
Sale contracts	(80,586)	(80,430)
c) Yen		
Purchase contracts	172,162	173,803
Sale contracts	(107,195)	(106,917)
d) Real		
Purchase contracts	5,098	5,133
e) Others		
Purchase contracts	533,281	533,301
Sale contracts	(636,042)	(636,077)
	<u>52,658</u>	<u>58,038</u>
ii) Counterparties:		
a) Companies	53,079	55,592
b) Financial institutions	(1,358)	741
c) Related parties	937	1,705
	<u>52,658</u>	<u>58,038</u>
iii) Maturity:		
a) Due up to three months	20,736	21,124
b) Due from three to six months	24,813	27,392
c) Due from six to 12 months	20,827	21,329
d) Due after 12 months	(13,718)	(11,807)
	<u>52,658</u>	<u>58,038</u>

Banco Itaú BBA S.A.

f) Credit derivatives

In accordance with BACEN Resolution 2933/02, the Bank carried out transactions involving credit risk swap, (receiving the risk credit) with the objective to guarantee the counterparty to the swap of the risk of credit of companies of the segment of the Banks' operations, which can be summarized as follows:

Amount of credit risk received	R\$87,500
Characteristics of credit operations transferred	Swap of currencies
Effect in the calculation of the minimum Stockholders' equity required	R\$9,625

Observations:

- The guarantees given in the derivative financial instrument operations, amounting to R\$858,717, were represented by securities.

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

Banco Itaú BBA S.A. 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\$19 million per customer).

The recommended credit limits are subject to a strict formal approval process by the Credit Committee, in which participates the President, Commercial Vice-Presidents, two members of the Administrative Council, the Director of Credit and Commercial Directors, and the decisions this Credit Committee are reported to the Executive Committee, in which participate the President and some directors of the Bank. The credit limits exceeding determined amounts (related to the risk rating of the economic group) are discussed and evaluated by the Superior Credit Committee (CSC) of the Itaú Group. The CSC is the highest level responsible for credit in the Conglomerate. 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 BACEN Resolution 2682/99, the Bank classifies credit operations considering the risk involved of 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.

Bank management, in line with its conservative posture, has consistently recorded an allowance for loan losses in an amount higher than the minimum required by BACEN 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 current 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 macroeconomical and social and political events, both in developing countries and in developed economies.

a) Composition of the loan portfolio by type of transaction

Credit operations:

Loans and bills discounted	6,049,496
Financing	5,976,567
Foreign currency financing	354,906
Farming and agribusiness financing	1,820,240
Advances on exchange contracts ⁽¹⁾	761,387
Other operations ⁽²⁾	30,721
	<u>14,993,317</u>

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

⁽²⁾ Includes Income receivable from advances granted, Receivables for purchase of assets and securities and credits, have been reclassified from "Other receivables".

b) Analysis of the loan portfolio by sector**Public sector**

Chemical and petrochemical	206,128
Electrical energy generation and distribution	968,773
Others	82,624
	1,257,525

Private sector**Corporate entity****Industry**

Food and beverages	1,083,500
Steel and metallurgy	622,552
Chemical and petrochemical	883,209
Electrical and electronic	305,084
Paper and pulp	211,507
Light and heavy vehicles	558,022
Textile and clothing	167,606
Mechanical	198,826
Tobacco	285,069
Fertilizers, insecticides and crop protection	573,152
Autoparts and accessories	182,805
Construction material	346,673
Pharmaceuticals	198,524
Wood and furniture	284,520
Tractors and agribusiness machinery	49,515
Industry - others	157,221
	6,107,785

Commerce

Retailers	517,220
Wholesalers	103,543
Commerce - others	268,494
	889,257

Services

Telecommunications	1,014,316
Electrical energy generation and distribution	1,813,894
Financial	288,256
Service companies	230,115
Contractors and real estate agents	416,098
Utility concessionaires	347,741
Transportation	73,176
Communications	73,083
Services - others	384,343
	4,641,022

Primary sector

Mining	158,119
Farming and livestock	1,779,057
Primary – others	13,344
	1,950,520

Others

	147,208
	13,735,792
	13,735,792
	14,993,317

c) Credit risk concentration

Largest borrower	517,350
Percentage of the total loan portfolio	3.45%
20 largest borrowers	5,169,641
Percentage of the total loan portfolio	34.48%

d) Composition of the loan portfolio by maturity

i) Overdue up to 14 days	129,211
ii) Overdue from 15 to 60 days	7,524
iii) Overdue for more than 60 days	571
iv) Installments not due from overdue contracts	2,275
v) Due up to 90 days	4,010,452
vi) Due from 91 to 180 days	2,213,368
vii) Due from 181 days to one year	2,373,585
viii) Due after one year	6,256,331
	<u>14,993,317</u>

e) Allowance for loan losses

Credit portfolio		Percentage of provision (*)	Allowance for loan losses based on the minimum required percentage	Allowance for loan losses recorded
Risk level	Balance			
AA	7,263,832	-	-	5,737
A	5,800,442	0.5%	29,002	57,425
B	1,629,074	1.0%	16,291	48,709
C	126,610	3.0%	3,798	12,648
D	21,439	10.0%	2,144	6,430
E	13,345	30.0%	4,003	6,671
F	119,991	50.0%	59,996	83,982
G	15	70.0%	11	15
H	18,569	100.0%	18,569	18,569
	<u>14,993,317</u>		<u>133,814</u>	<u>240,186</u>

(*) Provision of minimum percentage required by BACEN Resolution 2682 per risk level.

f) Changes in the allowance for loan losses

	2 nd six-month period	Year
Balance at the beginning of the six-month period/year	212,993	210,039
Provision recorded	41,046	45,716
Exchange variation on the allowance of foreign branches	(125)	(477)
Loans written off	(13,728)	(15,092)
Balance at the end of the six-month period/year	<u>240,186</u>	<u>240,186</u>
Recoveries of loans previously written off	140,570	239,954
Renegotiated loans	117,043	160,068

g) Restricted credit operations

The restricted credit operations, in accordance with BACEN Resolution 2921/02, can be summarized as follows:

			Income/(expenses)	
	Assets	Liabilities	2 nd six-month period	Year
Loans	197,471	-	5,043	5,043
Financing	248,158	-	9,005	48,272
Issue of securities abroad	-	248,158	(8,747)	(47,743)
Foreign borrowings	-	197,274	(4,953)	(4,953)
Total	<u>445,629</u>	<u>445,432</u>	<u>348</u>	<u>619</u>

Banco Itaú BBA S.A.**7. FOREIGN EXCHANGE PORTFOLIO**

This portfolio comprises basically: (a) exchange purchases pending settlement, net of advances on exchange contracts, amounting to R\$181,905, and exchange sale rights, net of advances received, amounting to R\$1,155,695, recorded as assets; (b) exchange sales pending settlement, amounting to R\$1,243,231, and exchange purchase obligations, net of advances on exchange contracts, amounting to R\$170,210, recorded as liabilities.

8. NEGOTIATION AND INTERMEDIATION OF SECURITIES

Represented by:

	Assets	Liabilities
Accounts receivable and payable on sale and purchase of assets	190,696	315,400
Contracts for loan of securities	-	21,263
Margin deposits	222,926	-
	<u>413,622</u>	<u>336,663</u>

9. INVESTMENTS IN SUBSIDIARIES

The main information on the Bank's investments in subsidiaries is summarized as follows:

	Itaú BBA Trading S.A.⁽ⁱ⁾	Puerto Cia Securizadora de Créditos Financeiros	2nd six- month period	Year
Capital – number of shares held	3,078,040,844	364,012,478		
Percentage ownership	100.00%	99.99%		
Net income for the year	7,523	44,762		
Stockholders' equity	26,017	57,601		
Book value of the investments	26,017	80,532 ⁽ⁱⁱ⁾		106,549
Equity in earnings	7,523	44,762	45,666	52,285

⁽ⁱ⁾ The indirect subsidiaries of Banco Itaú BBA S.A., are: Nevada Woods S.A., IF Participações Ltda., Karen International Ltd., through Itaú BBA Trading S.A., the net income of which mainly arises from the equity in the earnings of subsidiaries.

⁽ⁱⁱ⁾ Capital to be paid in amounting R\$22,931 recorded with a corresponding entry in "Other liabilities".

10. FOREIGN BRANCHES

Banco Itaú BBA S.A. carries out transactions through its branches in Nassau, Bahamas and in Montevideo, Uruguay. The balance sheet and statement of operations accounts of these branches consolidated with those of the Bank, after eliminations of intercompany assets, liabilities, income and expenses are: (i) current assets and long-term receivables - R\$7,442,188, (ii) permanent assets – R\$113; (iii) current and long-term liabilities - R\$10,233,958; (iv) deferred income – R\$2,817 and (v) results for the 2nd six-month period - R\$10,140 and for the year R\$(77,629).

The financial statements of the Bahamas and Uruguay branches of Banco Itaú BBA S.A. were originally prepared in local currency in accordance with International Accounting Standards, and had no differences in relation to the accounting practices adopted in Brazil. These financial statements were translated into Brazilian reais at the foreign exchange rates prevailing on the year-end closing date. The gains/losses in Brazilian reais arising from the translation of these financial statements into Brazilian reais for the 2nd six-month period R\$(5,629) and for the year R\$(192,933) were allocated to the following accounts:

Accounts	2nd six- month period	Year
Credit operations	(10,207)	(205,348)
Securities	(17,207)	(513,314)
Derivatives	(455)	4,271
Funds obtained in the market	(26,460)	216,364
Borrowings, credit assignments and onlendings	54,304	303,837
Allowance for loan losses	(12)	3,191
Commissions and fees	20	(182)
Personnel expenses	(1)	2
Other administrative expenses	(2)	29
Other operating expenses	(5,609)	(1,783)
	<u>(5,629)</u>	<u>(192,933)</u>

11. 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; (b) local onlendings from Brazilian government institutions (mainly, BNDES and FINAME); and (c) issue of securities abroad and foreign borrowings, at rates ranging from 3.21% to 8.00% per annum plus withholding income tax, when applicable.

The maturity dates of these liabilities are 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
12/31/2007	653,640	524,205	2,300,113	810,978	834,538
2008	630,815	273,584	88,687	413,572	352,052
2009	1,197,333	170,425	1,188	318,607	281,012
2010	905,668	313,031	20,750	247,580	75,361
2011 to 2012	61,135	162,549	-	291,629	14,212
2012 onwards	326,702	-	-	160,917	-
	<u>3,775,293</u>	<u>1,443,794</u>	<u>2,410,738</u>	<u>2,243,283</u>	<u>1,557,175</u>

12. SUBORDINATED DEBT

In accordance with BACEN Resolution 2837/01, on June 26, 2002 a subordinated debt of US\$50 million was issued, corresponding to R\$116,902, maturing on June 28, 2012, being remunerated up to June 28, 2007 at the rate of 10.375% p.a. and, after this date, up to maturity, at the rate of 13.625% p.a., with the payment of interest semiannually and of the principal on maturity.

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

The capital of Banco Itaú BBA S.A. comprises 10,315,908 nominative shares with no par value, equally distributed among common and preferred shares and held by local residents.

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 case of liquidation and rank equally with the common shares in all other aspects.

14. OTHER OPERATING INCOME AND EXPENSES

Represented by:

	2nd six-month period	Year
Other operating income:		
Exchange variation – futures	11,235	26,368
Restatement of tax credits	401	2,207
Restatement of judicial deposits	8,909	9,470
Reversal of provision	12	3,607
Income tax recoverable of the foreign branches	30,938	30,938
Charges and expenses recovered	1,484	3,483
Income on transactions of foreign branches	3,711	5,336
Other	2,059	7,260
	<u>58,749</u>	<u>88,669</u>
Other operating expenses:		
Exchange variation - foreign branches	(5,609)	(1,783)
Provision for volatility	-	(26,297)
Commission and financial intermediation expenses	(9,539)	(11,320)
Provision for payment of liabilities	(2,940)	(5,586)
Expenses on export and import operations and other operations related to foreign trade	(2,439)	(4,779)
Other	(1,058)	(1,544)
	<u>(21,585)</u>	<u>(51,309)</u>

15. INCOME TAX AND SOCIAL CONTRIBUTION**a) Demonstration of the calculation of income tax and social contribution expenses**

	2nd six- month period	Year
Income before taxes and profit sharing	1,022,593	1,914,469
Income tax and social contribution calculated at 25% and 9%, respectively	347,682	650,920
Effect of permanent additions or (exclusions) on tax calculation:		
(i) Exchange variation on foreign investments	1,914	65,597
(ii) Equity in the earnings of subsidiaries	(15,527)	(17,777)
(iii) Interest on own capital	(76,536)	(121,040)
(iv) Other additions and (exclusions)	(33,496)	(79,113)
Income tax and social contribution on net income	224,037	498,587

b) Origin and movement of tax credits and deferred tax liabilities

	December 2004	Constitution or (realization), net	December 2005
Allowance for loan losses	129,212	(36,668)	92,544
Other temporary non-deductible provisions	49,900	27,470	77,370
Social contribution to be offset (PM 2158-35)	111,705	(32,325)	79,380
Tax losses	69,024	(69,024)	-
Total tax credits	359,841	(110,547)	249,294
Deferred tax liabilities	(55,096)	(112,411)	(167,507)
Tax credit, net of deferred tax liabilities	304,745	(222,958)	81,787

Tax credits are calculated at the effective tax rates in force on the balance sheet date.

The deferred income tax and social contribution liabilities consist basically of adjustments to market value - securities available for sale and derivative financial instruments.

c) Expected realization of tax credits

The expected realization and present value of deferred income tax and social contribution credits to be offset, at December 31, 2005, arising from Provisional Measure 2158/35, considering the expectation of futures taxable income, based on technical studies, are:

Expected realization	Tax credits		Social contribution to be offset (PM 2158/35)	Total
	Temporary differences			
2006	134,218		18,591	152,809
2007	20,937		18,591	39,528
2008	1,747		18,591	20,338
2009	-		18,591	18,591
2010	13,012		5,016	18,028
Total	169,914		79,380	249,294
Present value (*)	149,421		63,402	212,823

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

The future taxable income forecasts include estimates related to macroeconomical variables, foreign exchange rates, interest rates, amongst others, and could present variations in relation to real data and values.

Net income does not present a direct relation to taxable income for income tax and social contribution calculation purposes, mainly due to differences between accounting criteria and tax legislation, as well as corporate aspects. Accordingly, we recommend that the realization of the tax credits arising from temporary differences and loss carry forwards is not taken as being indicative of future net income.

16. GUARANTEES TO THIRD PARTIES

Guarantees to third parties, amounting to R\$3,776,548, mainly comprise guarantees, sureties and other co-obligations.

17. OTHER INFORMATION**a) Other receivables - sundry:**

Deferred income tax and social contribution assets	249,294
Judicial deposits	259,646
Recoverable taxes and contributions	891
Securities and credits receivable without characteristics of loan operations – future exchange	261,194
Amounts receivable from related companies	65,324
Others	1,236
	<u>837,585</u>

b) Other liabilities - sundry:

Debt assumptions	4,953
Accrued liabilities	55,907
Provision for contingent liabilities	8,493
Provision for volatility on investments, recorded due to the oscillations presented in the exchange and interest markets	77,343
Payables for acquisition of assets and rights – future exchange	251,677
Subscription of capital to be paid	22,931
Others	5,619
	<u>426,923</u>

c) Non-operating income and expenses refer basically to the provision for losses on assets not in use.

d) The total of assets pledged as guarantees amounts to R\$1,240,217, of which R\$1,218,227 correspond to securities and investments in the open market to principally guarantee operations, in BM&F.

e) In accordance with CMN (National Monetary Council) Resolution 3198/04, Banco Itaú BBA S.A. adhered to the single Audit Committee formed by the Itaú Financial Conglomerate, through the intermediation of the leader institution Banco Itaú Holding Financeira S.A. A summary of the Committee's report will be disclosed together with the financial statements of the leader institution on February 21, 2006.

f) Agreements for the compensation of obligations within the National Financial System

In accordance with BACEN Resolution 3263/05, some agreements were signed by public instrument allowing for the compensation and settlement of the obligations, the objective of which is to enable the compensation of credits and debts 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.

18. RELATED-PARTY TRANSACTIONS

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

	Assets/ (liabilities)	Income/(expenses)	
		2 nd six- month period	Year
Investments in the open market	3,775,891	305,683	615,176
Interbank deposits	4,714,035	547,866	928,722
Securities and derivative financial instruments	1,019,395	1,098,143	1,744,658
Interbank accounts	64,210	-	-
Other receivables:			
Foreign exchange portfolio	247,203	(357)	19,997
Income receivable	33	-	-
Sundry receivables	65,324	(2,792)	5,156
Prepaid expenses	217	-	-
Deposits	(15,706,203)	(1,245,897)	(2,268,111)
Securities sold under repurchase agreements	(11,062)	(10,115)	(31,003)
Issue of securities	(9,880)	(67)	(1,412)
Derivative financial instruments	(850,457)	(1,271,309)	(2,296,180)
Other liabilities:			
Foreign exchange portfolio	(245,964)	871	(18,413)
Social and statutory	(194,385)	-	-
Subordinated debt	(70,470)	(3,628)	(7,285)
Sundry liabilities	(23,141)	(21,173)	(35,542)

(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 sheet of Banco Itaú BBA S.A. as of December 31, 2005, and the related statements of income, of changes in stockholders' equity and of changes in financial position for the year and the six-month period then ended. 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 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 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, 2005 and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the year and the six-month period then ended, in accordance with accounting practices adopted in Brazil.
4. As mentioned in Note 2, the financial statements are not being presented in a comparative form with the financial statements at December 31, 2004 due to the corporate reorganization, as prescribed by item I of article 9 of the Central Bank of Brazil (BACEN) Circular 3017/00. This corporate reorganization was approved by the Central Bank of Brazil during 2005.

São Paulo, February 14, 2006.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/0-5

Ricardo Baldin
Contador CRC 1SP110374/0-0