



**Banco Votorantim S.A.**

Financial statements  
**December 31, 2006 and  
2005**

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



Banco Votorantim S.A.

Financial statements

**December 31, 2006 and 2005**

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## Independent auditors' report

To  
The Directors and Shareholders  
Banco Votorantim S.A.  
São Paulo - SP

We have examined the balance sheets of Banco Votorantim S.A. ("Bank") and the consolidated balance sheets of the Bank and its subsidiaries ("Consolidated"), as of December 31, 2006 and 2005 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Bank and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by management of the Bank and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Banco Votorantim S.A. and the consolidated financial position of the Bank and its subsidiaries as December 31, 2006 and 2005, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

February 23, 2007

KPMG Auditores Independentes  
CRC 2SP014428/O-6

*Original report in Portuguese signed by*  
Giuseppe Masi  
Accountant CRC 1SP176273/O-7

Banco Votorantim S.A.

Balance sheets

December 31, 2006 and 2005

(In thousands of Reals)

	Bank		Consolidated			Banco		Consolidado	
	2006	2005	2006	2005		2006	2005	2006	2005
<b>Assets</b>					<b>Liabilities</b>				
<b>Current assets</b>	58,150,167	38,903,725	45,686,263	37,028,544	<b>Current liabilities</b>	29,603,086	27,494,821	29,411,933	27,483,452
<b>Bank and cash</b>	25,048	7,462	55,240	26,244	<b>Deposits</b>	9,499,934	10,682,364	9,045,859	10,546,541
<b>Interbank funds applied</b>	28,464,559	19,133,442	17,930,277	11,936,777	Demand deposits	64,763	53,748	77,996	67,024
Money market	16,915,517	10,657,623	16,915,517	10,627,372	Interbank deposits	1,150,100	1,831,307	653,877	1,651,509
Interbank deposits	11,529,802	8,430,982	995,520	1,264,568	Time deposits	8,278,767	8,797,050	8,307,682	8,827,749
Foreign currency deposits	19,240	44,837	19,240	44,837	Other Deposits	6,304	259	6,304	259
<b>Securites and derivative financial instruments</b>	23,814,312	14,760,096	15,470,875	15,155,472	<b>Money market repurchase commitments</b>	14,239,238	10,855,176	13,784,733	10,551,338
Own portfolio	12,769,525	6,176,143	9,318,909	6,397,215	Own portfolio	3,491,370	2,887,406	3,036,865	2,583,568
Subject to repurchase commitments	6,166,412	2,692,703	1,564,001	2,727,758	Third party portfolio	9,188,147	7,967,770	9,188,147	7,967,770
Derivative financial instrument	1,251,718	1,471,058	906,388	1,547,064	Portfolio - free movement	1,559,721	-	1,559,721	-
Deposited with the Central Bank	1,396,154	1,932,905	1,450,505	1,932,905	<b>Acceptances and endorsements</b>	446,739	4,044	553,850	4,044
Subject to guarantees provided	2,230,503	2,487,287	2,231,072	2,550,530	Funds from Debentures	-	-	107,111	-
<b>Interbank accounts</b>	1,438,828	1,095,348	1,438,828	1,095,348	Notes and bonds issued abroad	446,739	4,044	446,739	4,044
Collections in transit	30	-	30	-	<b>Interbranch accounts</b>	36,326	4,787	37,267	4,819
Deposits with the Central Bank	1,438,235	1,095,111	1,438,235	1,095,111	Third party funds in transit	36,326	4,787	36,326	4,787
Correspondents	563	237	563	237	Own funds in transit	-	-	941	32
<b>Loans</b>	3,139,457	2,003,292	8,832,637	6,363,268	<b>Borrowings and repasses</b>	2,074,995	1,285,683	2,078,367	1,285,714
Loans - public sector	200,725	13,064	200,725	13,064	Domestic repasses - other	45,947	-	45,947	-
Loans - private sector	1,645,489	1,076,136	2,332,521	1,309,050	Overseas borrowings	1,028,340	670,883	1,028,340	670,883
Financing - private sector	1,106,531	714,619	6,370,183	4,971,880	Domestic repasses - Official institutions	4,971,880	614,800	1,004,080	614,831
Financing - Rural and Agricultural - Industria	81,258	113,047	81,258	113,047	<b>Derivative financial instruments</b>	1,512,677	2,756,779	1,510,548	2,837,449
Financing - Securites	142,223	103,318	142,223	103,318	Derivative financial instrument	1,512,677	2,756,779	1,510,548	2,837,449
Allowance for loan losses	(36,769)	(16,892)	(294,273)	(147,091)	<b>Other liabilities</b>	1,793,177	1,905,988	2,401,309	2,253,547
<b>Lease operations</b>	-	-	14,573	9,519	Foreign exchange portfolio	439,269	815,433	439,269	815,433
Leases receivable - public sector	-	-	2,701	-	Social and statutory	293,259	116,167	360,059	174,703
Leases receivable - private sector	-	-	40,831	34,231	Tax and social security	670,923	639,400	1,086,981	852,366
Unearned lease income	-	-	(19,934)	(14,541)	Securities clearing accounts	59,075	91,921	108,163	125,416
Unearned lease income	-	-	(9,025)	(10,171)	Other	330,651	243,067	406,837	285,629
Allowance for lease losses	-	-	(9,025)	(10,171)	<b>Long-term liabilities</b>	30,979,285	14,696,953	22,114,076	14,389,814
<b>Other receivables</b>	1,265,906	1,899,685	1,724,361	2,221,733	<b>Deposits</b>	21,882,950	10,262,117	10,595,422	9,845,365
Sureties and guarantees paid	289	-	289	-	Interbank deposits	11,315,673	2,637,271	33,519	2,224,665
Foreign exchange portfolio	752,238	1,049,598	752,238	1,049,598	Time deposits	10,567,277	7,624,846	10,561,903	7,620,700
Income receivable	5,137	6,808	9,943	5,915	<b>Money market repurchase commitment</b>	2,633,798	60,718	2,633,798	65,385
Securities clearing accounts	91,659	421,203	128,260	447,388	Own portfolio	2,633,798	60,718	2,633,798	65,385
Other	424,124	426,161	841,172	722,917	<b>Acceptances and endorsements</b>	2,269,588	234,070	4,654,497	234,070
Provision for doubtful receivable	(7,541)	(4,085)	(7,541)	(4,085)	Debentures	-	-	2,384,909	-
<b>Other assets</b>	2,057	4,400	219,472	220,183	Notes and bonds issued abroad	2,269,588	234,070	2,269,588	234,070
Other assets	-	-	21,484	19,179	<b>Borrowings and repasses</b>	1,703,941	2,530,125	1,713,106	2,530,143
Prepayments	2,057	4,400	197,988	201,004					
<b>Long-term assets</b>	5,701,534	5,597,337	10,893,712	8,935,819					
<b>Interbank funds applied</b>	1,503,276	873,744	1,499,112	786,531					
Interbank deposits	1,503,276	873,744	1,499,112	786,531					

Banco Votorantim S.A.

Balance sheets

December 31, 2006 and 2005

(In thousands of Reals)

	Bank		Consolidated			Banco		Consolidado	
	2006	2005	2006	2005		2006	2005	2006	2005
<b>Assets</b>					<b>Liabilities</b>				
<b>Securities and derivative financial instruments</b>	1,489,908	2,355,855	1,691,048	2,262,894	Domestic repasses - Other institutions	-	48,096	-	48,096
Subject to repurchase commitments	34,541	570,041	34,541	570,041	Overseas borrowings	493,540	1,327,436	493,540	1,327,436
Derivative financial instruments	1,202,068	1,785,814	1,403,208	1,692,853	Domestic repasses - Official institutions	1,210,401	1,154,593	1,219,566	1,154,611
Subject to guarantees provided	253,299	-	253,299	-	<b>Derivative financial instruments</b>	2,337,298	1,599,241	2,328,655	1,560,440
<b>Loans</b>	2,628,463	2,351,401	7,172,576	5,302,749	Derivative financial instrument	2,337,298	1,599,241	2,328,655	1,560,440
Loans - public sector	-	155,688	-	155,688	<b>Other liabilities</b>	151,710	10,682	188,598	154,411
Loans - private sector	1,223,407	604,855	1,838,893	780,856	Taxes payable	151,710	10,682	188,598	154,411
Financing - private sector	1,327,666	1,571,304	5,352,753	4,390,090	<b>Deferred income</b>	7,560	18,324	7,560	18,324
Financing - Rural and Agricultural - Industria	100,776	32,774	100,776	32,774	<b>Minority interest</b>	-	-	112,564	113,633
Allowance for loan losses	(23,386)	(13,220)	(119,846)	(56,659)	<b>Shareholders' equity</b>	5,033,981	4,034,887	5,033,981	4,034,887
<b>Lease operations</b>	-	-	22,620	13,582	Capital:				
Lease receivable - public sector	-	-	7,080	-	Domestic	3,380,000	2,380,000	3,380,000	2,380,000
Lease receivable - private sector	-	-	44,153	28,765	Capital reserves	15,357	13,826	15,357	13,826
Unearned lease income	-	-	(28,431)	(14,993)	Revenue reserves	1,585,345	1,587,782	1,585,345	1,587,782
Allowance for lease losses	-	-	(182)	(190)	Retained earnings	53,279	53,279	53,279	53,279
<b>Other receivables</b>	79,887	16,337	221,615	458,742	<b>Total Liabilities</b>	65,623,912	46,244,985	56,680,114	46,040,110
Other	79,887	16,337	221,615	458,742					
<b>Other assets</b>	-	-	286,741	111,321					
Prepayments	-	-	286,741	111,321					
<b>Permanent assets</b>	1,772,211	1,743,923	100,139	75,747					
<b>Investments</b>	1,752,948	1,730,369	30,844	26,659					
Domestic subsidiaries and affiliate									
Investment in overseas subsidiary	1,727,708	1,711,764	-	-					
Other investments	9,863	4,773	-	-					
	15,377	13,832	30,844	26,659					
<b>Premises and equipment</b>	14,537	11,326	43,748	32,287					
Other fixed assets									
Accumulated depreciation	36,120	29,572	85,570	64,660					
	(21,583)	(18,246)	(41,822)	(32,373)					
<b>Deferred charges</b>	4,726	2,228	25,547	16,801					
Deferred charges									
Accumulated amortization	11,987	8,467	49,958	33,908					
	(7,261)	(6,239)	(24,411)	(17,107)					
<b>Total Assets</b>	65,623,912	46,244,985	56,680,114	46,040,110					

See the accompanying notes to the financial statements.

# Banco Votorantim S.A.

## Statements of income

### Years ended December 31, 2006 and 2005 and semester ended June 30, 2006

(In thousands of Reais, except net profit for the period per lot of one thousand shares)

	2nd semester 2006	Bank		Consolidated	
		2006	2005	2006	2005
<b>Financial operations income</b>	3,474,167	6,715,541	5,516,820	8,171,636	6,889,093
Loans	364,022	645,494	343,365	3,750,399	2,696,667
Leases	-	-	-	21,579	19,492
Securities income	3,127,721	5,389,135	4,282,980	3,907,219	3,238,284
Derivative financial instruments	(110,188)	501,365	736,708	312,892	780,883
Trade finance and foreign exchange income	3,740	-	-	-	-
Compulsory loans	88,872	179,547	153,767	179,547	153,767
<b>Financial operations expenses</b>	(3,051,076)	(5,779,046)	(4,804,986)	(5,870,093)	(4,842,516)
Deposits, money market and interbank funds	(2,900,723)	(5,511,434)	(4,297,768)	(5,193,162)	(4,297,721)
Borrowings, assignments and repasses	(133,073)	(215,041)	(334,009)	(215,358)	(192,803)
Leases	-	-	-	(16,084)	(14,349)
Foreign exchange funding expenses	-	(18,893)	(147,543)	(18,893)	(147,543)
Allowance for loss on doubtful receivable	(17,280)	(33,678)	(25,666)	(426,596)	(190,100)
<b>Gross income on financial operations</b>	423,091	936,495	711,834	2,301,543	2,046,577
<b>Other operating income/(expenses)</b>	222,564	187,624	320,278	(956,268)	(749,361)
Service fee income	28,585	47,429	30,215	450,866	250,807
Personnel expenses	(58,275)	(113,634)	(53,451)	(268,110)	(172,436)
Other administrative expenses	(44,333)	(75,645)	(52,826)	(463,414)	(290,022)
Tax expenses	(61,505)	(55,871)	37,267	(226,673)	(43,079)
Equity pick up	368,726	479,870	517,121	-	-
Other operating income	27,095	29,810	5,856	290,797	9,246
Other operating expenses	(37,729)	(124,335)	(163,904)	(739,734)	(503,877)
<b>Operating results</b>	645,655	1,124,119	1,032,112	1,345,275	1,297,216
<b>Non operating results</b>	34	66	(15)	(13,762)	(718)
<b>Income before taxation and profit sharing</b>	645,689	1,124,185	1,032,097	1,331,513	1,296,498
<b>Income tax and social contribution</b>	41,322	(62,464)	(195,784)	(149,694)	(377,831)
Provision for income tax	135,524	(11,684)	(261,246)	(197,345)	(401,883)
Provision for social contribution	43,908	(9,087)	(94,049)	(79,412)	(146,396)
Deferred income tax and social contribution	(138,110)	(41,693)	159,511	127,063	170,448
<b>Profit sharing</b>	(28,314)	(51,100)	(30,553)	(162,392)	(106,389)
<b>Net profit before minority interest</b>	658,697	1,010,621	805,760	1,019,427	812,278
<b>Minority interest</b>	-	-	-	(8,806)	(6,518)
<b>Net profit for the semester/year</b>	658,697	1,010,621	805,760	1,010,621	805,760
<b>Net profit per lot of one thousand shares - R\$</b>	8.89	13.63	13.49		

See the accompanying notes to the financial statements.

Banco Votorantim S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2006 and 2005  
and semester ended June 30, 2006

(In thousands of Reais)

	Capital	Capital increase	Capital reserves		Revenue reserves		Retained earnings	Total
			Allocation to investments	Revaluation of membership certificates	Legal	Expansion		
<b>Balances at December 31, 2004</b>	1,750,250	129,750	2,080	3,680	109,639	1,037,415	53,279	3,086,093
Distribution of dividends	-	-	-	-	-	(170,705)	-	(170,705)
Capital increase	629,750	(129,750)	-	-	-	-	-	500,000
Formation of reserve								
Allocation to investments	-	-	-	1,116	-	-	-	1,116
Tax incentives	-	-	6,950	-	-	-	-	6,950
Net profit for the year	-	-	-	-	-	-	805,760	805,760
Distribution of net profit:								
Legal reserve	-	-	-	-	40,288	-	(40,288)	-
Expansion reserve	-	-	-	-	-	571,145	(571,145)	-
Interest on shareholders' equity	-	-	-	-	-	-	(145,885)	(145,885)
Dividends	-	-	-	-	-	-	(48,442)	(48,442)
<b>Balances at December 31, 2005</b>	<u>2,380,000</u>	<u>-</u>	<u>9,030</u>	<u>4,796</u>	<u>149,927</u>	<u>1,437,855</u>	<u>53,279</u>	<u>4,034,887</u>
Utilization of reserve	-	-	-	-	-	(379,575)	379,575	-
Prior year adjustments	-	-	-	-	-	-	(379,508)	(379,508)
Distribution of dividends	-	-	-	-	-	(20,000)	-	(20,000)
Capital increase	1,000,000	-	-	-	-	-	-	1,000,000
Formation of reserve								
Allocation to investments	-	-	-	1,531	-	-	-	1,531
Net income for the year	-	-	-	-	-	-	1,010,621	1,010,621
Distribution of net income:								
Legal reserve	-	-	-	-	50,531	-	(50,531)	-
Expansion reserve	-	-	-	-	-	473,207	(473,207)	-
Interest on shareholders' equity	-	-	-	-	-	-	(486,950)	(486,950)
Distribution of Dividends	-	-	-	-	-	(126,600)	-	(126,600)
<b>Balances at December 31, 2006</b>	<u>3,380,000</u>	<u>-</u>	<u>9,030</u>	<u>6,327</u>	<u>200,458</u>	<u>1,384,887</u>	<u>53,279</u>	<u>5,033,981</u>
<b>Balances at June 30, 2006</b>	2,880,000	-	9,030	5,523	173,602	1,291,255	206,645	4,566,055
Utilization of reserve	-	-	-	-	-	(379,575)	379,575	-
Prior year adjustments	-	-	-	-	-	-	(379,575)	(379,575)
Capital increase	500,000	-	-	-	-	-	-	500,000
Formation of reserve								
Allocation to investments	-	-	-	804	-	-	-	804
Net income for the semester	-	-	-	-	-	-	658,697	658,697
Distribution of net income:								
Legal reserve	-	-	-	-	26,856	-	(26,856)	-
Expansion reserve	-	-	-	-	-	473,207	(473,207)	-
Interest on shareholders' equity	-	-	-	-	-	-	(312,000)	(312,000)
<b>Balances at December 31, 2006</b>	<u>3,380,000</u>	<u>-</u>	<u>9,030</u>	<u>6,327</u>	<u>200,458</u>	<u>1,384,887</u>	<u>53,279</u>	<u>5,033,981</u>

See the accompanying notes to the financial statements.

Banco Votorantim S.A.

Statements of changes in financial position

Years ended December 31, 2006 and 2005  
and semester ended June 30, 2006

(In thousands of Reais)

	Bank			Consolidated	
	2nd semester 2006	Years		Years	
	2006	2006	2005	2006	2005
<b>Sources of funds</b>	13,457,905	21,117,918	13,124,612	13,615,227	13,301,557
<b>Net profit for the semester/year</b>	658,697	1,010,621	805,760	1,010,621	805,760
<b>Adjustments to net profit</b>	(366,405)	(475,324)	(333,391)	16,940	11,999
Depreciation and amortization	2,321	4,546	3,896	16,940	11,999
Equity in earnings (losses) of subsidiaries	(368,726)	(479,870)	(337,287)	-	-
<b>Prior year adjustments</b>	-	67	-	(379,508)	-
<b>Minority interest</b>	-	-	-	(1,069)	(84,260)
<b>Funds from shareholders</b>	500,000	1,000,000	500,000	1,000,000	500,000
Capital payment	500,000	1,000,000	500,000	1,000,000	500,000
<b>Interest on shareholders' equity</b>	-	78,897	-	-	-
<b>Change in deferred income</b>	(6,224)	(10,764)	15,895	(10,764)	15,895
<b>Reserves</b>	804	1,531	8,066	1,531	8,066
Allocation to investments	804	1,531	1,116	1,531	1,116
Tax incentives	-	-	6,950	-	6,950
<b>Funds from third parties</b>	12,671,033	19,512,890	12,128,282	11,977,476	12,044,097
<b>Increase in liabilities</b>	12,504,216	18,933,513	12,114,532	10,986,439	12,043,880
Deposits	5,568,476	10,438,402	7,209,894	-	7,312,866
Money market repurchase commitments	4,081,935	5,957,142	-	5,801,808	-
Acceptances and endorsements	2,476,393	2,478,213	-	4,970,233	-
Interbranch accounts	1,870	31,539	-	32,448	-
Borrowings and repasses	375,542	-	2,128,490	-	2,128,067
Derivative financial instruments	-	-	2,698,536	-	2,341,419
Other liabilities	-	28,217	77,612	181,950	261,528
<b>Decrease in assets</b>	164,283	572,572	5,200	990,942	-
Securities and Derivative financial instruments	-	-	-	256,443	-
Other receivables	164,100	570,229	-	734,499	-
Other assets	183	2,343	5,200	-	-
<b>Disposal of assets and investments</b>	34	95	105	95	217
Investments	-	-	20	-	20
Fixed assets	34	95	85	95	197
<b>Distribution of Dividends</b>	2,500	6,710	8,445	-	-
<b>Application of funds</b>	13,439,823	21,100,332	13,122,953	13,586,231	13,295,063
<b>Distribution of Dividends</b>	-	146,600	219,147	146,600	219,147
<b>Interest on shareholders' equity</b>	312,000	486,950	145,885	486,950	145,885
<b>Change in:</b>	6,868	18,240	155,885	41,427	30,722
Investments	804	7,890	150,494	4,184	6,363
Fixed assets	3,901	6,829	4,042	21,193	13,455
Deferred charges	2,163	3,521	1,349	16,050	10,904
<b>Increase in assets</b>	12,524,782	19,905,625	9,240,425	11,577,558	9,456,128
Interbank funds applied	3,434,369	9,960,649	2,830,663	6,706,081	3,767
Securities and Derivative financial instruments	8,042,573	8,188,269	3,257,983	-	2,984,201
Interbank accounts	105,902	343,480	373,014	343,480	373,014
Loans	941,938	1,413,227	1,974,358	4,339,196	4,772,062
Leases	-	-	-	14,092	6,888
Other receivables	-	-	804,407	-	1,178,567
Other assets	-	-	-	174,709	137,629
<b>Decrease in liabilities</b>	596,173	542,917	3,361,611	1,333,696	3,443,181
Money market repurchase commitment	-	-	2,285,735	750,626	2,372,624
Acceptances and endorsements	-	-	1,071,795	-	1,066,506
Interbranch accounts	-	-	4,081	-	4,051
Interbank accounts	6,535	-	-	-	-
Borrowings and repasses	-	36,872	-	24,384	-
Derivative financial instruments	425,768	506,045	-	558,686	-
Other liabilities	163,870	-	-	-	-
<b>Increase (decrease) in net working capital</b>	18,082	17,586	1,659	28,996	6,494
<b>Statement of changes in net working capital</b>					
<b>Bank and cash</b>					
Beginning of the semester/year	6,966	7,462	5,803	26,244	19,750
End of the semester/year	25,048	25,048	7,462	55,240	26,244
<b>Increase (decrease) in net working capital</b>	18,082	17,586	1,659	28,996	6,494

See the accompanying notes to the financial statements.

# Banco Votorantim S.A.

## Notes to the financial statements

**Years ended December 31, 2006 and 2005**

*(In thousands of Reais)*

### **1 Operations**

The operational activities of Banco Votorantim S.A. and its subsidiaries refer mainly to operations on the financial market, operating as a multiple bank with commercial, credit, financing and investment portfolios; on stock exchanges, negotiating and distributing securities on its own account and for third parties; operating a leasing portfolio and managing investment funds.

The operations of Banco Votorantim S.A. are undertaken within the context of a group of financial institutions that operate on the financial market and these institutions co-participate or act as intermediaries in some of these operations. The benefits of the services provided between these institutions and the costs of the administrative and operational structure are allocated on a practical and reasonable basis, as a whole or individually.

### **2 Presentation of the financial statements**

The financial statements of Banco Votorantim S.A. and the consolidated financial statements of Banco Votorantim S.A. were prepared in accordance with accounting practices derived from Brazilian corporation legislation (Law 6404/76) and rules of the Central Bank of Brazil.

In accordance with Resolution 2723 of the Central Bank of Brazil, the operations of the overseas branch are consolidated with the head office and other branches in Brazil.

### **3 Consolidated financial statements**

The consolidated financial statements, prepared in accordance with Brazilian Corporation Law and rules of the Central Bank of Brazil, include the financial statements of Banco Votorantim S.A. and its direct subsidiaries, as listed below:

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

	% Investment interest	
	2006	2005
<b>Direct subsidiaries in Brazil</b>		
Votorantim Corretora de Títulos e Valores Mobiliários Ltda.	99.98	99.98
Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.	99.99	99.99
BV Financeira S.A. - Crédito, Financiamento e Investimento	99.99	99.99
BV Leasing - Arrendamento Mercantil S.A.	99.99	99.99
<b>Direct subsidiaries abroad</b>		
Votorantim Bank Limited (see note 10a)	4.03	4.03
Banco Votorantim Securities, Inc.	100.00	-

### ***Description of main consolidation procedures***

- a. Elimination of intercompany asset and liability account balances;
- b. Elimination of investment in the capital, reserves and retained earnings of the subsidiaries;
- c. Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions;
- d. The financial statements of the subsidiary BV Leasing - Arrendamento Mercantil S.A. were reclassified, extra-accounting, in order to reflect its financial position and results in Consolidated in accordance with the financial method;
- e. The accounting balances of Votorantim Bank Limited and Banco Votorantim Securities, Inc., which are prepared in accordance with international accounting standards (IFRS), were translated into reais, using the quotation for the US dollar at the year end. For purposes of calculating the equity pick up and Consolidated, these balances were adjusted to comply with accounting practices derived from Brazilian corporation law.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **4 Description of significant accounting policies**

#### **a. Statement of income**

The results are recognized on the accruals basis.

#### **b. Securities and Derivative financial instruments**

In accordance with Circular 3068 of the Central Bank of Brazil, the securities are classified in the following categories, according to management's investment intentions:

- Trading Securities;
- Securities available for sale and
- Securities held to maturity.

The securities classified as trading securities or securities available for sale should be valued and recorded at market value, and the difference, when compared to corrected cost, recognized to the results for the period or in a specific shareholders' equity account, respectively. The securities classified as securities held to maturity should be recorded at cost, plus income earned to the balance sheet date.

In accordance with Circular 3082 of the Central Bank of Brazil, derivative financial instruments should be valued and recorded at market value and classified as hedge and non-hedge. The hedge is classified as: (i) hedge against market risk; or (ii) cash flow hedge.

The criteria for recording financial instruments are as follows:

- For derivative financial instruments that do not act as hedge, and for those that are classified as "hedge against market risk", the adjustments to market value are recorded as the corresponding entry to the appropriate income or expense account in the results for the year.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

- For derivative financial instruments classified as “cash flow hedge”, the effective hedge amount should be recorded as the corresponding entry for the separate net equity account, and any other change, as the corresponding entry for the appropriate income or expense account recorded to the results for the year.

In the case of derivative financial instruments that are used to protect securities classified as “securities held to maturity”, both the security and the derivative financial instruments are valued and recorded based on the intrinsic contractual terms, and are not stated at market value.

The adjustments as a result of adopting the new criteria are shown below:

<b>Bank</b>	<b>2006</b>	<b>2005</b>
Net income for the year before adjustments	1,030,297	785,452
Effects of the adjustments:		
Securities portfolio	83,803	(35,228)
Derivative financial instruments	(113,615)	66,030
Other adjustments	-	(32)
Income tax and social contribution on adjustments	10,136	(10,462)
<b>Net income for the year after adjustments</b>	<b>1,010,621</b>	<b>805,760</b>

<b>Consolidated</b>	<b>2006</b>	<b>2005</b>
Net income for the year before adjustments	922,793	589,931
Effects of the adjustments:		
Securities portfolio	58,569	(66,867)
Financing portfolio	173,618	324,020
Derivative financial instruments	(99,113)	70,400
Debt assumption contracts		(506)
Other adjustments	-	(32)
Income tax and social contribution on adjustments	( 45,246)	( 111,186)
<b>Net income for the year after adjustments</b>	<b>1,010,621</b>	<b>805,760</b>

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **c. Other assets**

Stated at cost, including income calculated on a daily “pro rata” basis and monetary and foreign exchange variations earned to the balance sheet date and adjusted, when applicable, for a provision to reflect realizable values. The allowance for loan losses is based on an analysis of the outstanding loans undertaken by management to determine the amount necessary, the economic situation and past experience and the specific and global risks of the portfolio, as well as Central Bank of Brazil norms.

Tax credits are recognized and refer basically to the allowance for loan losses, tax loss and negative social contribution basis.

### **d. Accounting estimates**

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and premises include allowances for doubtful debts, provisions for the devaluation of certain assets, deferred income tax assets, the provision for contingencies and the valuation of securities and derivative financial instruments. The settlement of the transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process for their determination. The Bank reviews the estimates and assumptions at least once a month.

### **e. Permanent assets**

Stated at cost (monetarily corrected to December 31, 1995), combining the following aspects:

- i. Valuation of investments in subsidiaries in Brazil and overseas, using the equity method.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- ii. Depreciation of fixed assets using the straight-line method, based on annual rates that take into consideration the useful economic lives of the assets, as follows: fixtures and utensils, communications system - 10% and data processing equipment and vehicles - 20%.
- iii. Other investments refer, mainly, to membership titles to the São Paulo Stock Exchange - BOVESPA and Futures and Commodities Exchange - BM&F, CIP - Interbank Chamber for Payments and Center for Compensation Agent "A", stated at nominal value, corrected based on information received from the exchanges and chambers.
- iv. Amortization of deferred charges over periods that correspond to the benefits generated.

### **f. Other liabilities**

Stated at known or estimated amounts, including, when applicable, charges calculated on a "pro rata" daily basis and monetary and foreign exchange variations incurred up to the balance sheet date.

The provisions for current income tax and social contribution were recorded at the rates of 15%, plus a surtax of 10% and 9%, respectively, in accordance with the legislation. The deferred income tax and social contribution were calculated on the adjustment to market value of securities and derivative financial instruments and unrealized result from valuation of derivative financial instruments, using the same rates as current tax.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

In the Consolidated Financial Statements, the deferred income tax was recognized in Consolidated, calculated at the rate of 25% of the adjustment for excess of depreciation, from the lease portfolio, and deferred income tax and social contribution calculated on the adjustment to market value for securities and derivative financial instruments, from the loan portfolio and unearned result of derivative financial instruments at the rate of 15%, plus a surtax of 10% and 9% respectively.

Liabilities are recognized in the balance sheet when they arise from legal obligations and when it is probable that economic funds will be required to settle the obligation. These liabilities are recorded based on best estimates of the risk involved.

### **5 Interbank funds applied**

The portfolio comprises interbank deposits remunerated at post fixed and pre fixed rates, maturing by November 2026, amounting to R\$ 13,033,078 (2005 - R\$ 9,304,726), for Banco Votorantim S.A. and R\$ 2,494,632 (2005 - R\$ 2,051,099), in Consolidated, for investments on the money market tied to public securities, amounting to R\$ 16,915,517 (2005 - R\$ 10,657,623), for Banco Votorantim S.A. e R\$ 16,915,517 (2005 - R\$ 10,627,372), and in Consolidated and foreign currency investments of R\$ 19,240 (2005 - R\$ 44,837), for Banco Votorantim S.A. and in Consolidated.

### **6 Securities**

The pricing criteria for securities are defined by the risk management department and take into consideration the prices and rates published officially such as ANDIMA and BM&F, as well as any adjustments to the prices of low liquidity securities, which consider offers, latest prices charged, possible dispersion and any other factors that could determine the market value in the most appropriate and fair manner, for both the domestic market and overseas market.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

For securities traded on the Brazilian market, the average rates published by ANDIMA on the closing date are considered, as well as the closing rate published for the BM&F positions, and the prices of the latest tradings for debentures published by ANDIMA, taking into consideration the criteria considered appropriate to determine the price of low liquidity securities. For the assets of overseas investments, the closing prices for public debt securities on the international market published by Bloomberg and other information services are considered, as well as criteria considered appropriate and correct for the pricing of low liquidity securities.

Based on the financial capacity of Banco Votorantim S.A., Management has the intention of holding the securities until maturity, which are valued at cost of acquisition, plus income earned, as corresponding entries to the results for the year, in accordance with BACEN Circular 3068.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### Bank

2006											2005
Trading Securities											Market value
Type	Cost	Market value	Unrealized (loss) gain	Within 3 months	From 3 to 12 months	Maturity dates				Total	
						From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
NTN-A	56,417	65,172	8,755	-	-	-	-	65,172	-	65,172	83,344
NTN-B	1,546,186	1,604,097	57,911	-	361	699,563	855,427	48,745	1	1,604,097	1,212,653
NTN-C	649,765	661,178	11,413	-	-	661,178	-	-	-	661,178	790,891
NTN-D	59,088	64,359	5,271	-	22,035	42,324	-	-	-	64,359	118,871
NTN-F	2,108,274	2,123,509	15,235	-	-	-	1,496,582	626,927	-	2,123,509	768,899
LFT	323,787	323,707	(80)	-	1,786	1,774	320,147	-	-	323,707	899
LTN	2,122,564	2,129,024	6,460	1,006,516	16,120	1,106,388	-	-	-	2,129,024	4,024,932
Mortgage bills	-	-	-	-	-	-	-	-	-	-	11,841
CRI	16,411	16,411	-	-	-	-	-	16,411	-	16,411	-
Debentures	9,362,038	9,401,658	39,620	-	-	-	245,152	842,517	8,313,989	9,401,658	1,122,568
Eurobonds / Bradies	947,324	947,324	-	43,135	1,950	572	648,311	253,356	-	947,324	3,063,673
BR Exit Securities from other countries	256,142	264,901	8,759	4,407	-	-	-	260,494	-	264,901	-
CDB	2,196,582	2,220,603	24,021	203	903,386	1,317,014	-	-	-	2,220,603	-
Promissory notes	638,232	638,232	-	2,041	8,166	82,408	545,617	-	-	638,232	896,771
CPR	16,579	16,579	-	16,579	-	-	-	-	-	16,579	-
TDA	12,042	12,042	-	12,042	-	-	-	-	-	12,042	-
Shares	148,840	148,840	-	9,602	7,457	68,833	49,441	13,507	-	148,840	20,138
Investment funds	440,014	465,223	25,209	465,223	-	-	-	-	-	465,223	97,370
	1,244,257	1,244,257	-	1,244,257	-	-	-	-	-	1,244,257	953,519
<b>Total</b>	<b>22,144,542</b>	<b>22,347,116</b>	<b>202,574</b>	<b>2,804,005</b>	<b>961,261</b>	<b>3,980,054</b>	<b>4,160,677</b>	<b>2,127,129</b>	<b>8,313,990</b>	<b>22,347,116</b>	<b>13,166,369</b>
Securities held to maturity											Cost
Type	Cost	Market value	Unrealized (loss) gain	Within 3 months	From 3 to 12 months	Maturity dates				Total	
						From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
Eurobonds (Nassau branch)	503,318	511,445	8,127	89,554	125,924	287,840	-	-	-	503,318	692,710
<b>Total</b>	<b>503,318</b>	<b>511,445</b>	<b>8,127</b>	<b>89,554</b>	<b>125,924</b>	<b>287,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>503,318</b>	<b>692,710</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### Consolidated

2006											2005
Securities for trading											
Type	Cost	Market value	Unrealized (loss) gain	Maturity dates						Total	Market value
				Within 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
NTN-A	215,187	269,669	54,482	-	-	-	-	269,669	-	269,669	344,863
NTN-B	1,546,186	1,604,097	57,911	-	361	699,563	855,427	48,745	1	1,604,097	1,212,653
NTN-C	649,765	661,178	11,413	-	-	661,178	-	-	-	661,178	790,891
NTN-D	60,312	65,594	5,282	-	22,035	43,559	-	-	-	65,594	120,165
NTN-F	2,108,274	2,123,509	15,235	-	-	-	1,496,582	626,927	-	2,123,509	768,899
NBC-E	-	-	-	-	-	-	-	-	-	-	28,706
LFT	324,356	324,276	(80)	-	1,839	1,774	320,663	-	-	324,276	899
LTN	2,122,564	2,129,024	6,460	1,006,516	16,120	1,106,388	-	-	-	2,129,024	4,024,932
Mortgage bills	-	-	-	-	-	-	-	-	-	-	11,841
CRI	16,411	16,411	-	-	-	-	-	16,411	-	16,411	-
Debentures	1,048,049	1,087,669	39,620	-	-	-	245,152	842,517	-	1,087,669	1,122,568
Eurobonds/ Bradies	958,304	958,304	-	43,134	1,952	572	648,311	264,335	-	958,304	3,090,514
BR Exit Securities from other countries	256,142	264,901	8,759	4,407	-	-	-	260,494	-	264,901	-
CDB	2,196,582	2,220,603	24,021	203	903,386	1,317,014	-	-	-	2,220,603	-
Promissory notes	638,232	638,232	-	2,041	8,166	82,408	545,617	-	-	638,232	897,781
CPR	16,579	16,579	-	16,579	-	-	-	-	-	16,579	-
TDA	12,042	12,042	-	12,042	-	-	-	-	-	12,042	-
Shares	148,840	148,840	-	9,602	7,457	68,833	49,441	13,507	-	148,840	20,138
Investment funds	440,014	465,223	25,209	465,223	-	-	-	-	-	465,223	97,370
	1,342,858	1,342,858	-	1,342,858	-	-	-	-	-	1,342,858	953,519
<b>Total</b>	<b>14,100,697</b>	<b>14,349,009</b>	<b>248,312</b>	<b>2,902,605</b>	<b>961,316</b>	<b>3,981,289</b>	<b>4,161,193</b>	<b>2,342,605</b>	<b>1</b>	<b>14,349,009</b>	<b>13,485,739</b>

Securities held to maturity											
Type	Cost	Market value	Unrealized (loss) gain	Maturity dates						Total	Cost
				Within 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
Eurobonds (Nassau branch)	503,318	511,445	8,127	89,554	125,924	287,840	-	-	-	503,318	692,710
<b>Total</b>	<b>503,318</b>	<b>511,445</b>	<b>8,127</b>	<b>89,554</b>	<b>125,924</b>	<b>287,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>503,318</b>	<b>692,710</b>

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **7 Derivative financial instruments**

The Votorantim Financial Group undertakes operations that involve derivative financial instruments, operating on organized and over the counter markets, in order to manage risk in a manner consistent with the Group policy.

Management of market risk is performed centrally, by the administrative area which is independent from the operations table and is accompanied by the Risk Committee, consisting of the directors and vice president of Banco Votorantim S.A., who meet periodically to evaluate risks and define operating limits. The basic procedures adopted for risk management are: a) monitoring the risks and positions in accordance with the limits established by the Risk Committee and the legal limits; b) integrity of pricing of assets and derivatives; c) evaluation of market risk using the "Value at Risk" methodology and by simulating scenarios; and d) accompanying the daily results based on "back-test" methodology.

The risk management policy also considers the use of financial derivative instruments to hedge positions, to meet demands of counterparties and as a means of reversing the positions at times of significant oscillations, The operations comply with the limits determined by the Committee and defined by legislation, after analyzing the credit and liquidity risks, when they involve liquidity and credit policies and the decisions of the respective committee.

The pricing policy for derivative financial instruments is defined by the risk management department, and takes into consideration the prices and rates officially published by ANDIMA and BM&F, premium calculations for options and other risks in accordance with conventional and accepted methodologies, All of the stages of the operations are verified by internal audit and internal control procedures, defined and accompanied by a specific, independent department, appropriate for the level of transactions and risks involved.

The amounts receivable from outstanding swap contracts amount to R\$ 2,239,270 (2005 - R\$ 3,166,321) and the amounts payable are R\$ 473,837 (2005 - R\$ 652,776) and have been recorded to derivative financial instruments for Banco Votorantim S.A. In Consolidated, the amounts receivable are R\$ 2,095,080 (2005 - R\$ 3,149,366) and the amounts payable are R\$ 463,065 (2005 - R\$ 694,645).

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The amounts receivable from sales of term shares amounted to R\$136,715 (2005 - R\$ 55,416) for Banco Votorantim S.A. and in Consolidated. The amounts payable from the purchase of term shares amounted to R\$ 10,308 (2005 - none), for Banco Votorantim S.A. and in Consolidated. The amounts receivable for purchases of term shares are R\$ 13,100 (2005 - none), in Banco Votorantim S.A. and in Consolidated. Amounts payable for sale of term shares to be delivered are R\$ 150,670 (2005 - R\$ 60,420), in Banco Votorantim S.A. and in Consolidated.

The amounts received for box contracts of funding options are R\$ 3,149,432 (2005 - R\$ 3,592,984), and are recorded in derivative financial instruments in Banco Votorantim S.A. and in Consolidated.

The premiums paid on acquired option contracts amount to R\$ 64,701 (2005 - R\$ 35,135) and premiums received from launched option contracts amount to R\$ 65,728 (2005 - R\$ 49,840) and have been recorded to derivative financial instruments for Banco Votorantim S.A. and in Consolidated.

The daily adjustments of the operations on the futures market amount to R\$ 7,408 in liabilities (2005 - R\$ 188,363) and R\$ 27 (2005 - R\$ 21,856) in liabilities for Banco Votorantim S.A. and R\$ 7,408 in assets (2005 - R\$ 188,363) and R\$ 1,734 (2005 - R\$ 22,583) as a deduction to liabilities, in Consolidated, and are recorded to Securities Clearing Accounts.

The operations carried out on the organized stock exchanges have as their counter party financial institutions authorized by the Central Bank to operate on the financial market. The operations undertaken on the over-the-counter market are registered with CETIP and the counter parties are companies that are not members of the National Financial System.

The margins deposited with BM&F amounted to R\$ 1,298,277 (2005 - R\$ 1,215,530), for Banco Votorantim S.A. and R\$ 1,709,559 (2005 - R\$ 1,521,378), in Consolidated.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

Bank												
2006											2005	
Type of Swap	Original amount of contract	Contracted amounts of receivable/payable	Market amounts Receivable/payable	Unrealized Profit/(loss)	Maturity dates					Total	Original amount of contract	Market amounts of receivable/payable
					Within 3 months	From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 15 years			
					(1,627,926)							
DI	36,039	1,704,606	1,647,180	(57,426)		939,922	2,223,484	892,749	(781,049)	1,647,180	3,508,409	5,305,041
Dollar	(722,122)	(531,977)	(439,102)	92,875	(259,560)	(519,427)	(458,573)	(146,962)	945,420	(439,102)	(4,899,558)	(3,825,090)
Yen	-	-	-	-	-	-	-	-	-	-	(12,990)	273
Euro	(12,348)	(14,423)	(14,460)	(37)	(31,802)	17,342	-	-	-	(14,460)	-	-
IGPM	291,531	218,453	215,040	(3,413)	587,884	277,741	(733,700)	38,740	44,375	215,040	(537,803)	(657,521)
IPCA	(1,261,796)	(1,381,207)	(1,453,635)	(72,428)	13,333	(109,153)	(416,602)	(701,884)	(239,329)	(1,453,635)	(210,000)	(178,579)
Pre	2,018,244	1,926,626	2,105,717	179,091	1,457,489	(152,140)	89,261	596,688	114,419	2,105,717	2,170,235	1,889,376
TRM	(155,000)	(162,945)	(166,816)	(3,871)	-	(20,794)	(146,022)	-	-	(166,816)	(15,000)	(16,314)
Libor	56,045	255,677	127,605	(128,072)	45,667	540,268	176,474	(529,061)	(105,743)	127,605	-	-
Lira	(233,253)	(243,625)	(238,530)	5,095	-	(238,530)	-	-	-	(238,530)	-	-
TJLP	(17,340)	(17,575)	(17,566)	9	(239)	(4,376)	(12,951)	-	-	(17,566)	(3,293)	(3,641)
<b>Total</b>	<b>-</b>	<b>1,753,610</b>	<b>1,765,433</b>	<b>11,823</b>	<b>184,846</b>	<b>730,853</b>	<b>721,371</b>	<b>150,270</b>	<b>(21,907)</b>	<b>1,765,433</b>	<b>-</b>	<b>2,513,545</b>

### FUTURES

DDI	(115,356)	(3,718)	(3,718)	-	(881,319)	1,684,323	871,572	(204,118)	(1,585,814)	(115,356)	139,947	(14,172)
Dollar	(939,380)	14,259	14,259	-	1,098,441	(161,278)	(1,876,543)	-	-	(939,380)	2,466,122	2,733
IND	(157,583)	(334)	(334)	-	(157,583)	-	-	-	-	(157,583)	234,226	839
DI	667,792	(5,188)	(5,188)	-	9,547,852	(5,110,103)	(2,119,772)	(1,552,501)	(97,684)	667,792	(9,626,207)	(1,193)
Euro	231	1	1	-	-	231	-	-	-	231	(4,706)	(119)
Reais	409,427	2,361	2,361	-	142,177	267,250	-	-	-	409,427	-	-
Pre	-	-	-	-	-	-	-	-	-	-	496,951	178,419
<b>Total</b>	<b>(134,869)</b>	<b>7,381</b>	<b>7,381</b>	<b>-</b>	<b>9,749,568</b>	<b>(3,319,577)</b>	<b>(3,124,743)</b>	<b>(1,756,619)</b>	<b>(1,683,498)</b>	<b>(134,869)</b>	<b>(6,293,667)</b>	<b>166,507</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### OPTIONS

Shares	(597,917)	(75,117)	(1,303)	73,814	(600,517)	2,600	-	-	-	(597,917)	(38,520)	(2,365)
Br exit	(74,830)	(551)	(551)	-	-	-	(74,830)	-	-	(74,830)	(81,925)	(603)
Dollar	(45,370)	1,703	414	(1,289)	(257,870)	164,500	48,000	-	-	(45,370)	402,000	(10,397)
DI	-	-	-	-	-	-	-	-	-	-	(815,650)	(2,151)
Flexible	1,210	15	15	-	1,210	-	-	-	-	1,210	(334,052)	811
IND	(272,550)	(283)	398	681	(2,150)	-	(270,400)	-	-	(272,550)	-	-
<b>Total</b>	<b>(989,457)</b>	<b>(74,233)</b>	<b>(1,027)</b>	<b>73,206</b>	<b>(859,327)</b>	<b>167,100</b>	<b>(297,230)</b>	<b>-</b>	<b>-</b>	<b>(989,457)</b>	<b>(868,147)</b>	<b>(14,705)</b>

### OTHER DERIVATIVE FINANCIAL INSTRUMENTS

Box options	-	(3,149,432)	(3,149,432)	-	(817,775)	(408,740)	(1,861,363)	(61,554)	-	(3,149,432)	-	(3,592,984)
<b>Total</b>	<b>-</b>	<b>(3,149,432)</b>	<b>(3,149,432)</b>	<b>-</b>	<b>(817,775)</b>	<b>(408,740)</b>	<b>(1,861,363)</b>	<b>(61,554)</b>	<b>-</b>	<b>(3,149,432)</b>	<b>-</b>	<b>(3,592,984)</b>

### Consolidated

Type	2006										2005	
	Original amount of contract	Contracted amounts receivable/payable	Market amounts receivable/payable	Unrealized Profit/(loss)	Maturity dates					Total	Original amount of contract	Market amounts receivable/payable
Within 3 months					From 3 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 15 years				
DI	(1,366,110)	408,673	351,406	(57,267)	(1,645,266)	78,802	2,368,823	283,741	(734,694)	351,406	2,947,277	5,381,305
Dollar	665,121	610,331	697,584	87,253	(147,210)	66,861	84,549	(219,395)	912,779	697,584	(4,247,157)	(4,277,225)
Euro	(12,348)	(14,423)	(14,460)	(37)	(31,803)	17,343	-	-	-	(14,460)	-	-
Yen	-	-	-	-	-	-	-	-	-	-	(12,990)	(12,119)
IGPM	291,531	218,454	215,041	(3,413)	587,885	277,741	(733,700)	38,740	44,375	215,041	(537,803)	(657,477)
IPCA	(1,261,796)	(1,381,207)	(1,453,634)	(72,427)	13,333	(109,152)	(416,602)	(701,884)	(239,329)	(1,453,634)	(210,000)	(176,039)
Pre	2,033,150	1,951,957	2,131,385	179,428	1,475,942	(144,924)	89,260	596,688	114,419	2,131,385	2,078,966	2,216,231
TJLP	(17,340)	(17,575)	(17,566)	9	(239)	(4,376)	(12,951)	-	-	(17,566)	(3,293)	(3,641)
Lira	(233,253)	(243,625)	(238,530)	5,095	-	(238,530)	-	-	-	(238,530)	-	-
Libor	56,045	255,677	127,605	(128,072)	45,667	540,268	176,474	(529,061)	(105,743)	127,605	-	-
TRM	(155,000)	(162,945)	(166,816)	(3,871)	-	(20,794)	(146,022)	-	-	(166,816)	(15,000)	(16,314)
<b>Total</b>	<b>-</b>	<b>1,625,317</b>	<b>1,632,015</b>	<b>6,698</b>	<b>298,309</b>	<b>463,239</b>	<b>1,409,831</b>	<b>(531,171)</b>	<b>(8,193)</b>	<b>1,632,015</b>	<b>-</b>	<b>2,454,721</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

<b>FUTURES</b>												
DDI	(33,307)	(3,899)	(3,899)	-	(881,319)	1,788,648	894,664	(249,486)	(1,585,814)	(33,307)	423,484	(14,879)
Dollar	(1,357,535)	14,371	14,371	-	1,116,984	(691,482)	(1,783,037)	-	-	(1,357,535)	1,805,966	2,731
IND	(157,583)	(334)	(334)	-	(157,583)	-	-	-	-	(157,583)	234,226	839
DI	1,063,907	(3,358)	(3,358)	-	9,529,238	(4,601,401)	(2,213,745)	(1,552,501)	(97,684)	1,063,907	(16,154,302)	(1,211)
Euro	231	1	1	-	-	231	-	-	-	231	(4,706)	(119)
Reais	409,427	2,361	2,361	-	142,177	267,250	-	-	-	409,427	-	-
Pre	-	-	-	-	-	-	-	-	-	-	496,951	178,419
<b>Total</b>	<b>(74,860)</b>	<b>9,142</b>	<b>9,142</b>	<b>-</b>	<b>9,749,497</b>	<b>(3,236,754)</b>	<b>(3,102,118)</b>	<b>(1,801,987)</b>	<b>(1,683,498)</b>	<b>(74,860)</b>	<b>(13,198,381)</b>	<b>165,780</b>
<b>OPTIONS</b>												
Shares	(597.917)	(75.117)	(1.303)	73.814	(600.517)	2.600	-	-	-	(597.917)	(38.520)	(2.365)
Br exit	(74.830)	(551)	(551)	-	-	-	(74.830)	-	-	(74.830)	(81.925)	(603)
Dollar	(45.370)	1.703	414	(1.289)	(257.870)	164.500	48.000	-	-	(45.370)	402.000	(10.397)
DI	-	-	-	-	-	-	-	-	-	-	(815.650)	(2.151)
Flexible	1.210	15	15	-	1.210	-	-	-	-	1.210	(334.052)	811
IND	(272.550)	(283)	398	681	(2.150)	-	(270.400)	-	-	(272.550)	-	-
<b>Total</b>	<b>(989.457)</b>	<b>(74.233)</b>	<b>(1.027)</b>	<b>73.206</b>	<b>(859.327)</b>	<b>167.100</b>	<b>(297.230)</b>	<b>-</b>	<b>-</b>	<b>(989.457)</b>	<b>(868.147)</b>	<b>(14.705)</b>
<b>OTHER DERIVATIVE FINANCIAL INSTRUMENTS</b>												
Box options	-	(3,149,432)	(3,149,432)	-	(817,775)	(408,740)	(1,861,363)	(61,554)	-	(3,149,432)	-	(3,592,984)
<b>Total</b>	<b>-</b>	<b>(3,149,432)</b>	<b>(3,149,432)</b>	<b>-</b>	<b>(817,775)</b>	<b>(408,740)</b>	<b>(1,861,363)</b>	<b>(61,554)</b>	<b>-</b>	<b>(3,149,432)</b>	<b>-</b>	<b>(3,529,984)</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### 8 Loans, foreign exchange portfolio and lease operations

#### a. Composition of operations

	Bank		Consolidated	
	2006	2005	2006	2005
Loans - Public sector	200,725	168,752	200,725	168,752
Loans - Private sector	3,212,047	1,680,991	4,514,565	2,089,906
Financing - Private sector	2,091,046	2,285,923	11,379,785	9,361,970
Financing - Rural and agribusiness	182,034	145,821	182,034	145,821
Financing - Securities	142,223	103,318	142,223	103,318
Lease receivable - Public sector	-	-	4,534	-
Lease receivable - Private sector paid	-	-	41,866	33,462
Sureties and guarantees paid	289	-	289	-
Foreign exchange portfolio - Advances on foreign exchange contracts and income receivable (classified as "Other receivables and Other liabilities")	355,082	247,021	355,082	247,021
<b>Total</b>	<b>6,183,446</b>	<b>4,631,826</b>	<b>16,821,103</b>	<b>12,150,250</b>

#### b. Composition of portfolio by type of client and economic activity

	Bank		Consolidated	
	2006	2005	2006	2005
Industry	2,738,517	2,123,670	2,739,690	2,124,761
Commercial	556,116	302,359	1,259,171	911,345
Rural	182,034	145,820	182,034	145,820
Other services	1,855,030	1,636,266	1,864,405	1,652,306
Financial institutions	29,323	2,463	33,857	6,512
Individuals	822,426	421,248	10,741,946	7,309,506
<b>Total</b>	<b>6,183,446</b>	<b>4,631,826</b>	<b>16,821,103</b>	<b>12,150,250</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### c. Composition of the loan portfolio by maturity dates

Maturity dates	Bank		Consolidated	
	2006	2005	2006	2005
<b>Loans overdue</b>				
More than 15 days	8,434	1,054	225,484	126,908
<b>Loans to fall due</b>				
Within 3 months	1,705,871	813,554	3,478,069	2,183,834
From 3 to 12 months	1,817,292	1,112,846	5,802,326	4,127,871
From 1 to 3 years	1,930,072	1,765,284	6,286,391	4,670,159
From 3 to 5 years	514,347	509,510	816,098	611,900
From 5 to 15 years	207,430	429,578	212,735	429,578
<b>Total</b>	<b>6,183,446</b>	<b>4,631,826</b>	<b>16,821,103</b>	<b>12,150,250</b>

### d. Composition of loans at the corresponding risk levels, as established under BACEN Resolution 2682.

Bank	2006			2005		
	Performing loans	Nonperforming loans	Total operations	Performing loans	Nonperforming loans	Total operations
Risk level						
AA	1,991,364	-	1,991,364	1,975,528	-	1,975,528
A	1,774,151	-	1,774,151	1,274,311	-	1,274,311
B - overdue from 15 to 30 days	1,153,325	7,748	1,161,073	799,844	738	800,582
C - overdue from 31 to 60 days	1,151,085	3,747	1,154,832	561,041	4,520	565,561
D - overdue from 61 to 90 days	93,504	1,611	95,115	13,382	747	14,129
E - overdue from 91 to 120 days	2,875	2,539	5,414	-	221	221
F - overdue from 121 to 150 days	-	-	-	-	111	111
G - overdue from 151 to 180 days	214	-	214	166	53	219
H - overdue more than 180 days	1,283	-	1,283	-	1,164	1,164
<b>Total</b>	<b>6,167,801</b>	<b>15,645</b>	<b>6,183,446</b>	<b>4,624,272</b>	<b>7,554</b>	<b>4,631,826</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

Consolidated	2006			2005		
	Performing loans	Nonperforming loans	Total operations	Performing loans	Nonperforming loans	Total operations
Risk level						
AA	2,596,502	-	2,596,502	2,353,124	-	2,353,124
A	10,266,181	-	10,266,181	7,538,661	-	7,538,661
B - overdue from 15 to 30 days	1,209,110	556,442	1,765,552	814,014	390,357	1,204,371
C - overdue from 31 to 60 days	1,175,702	411,318	1,587,020	570,404	224,331	794,735
D - overdue from 61 to 90 days	104,208	112,503	216,711	15,083	66,664	81,747
E - overdue from 91 to 120 days	6,004	82,395	88,399	372	42,935	43,307
F - overdue from 121 to 150 days	630	57,656	58,286	490	27,618	28,108
G - overdue from 151 to 180 days	675	46,585	47,260	216	21,365	21,581
H - overdue more than 180 days	4,360	190,832	195,192	1,512	83,104	84,616
<b>Total</b>	<b>15,363,372</b>	<b>1,457,731</b>	<b>16,821,103</b>	<b>11,293,876</b>	<b>856,374</b>	<b>12,150,250</b>

### e. Market value valuation

In Consolidated, part of the financing portfolio of BV Financeira S.A. - C,F,I, was valued at market value, considering the respective hedge on the DI future market with BM&F, as determined by Central Bank of Brazil Resolution 3082 of January 30, 2002. The aforementioned evaluation considers the effective hedge, reflecting the effects of the variation in the interest rates on the financing portfolio, according to the due dates of the installments as the corresponding entry for the adjustments that occurred on the derivative markets, measured monthly. At December 31, 2006, the valuation of these assets resulted in a positive unrealized adjustment for the amount of R\$ 173,618,.

### f. Formation of the allowance for loan losses per level of risk

Risk level	Provision %	Bank		Consolidated	
		2006	2005	2006	2005
A	0.5	8,871	6,371	59,993	47,365
B - Overdue from 15 to 30 days	1.0	11,611	8,006	17,656	12,044
C - Overdue from 31 to 60 days	3.0	34,645	16,967	47,611	23,842
D - Overdue from 61 to 90 days	10.0	9,512	1,413	21,671	8,175
E - Overdue from 91 to 120 days	30.0	1,624	66	26,520	12,992
F - Overdue from 121 to 150 days	50.0	-	56	29,142	14,054
G - Overdue from 151 to 180 days	70.0	150	154	33,082	15,108
H - Overdue more than 180 days	100.0	1,283	1,164	195,192	84,616
<b>Total</b>		<b>67,696</b>	<b>34,197</b>	<b>430,867</b>	<b>218,196</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

The loans recovered during the year, which were recorded as recovery of loans written off as losses, in accordance with COSIF, amounted to a total of R\$ 25,179 (2005 - R\$ 69,276) in Consolidated. The value of assets recovered during the year amounted to R\$ 131,651 (2005 - R\$ 83,022) in Consolidated. During the same period, a balance of R\$ 999,510 (2005 - R\$ 361,310) was recorded for Banco Votorantim and R\$ 1,159,957 (2005 - R\$ 457,272) in Consolidated for renegotiated loans.

In Consolidated, the allowance for loan losses was increased for the differences not settled from lease contracts indexed to the dollar, which are being legally discussed, amounting to R\$ 8,704 (2005 - R\$ 9,729), and which are presented mainly in risk level "A".

- g.** The movement on the allowance for loan losses during the semester was as follows:

	Bank		Consolidated	
	2006	2005	2006	2005
Opening balance	34,197	9,269	218,196	146,144
Formation (reversal)	33,678	25,666	426,596	190,100
Write off to losses	(39)	(588)	(213,785)	(117,886)
Foreign exchange variation	(140)	(150)	(140)	(162)
Closing balance	<b>67,696</b>	<b>34,197</b>	<b>430,867</b>	<b>218,196</b>

## 9 Other receivables

	Bank		Consolidated	
	2006	2005	2006	2005
Sureties and guarantees paid	289	-	289	-
Foreign exchange portfolio (a)	752,238	1,049,598	752,238	1,049,598
Income receivable	5,137	6,808	9,943	5,915
Securities clearing accounts (b)	91,659	421,203	128,260	447,388
Other (c)	504,011	442,498	1,062,787	1,181,659
Allowance for other losses	(7,541)	(4,085)	(7,541)	(4,085)
<b>Total</b>	<b>1.345.793</b>	<b>1.916.022</b>	<b>1.945.976</b>	<b>2.680.475</b>

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- a.** Refers, basically, to balances for purchase of foreign currency to settle, amounting to R\$ 414,598 (2005 - R\$ 528,709) and rights to sell foreign currency, net of advances, amounting to R\$ 329,220 (2005 - R\$ 516,850) for Banco Votorantim and in Consolidated.
- b.** Represented, basically, by the differential receivable from contracts on the futures market, described in note 7, and margin deposit in guarantee of repurchase operations overseas in the amount of R\$ 70,264 (2005 - R\$ 139,715) and the differential receivable from transactions traded on the São Paulo stock exchange (BOVESPA), in the amount of R\$ 13,402 (2005 - R\$ 93,079), in Banco Votorantim S.A., and in Consolidated.
- c.** Refer, basically, to recoverable taxes and contributions of R\$ 66,774 (2005 - R\$ 32,170) in Banco Votorantim S.A. and R\$ 174,580 (2005 - R\$ 97,055) in Consolidated; tax credits of R\$ 143,752 (2005 - R\$ 162,232) for Banco Votorantim S.A. and R\$ 404,100 (2005 - R\$ 253,824) in Consolidated; positive market value adjustment of the Financing portfolio, described in note 8e in Consolidated and options for tax incentives of R\$ 8,983 (2005 - R\$ 8,983) in Banco Votorantim S.A., and 13,423 (2005- R\$ 13,423) in Consolidated; amount receivable for sale of securities R\$ 268,693 (2005 - R\$ 234,120) in Banco Votorantim S.A. and in Consolidated.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### 10 Investments

	Number of quotas/shares held	Investment interest - %	2006				2005	
			Shareholders' equity	Net profit	Result from investment interest	Book value of investments	Result from investment interest	Book value of investments
BV Financeira S.A. - Crédito, Financiamento e Investimento	126,353	99,99	638,576	166,784	166,777	638,536	390,717	892,331
Votorantim Corretora de Títulos e Valores Mobiliários Ltda,	20,177	99,98	114,483	26,948	9,457	126,458	12,298	123,711
Votorantim Bank Limited	1,000,000	4,03	117,216	9,154	(44)	4,729	(548)	4,773
Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda,	8,999,800	99,99	72,309	15,041	15,048	72,308	16,673	59,160
BV Leasing - Arrendamento Mercantil S.A.	510,398	99,99	890,417	39,850	289,845	890,406	97,981	636,562
Banco Votorantim Securities, Inc.	3,000,000	100,00	5,134	(1,279)	(1,213)	5,134	-	-
<b>Total</b>					<b>479,870</b>	<b>1,737,571</b>	<b>517,121</b>	<b>1,716,537</b>

- a. Votorantim Bank Limited - The results from the equity interest refer, mainly, to recognition of results in the investment, plus the effects of foreign exchange variation on foreign currency investments and adjustments recognized directly to shareholders' equity. Banco Votorantim S.A. holds 100% of the ordinary shares (4.03% of the total shares) in Votorantim Bank Limited, which guarantees it shareholding control.
- b. On April 26, 2006, the capital of Banco Votorantim Securities, Inc., located in New York,- USA was paid up. The results of the equity interest refer mainly to recognition of the results from the investment, plus the effects of foreign currency variations on foreign currency investments.
- c. Other Financial Institutions - The results from the equity interest refer to recognition of net profit plus the adjustments recognized directly to shareholders' equity.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- d. On February 27, 2002, the Bank's overseas branch, located in Nassau, Bahamas, entered into operation. The balances of the equity accounts and statement of income from the operations of this Branch, which are consolidated in Banco Votorantim S.A. are the following: total assets R\$ 6,160,911 (2005 - R\$ 8,036,328), total liabilities R\$ 5,240,629 (2005 - R\$ 7,159,827) shareholders' equity R\$ 920,282 (2005 - R\$ 876,501) and income for the year R\$ 98,318 (2005 - R\$ 452).

### **11 Deposits**

Represented, mainly, by time deposits of R\$ 18,846,044 (2005 - R\$ 16,421,896) funded at by Banco Votorantim S.A., maturing by March 2016, and R\$ 18,869,585 (2005 - R\$ 16,448,449) in Consolidated.

### **12 Money market repurchase commitments**

The money market repurchase commitments, contracted from financial institutions, amounting to R\$ 16,873,036 (2005- R\$ 10,915,894) for Banco Votorantim S.A., are tied to public and private securities. In Consolidated they amount to R\$ 16,418,531 (2005 - R\$ 10,616,723) and refer to these operations.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### 13 Acceptances and endorsements and borrowings and repasses

#### *a. Notes and bonds issued abroad*

##### ***Bank***

The liabilities from acceptances and endorsements represent foreign and domestic currency funds, obtained from the issuing of securities on the international market and overseas banks for repasses to domestic clients, maturing by September 2016, with financial charges of up to 17.10% per annum, plus foreign currency variation.

#### *b. Debentures*

##### ***Consolidated***

Represented by 335,000 nonconvertible debentures, from a public issue, issued in two series, on April 20, 2006, and which were placed on the market on June 23, 2006, for the amount of R\$ 3,444,218. Only the first series includes a clause for renegotiation.

The first series consists of 135,000 debentures, with a unit value of R\$ 10,000, maturing on April 20, 2016, bearing financial charges referenced to the average rate for interbank deposits, plus 0.5% per annum, calculated exponentially and cumulatively, acting to generate funds to increase the operating limits of the issuing entity. The first renegotiation will occur on April 20, 2011.

The second series consists of 20,000 debentures, with a unit value of R\$ 10,000, maturing on April 20, 2026, bearing 100% of Interbank Deposit (DI) rate calculated exponentially and cumulatively, acting to increase the number of lease operations, which will be undertaken if there is market demand for them.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The third series, represented by 933,358 debentures, not convertible to shares, from the public issue, issued on December 08, 2006, in a single series, at a unit value of R\$ 2,142.80, maturing on December 08, 2011, and monetarily corrected by the variation for the closing quotation of the selling exchange rate for the US dollar (ptax800) and remuneration interest on the nominal value of 12.0436% p.a as from the issue date until the maturity date. A premium was received from this operation, which was recorded to the capital reserve in the subsidiary BV Leasing - Arrendamento Mercantil S.A., for the amount of R\$ 250,000, as provided in the registration of the issue of the securities and in accordance with article 182 paragraph 1 - item c, of Law 6404/76.

At December 31, 2006, these funds amounted to R\$ 2,492,020, in Consolidated.

### **c. Borrowings**

Represented by foreign currency funds, obtained by overseas and domestic banks, mainly for lending to clients, maturing by November 2009, with financial charges of up to 8.16% per annum, plus foreign currency or monetary variation, if floating, in Banco Votorantim S.A.

### **d. Domestic repasses**

Represented by funds provided by the National Economic and Social Development Bank (BNDES), through its Special Agency for Industrial Financing (FINAME), maturing by August 2016 with monetary correction (Long Term Interest Rate - TJLP and a basket of currencies) and financial charges of up to 11.00% per annum.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### 14 Other liabilities

	Bank		Consolidated	
	2006	2005	2006	2005
Foreign exchange portfolio (a)	439,269	815,433	439,269	815,433
Due to shareholders (b)	293,259	116,167	360,059	174,703
Taxes payable (c)	822,633	650,082	1,275,579	1,006,777
Due in connection with securities dealings (d)	59,075	91,921	108,163	125,416
Other (e)	330,651	243,067	406,837	285,629
<b>Total</b>	<b>1,944,887</b>	<b>1,916,670</b>	<b>2,589,907</b>	<b>2,407,958</b>

- a. Foreign exchange portfolio refers to the obligations from the purchase of foreign currency to settle, net of advances amounting to R\$ 81,013 (2005 - R\$ 288,711) and for the sale of foreign currency to settle, net of advances amounting to R\$ 358,256 (2005 - R\$ 526,722), for Banco Votorantim S.A. and in Consolidated.
- b. Due to shareholders is represented mainly by the balance for interest on shareholders' equity payable, net of withholding tax, for the amount of R\$ 265,200 (2005 - R\$ 99,067), in Banco Votorantim S.A., and dividends and the balance for interest on shareholders' equity payable, net of withholding tax, for the amount of R\$ 272,700 (2005 - R\$ 115,417), in consolidated and the provision for profit sharing, for the amount of R\$ 28,059 (2005 - R\$ 17,100), in Banco Votorantim S.A., and R\$ 87,359 (2005 - R\$ 59,286), in Consolidated.
- c. The taxes payable balances are represented mainly by income and social contribution taxes payable, for the amount of R\$ 120,986 (2005 - none), in Banco Votorantim S.A., and R\$ 326,569 (2005 - R\$ 75,395), in Consolidated; deferred income tax and social contribution payable, for the amount of R\$ 346,574 (2005 - R\$ 423,938), in Banco Votorantim S.A., and R\$ 437,656 (2005 - R\$ 660,169), in Consolidated; provision for tax risks, for the amount of R\$ 7,751 (2005 - R\$ 7,232), in Banco Votorantim S.A., and R\$ 53,948 (2005 - R\$ 12,962), in Consolidated, and taxes and contributions payable, for the amount of R\$ 347,322 (2005 - R\$ 218,912), in Banco Votorantim S.A., and R\$ 457,403 (2005 - R\$ 258,249), in Consolidated.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- d. The balances for Due in connection with securities dealing are represented, mainly, by daily adjustments to the transactions undertaken on the futures market, described in Note 7, and by the difference payable from operations undertaken on BOVESPA, for the amount of R\$ 53,659 (2005 - R\$ 635), in Banco Votorantim S.A., and R\$ 53,868 (2005 - R\$ 10,209) in Consolidated.
- e. The balances for Others are represented, mainly, by amounts payable for purchase of securities in the amount of R\$ 279,031 (2005 - R\$ 230,783), in Banco Votorantim S.A. and R\$ 279,035 (2005 - R\$ 230,783) in Consolidated.

### **15 Shareholders' equity - Bank**

#### ***a. Capital***

The subscribed and paid in capital is represented by 74,126,202,673 (2005 - 59,736,968,719) common shares with no par value.

In the Extraordinary General Meeting held on February 15, 2006 the shareholders approved the increase of capital in cash of R\$ 500,000, through the issue of 7,246,376,811 new shares, resulting in capital being represented by 66,983,345,530 common shares, with no par value.

In the Extraordinary General Meeting held on August 7, 2006, the shareholders approved the new increase in capital, in cash of R\$ 500,000, through the issue of 7,142,857,143 new shares, resulting in capital being represented by 74,126,202,673 ordinary shares, with no par value.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **b. Dividends**

The shareholders' are guaranteed a minimum dividend equivalent to 25% of net profit for the year less the legal reserve. The dividends not distributed are allocated to the Expansion Reserve.

In an Extraordinary General Meeting held on May 31, 2006, the shareholders' approved the distribution of dividends in the amount of R\$ 20,000 (R\$ 0,30 per lot of one thousand shares).

In an Extraordinary General Meeting held on June 30, 2006, the shareholders approved the distribution of dividends in the amount of R\$ 126,600 (R\$ 1,89 per lot of one thousand shares).

### **c. Interest on shareholders' equity**

In accordance with the option provided under Law 9249/95, in 2006 the Bank calculated interest on shareholders' equity based on the long term interest rate (TJLP) in force during the year, of R\$ 486,950 (2005 - R\$ 145,885), which was recorded as financial expenses, as required under the tax legislation. For the purposes of these financial statements, this interest has been eliminated from financial expenses for the year and has been recorded to retained earnings.

Income and social contribution taxes for the year decreased by approximately R\$ 165,563 (2005 - R\$ 49,601) as result of deducting from these taxes this interest on shareholders' equity credited to shareholders.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### **d. Prior year adjustments**

During the year the Bank recorded withholding tax due on interest on shareholders' equity received from other investments, with reference to 2005, in retained earnings, for the amount of R\$ 67.

During the year, an adjustment was recorded for the market value of the financing portfolio, as the corresponding entry to retained earnings, for the amount of R\$ 379,600, net of tax effects, given the change in the calculation methodology, as reported in note 8e, as provided in article 186 of Law 6404/76.

## **16 Income tax and social contribution**

### **Bank**

#### **a. Charges due on operations for the year**

Presented below are the income and social contribution taxes on operations for the year:

	<u>2006</u>	<u>2005</u>
<b>Profit before income and social contribution taxes</b>	1,124,185	1,032,097
Charges (income and social contribution taxes) at the nominal rates of 25% and 9% respectively	(382,223)	(350,913)
<b>Permanent exclusions/(additions)</b>	<u>376,816</u>	<u>(18,821)</u>
Nondeductible expenses	(197)	(97)
Profit sharing	17,374	10,388
Tax loss and negative social contribution base	52,801	(151,145)
Equity in income of subsidiary and exchange variation	163,155	70,691
Results of subsidiary and branch overseas	(38,121)	246
Security interests not taxable	16,241	1,495
Interest on shareholders' equity	165,563	49,601
<b>Temporary exclusions/(additions)</b>	<u>(115,579)</u>	<u>369,734</u>
Allowance for loan losses	(11,108)	(8,366)

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

	<u>2006</u>	<u>2005</u>
Market adjustment - Circulars 3068 and 3082	(10,136)	10,462
Derivatives - Law 11051	(90,079)	364,146
Other	(4,256)	3,492
<b>Current income and social contribution taxes</b>	<b>(120,986)</b>	<b>-</b>
<b>Income and social contribution taxes for prior years</b>	<b>-</b>	<b>19,559</b>
<b>Deferred income and social contribution taxes</b>	<b>100,215</b>	<b>(374,854)</b>
<b>Total income and social contribution taxes</b>	<b><u>(20,771)</u></b>	<b><u>(355,295)</u></b>

*b. Deferred income and social contribution taxes affecting the results were calculated as follows:*

<i>Deferred income and social contribution taxes</i>	<u>2006</u>	<u>2005</u>
<b>Additions/(exclusions):</b>		
Market adjustment - Circulars 3068 and 3082	10,136	(10,462)
Results from abroad	-	(246)
Derivatives - Law 11051	90,079	(364,146)
<b>Deferred income and social contribution taxes for the year</b>	<b><u>100,215</u></b>	<b><u>(374,854)</u></b>
<b>Tax credit</b>		
<b>Additions/(exclusions):</b>		
Allowance for loan losses	11,108	8,366
Tax loss and negative social contribution base	(52,801)	151,145
<b>Deferred tax assets for the year</b>	<b><u>(41,693)</u></b>	<b><u>159,511</u></b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### c. Deferred income and social contribution taxes

	<u>2006</u>	<u>2005</u>
<b>Assets (Other receivables - Other)</b>		
<b>Opening balance</b>	162,232	2,721
Allowance for loan losses	11,108	8,366
Tax loss and negative social contribution base	(29,588)	151,145
<b>Closing balance</b>	<b>143,752</b>	<b>162,232</b>
<b>Liabilities (Other liabilities - tax and social security)</b>	<b>2006</b>	<b>2005</b>
<b>Opening balance</b>	423,938	49,085
Market adjustment - Circulars 3068 and 3082	(10,136)	10,462
Derivatives - Law 11051	(66,982)	364,146
Results from abroad	(246)	246
Other	-	(1)
<b>Closing balance</b>	<b>346,574</b>	<b>423,938</b>

### d. Estimates of realization

	<u>2007</u>	<u>2008</u>	<u>Total</u>
Allowance for loan losses	11,098	11,097	22,195
Tax loss and negative social contribution base	69,477	52,080	121,557
<b>Total</b>	<b>80,575</b>	<b>63,177</b>	<b>143,752</b>

#### Bank - technical study for realization of tax credits

The tax credits were recorded in accordance with legislation in force, based on studies supporting the ability to realize these credits, and on the following premises:

- Compliance with the terms of Resolution 3059 of December 20, 2002, amended by Central Bank of Brazil Resolution 3355, of March 31, 2006.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- Tax credit on temporary differences: recorded on the provision for doubtful receivables, based mainly on the risk classification of the client and, of less significance, on the occurrence of defaults. Realization is dependent on reversing these risk classifications and the legal deductibility periods, according to article 9 of Law 9430/96, i.e. any recoveries or deductions of losses result in a reduction to the provision, resulting in amounts to be excluded from the tax base. Realization is estimated at between 1 and 2 years, maximum.
- Tax credit recorded on the tax loss and negative social contribution base for the year 2005, created, mainly, by the advent of Law 11051 (art, 32), of December 29, 2004, which determines the tax effects from the derivative markets exclusively on liquidation of the contracts, on assignment or closing of the position. Estimated realization of 1 to 3 years, maximum, according to the percentage realization of tax loss compared to the deferred tax from the derivative markets.
- The accounting balance considers the present value of tax credits.
- No tax credit has been recorded on the provision for contingencies of R\$ 170 (2005 - R\$ 170).
- The deferred tax liabilities were recorded in accordance with legislation in force and refer to income that will be taxed when realized, arising from the difference between the carrying value and market values of securities and derivative financial instruments, the realization of which is forecast in subsequent periods. It also refers to income to be taxed when realized, in accordance with article 32 of Law 11051, of December 29, 2004, according to the liquidation of the contract, assignment or conclusion of the position for operations on the derivative markets (Swap and Futures market).

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### Consolidated

#### a. Charges due on operations for the semester

Presented below are the income and social contribution taxes on operations for the year:

	<u>2006</u>	<u>2005</u>
<b>Profit before income and social contribution taxes</b>	1,331,513	1,296,498
Charges (income and social contribution taxes) at the nominal rates of 25% and 9% respectively	(452,714)	(440,809)
<b>Permanent exclusions/(additions)</b>	<u>279,374</u>	<u>(62,539)</u>
Non deductible expenses	(4,753)	(2,794)
Tax loss and negative social contribution base	54,415	(151,810)
Profit sharing	55,213	35,912
Results of subsidiary and branch overseas	(38,121)	246
Security interests not taxable	20,231	6,306
Interest on shareholders' equity	192,389	49,601
<b>Temporary exclusions/(additions)</b>	<u>(153,229)</u>	<u>427,954</u>
Allowance for loan losses	(111,408)	(4,682)
Market adjustment - Circulars 3068 and 3082	45,246	111,186
Provision for contingencies	(3,187)	(3,137)
Additional depreciation	83	241
Derivatives - Law 11051	(162,024)	369,807
Others	78,061	(45,461)
<b>Current income and social contribution taxes</b>	<u>(326,569)</u>	<u>(75,394)</u>
<b>Income and social contribution taxes for prior year</b>	-	19,414
<b>Deferred income and social contribution taxes</b>	<u>49,812</u>	<u>(492,299)</u>
<b>Total income and social contribution taxes</b>	<u>(276,757)</u>	<u>(548,279)</u>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### **b. Deferred income and social contribution taxes affecting the results were calculated as follows:**

	<u>2006</u>	<u>2005</u>
<b>Deferred income and social contribution taxes</b>		
<b>Additions/(exclusions):</b>		
Market adjustment - Circulars 3068 and 3082	(45,246)	(111,186)
Additional depreciation	(83)	(241)
Results from abroad	-	(246)
Derivatives - Law 11051	95,141	(380,626)
<b>Deferred income and social contribution taxes for the year</b>	<u><b>49,812</b></u>	<u><b>(492,299)</b></u>
<b>Tax credit</b>		
<b>Additions/(exclusions):</b>		
Allowance for loan losses	111,408	4,682
Tax loss and negative social contribution base	(54,415)	151,810
Provision for contingencies	3,187	3,137
Unrealized results - derivatives	66,883	10,819
<b>Deferred tax assets for the year</b>	<u><b>127,063</b></u>	<u><b>170,448</b></u>

### **c. Deferred income and social contribution taxes**

	<u>2006</u>	<u>2005</u>
<b>Assets (Other receivables - other)</b>		
<b>Opening balance</b>	253,824	83,376
Allowance for loan losses	111,408	4,682
Tax loss and negative social contribution base	(31,202)	151,810
Provision for contingencies	3,187	3,137
Unrealized results - derivatives	66,883	10,819
<b>Closing balance</b>	<u><b>404,100</b></u>	<u><b>253,824</b></u>
	<u>2006</u>	<u>2005</u>
<b>Liabilities (Other liabilities - Tax and social security)</b>		
<b>Opening balance</b>	660,169	167,871
Market adjustment - Circulars 3068 and 3082	(150,306)	111,186
Additional depreciation	83	241
Results from abroad	(246)	246
Derivatives - Law 11051	(72,044)	380,626
Other	-	(1)
<b>Closing balance</b>	<u><b>437,656</b></u>	<u><b>660,169</b></u>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### d. Estimated realization

	<u>2007</u>	<u>2008</u>	<u>2011</u>	<u>Total</u>
Tax loss and negative social contribution base	69,477	52,080	-	121,557
Allowance for loan losses	151,335	44,090	-	195,425
Unrealized results - derivatives	62,876	14,826	-	77,702
Provision for contingencies	-	-	9,416	9,416
<b>Total</b>	<b><u>283,688</u></b>	<b><u>110,996</u></b>	<b><u>9,416</u></b>	<b><u>404,100</u></b>

## 17 Related parties - Bank

Transactions between related parties were performed under normal market conditions and are represented as follows:

	<u>2006</u>	<u>2005</u>
<b>Assets:</b>		
Money market	-	30,252
Interbank deposits	10,688,494	7,393,526
Securities and derivative financial instruments	9,015,828	664,862
Dividends and bonuses receivable	2,500	5,450
Amounts receivable from related companies	591	581
	<u>2006</u>	<u>2005</u>
<b>Liabilities:</b>		
Demand deposits	1,891	1,303
Interbank deposits	11,778,376	532,680
Time deposits	5,611	7,324
Money market repurchase commitments	459,879	306,288
Derivative financial instruments	121,726	121,707
Due in connection with securities dealings	607	635
Liabilities from overseas securities	-	23,509
<b>Results:</b>		
Money market income	3,475	5,380
Income from interbank deposits	1,297,414	1,020,113
Results from securities and derivative financial instruments	522,567	667,572
Service fee income	6,857	7,283
Expenses from borrowings and repasses	-	(1,703)
Expenses from interbank deposits	(353,855)	(112,658)
Expenses from time deposits	(925)	(8,513)
Repurchase commitments	(61,171)	(41,625)

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **18 Provisions, liabilities and contingencies**

The Bank and its subsidiaries are parties to various tax, civil and labor processes with various courts and government bodies, resulting from the normal course of their operational activities.

Management, based on information from its legal advisors, analyses of pending legal demands and, with respect to labor and civil claims, on prior experience of amounts claimed as indemnity, has recorded a provision for an amount considered sufficient to cover losses estimated from the on-going claims.

The main tax questions are ( Banco Votorantim S.A.):

Income tax: Claim for difference in rate used for tax incentives;

Income tax and social contribution: exclusion from accounting results of IPC/BTNF difference, reported in January 1989; Questioning tax authorities' claim for difference in rate used for tax incentives;

COFINS: Claim for nonpayment of COFINS, based on income not derived from monthly revenue (extension of calculation base introduced by Law 9718/98);

PIS: Questioning the calculation base introduced by EC 10/97.

The main tax questions are (consolidated):

Income tax: Claim for difference in rate used for tax incentives;

Income tax and social contribution: exclusion from accounting results of IPC/BTNF difference, reported in January 1989; Questioning tax authorities' claim for difference in rate used for tax incentives;

COFINS: Claim for non payment of COFINS, based on income not derived from monthly revenue (extension of calculation base introduced by Law 9718/98);

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

PIS: Questioning the calculation base introduced by EC 10/97.

CPMF: Questioning right to receive the same tax treatment as that given to other financial institutions (subsidiary BV Leasing - Arrendamento Mercantil S.A.).

The provisions recorded are presented below:

	<u>Bank</u>		<u>Consolidated</u>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Taxes (Taxes and social security - taxes and contributions payable)	255,074	192,302	345,550	209,719
Taxes (Taxes and social security - provision for tax risks)	7,751	7,232	53,948	12,962
Civil (Other)	-	-	17,383	10,455
Labor (Other)	501	501	8,643	4,428
<b>Total</b>	<b>263,326</b>	<b>200,035</b>	<b>425,524</b>	<b>237,564</b>

Movements in the provisions recorded, by type:

### Bank

	<u>2005</u>		<u>2006</u>		<b>Closing balance</b>
	<b>Opening balance</b>	<b>Additions to provision</b>	<b>Reversal/use of provision</b>	<b>Monetary correction</b>	
Tax	199,534	53,034	(9,472)	19,729	262,825
Labor	501	-	-	-	501
<b>Total</b>	<b>200,035</b>	<b>53,034</b>	<b>(9,472)</b>	<b>19,729</b>	<b>263,326</b>

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### Consolidated

	<u>2005</u>		<u>2006</u>		Closing balance
	Opening balance	Additions to provision	Reversal/use of provision	Monetary correction	
Tax	222,681	160,132	(9,472)	26,157	399,498
Civil	10,455	8,645	(1,717)	-	17,383
Labor	4,428	7,442	(3,227)	-	8,643
Total	<u>237,564</u>	<u>176,219</u>	<u>(14,416)</u>	<u>26,157</u>	<u>425,524</u>

### Deposits in court

The deposits made in court, which are classified as “other receivables” in long-term assets, are presented below:

	<u>Bank</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Tax	4,013	3,626	4,167	3,759
Civil	-	-	1,257	2,417
Labor	57	50	1,070	248
Other deposits	10	10	34	10
<b>Total</b>	<u>4.080</u>	<u>3.686</u>	<u>6.528</u>	<u>6.434</u>

### Contingencies not provided for

The Bank has other contingent liabilities that involve tax issues, for the estimated amount of R\$ 9,815, in Banco Votorantim S.A. and in Consolidated. Given the stage of these processes, and based on Management’s judgment, the outcome of these claims can not be determined at this moment, therefore, no provision for losses has been recorded in the financial statements.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### 19 Other information

- a. Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda., manages investment funds, the net equity of which at December 31, 2006 amounted to R\$ 23,649,758 (2005 - R\$ 17,586,224), recorded to memorandum accounts. The values for shareholders' equity excluding the elimination of the duplicated count for the investment of funds managed in investment funds amount to R\$ 17,886,906 (2005 - R\$ 12,594,680). Income from managing these funds was R\$ 46,279 (2005 - R\$ 37,138) which has been recorded to "Service income" and the amounts receivable have been recorded to "income receivable" for the amount of R\$ 7,306 (2005 - R\$ 4,557).
- b. Prepaid expenses recorded to current and long-term assets in Consolidated represent, basically, commission paid to traders acting as intermediaries for financing and lease operations, of R\$ 453,272 (2005 - R\$ 297,754).
- c. Sureties and guarantees provided amount to R\$ 3,165,574 (2005 - R\$ 2,814,368) and have been recorded to memorandum accounts.
- d. Other operating income refers mainly to the monetary correction of assets in the amount of R\$ 2,541 (2005 - R\$ 3,555) in Banco Votorantim S.A. and R\$ 3,896 (2005 - R\$ 4,209) in Consolidated, withholding tax recoverable from overseas operations, for the amount of R\$ 26,280 (2005 - none) in Banco Votorantim S.A. and in Consolidated and premium received from the issue of debentures, which was recorded to the capital reserve in the subsidiary BV Leasing - Arrendamento Mercantil S.A., for the amount of R\$ 250,000 (2005 - none), in Consolidated.

# Banco Votorantim S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- e. Other operating expenses at Banco Votorantim S.A. refer, mainly, to the monetary updating of the provision for tax risks and taxes payable of R\$ 20,591 (2005 - R\$ 31,342) and exchange variation of investments in the Nassau branch of R\$ 76,115 (2005 - R\$ 119,280). In Consolidated, they refer mainly to commissions paid to traders acting as intermediaries in financing and lease operations, of R\$ 538,325 (2005 - R\$ 285,355), and monetary updating of the provision for tax risks and taxes payable of R\$ 27,481 (2005 - R\$ 34,081) and exchange variation in investments in the Nassau branch, Votorantim Bank Limited and Banco Votorantim Securities, INC abroad, of R\$ 76,509 (2005 - R\$ 120,226).
- f. Tax expenses refer mainly to the Provisional Contribution on Financial Activities (CPMF), calculated at the rate of 0.38% on financial movements; contributions to the Social Integration Program (PIS), calculated at the rate of 0.65%; and Contribution for Social Security Financing (COFINS), calculated at the rate of 4%, on operations income, in Banco Votorantim S.A. and in Consolidated.
- g. The lease contracts have clauses for non cancellation, purchase options and prefixed interest, monetary variation or periodic renegotiation of interest rates. The insurance of leased property is made with a benefit clause in favor of the Bank.
- h. On July 25, 2003, the Bank officially registered with the Federal Revenue Department its adhesion to the Special Program for Payments in Installments (PAES), established by Law 10684/03, by the Federal Government. Adhesion to the program enables the payment in installments of PIS, referring to the period from January 2000 to January 2003, which was being legally questioned and recorded in a provision for tax risks. The PIS included in the program was divided into 120 monthly payments, calculated based on the limitation of 1.5% of gross income from financial intermediation, updated based on the variation of the long-term interest rate (TJLP) and reclassified to taxes payable. The Bank is complying with the conditions of the aforementioned program, not only with respect to the payment of the installments but also with respect to the collection of the other taxes due monthly.

# Banco Votorantim S.A.

## Notes to the financial statements

(In thousands of Reais)

### Bank

<b>Principal and fine updated on the date of adhesion</b>	<b>Update - TJLP</b>	<b>Amortization</b>	<b>Balance December 31, 2006</b>
13,220	3,558	5,419	11,359

### Consolidated

<b>Principal and fine updated on the date of adhesion</b>	<b>Update - TJLP</b>	<b>Amortization</b>	<b>Balance December 31, 2006</b>
18,354	4,940	7,523	15,771

- i. Banco Votorantim S.A. calculates its required minimum shareholders' equity limits in Consolidated, within the parameters provided under Central Bank of Brazil Resolution 2099, of August 17, 1994 and subsequent rules. The ratio between shareholders' equity calculated in Consolidated and total weighted assets is 16,08% (2005 - 15,93%).
- j. In Consolidated, service income includes income from fund management reported in note 19 a, and fees from providing loans, for the amount of R\$ 343,478 (2005 - R\$ 176,789).
- k. In Consolidated, "Other Administrative expenses" includes mainly specialized technical services, for the amount of R\$ 79,820 (2005 - R\$ 35,268); promotions and public relations expenses, R\$ 47,800 (2005 - R\$ 27,027); data processing services, for the amount of R\$ 56,389 (2005 - R\$ 41,935); financial system services, for the amount of R\$ 32,070 (2005 - R\$ 20,697); taxes and costs from returned assets, for the amount of R\$ 22,485 (2005 - R\$ 16,603); outsourced services, for the amount of R\$ 29,714 (2005 - R\$ 20,267), communication expenses, for the amount of R\$ 37,456 (2005 - R\$ 28,300), legal and notary office fees, for the amount of R\$ 16,033 (2005 - R\$ 9,349) and contract registration fees for the amount of R\$ 20,789 (2005 - 12,610).
- l. Personnel expenses include wages, benefits, charges and training for employees.