



**Banco Votorantim S.A.**

**Financial statements  
June 30, 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.

### Notes to the financial statements

#### **Semesters ended June 30, 2006 and 2005**

*(In thousands of reais)*

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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 June 30, 2006 and 2005 and the related statements of income, changes in shareholders' equity and changes in financial position for the semesters then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

Our examinations were conducted in accordance with auditing standards applied 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 of June 30, 2006 and 2005, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the semesters then ended, in conformity with accounting practices adopted in Brazil.

August 11, 2006

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

June 30, 2006 and 2005

(In thousands of reais)

	Bank		Consolidated			Bank		Consolidated	
	2006	2005	2006	2005		2006	2005	2006	2005
<b>Assets</b>					<b>Liabilities</b>				
<b>Current assets</b>	45,877,425	30,334,753	40,799,689	29,320,890	<b>Current liabilities</b>	29,320,556	21,988,204	28,902,134	21,834,623
<b>Bank and cash</b>	6,966	118,961	31,552	137,331	<b>Deposits</b>	10,271,457	8,631,270	9,722,428	8,453,126
<b>Interbank funds applied</b>	25,434,536	12,836,002	16,372,274	7,680,698	Demand deposits	60,809	41,221	72,195	54,027
Money market	14,949,033	6,611,686	14,949,033	6,611,686	Interbank deposits	1,520,414	1,589,195	926,723	1,420,844
Interbank deposits	10,400,184	6,116,237	1,337,922	960,933	Time deposits	8,689,962	7,000,795	8,723,238	6,978,196
Foreign currency deposits	85,319	108,079	85,319	108,079	Other Deposits	272	59	272	59
<b>Securities and derivative financial instruments</b>	15,442,021	13,923,151	13,424,166	14,223,449	<b>Money market repurchase commitments</b>	12,396,062	7,620,898	12,055,612	7,417,982
Own portfolio	6,387,639	5,885,838	5,160,689	6,185,559	Own portfolio	3,117,045	2,813,625	2,776,595	2,610,709
Subject to repurchase commitments	3,552,597	3,931,895	2,774,728	3,931,895	Third party portfolio	8,351,105	4,807,273	8,351,105	4,807,273
Derivative financial instruments	1,962,689	1,274,578	1,713,991	1,237,301	Portfolio free movement	927,912	-	927,912	-
Deposited with the Central Bank	1,527,252	1,462,119	1,527,252	1,462,119	<b>Acceptances and endorsements</b>	239,934	767,332	239,934	762,674
Subject to guarantees provided	2,011,844	1,368,721	2,247,506	1,406,575	Liabilities from overseas securities	239,934	767,332	239,934	762,674
<b>Interbank accounts</b>	1,332,926	832,429	1,332,926	832,429	<b>Interbank accounts</b>	6,535	5,500	6,535	5,500
Collections in transit	981	590	981	590	Collections in transit	6,535	5,500	6,535	5,500
Deposits with the Central Bank	1,331,625	831,622	1,331,625	831,622	<b>Interbranch accounts</b>	34,456	586	34,856	639
Correspondents	320	217	320	217	Third party funds in transit	34,456	586	34,856	586
<b>Loans</b>	2,318,631	1,074,535	7,601,226	4,485,529	Internal transfer of funds	-	-	-	53
Loans - public sector	1,910	85	1,910	85	<b>Borrowings and repasses</b>	1,957,593	938,102	1,957,828	938,180
Loans - private sector	1,016,734	509,014	1,450,334	605,365	Domestic repasses - Other institutions	46,366	-	46,366	-
Financing - private sector	1,152,652	435,709	6,202,307	3,854,810	Overseas borrowings	879,098	541,474	879,098	541,474
Financing - Rural and Agricultural-Industrial	60,247	43,324	60,247	43,324	Domestic repasses - Official institutions	1,032,129	396,628	1,032,364	396,706
Financing - Securities	112,187	94,394	112,187	94,394	<b>Derivative financial instruments</b>	2,321,800	2,306,854	2,483,007	2,284,223
Allowance for loan losses	(25,099)	(7,991)	(225,759)	(112,449)	Derivative financial instruments	2,321,800	2,306,854	2,483,007	2,284,223
<b>Lease operations</b>	-	-	10,991	8,821	<b>Other liabilities</b>	2,092,719	1,717,662	2,401,934	1,972,299
Leases receivable - private sector	-	-	35,545	31,551	Foreign exchange portfolio	633,569	739,782	633,569	739,782
Unearned Lease income	-	-	(14,785)	(12,041)	Social and statutory	149,387	158,285	214,014	197,802
Allowance for lease losses	-	-	(9,769)	(10,689)	Tax and social security	865,488	427,432	1,118,226	590,631
<b>Other receivables</b>	1,340,105	1,540,244	1,751,516	1,786,694	Due in connection with securities dealings	61,132	69,506	89,759	81,670
Foreign exchange portfolio	881,200	996,055	881,200	996,055	Other	383,143	322,657	346,366	362,414
Income receivable	4,956	4,463	5,053	3,994	<b>Long-term liabilities</b>	19,353,772	11,881,045	17,416,741	11,764,864
Securities clearing accounts	74,305	152,405	90,480	165,470	<b>Deposits</b>	15,542,951	7,754,425	12,001,405	7,298,178
Other	384,353	391,729	779,492	625,583	Interbank deposits	5,664,833	1,415,394	2,128,492	956,997
Provision for doubtful receivable	(4,709)	(4,408)	(4,709)	(4,408)	Time deposits	9,878,118	6,339,031	9,872,913	6,341,181
<b>Other assets</b>	2,240	9,431	275,038	165,939	<b>Money market repurchase commitment</b>	395,039	938,044	395,039	967,072
Other assets	-	-	20,966	11,926	Own portfolio	395,039	938,044	395,039	967,072
Prepayments	2,240	9,431	254,072	154,013	<b>Acceptances and endorsements</b>	-	235,040	1,388,756	235,040
<b>Long-term assets</b>	5,595,695	5,167,013	10,241,424	7,450,983	Funds from debentures	-	-	1,388,756	-
<b>Interbank funds applied</b>	1,098,930	425,366	1,086,884	116,121	Liabilities from overseas securities	-	235,040	-	235,040
Interbank deposits	1,098,930	425,366	1,086,884	116,121	<b>Borrowings and repasses</b>	1,445,801	1,026,809	1,446,094	1,026,834
<b>Securities and derivative financial instruments</b>	1,819,626	2,903,380	1,985,700	2,918,954	Domestic repasses - Other institutions	-	47,268	-	47,268
Subject to repurchase commitments	82,776	582,024	82,776	582,024	Overseas borrowings	547,750	249,917	547,750	249,917
Derivative financial instruments	1,393,519	2,321,356	1,559,593	2,336,930	Domestic repasses - Official institutions	898,051	729,624	898,344	729,649
Subject to guarantees provided	343,331	-	343,331	-	<b>Derivative financial instruments</b>	1,953,943	1,915,139	1,950,801	2,121,283
<b>Loans</b>	2,507,351	1,821,652	6,242,298	4,010,365	Derivative financial instruments	1,953,943	1,915,139	1,950,801	2,121,283
Loans - public sector	155,687	116,009	155,687	116,009	<b>Other liabilities</b>	16,038	11,588	234,646	116,457
Loans - private sector	995,354	759,669	1,357,405	817,912	Foreign exchange portfolio	1,170	-	1,170	-
Financing - private sector	1,287,979	855,794	4,730,473	3,017,674	Tax and social security	14,868	11,053	233,476	115,922
Financing - Rural and Agricultural-Industrial	88,992	100,014	88,992	100,014	Other	-	535	-	535
Financing - Securities	-	112	-	112	<b>Deferred income</b>	13,784	3,064	13,784	3,064
Allowance for loan losses	(20,661)	(9,946)	(90,259)	(41,356)	<b>Minority interest</b>	-	-	108,320	110,353
<b>Lease operations</b>	-	-	12,217	9,127	<b>Shareholders' equity</b>	4,687,637	3,122,147	4,687,637	3,122,147
Leases receivable - private sector	-	-	27,395	19,779	Capital:				
Unearned Lease income	-	-	(14,847)	(10,534)	Domestic	2,880,000	1,880,000	2,880,000	1,880,000
Allowance for lease losses	-	-	(331)	(118)	Capital reserves	14,553	13,388	14,553	13,388
<b>Other receivables</b>	169,788	16,098	761,237	324,229	Revenue reserves	1,591,457	993,600	1,591,457	993,600
Foreign exchange portfolio	1,091	-	1,091	-	Retained earnings	201,627	235,159	201,627	235,159
Securities clearing accounts	-	23	-	23	<b>Total Liabilities</b>	53,375,749	36,994,460	51,128,616	36,835,051
Other	168,703	16,075	760,152	324,206					
Provision for doubtful receivable	(6)	-	(6)	-					
<b>Other assets</b>	-	517	153,088	72,187					
Prepayments	-	517	153,088	72,187					
<b>Permanent assets</b>	1,902,629	1,492,694	87,503	63,178					
<b>Investments</b>	1,887,074	1,480,174	27,838	22,911					
Domestic subsidiaries and affiliates	1,861,644	1,462,126	-	-					
Investment in overseas subsidiary	10,857	4,636	-	-					
Other investments	14,573	13,412	27,838	22,911					
<b>Property, plant and equipment</b>	12,412	10,768	39,102	28,753					
Other fixed assets for use	32,345	27,570	75,924	57,533					
Accumulated depreciation	(19,933)	(16,802)	(36,822)	(28,780)					
<b>Deferred charges</b>	3,143	1,752	20,563	11,514					
Organization and expansion expenses	9,825	7,689	40,837	26,218					
Accumulated amortization	(6,682)	(5,937)	(20,274)	(14,704)					
<b>Total Assets</b>	53,375,749	36,994,460	51,128,616	36,835,051					

See the accompanying notes to the financial statements.

# Banco Votorantim S.A.

## Statements of income

Semesters ended June 30, 2006 and 2005

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

	Bank		Consolidated	
	Semesters		Semesters	
	2006	2005	2006	2005
<b>Financial operations income</b>	3,245,114	2,492,629	4,116,817	3,129,997
Loans	281,472	85,802	1,762,867	1,135,213
Lease operations	-	-	10,404	9,836
Securities income	2,261,414	1,925,284	1,612,367	1,449,139
Derivative financial instruments	611,553	415,093	640,504	469,359
Compulsory investments	90,675	66,450	90,675	66,450
<b>Financial operations expenses</b>	(2,731,710)	(2,174,007)	(2,839,747)	(2,178,320)
Deposits, money market and interbank funds	(2,610,711)	(2,075,569)	(2,535,670)	(1,997,594)
Borrowings, assignments and repasses	(81,968)	(38,022)	(82,000)	(46,118)
Lease operations	-	-	(7,609)	(7,495)
Foreign exchange operations	(22,633)	(47,071)	(22,633)	(47,071)
Allowance for loan losses	(16,398)	(13,345)	(191,835)	(80,042)
<b>Gross income from financial operations</b>	513,404	318,622	1,277,070	951,677
<b>Other operating income/(expenses)</b>	86,642	47,984	(530,402)	(426,683)
Service income	18,844	9,413	196,903	101,752
Personnel expenses	(55,359)	(27,228)	(129,060)	(75,890)
Other administrative expenses	(31,312)	(26,297)	(197,307)	(128,437)
Tax expenses	5,634	(6,362)	(65,940)	(43,110)
Equity in earnings of subsidiaries	232,726	235,102	-	-
Other operational income	2,715	664	9,060	2,837
Other operational expenses	(86,606)	(137,308)	(344,058)	(283,835)
<b>Operating results</b>	600,046	366,606	746,668	524,994
<b>Non operating results</b>	32	4	(4,143)	63
<b>Income before taxation and profit sharing</b>	600,078	366,610	742,525	525,057
<b>Income tax and social contribution</b>	(103,786)	(8,616)	(191,000)	(131,074)
Provision for income tax	(147,208)	(87,541)	(255,456)	(179,731)
Provision for social contribution	(52,995)	(31,515)	(93,193)	(66,187)
Deferred income tax and social contribution	96,417	110,440	157,649	114,844
<b>Profit sharing</b>	(22,786)	(12,978)	(74,763)	(46,182)
<b>Net profit before minority interest</b>	473,506	345,016	476,762	347,801
<b>Minority interest</b>	-	-	(3,256)	(2,785)
<b>Net profit for the semester</b>	473,506	345,016	473,506	345,016
<b>Net profit per lot of one thousand shares - R\$</b>	7.07	6.68		

See the accompanying notes to the financial statements.

Banco Votorantim S.A.

Statements of changes in shareholders' equity

Semesters ended June 30, 2006 and 2005

(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
Capital increase	129,750	(129,750)	-	-	-	-	-	-
Distribution of Dividends	-	-	-	-	-	(170,705)	-	(170,705)
Constitution of reserve								
Allocation to investments	-	-	6,950	678	-	-	-	7,628
Net profit for the semester	-	-	-	-	-	-	345,016	345,016
Distribution of net profit:								
Legal reserve	-	-	-	-	17,251	-	(17,251)	-
Interest on shareholders' equity	-	-	-	-	-	-	(145,885)	(145,885)
<b>Balances at June 30, 2005</b>	<u>1,880,000</u>	<u>-</u>	<u>9,030</u>	<u>4,358</u>	<u>126,890</u>	<u>866,710</u>	<u>235,159</u>	<u>3,122,147</u>
<b>Balances at December 31, 2005</b>	2,380,000	-	9,030	4,796	149,927	1,437,855	53,279	4,034,887
Prior year adjustments	-	-	-	-	-	-	67	67
Distribution of Dividends	-	-	-	-	-	(20,000)	-	(20,000)
Capital increase	500,000	-	-	-	-	-	-	500,000
Constitution of reserve								
Allocation to investments	-	-	-	727	-	-	-	727
Net profit for the semester	-	-	-	-	-	-	473,506	473,506
Distribution of net profit:								
Legal reserve	-	-	-	-	23,675	-	(23,675)	-
Interest on shareholders' equity	-	-	-	-	-	-	(174,950)	(174,950)
Distribution of Dividends	-	-	-	-	-	-	(126,600)	(126,600)
<b>Balances at June 30, 2006</b>	<u>2,880,000</u>	<u>-</u>	<u>9,030</u>	<u>5,523</u>	<u>173,602</u>	<u>1,417,855</u>	<u>201,627</u>	<u>4,687,637</u>

See the accompanying notes to the financial statements.

Banco Votorantim S.A.

Statements of changes in financial position

Semesters ended June 30, 2006 and 2005

(In thousands of Reais)

	Bank		Consolidated	
	Semesters		Semesters	
	2006	2005	2006	2005
<b>Sources of funds</b>	8,205,960	9,540,670	8,005,984	10,498,171
<b>Net profit for the semester</b>	473,506	345,016	473,506	345,016
<b>Adjustments to net profit</b>	(230,501)	(233,190)	7,711	5,589
Depreciation and amortization	2,225	1,912	7,711	5,589
Results from investments in subsidiaries	(232,726)	(235,102)	-	-
<b>Prior year adjustments</b>	67	-	67	-
<b>Minority interest</b>	-	-	(5,313)	(87,540)
<b>Funds from shareholders</b>	500,000	-	500,000	-
Capital payment	500,000	-	500,000	-
<b>Interest on shareholders' equity</b>	78,897	-	-	-
<b>Variation in deferred income</b>	(4,540)	635	(4,540)	635
<b>Reserves</b>	727	7,628	727	7,628
Allocation to investments	727	7,628	727	7,628
<b>Third party funds originating from:</b>	7,387,804	9,420,581	7,033,826	10,226,843
<b>Increase in liabilities</b>	6,975,245	5,498,710	4,857,544	5,304,024
Deposits	4,869,927	2,651,108	1,331,927	2,672,264
Money market repurchase commitments	1,875,207	-	1,833,928	-
Acceptances and endorsements	1,820	-	1,390,576	-
Interbranch accounts	29,669	-	30,037	-
Interbank accounts	6,535	5,500	6,535	5,500
Borrowings and repasses	-	277,593	-	277,224
Derivative financial instruments	-	2,564,509	35,919	2,349,036
Other liabilities	192,087	-	228,622	-
<b>Decrease in assets</b>	408,289	3,915,155	2,176,222	4,922,722
Interbank funds applied	-	3,915,155	-	4,922,722
Securities and Derivative financial instruments	-	-	2,008,500	-
Other receivables	406,129	-	-	-
Other assets	2,160	-	167,722	-
<b>Disposal of assets and investments</b>	60	54	60	97
Fixed assets	60	54	60	97
<b>Distribution of Dividends</b>	4,210	6,662	-	-
<b>Application of funds</b>	8,206,456	9,427,512	8,000,676	10,380,590
<b>Distribution of Dividends</b>	146,600	170,705	146,600	170,705
<b>Interest on shareholders' equity</b>	174,950	145,885	174,950	145,885
<b>Variation in:</b>	11,372	3,023	19,527	11,623
Investments	7,086	680	1,179	2,595
Property, plant and equipment	2,928	1,772	11,419	5,812
Deferred charges	1,358	571	6,929	3,216
<b>Increase in assets</b>	7,380,843	4,039,585	7,247,664	5,075,273
Interbank funds applied	6,526,280	-	4,735,850	-
Securities and Derivative financial instruments	145,696	2,968,563	-	2,708,238
Interbank accounts	237,578	110,095	237,578	110,095
Loans	471,289	515,852	2,177,507	1,601,939
Lease operations	-	-	107	1,735
Other receivables	-	444,727	-	609,015
Other assets	-	348	96,622	44,251
<b>Decrease in liabilities</b>	492,691	5,068,314	411,935	4,977,104
Money market repurchase commitment	-	4,642,687	-	4,604,293
Acceptances and endorsements	-	307,537	-	306,906
Interbranch accounts	-	8,282	-	8,231
Borrowings and repasses	412,414	-	411,935	-
Derivative financial instruments	80,277	-	-	-
Other liabilities	-	109,808	-	57,674
<b>Increase (decrease) in net working capital</b>	(496)	113,158	5,308	117,581
<b>Statement of changes in net working capital</b>				
<b>Bank and cash</b>				
At beginning of semester	7,462	5,803	26,244	19,750
At end of semester	6,966	118,961	31,552	137,331
<b>Increase (decrease) in net working capital</b>	(496)	113,158	5,308	117,581

See the accompanying notes to the financial statements.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 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 administration of 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 consolidated financial statements of Banco Votorantim S.A. were prepared in accordance with corporate legislation - Law 6,404/76 and rules of the Central Bank of Brazil.

In accordance with Resolution 2,723 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

### Semesters ended June 30, 2006 and 2005

(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 overseas</b>		
Votorantim Bank Limited (see note 10a)	4.03	4.03
Banco Votorantim Securities, Inc.	100.00	-

### **Description of main Consolidated procedures**

- a. Elimination of intercompany asset and liability account balances;
- b. Elimination of investment in the subsidiaries' capital, reserves and retained earnings;
- 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 on Consolidated its financial position and results, 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 North American dollar at the semester 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

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

#### **4 Description of main accounting practices**

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

The results are calculated on an 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:

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

The securities classified as securities for trading 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 (protection) 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 semester.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(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 variation, as the corresponding entry for the appropriate income or expense account recorded to the results for the semester.

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 semester before adjustments	497,985	348,411
Effects of the adjustments:		
Securities portfolio	( 48,011)	(105,130)
Derivative financial instrument	10,921	99,986
Income tax and social contribution on adjustments	12,611	1,749
<b>Net income for the semester after adjustments</b>	<b>473,506</b>	<b>345,016</b>
<b>Consolidated</b>	<b>2006</b>	<b>2005</b>
Net income for the semester before adjustments	390,037	262,858
Effects of the adjustments:		
Securities portfolio	( 73,262)	(128,141)
Financing portfolio	189,375	163,480
Derivative financial instrument	10,355	89,650
Debt assumption contracts	-	( 506)
Income tax and social contribution on adjustments	( 42,999)	( 42,325)
<b>Net income for the semester after adjustments</b>	<b>473,506</b>	<b>345,016</b>

#### 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.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

Tax credits are recognized related 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 asset, the provision for contingencies and the valuation of securities and derivative financial instruments. Liquidation of the transactions involving these estimates could result in values that differ from the estimates, as a result of the inaccuracies inherent to the process for determining such. The Institution reviews the estimates and premises at least monthly.

#### **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.
- ii. Depreciation of fixed assets using the straightline method, based on annual rates that take into consideration the useful economic lives of the assets, as follows: fixtures and utensils, communication 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 Commodities and Futures market - 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.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

- iv. Amortization of deferred charges over periods that correspond to the benefits generated.

#### **f. Other liabilities**

Stated at known or estimated values, 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.

In the Consolidated Financial Statements, the deferred income tax was recognized on 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.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

#### **5 Interbank funds applied**

The portfolio comprises interbank deposits remunerated at post fixed and pre fixed rates, maturing by August 2015, amounting to R\$ 11,499,114 (2005 - R\$ 6,541,603), for Banco Votorantim S.A. and R\$ 2,424,806 (2005 - R\$ 1,077,054), in Consolidated, for investments on the money market tied to public securities, amounting to R\$ 14,949,033 (2005 - R\$ 6,611,686), for Banco Votorantim S.A. and in Consolidated and foreign currency investments of R\$ 85,319 (2005 - R\$ 108,079), for Banco Votorantim S.A. and in Consolidated.

#### **6 Securities**

The pricing criteria for securities are defined by the risk management area 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.

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 negotiations 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 acquisition cost, plus income earned, as corresponding entries to the results for the semester, in accordance with BACEN Circular nº 3068.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### Bank

2006											2005
Trading Securities											
Type	Cost	Market value	Unrealized (loss) gain	Within 3 months	From 3 to 12 months	Maturity dates				Total	Market value
						From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
NTN-A	61,826	69,555	7,729	-	-	-	-	69,555	-	69,555	74,389
NTN-B	1,872,571	1,847,039	(25,532)	390,612	378	540,313	854,508	61,227	1	1,847,039	353,038
NTN-C	604,488	595,035	(9,453)	-	1,905	593,130	-	-	-	595,035	2,131,348
NTN-D	110,467	116,623	6,156	23,379	-	93,244	-	-	-	116,623	170,148
NTN-F	701,757	707,991	6,234	-	-	354,750	167,898	185,343	-	707,991	468,169
NBC-E	443	437	(6)	-	437	-	-	-	-	437	20,684
LFT	4,355	4,356	1	-	4,339	17	-	-	-	4,356	245,309
LTN	3,584,150	3,587,770	3,620	1,404,030	2,146,417	37,323	-	-	-	3,587,770	3,762,508
Mortgage bills	7,905	7,905	-	7,905	-	-	-	-	-	7,905	12,242
CRI	15,082	15,082	-	-	-	-	-	15,082	-	15,082	-
Debentures	2,958,992	3,019,212	60,220	3,780	-	153,244	126,048	680,678	2,055,462	3,019,212	908,166
Eurobonds / Bradies	1,291,199	1,291,199	-	53,949	56,228	-	450,063	730,959	-	1,291,199	2,768,880
BR Exit	278,145	278,145	-	-	-	-	-	278,145	-	278,145	-
CDB	493,118	493,118	-	2,035	-	54,180	436,903	-	-	493,118	-
CPR	437	437	-	437	-	-	-	-	-	437	-
TDA	20,898	20,898	-	3,529	3,567	10,587	3,207	8	-	20,898	-
C Bond	-	-	-	-	-	-	-	-	-	-	467,015
Shares	370,351	384,547	14,196	384,547	-	-	-	-	-	384,547	230,969
Investment funds	947,722	947,722	-	947,722	-	-	-	-	-	947,722	789,862
<b>Total</b>	<b>13,323,906</b>	<b>13,387,071</b>	<b>63,165</b>	<b>3,221,925</b>	<b>2,213,271</b>	<b>1,836,788</b>	<b>2,038,627</b>	<b>2,020,997</b>	<b>2,055,463</b>	<b>13,387,071</b>	<b>12,402,727</b>

#### Securities held to maturity

Type	Cost	Market value	Unrealized (loss) gain	Within 3 months	From 3 to 12 months	Maturity dates				Total	Cost
						From 1 to 3 years	From 3 to 5 years	From 5 to 15 years	Above 15 years		
Eurobonds (Nassau branch)	518,368	526,792	8,424	-	92,261	426,107	-	-	-	518,368	827,870
<b>Total</b>	<b>518,368</b>	<b>526,792</b>	<b>8,424</b>	<b>-</b>	<b>92,261</b>	<b>426,107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518,368</b>	<b>827,870</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### Consolidated

2006											2005	
Securities for trading				Maturity dates							Total	Market value
Type	Cost	Market value	Unrealized (loss) gain	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	Total	Market value	
NTN-A	235,232	287,809	52,277	-	-	-	-	287,809	-	287,809	353,720	
NTN-B	1,872,571	1,847,039	(25,532)	390,612	378	540,313	854,508	61,227	1	1,847,039	353,038	
NTN-C	604,488	595,035	(9,453)	-	1,905	593,130	-	-	-	595,035	2,131,348	
NTN-D	111,692	117,833	6,141	23,379	-	94,454	-	-	-	117,833	171,416	
NTN-F	701,757	707,991	6,234	-	-	354,750	167,898	185,343	-	707,991	468,169	
NBC-E	25,584	26,110	526	-	26,110	-	-	-	-	26,110	50,340	
LFT	4,355	4,356	1	-	4,339	17	-	-	-	4,356	245,309	
LTN	3,600,352	3,603,968	3,616	1,404,030	2,146,417	53,521	-	-	-	3,603,968	3,762,508	
Mortgage bills	7,905	7,905	-	7,905	-	-	-	-	-	7,905	12,242	
CRI	15,082	15,082	-	-	-	-	-	15,082	-	15,082	-	
Debentures	903,530	963,750	60,220	3,780	-	153,244	126,048	680,678	-	963,750	908,166	
Eurobonds/ Bradies	1,315,409	1,315,409	-	53,949	56,228	-	450,063	755,169	-	1,315,409	2,796,200	
BR Exit	278,145	278,145	-	-	-	-	-	278,145	-	278,145	-	
CDB	493,118	493,118	-	2,035	-	54,180	436,903	-	-	493,118	-	
CPR	437	437	-	437	-	-	-	-	-	437	-	
TDA	20,898	20,898	-	3,529	3,567	10,587	3,207	8	-	20,898	-	
C Bond	-	-	-	-	-	-	-	-	-	-	467,015	
Shares	370,351	384,547	14,196	384,547	-	-	-	-	-	384,547	230,969	
Investment funds	948,481	948,481	-	948,481	-	-	-	-	-	948,481	789,862	
<b>Total</b>	<b>11,509,387</b>	<b>11,617,913</b>	<b>108,526</b>	<b>3,222,684</b>	<b>2,238,944</b>	<b>1,854,196</b>	<b>2,038,627</b>	<b>2,263,461</b>	<b>1</b>	<b>11,617,913</b>	<b>12,740,302</b>	

#### Securities held to maturity

Maturity dates											
Type	Cost	Market value	Unrealized (loss) gain	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	Total	Cost
Eurobonds (Nassau branch)	518,368	526,792	8,424	-	92,261	426,107	-	-	-	518,368	827,870
<b>Total</b>	<b>518,368</b>	<b>526,792</b>	<b>8,424</b>	<b>-</b>	<b>92,261</b>	<b>426,107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518,368</b>	<b>827,870</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

#### **7 Derivative financial instruments**

The Votorantim Financial Conglomerate 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 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 area, and take 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\$ 3,143,234 (2005 - R\$ 3,141,717) and the amounts payable are R\$ 776,938 (2005 - R\$ 1,053,418) and have been recorded to derivative financial instruments for Banco Votorantim S.A. On Consolidated, the amounts receivable are R\$ 3,060,610 (2005 - R\$ 3,120,014) and amounts payable are R\$ 935,003 (2005 - R\$ 1,236,931).

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

The amounts receivable from sales of term shares amounted to R\$133,973 (2005 - R\$ 180,121) for Banco Votorantim S.A. and in Consolidated. The amounts payable from the purchase of term shares amounted to R\$ 11,242 (2005 - R\$ 62,098), for Banco Votorantim S.A. and in Consolidated. The amounts receivable for purchases of term shares are R\$ 10,454 (2005 - R\$ 42,135), in Banco Votorantim S.A. and in Consolidated. Amounts payable for sale of term shares to be delivered are R\$ 141,591 (2005 - R\$ 170,305), in Banco Votorantim S.A. and in Consolidated.

The amounts received for box contracts of funding options are R\$ 3,273,725 (2005 - R\$ 2,831,530), 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\$ 68.547 (2005 - R\$ 62.304) and premiums received from launched option contracts amount to R\$ 72.247 (2005 - R\$ 50.911) 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\$ 13,895 in liabilities (2005 - none) and R\$ 285 (2004 - R\$ 28,730) in liabilities for Banco Votorantim S.A. and R\$ 13,895 in assets (2005 - none) and R\$ 6,907 (2005 - R\$ 28,730) as a deduction to liabilities, in Consolidated, and are recorded to Securities Clearing Accounts. The adjustments that refer to NDF operations amount to R\$ 169,657 in assets and R\$ 53,731 in liabilities and are recorded in derivative financial instruments in Banco Votorantim S.A., and in Consolidated.

The operations negotiated on the organized stock exchanges have as the 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\$ 1,170,091 (2005 - R\$ 1,205,390), for Banco Votorantim S.A. and R\$ 1,686,819 (2005 - R\$ 1,395,060), in Consolidated.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

Bank												
2006											2005	
Type SWAP	Original value Of contract	Values to Receive/ pay contracted	Values to Receive/ pay market	Unrealized profit /(loss)	Maturity dates					Total	Original value Of contract	Values to Receive/ pay market
					Within 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	from 5 to 15 years			
DI	2,413,636	4,451,674	4,383,224	(68,450)	786,794	(81,660)	3,131,837	1,141,839	(595,586)	4,383,224	6,371,838	7,512,007
Dollar	(2,964,252)	(2,555,203)	(2,421,332)	133,871	(567,051)	(953,387)	(1,366,395)	(272,719)	738,220	(2,421,332)	(5,792,966)	(4,911,724)
Yen	-	-	-	-	-	-	-	-	-	-	(15,283)	(14,723)
Euro	(18,898)	(18,178)	(18,178)	-	(19,562)	1,384	-	-	-	(18,178)	-	-
IGPM	(296,445)	(485,398)	(484,041)	1,357	(48,738)	83,347	(504,833)	(56,080)	42,263	(484,041)	(1,656,609)	(1,861,585)
IPCA	(1,360,132)	(1,404,082)	(1,374,808)	29,274	(406,877)	229,550	(370,894)	(615,389)	(211,198)	(1,374,808)	(210,000)	(159,814)
Pre	2,244,224	2,281,514	2,302,796	21,282	775,374	3,084,390	(738,098)	(1,636,639)	817,769	2,302,796	1,309,201	1,358,834
TRM	(15,000)	(17,013)	(17,578)	(565)	-	-	(17,578)	-	-	(17,578)	-	-
TJLP	(3,133)	(3,787)	(3,787)	-	(3,787)	-	-	-	-	(3,787)	(6,181)	(6,234)
<b>Total</b>	<b>-</b>	<b>2,249,527</b>	<b>2,366,296</b>	<b>116,769</b>	<b>516,153</b>	<b>2,363,624</b>	<b>134,039</b>	<b>(1,438,988)</b>	<b>791,468</b>	<b>2,366,296</b>	<b>-</b>	<b>2,088,299</b>
<b>FUTURES</b>												
DDI	2,643,454	(17,183)	(17,183)	-	499,923	2,777,408	2,053,880	(1,282,264)	(1,405,493)	2,643,454	2,704,678	(23,919)
Dollar	(3,218,676)	21,073	21,073	-	(692,991)	(1,386,831)	(1,138,854)	-	-	(3,218,676)	76,288	(2,551)
IND	(81,303)	137	137	-	26,736	(108,039)	-	-	-	(81,303)	93,314	145
DI	(3,381,768)	(4,304)	(4,304)	-	1,248,025	(5,513,675)	1,064,537	(28,941)	(151,714)	(3,381,768)	(13,621,693)	(2,404)
Coffee	(460)	(8)	(8)	-	(460)	-	-	-	-	(460)	-	-
Euro	6,136	366	366	-	-	6,136	-	-	-	6,136	(239,499)	(3,366)
Reais	389,574	13,529	13,529	-	281,359	108,215	-	-	-	389,574	-	-
Pre	-	-	-	-	-	-	-	-	-	-	665,469	119,291
<b>Total</b>	<b>(3,643,043)</b>	<b>13,610</b>	<b>13,610</b>	<b>-</b>	<b>1,362,592</b>	<b>(4,116,786)</b>	<b>1,979,563</b>	<b>(1,311,205)</b>	<b>(1,557,207)</b>	<b>(3,643,043)</b>	<b>(10,321,443)</b>	<b>87,196</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### OPTIONS

Shares	(234,751)	(33,380)	(42,548)	(9,168)	41,856	(276,607)	-	-	-	(234,751)	(1,517)	8,279
Br exit	(75,750)	(558)	(558)	-	-	-	(75,750)	-	-	(75,750)	(82,264)	(606)
Dollar	402,488	6,057	(471)	(6,528)	88,275	266,213	48,000	-	-	402,488	1,551,125	5,448
DI	-	-	-	-	-	-	-	-	-	-	(1,075,950)	(4,201)
Flexible	-	-	-	-	-	-	-	-	-	-	(303,627)	1,957
IND	132,255	39,758	39,877	119	(39,500)	171,755	-	-	-	132,255	(900)	516
<b>Total</b>	<b>224,242</b>	<b>11,877</b>	<b>(3,700)</b>	<b>(15,577)</b>	<b>90,631</b>	<b>161,361</b>	<b>(27,750)</b>	-	-	<b>224,242</b>	<b>86,867</b>	<b>11,393</b>

#### OTHER DERIVATIVE FINANCIAL INSTRUMENTS

Box options	-	(3,273,725)	(3,273,725)	-	(534,618)	(1,074,897)	(1,664,210)	-	-	(3,273,725)	-	(2,831,530)
<b>Total</b>	<b>-</b>	<b>(3,273,725)</b>	<b>(3,273,725)</b>	<b>-</b>	<b>(534,618)</b>	<b>(1,074,897)</b>	<b>(1,664,210)</b>	<b>-</b>	<b>-</b>	<b>(3,273,725)</b>	<b>-</b>	<b>(2,831,530)</b>

#### Consolidated

Type SWAP	2006										2005	
	Original value Of contract	Values to Receive/ pay contract	Values to Receive/ pay market	Unrealized Profit /(loss)	Maturity dates					Total	Original value Of contract	Values to Receive/ pay market
					Within 3 months	from 3 to 12 months	From 1 to 3 years	Receive/ pay market	From 5 to 15 years			
DI	1,544,220	3,825,193	3,756,990	(68,203)	589,693	(299,581)	2,757,415	1,258,974	(549,511)	3,756,990	5,625,720	7,403,503
Dollar	(2,063,595)	(2,098,095)	(1,993,667)	104,428	(488,168)	(978,371)	(865,380)	(367,310)	705,562	(1,993,667)	(5,234,599)	(5,041,804)
Euro	(18,898)	(18,178)	(18,178)	-	(19,562)	1,384	-	-	-	(18,178)	-	-
Yen	-	-	-	-	-	-	-	-	-	-	(15,283)	(14,273)
IGPM	(300,707)	(489,688)	(488,346)	1,342	(48,734)	79,037	(504,832)	(56,080)	42,263	(488,346)	(1,656,610)	(1,861,541)
IPCA	(1,360,132)	(1,404,082)	(1,374,808)	29,274	(406,876)	229,550	(370,895)	(615,389)	(211,198)	(1,374,808)	(210,000)	(159,813)
Pre	2,217,245	2,243,451	2,264,981	21,530	753,589	3,061,698	(731,436)	(1,636,639)	817,769	2,264,981	1,496,953	1,563,245
TJLP	(3,133)	(3,787)	(3,787)	-	(3,787)	-	-	-	-	(3,787)	(6,181)	(6,234)
TRM	(15,000)	(17,013)	(17,578)	(565)	-	-	(17,578)	-	-	(17,578)	-	-
<b>Total</b>	<b>-</b>	<b>2,037,801</b>	<b>2,125,607</b>	<b>87,806</b>	<b>376,155</b>	<b>2,093,717</b>	<b>267,294</b>	<b>(1,416,444)</b>	<b>804,885</b>	<b>2,125,607</b>	<b>-</b>	<b>1,883,083</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

<b>FUTURES</b>												
DDI	2,646,501	(14,585)	(14,585)	-	499,923	3,509,848	1,324,487	(1,282,264)	1,405,493	2,646,501	2,704,678	(23,919)
Dollar	(3,902,190)	21,073	21,073	-	(825,772)	(1,525,311)	(1,551,107)	-	-	(3,902,190)	76,288	(2,551)
IND	(81,302)	137	137	-	26,736	(108,038)	-	-	-	(81,302)	93,314	145
DI	(11,618,814)	290	290	-	(17,046)	(8,232,370)	(3,035,575)	(182,109)	(151,714)	(11,618,814)	13,621,693	(2,404)
Coffee	(460)	(8)	(8)	-	(460)	-	-	-	-	(460)	-	-
Euro	6,136	366	366	-	-	6,136	-	-	-	6,136	(239,499)	(3,366)
Reais	389,574	13,529	13,529	-	281,359	108,215	-	-	-	389,574	-	-
Pre	-	-	-	-	-	-	-	-	-	-	665,469	119,291
<b>Total</b>	<b>(12,560,555)</b>	<b>20,802</b>	<b>20,802</b>	<b>-</b>	<b>(35,260)</b>	<b>(6,241,520)</b>	<b>(3,262,195)</b>	<b>(1,464,373)</b>	<b>1,557,207</b>	<b>(12,560,555)</b>	<b>10,321,443</b>	<b>87,196</b>

<b>OPTIONS</b>												
Shares	(234,751)	(33,380)	(42,548)	(9,168)	41,856	(276,607)	-	-	-	(234,751)	(1,517)	8,279
Br exit	(75,750)	(558)	(558)	-	-	-	(75,750)	-	-	(75,750)	(82,264)	(606)
Dollar	402,488	6,057	(471)	(6,528)	88,275	266,213	48,000	-	-	402,488	1,551,125	5,448
DI	-	-	-	-	-	-	-	-	-	-	(1,075,950)	(4,201)
Flexible	-	-	-	-	-	-	-	-	-	-	(303,627)	1,957
IND	132,255	39,758	39,877	119	(39,500)	171,755	-	-	-	132,255	(900)	516
<b>Total</b>	<b>224,242</b>	<b>11,877</b>	<b>(3,700)</b>	<b>(15,577)</b>	<b>90,631</b>	<b>161,361</b>	<b>(27,750)</b>	<b>-</b>	<b>-</b>	<b>224,242</b>	<b>86,867</b>	<b>11,393</b>

<b>OTHER DERIVATIVE FINANCIAL INSTRUMENTS</b>												
Box options	-	(3,273,725)	(3,273,725)	-	(534,618)	(1,074,897)	(1,664,210)	-	-	(3,273,725)	-	(2,831,530)
<b>Total</b>	<b>-</b>	<b>(3,273,725)</b>	<b>(3,273,725)</b>	<b>-</b>	<b>(534,618)</b>	<b>(1,074,897)</b>	<b>(1,664,210)</b>	<b>-</b>	<b>-</b>	<b>(3,273,725)</b>	<b>-</b>	<b>(2,831,530)</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(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	157,597	116,094	157,597	116,094
Loans - Private sector	2,012,088	1,268,683	2,807,740	1,423,277
Financing - Private sector	2,440,631	1,291,503	10,932,780	6,872,484
Financing - Rural and agribusiness	149,239	143,338	149,239	143,338
Financing - Securities	112,187	94,506	112,187	94,506
Lease operations	-	-	33,308	28,755
Foreign exchange portfolio - Advances on foreign exchange contracts and income receivable (classified as "Other receivables and Other liabilities")	268,652	356,870	268,652	356,870
<b>Total</b>	<b>5,140,394</b>	<b>3,270,994</b>	<b>14,461,503</b>	<b>9,035,324</b>

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

	Bank		Consolidated	
	2006	2005	2006	2005
Industry	2,512,854	1,644,435	2,513,687	1,645,557
Commercial	508,476	196,905	1,200,235	690,033
Rural	149,239	143,338	149,239	143,338
Other services	1,445,425	906,333	1,463,077	921,237
Financial institutions	13,172	-	16,862	-
Individuals	511,228	379,983	9,118,403	5,635,159
<b>Total</b>	<b>5,140,394</b>	<b>3,270,994</b>	<b>14,461,503</b>	<b>9,035,324</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

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

Maturity dates	Bank		Consolidated	
	2006	2005	2006	2005
<b>Loans overdue</b>				
More than 15 days	762	160	179,759	104,257
<b>Loans to fall due</b>				
Within 3 months	982,107	684,525	2,617,282	1,746,080
From 3 to 12 months	1,628,343	754,711	5,318,186	3,124,228
From 1 to 3 years	1,534,367	1,292,758	5,186,143	3,471,082
From 3 to 5 years	586,396	338,881	751,714	389,718
From 5 to 15 years	408,419	199,959	408,419	199,959
<b>Total</b>	<b>5,140,394</b>	<b>3,270,994</b>	<b>14,461,503</b>	<b>9,035,324</b>

#### d. Composition of loans at the corresponding risk levels, as established under BACEN Resolution 2.682.

Bank	2006			2005		
	Loans to Fall due	Loans overdue	Total operations	Loans to Fall due	Loans overdue	Total operations
Risk level						
AA	1,957,462	-	1,957,462	1,314,450	-	1,314,450
A	1,328,795	-	1,328,795	827,001	-	827,001
B - overdue from 15 to 30 days	934,967	51,224	986,191	791,007	1,644	792,651
C - overdue from 31 to 60 days	812,929	1,808	814,737	335,304	75	335,379
D - overdue from 61 to 90 days	42,118	165	42,283	1,434	-	1,434
E - overdue from 91 to 120 days	104	882	986	-	-	-
F - overdue from 121 to 150 days	9,715	134	9,849	-	-	-
G - overdue from 151 to 180 days	-	42	42	-	-	-
H - overdue more than 180 days	-	49	49	79	-	79
<b>Total</b>	<b>5,086,090</b>	<b>54,304</b>	<b>5,140,394</b>	<b>3,269,275</b>	<b>1,719</b>	<b>3,270,994</b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

Consolidated	2006			2005		
	Loans to Fall due	Loans overdue	Total operations	Loans to Fall due	Loans overdue	Total operations
Risk level						
AA	2,489,065	-	2,489,065	1,659,793	-	1,659,793
A	8,893,586	-	8,893,586	5,562,517	-	5,562,517
B - overdue from 15 to 30 days	971,759	526,644	1,498,403	805,166	290,863	1,096,029
C - overdue from 31 to 60 days	824,902	307,440	1,132,342	344,862	190,391	535,253
D - overdue from 61 to 90 days	45,597	103,428	149,025	4,020	45,817	49,837
E - overdue from 91 to 120 days	1,376	62,586	63,962	195	24,651	24,846
F - overdue from 121 to 150 days	10,401	48,842	59,243	46	20,998	21,044
G - overdue from 151 to 180 days	282	37,362	37,644	28	16,984	17,012
H - overdue more than 180 days	1,821	136,412	138,233	1,652	67,341	68,993
<b>Total</b>	<b>13,238,789</b>	<b>1,222,714</b>	<b>14,461,503</b>	<b>8,378,279</b>	<b>657,045</b>	<b>9,035,324</b>

#### e. Market value evaluation

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 the BM&F, as determined by Resolution 3082 of January 30, 2002, Central Bank of Brazil. The evaluation of these assets resulted in an unrealized positive adjustment, of R\$ 764.525 (2005 - R\$ 414.611), which has been classified to Other Receivables - Other, in Assets. The market value of the CDC loans was calculated based on the rate consisting of the cost of funding, plus the production costs that could be estimated, which better reflects the effects of interest rates on the results.

	Hedge	Installments - CDC		
	Market value	Market value	Book value	Market adjustment
2006	8,925,153	8,493,723	7,729,198	764,525
2005	5,166,840	5,238,774	4,824,163	414,611

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

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

Risk level	Provision %	Bank		Consolidated	
		2006	2005	2006	2005
A	0.5	6,644	4,135	53,582	38,142
B - Overdue from 15 to 30 days	1.0	9,862	7,927	14,984	10,960
C - Overdue from 31 to 60 days	3.0	24,442	10,061	33,970	16,058
D - Overdue from 61 to 90 days	10.0	4,228	143	14,903	4,984
E - Overdue from 91 to 120 days	30.0	296	-	19,189	7,454
F - Overdue from 121 to 150 days	50.0	4,925	-	29,622	10,521
G - Overdue from 151 to 180 days	70.0	29	-	26,350	11,908
H - Overdue more than 180 days	100.0	49	79	138,233	68,993
<b>Total</b>		<b>50,475</b>	<b>22,345</b>	<b>330,833</b>	<b>169,020</b>

The credits recovered during the semester, which were recorded as recovery of credits written off as losses, in accordance with COSIF, amounted to a total of R\$ 11,629 (2005 - R\$ 16,570) in Consolidated. The value of assets recovered during the semester amounted to R\$ 50,515 (2005 - R\$ 35,516) in Consolidated. During the same period, a balance of R\$ 258,107 (2005 - R\$ 166,904) was recorded for Banco Votorantim and R\$ 334,908 (2005 - R\$ 207,886) in Consolidated for renegotiated operations.

In Consolidated, the allowance for loan losses was increased for the differences not liquidated from lease contracts indexed to the dollar, which are being legally discussed, amounting to R\$ 9.168 (2005 - R\$ 10.398), and which are presented mainly in risk level "A".

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### 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	218,195	146,144
Constitutions (reversals)	16,398	13,345	191,835	80,042
Write off to losses	(1)	(125)	(79,078)	(57,010)
Foreign exchange variation	(119)	(144)	(119)	(156)
Closing balance	<u>50,475</u>	<u>22,345</u>	<u>330,833</u>	<u>169,020</u>

#### 9 Other receivables

	Bank		Consolidated	
	2006	2005	2006	2005
Foreign exchange portfolio (a)	882,291	996,055	882,291	996,055
Income receivable	4,956	4,463	5,053	3,994
Securities clearing accounts (b)	74,305	152,428	90,480	165,493
Other (c)	553,056	407,804	1,539,644	949,789
Allowance for other losses	(4,715)	(4,408)	(4,715)	(4,408)
Total	<u>1,509,893</u>	<u>1,556,342</u>	<u>2,512,753</u>	<u>2,110,923</u>

a. Refers, basically, to balances for purchase of foreign currency to liquidate, net of advances, amounting to R\$ 786,278 (2005 - R\$ 608,461) and rights to sell foreign currency, net of advances, amounting to R\$ 91,159 (2005 - R\$ 384,532) for Banco Votorantim and in Consolidated.

b. Represented, substantially, 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\$ 42,902 (2005 - R\$ 117,052) and the differential receivable from transactions traded on the São Paulo stock exchange (BOVESPA), in the amount of R\$ 7,360 (2005 - R\$ 35,353), in Banco Votorantim S.A., and in Consolidated.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

- c. Refer, basically, to taxes and contributions to compensate, of R\$ 22,776 (2005 - R\$ 5,092) in Banco Votorantim S.A. and R\$ 73,399 (2005 - R\$ 34,508) in Consolidated; tax credits of R\$ 281,862 (2005 - R\$ 113,161) for Banco Votorantim S.A. and R\$ 434,689 (2005 - R\$ 198,220) in Consolidated; positive market value adjustment of 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\$ 233,418 (2005 - R\$ 179,766), in Banco Votorantim S.A. and in Consolidated.

## 10 Investments

	Number of quotas/shar es held	Investment interest - %	2006				2005	
			Shareholder s' 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	1,039,854	188,462	188,454	1,039,788	191,906	704,515
Votorantim Corretora de Títulos e Valores Mobiliários Ltda.	20,177	99.98	124,193	16,860	4,667	124,167	4,856	121,718
Votorantim Bank Limited	1,000,000	4.03	112,767	3,375	(223)	4,550	(687)	4,636
Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.	8,999,800	99.99	64,690	7,422	7,429	64,688	7,960	51,946
BV Leasing - Arrendamento Mercantil S.A.	510,398	99.99	633,010	32,443	32,439	633,000	31,067	583,947
Banco Votorantim Securities, Inc.	3,000,000	100.00	6,308	(186)	(40)	6,308	-	-
<b>Total</b>					<b>232,726</b>	<b>1,872,501</b>	<b>235,102</b>	<b>1,466,762</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.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

- 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.
- 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\$ 6,228,234 (2005 - R\$ 6,097,581), total liabilities R\$ 5,400,363 (2005 - R\$ 5,187,643) shareholders' equity R\$ 827,871 (2005 - R\$ 901,056) and income in the semester R\$ 17,426 (2005 - R\$ 25,111).

## 11 Deposits

Represented, mainly, by time deposits of R\$ 18,568,080 (2005 - R\$ 13,339,826) funded at by Banco Votorantim S.A., maturing by March 2016, and R\$ 18,596,151 (2005 - R\$ 13,319,377) in Consolidated.

## 12 Money market repurchase commitments

The money market repurchase commitments, contracted from financial institutions, amounting to R\$ 12,791,101 (2005- R\$ 8,558,942) for Banco Votorantim S.A., are tied to public and private securities. In Consolidated they amount to R\$ 12,450,651 (2005 - R\$ 8,385,054) and refer to these operations.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

#### **13 Acceptances and endorsements and liabilities from borrowings and repasses**

##### **a. Acceptances and endorsements**

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

The liabilities from acceptances and endorsements represent foreign and domestic currency funds, obtained from the issue of securities on the international market and overseas banks for repasses to domestic clients, maturing by January 2007, with financial charges of up to 4.00% per annum, plus foreign currency variation.

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

Represented by 335,000 non convertible 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, and acted to generate funds to increase the operational 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 DI rate calculated exponentially and cumulatively, acting to increase the number of leasing operations, which will be undertaken if there is market demand for such.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### b. Borrowings

Represented by foreign currency funds, obtained by overseas and domestic banks, mainly for lending to clients, maturing by June 2010, with financial charges of up to 7.84% per annum, plus foreign currency or monetary variation, if post fixed, in Banco Votorantim S.A.

#### c. 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 12.00% per annum.

## 14 Other liabilities

	Bank		Consolidated	
	2006	2005	2006	2005
Foreign exchange portfolio (a)	634,739	739,782	634,739	739,782
Social and statutory (b)	149,387	158,285	214,014	197,802
Tax and social security (c)	880,356	438,485	1,351,702	706,553
Due in connection with securities dealings (d)	61,132	69,506	89,759	81,670
Other (e)	383,143	323,192	346,366	362,949
<b>Total</b>	<b>2,108,757</b>	<b>1,729,250</b>	<b>2,636,580</b>	<b>2,088,756</b>

a. Foreign exchange portfolio refers to the obligations from the purchase of foreign currency to settle, net of advances amounting to R\$ 541.300 (2005 - R\$ 289.048) and for the sale of foreign currency to settle, net of advances amounting to R\$ 93.439 (2005 - R\$ 450.734), for Banco Votorantim S.A. and in Consolidated.

b. Social and Statutory refers basically to the balance for dividends payable for the amount of R\$ 126,600 (2005 - R\$ 145,885), in Banco Votorantim S.A., and R\$ 139,230 (2005 - 145,885), in Consolidated, and the provision for profit sharing, amounting to R\$ 22,786 (2005 - R\$ 12,400), in Banco Votorantim S.A., and R\$ 74,784 (2005 - R\$ 40,917), in Consolidated.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

- c. The tax and social security balances are represented, mainly, by income tax and social contribution payable in the amount of R\$ 85,094 (2005 - R\$ 72,166) in Consolidated; deferred income tax and social contribution in the amount R\$ 647,356 (2005 - R\$ 187,699), in Banco Votorantim S.A. and R\$ 946,939 (2005 - R\$ 361,038) in Consolidated; provision for tax risks in the amount of R\$ 7,510 (2005 - R\$ 6,910) in Banco Votorantim S.A. and R\$ 27,026 (2005 - R\$ 12,068) in Consolidated; taxes and contributions payable of R\$ 225,490 (2005 - R\$ 243,876) in Banco Votorantim S.A., and R\$ 292,640 (2005 - R\$ 261,281) in Consolidated.
- 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 for the difference payable from operations undertaken on BOVESPA, for the amount of R\$ 52,621 (2005 - R\$ 319), no Banco Votorantim S.A., and R\$ 53,368 (2005 -R\$ 473) in Consolidated.
- e. The balances for others are represented, mainly, by amounts payable for purchase of shares in the amount of R\$ 236,695 (2005 - R\$ 300,105), in Banco Votorantim S.A. and R\$ 236,699 (2005 - R\$ 300,105) in Consolidated and by operations to settle by BM&F for the amount of 117,419 (2005 - R\$ 39), in Banco Votorantim S.A., and R\$ 21,786 (2005 - R\$ 39), in Consolidated.

## 15 Shareholders' equity - Bank

### a. Capital

The subscribed and paid in capital is represented by 66,983,345,530 (2005 - 51,672,452,590) ordinary shares with no par value.

On August 29, 2005, the shareholders approved in the Extraordinary General Meeting a capital increase in cash of R\$ 500,000, through the issue of 8,064,516,129 new shares, resulting in capital being represented by 59,736,968,719 ordinary shares, with no par value.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

On February 15, 2006, the shareholders approved in the Extraordinary General Meeting a capital increase 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 ordinary shares, with no par value.

#### **b. Dividends**

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

On May 31, 2006, the shareholders approved in an Extraordinary General Meeting the distribution of dividends in the amount of R\$ 20,000 (R\$ 0.30 per lot of one thousand shares), which referred to the semester of 2001).

On June 30, 2006, the shareholders approved in an Extraordinary General Meeting the distribution of dividends in the amount of R\$ 126,600 (R\$ 1.89 per lot of one thousand shares), which referred to the semester of 2006).

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

In accordance with the option provided under Law 9,249/95, in 2006 the Bank calculated interest on shareholders' equity based on the long term interest rate (TJLP) in force during the year, of R\$ 174,950 (2005 - R\$ 145,885), which was recorded as financial expenses, as required under the tax legislation. For purposes of these financial statements, this interest has been eliminated from financial expenses for the semester and has been recorded to the retained earnings.

Income and social contribution taxes for the semester decreased by approximately R\$ 59,483 (2005 - R\$ 49,601) as result of deducting this interest on shareholders' equity credited to shareholders from these taxes.

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### d. Prior year adjustments

During the semester the Bank recorded withholding tax due on interest on shareholders' equity received from other investments, with reference to 2005, as an adjustment to prior years, for the amount of R\$ 67.

## 16 Income tax and social contribution

### Bank

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

Presented below are the income tax and social contribution on operations for the semester:

	<u>2006</u>	<u>2005</u>
<b>Profit before income tax and social contribution</b>	600,078	366,610
Charges (income tax and social contribution) at the nominal rates of 25% and 9% respectively	(204,027)	(124,647)
<b>Permanent exclusions/(additions)</b>	<u>8,087</u>	<u>(13,421)</u>
Nondeductible expenses	1,323	(19)
Profit sharing	7,748	4,413
Tax loss and negative social contribution base	(90,922)	(105,906)
Equity in income of subsidiary and exchange variation	35,768	46,352
Results of subsidiary and branch overseas	(5,971)	(8,578)
Interest NTN-A	658	716
Interest on shareholders' equity	59,483	49,601
<b>Temporary exclusions/(additions)</b>	<u>195,940</u>	<u>138,068</u>
Allowance for loan losses	(5,495)	(4,534)
Market adjustment Circulars 3,068 and 3,082	(12,611)	(1,749)
Derivatives - Law 11,051	212,814	140,364
Others	1,232	3,987
<b>Current income tax and social contribution</b>	-	-
<b>Income tax and social contribution of prior years</b>	-	19,559
<b>Deferred income tax and social contribution</b>	<u>(200,203)</u>	<u>(138,615)</u>
<b>Total income tax and social contribution</b>	<u>(200,203)</u>	<u>(119,056)</u>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

**b. Deferred income tax and social contribution affecting the results was calculated as follows:**

	<u>2006</u>	<u>2005</u>
<b>Deferred income tax and social contribution</b>		
<b>Additions/(exclusions):</b>		
Market adjustment Circulars 3,068 and 3,082	12,611	1,749
Derivatives - Law 11,051	<u>(212,814)</u>	<u>(140,364)</u>
<b>Deferred income tax and social contribution for the semester</b>	<b><u>(200,203)</u></b>	<b><u>(138,615)</u></b>
<b>Tax credit</b>		
<b>Additions/(exclusions):</b>		
Allowance for loan losses	5,495	4,534
Tax loss and negative social contribution base	<u>90,922</u>	<u>105,906</u>
<b>Deferred tax assets for the semester</b>	<b><u>96,417</u></b>	<b><u>110,440</u></b>

**c. Deferred income tax and social contribution**

	<u>2006</u>	<u>2005</u>
<b>Asset (Other receivables - Other)</b>		
<b>Opening balance</b>	162,232	2,721
Allowance for loan losses	5,495	4,534
Tax loss and negative social contribution base	114,382	105,906
Overseas results	(246)	-
Other	(1)	-
<b>Closing balance</b>	<b><u>281,862</u></b>	<b><u>113,161</u></b>
<b>Liabilities (Other liabilities - tax and social security)</b>		
<b>Opening balance</b>	423,938	49,084
Market adjustment Circulars 3,068 and 3,082	(12,611)	(1,749)
Derivatives - Law 11,051	236,274	140,364
Overseas results	(246)	-
Other	1	-
<b>Closing balance</b>	<b><u>647,356</u></b>	<b><u>187,699</u></b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### d. Estimates of realization

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Allowance for loan losses	-	10,052	6,529	16,581
Tax loss and negative social contribution base	<u>74,279</u>	<u>100,807</u>	<u>90,195</u>	<u>265,281</u>
<b>Total</b>	<b><u>74,279</u></b>	<b><u>110,859</u></b>	<b><u>96,724</u></b>	<b><u>281,862</u></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, altered by Resolution 3355, of March 31, 2006 of Central Bank of Brazil.
- Tax credit on timing differences: constituted on the allowance for loan losses, realization of which depends on the legal period for deductibility according to law 9430/96 (art. 9), after exhausting all legal collection resources. Any recoveries or reduction of losses will result in a decrease in the provision, to be excluded from the taxable base. Estimated realization: between 1 and 2 years at the most.
- Tax credit recorded on the tax loss arising, mainly, from the effects of derivative financial instruments, through the publication of Law 11051 (art. 32), of December 29, 2004, the amortization of which should occur within two or three years, arising from the projection of results and from the realization of these derivatives.
- 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\$ 182).

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

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 accounting 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).

#### **Consolidated**

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

Presented below are the income tax and social contribution on operations for the semester:

	<u>2006</u>	<u>2005</u>
<b>Profit before income tax and social contribution</b>	742,525	525,057
Charges (income tax and social contribution) at the nominal rates of 25% and 9% respectively	(252,458)	(178,519)
<b>Permanent exclusions/(additions)</b>	<u>13,888</u>	<u>(45,856)</u>
Non deductible expenses	(2,458)	(1,080)
Tax loss and negative social contribution base	(92,136)	(104,941)
Profit sharing	25,423	15,666
Results of subsidiary and branch overseas	(5,971)	(8,578)
Interest NTN-A	2,721	3,476
Interest on shareholders' equity	86,309	49,601
<b>Temporary exclusions/(additions)</b>	<u>153,476</u>	<u>152,067</u>
Allowance for loan losses	(54,852)	(7,508)
Market adjustment Circulars 3,068 and 3,082	42,999	42,325
Provision for contingencies	(1,094)	(2,395)
Additional depreciation	14	284
Derivatives - Law 11,051	210,975	150,560
Others	(44,566)	(31,199)
<b>Current income tax and social contribution</b>	<u>(85,094)</u>	<u>(72,308)</u>
<b>Income tax and social contribution of prior semester</b>	-	19,559
<b>Deferred income tax and social contribution</b>	<u>(263,555)</u>	<u>(193,169)</u>
<b>Total income tax and social contribution</b>	<u>(348,649)</u>	<u>(245,918)</u>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

**b. Deferred income tax and social contribution affecting the results was calculated as follows:**

	<u>2006</u>	<u>2005</u>
<b>Deferred income tax and social contribution</b>		
<b>Additions/(exclusions):</b>		
Market adjustment Circulars 3,068 and 3,082	(42,999)	(42,325)
Additional depreciation	(14)	(284)
Derivatives - Law 11,051	<u>(220,542)</u>	<u>(150,560)</u>
<b>Deferred income tax and social contribution for the semester</b>	<u><b>(263,555)</b></u>	<u><b>(193,169)</b></u>
<b>Tax credit</b>		
<b>Additions/(exclusions):</b>		
Allowance for loan losses	54,852	7,508
Tax loss and negative social contribution base	92,136	104,941
Provision for contingencies	1,094	2,395
Unrealized results - derivatives	<u>9,567</u>	<u>-</u>
<b>Deferred tax asset for the semester</b>	<u><b>157,649</b></u>	<u><b>114,844</b></u>

**c. Deferred income tax and social contribution**

	<u>2006</u>	<u>2005</u>
<b>Assets (Other receivables - other)</b>		
<b>Opening balance</b>	253,824	83,376
Allowance for loan losses	54,852	7,508
Tax loss and negative social contribution base	115,596	104,941
Provision for contingencies	1,094	2,395
Unrealized results - derivatives	9,567	-
Overseas results	(246)	-
Other	<u>(1)</u>	<u>-</u>
<b>Closing balance</b>	<u><b>434,686</b></u>	<u><b>198,220</b></u>
	<u>2006</u>	<u>2005</u>
<b>Liabilities (Other liabilities - Tax and social security)</b>		
<b>Opening balance</b>	660,169	167,870
Market adjustment Circulars 3,068 and 3,082	42,999	42,325
Additional depreciation	14	284
Overseas results	(246)	-
Derivatives - Law 11,051	244,002	150,560
Other	<u>1</u>	<u>(1)</u>
<b>Closing balance</b>	<u><b>946,939</b></u>	<u><b>361,038</b></u>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

#### d. Estimated realization

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2011</u>	<u>Total</u>
Tax loss and negative social contribution base	74,279	103,650	90,195	-	268,124
Allowance for loan losses	-	108,435	30,417	-	138,852
Unrealized results - derivatives	-	8,875	5,755	5,755	20,385
Provision for contingencies	-	-	-	7,325	7,325
<b>Total</b>	<b><u>74,279</u></b>	<b><u>220,960</u></b>	<b><u>126,367</u></b>	<b><u>13,080</u></b>	<b><u>434,686</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>		
Interbank deposits	9,208,819	5,602,547
Securities and derivative financial instruments	2,822,013	725,059
Dividends and bonuses receivable	4,210	3,667
Amounts receivable from related companies	609	563
<b>Liabilities:</b>		
Demand deposits	1,720	3,237
Interbank deposits	4,130,031	626,748
Time deposits	5,253	52,449
Money market repurchase commitments	345,481	225,774
Derivative financial instruments	119,662	57,718
Other liabilities - statutory	126,600	145,885
Due in connection with securities dealings	484	751
Other liabilities - other	95,633	-
Liabilities from securities	-	4,659
<b>Results:</b>		
Money market income	1,717	-
Income from interbank deposits	624,883	446,301
Results from securities and derivative financial instruments	241,603	464,926
Service fee income	3,431	3,628
Expenses from interbank deposits	(52,224)	(61,036)
Expenses from time deposits	(567)	(4,073)
Repurchase commitments	(25,261)	(18,913)

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(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, as follows:

	<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)	195,182	226,347	243,595	228,418
Taxes (Taxes and social security - provision for tax risks)	7,510	6,910	27,027	12,069
Civil (Other)	-	-	12,114	8,807
Labor (Other)	501	535	5,988	4,025
<b>Total</b>	<b><u>203,193</u></b>	<b><u>233,792</u></b>	<b><u>288,724</u></b>	<b><u>253,319</u></b>

#### Legal deposits

The legal deposits made, which are classified as "other receivables" to long-term assets", are presented below:

	<u>Bank</u>		<u>Consolidated</u>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Tax	3,834	3,389	3,978	8,214
Civil	-	-	2,593	234
Labor	55	49	865	173
<b>Total</b>	<b><u>3,889</u></b>	<b><u>3,438</u></b>	<b><u>7,436</u></b>	<b><u>8,621</u></b>

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

#### Contingencies not provided

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 the moment. Therefore, no provision for losses has been recorded in the financial statements.

#### 19 Other information

- a. Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda. manages various financial investment funds, whose net equity amounted to R\$ 19,540,940 (2005 - R\$ 14,794,185). Income from managing these funds was R\$ 20,733 (2005 - R\$ 19,286) and has been recorded to "Service fee Income".
- b. Prepaid expenses recorded to current and long-term assets in Consolidated represent, basically, commission paid to traders acting as intermediaries for financing and leasing operations, of R\$ 384,797 (2005 - R\$ 210,492).
- c. Sureties and guarantees provided amount to R\$ 2,810,076 (2005 - R\$ 1,269,205) and have been recorded to memorandum accounts.
- d. Other operating income refers mainly to the monetary correction of assets in the amount of R\$ 2,335 (2005 - R\$ 3,272), in Banco Votorantim S.A. and R\$ 3,030 (2005 - R\$ 3,846), in Consolidated and the reversal of the operational provision for the amount of R\$ 2,672 (2005 - none), in Consolidated.
- 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\$ 10,559 (2005 - R\$ 18,216) and exchange variation of investments in the Nassau branch of R\$ 66,055 (2005 - R\$ 115,525). In Consolidated, they refer mainly to commissions paid to traders acting as intermediaries in financing and lease operations, of R\$ 220,678 (2005 - R\$ 121,460), and monetary updating of the provision for tax risks and taxes payable of R\$ 13,128 (2005 - R\$ 20,283) and exchange variation in investments in the Nassau branch, Votorantim Bank Limited and Banco Votorantim Securities, INC abroad, of R\$ 66,273 (2005 - R\$ 116,978).

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

(In thousands of reais)

- f. Tax expenses refer, mainly, to PIS - Social Integration Program, calculated at the rate of 0.65% and COFINS - Contributions for Social Security Financing, calculated at the rate of 4%, on operating income and reversal of the PIS provision 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 company.

On July 25, 2003, the Bank officially registered with the Federal Revenue Department its adhesion to the Special Program for Installment Payments - 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 were divided into 120 months, 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 and contributions 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.

#### Bank

<b>Principal and fine updated on the date of adhesion</b>	<b>Update - TJLP</b>	<b>Amortization</b>	<b>Balance June 30, 2006</b>
13,220	3,236	4,555	11,901

#### Consolidated

<b>Principal and fine updated on the date of adhesion</b>	<b>Update - TJLP</b>	<b>Amortization</b>	<b>Balance June 30, 2006</b>
18,392	4,493	6,361	16,524

# BANCO VOTORANTIM S.A.

## Notes to the financial statements

### Semesters ended June 30, 2006 and 2005

*(In thousands of reais)*

- h. Banco Votorantim S.A. calculates its minimum shareholders' equity limits required upon 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 15.72% (2005 - 14.28%).
- i. On Consolidated, service income includes income from fund management reported in note 19 a. and fees from providing credit, for the amount of R\$ 109,225 (2005 - R\$ 65,181).
- j. On Consolidated, "Other Administrative expenses" includes mainly specialized technical services, for the amount of R\$ 24,926 (2005 - R\$ 13,492); promotions and public relations expenses, R\$ 21,976 (2005 - R\$ 12,855); data processing services, for the amount of R\$ 25,340 (2005 - R\$ 20,897); financial system services, for the amount of R\$ 14,157 (2005 - R\$ 8,733); taxes and costs from returned assets, for the amount of R\$ 8,239 (2005 - R\$ 7,164); out sourced services, for the amount of R\$ 14,288 (2005 - R\$ 7,806), communication expenses, for the amount of R\$ 18,006 (2005 - R\$ 12,859), legal and notary office fees, for the amount of R\$ 6,534 (2005 - R\$ 8,202) and contract registration fees for the amount of R\$ 9,373 (2005 - none).

## 20 Subsequent event

On August 07, 2006 the shareholders approved in Extraordinary General Meeting, a capital increase of R\$ 500,000, resulting in capital being represented by 74,126,202,673 ordinary shares with no par value.