



FINANCIAL STATEMENTS  
**DECEMBER 2007**

## **MANAGEMENT REPORT**

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We present the financial statements of Banco Itaú BBA S.A. ("Itaú BBA") for the year 2007. As of December 31 2007, assets totaled R\$ 99.3 billion, net equity was R\$ 5.9 billion and net profits for the year were R\$ 920 million.

In 2007, Itaú BBA focus on (i) consistent growth of investment banking activities; (ii) intensification of international activities; (iii) growth in structured and derivatives transactions and (iv) growth in credit operations.

In 2007, Itaú BBA participated in debenture and promissory note transactions totaling R\$18 billion, plus \$1.7 billion in FIDCs (credit receivables funds). In the Anbid (National Association of Investment Banks) ranking, which covers transactions up to December, Itaú BBA ranked first in fixed-income origination and FIDCs, with market shares of 24% and 27% respectively.

As an IPO (Initial Public Offers) coordinator and distributor, Itaú BBA reached the mark of R\$ 18.5 billion, and the mark of R\$ 3.2 billion in subsequent public offers. Itaú BBA came up third in Thompson's ranking as regards this market, with a market share of 10%.

As regards Itaú BBA's international area, ready currency operations should be highlighted for 2007 with a expressive growth, as well as the structuring of long term, bilateral and/or union regime operations with other institutions.

The year of 2007 was also marked by the increase in the volume of operations involving the derivatives market. This expansion is due to the larger penetration of derivative and more sophisticated products regarding corporate clients, consolidating Itaú BBA as one of the leaders of this market.

In December of 2007 Itaú BBA provided products and services to, approximately, 2.200 economic groups.

Credit portfolio presented a growth of 36% including guarantees, when compared with the previous year. Noteworthy was the excellent credit quality at the end of 2006, where 99% of loans were assigned "AA", "A", and "B" risk ratings according to the criteria of Brazilian Central Bank Resolution 2.682.

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

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

**(Approved by the Board of Directors of Itaú BBA)**

**BALANCE SHEETS AT DECEMBER 31**

In thousands of reais

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and banks .....	225,801	89,976
Interbank investments (Notes 3a and 4)		
Investments in the open market .....	1,169,816	2,699,089
Interbank deposits .....	24,981,023	7,598,224
	26,150,839	10,297,313
Securities and derivative financial instruments (Notes 3b, 3c, 5 and 6)		
Own portfolio .....	7,333,546	4,453,313
Subject to repurchase agreements .....	541,082	2,447,998
Securities given in guarantee .....	2,519,494	1,342,469
Derivative financial instruments .....	2,227,588	1,458,970
	12,621,710	9,702,750
Interbank accounts		
Deposits with the Brazilian Central Bank .....	2,458	3,758
Interbank onlendings .....	28,792	1,424
Correspondents .....	34,652	24,868
	65,902	30,050
Loan and other credit operations (Note 7)		
Operations with credit granting characteristics (Note 3d) .....	14,968,921	10,404,695
Allowance for loan losses (Note 3e) .....	(85,355)	(97,116)
	14,883,566	10,307,579
Other receivables		
Foreign exchange portfolio (Note 8) .....	7,702,468	1,774,343
Income receivable .....	43,196	15,372
Negotiation and intermediation of securities (Note 9) .....	386,887	199,304
Sundry receivables (Note 17a) .....	139,320	146,981
	8,271,871	2,136,000
Other assets		
Other assets .....	15,265	16,168
Prepaid expenses .....	3,738	4,555
	19,003	20,723
<b>TOTAL CURRENT ASSETS</b> .....	<b>62,238,692</b>	<b>32,584,391</b>
<b>LONG-TERM RECEIVABLES</b>		
Interbank investments (Notes 3a and 4)		
Investments in the open market .....	12,709,651	7,423,526
Interbank deposits .....	11,046,627	2,438,715
	23,756,278	9,862,241
Securities and derivative financial instruments (Notes 3b, 3c, 5 and 6)		
Own portfolio .....	861,828	2,787,725
Subject to repurchase agreements .....	879,136	638,596
Securities given in guarantee .....	750,076	135,318
Derivative financial instruments .....	634,235	849,459
	3,125,275	4,411,098
Loan and other credit operations (Note 7)		
Operations with credit granting characteristics (Note 3d) .....	7,532,120	6,715,744
Allowance for loan losses (Note 3e) .....	(186,748)	(181,767)
	7,345,372	6,533,977
Other receivables		
Foreign exchange portfolio (Note 8) .....	1,417,296	2,137
Income receivable .....	135	1,280
Sundry receivables (Note 17a) .....	647,526	424,630
	2,064,957	428,047
Other assets - prepaid expenses .....	4,268	5,443
<b>TOTAL LONG-TERM RECEIVABLES</b> .....	<b>36,296,150</b>	<b>21,240,806</b>
<b>PERMANENT ASSETS</b>		
Investments (Notes 3f and 10a)		
Investments in subsidiaries		
Domestic .....	104,738	957,088
Abroad .....	1,817	-
	106,555	957,088
Other investments .....	9,621	23,937
Provision for loss .....	(361)	(361)
	115,815	980,664
Fixed assets (Notes 3g and 10b)		
Properties for own use .....	4,958	10,713
Other fixed assets .....	55,034	49,773
Accumulated depreciation .....	(36,436)	(34,460)
	23,556	26,026
Deferred charges (Notes 3h and 10c)		
Goodwill of merged subsidiary .....	760,905	-
Accumulated amortization of goodwill .....	(171,650)	-
Organization and expansion expenditures .....	7,354	7,245
Accumulated amortization .....	(3,168)	(2,251)
	593,441	4,994
<b>TOTAL PERMANENT ASSETS</b> .....	<b>732,812</b>	<b>1,011,684</b>
<b>TOTAL ASSETS</b> .....	<b>99,267,654</b>	<b>54,836,881</b>

**BALANCE SHEETS AT DECEMBER 31**

In thousands of reais

	<b>2007</b>	<b>2006</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Deposits (Note 3a)		
Demand deposits .....	320,798	114,590
Interbank deposits .....	24,508,195	8,607,954
Time deposits .....	3,306,315	2,349,264
Other deposits .....	424	3,498
	<u>28,135,732</u>	<u>11,075,306</u>
Securities sold under repurchase agreements (Note 3a)		
Own portfolio .....	1,119,636	2,649,501
Third party portfolio .....	6,161,022	3,703,139
	<u>7,280,658</u>	<u>6,352,640</u>
Funds from acceptances and issue of securities (Note 3a)		
Debentures .....	136,969	-
Issue of securities abroad .....	316,313	65,410
	<u>453,282</u>	<u>65,410</u>
Interdepartmental accounts - third party funds in transit .....	539,767	298,822
Borrowings and onlendings (Note 3a)		
Domestic borrowings - other institutions .....	1,508	1,486
Foreign borrowings .....	5,880,697	2,514,063
Interbank onlendings .....	224	-
Domestic onlendings - official institutions - National Bank for Economic and Social Development (BNDES) .....	373,777	624,249
Domestic onlendings - official institutions - Government Agency for Machinery and Equipment (FINAME) .....	566,685	368,329
Domestic onlendings - official institutions - Others .....	40,216	3,159
	<u>6,863,107</u>	<u>3,511,286</u>
Derivative financial instruments (Notes 3c and 6) .....	2,099,168	1,444,106
Other liabilities		
Collection and payment of taxes .....	3,581	1,162
Foreign exchange portfolio (Note 8) .....	7,789,555	1,850,674
Social and statutory .....	269,651	219,898
Taxes and social security contributions (Note 17c) .....	229,139	342,340
Negotiation and intermediation of securities (Note 9) .....	108,997	296,552
Subordinated debt .....	-	62
Sundry liabilities (Note 17b) .....	272,784	99,727
	<u>8,673,707</u>	<u>2,810,415</u>
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>54,045,421</b>	<b>25,557,985</b>
<b>LONG-TERM LIABILITIES</b>		
Deposits (Notes 3a and 14)		
Interbank deposits .....	25,772,144	13,211,950
Time deposits .....	1,231,410	2,499,565
	<u>27,003,554</u>	<u>15,711,515</u>
Securities sold under repurchase agreements (Notes 3a and 14)		
Own portfolio .....	278,124	284,014
Third party portfolio .....	4,438,105	3,198,524
	<u>4,716,229</u>	<u>3,482,538</u>
Funds from acceptances and issue of securities (Note 3a and 14)		
Debentures .....	104,902	-
Issue of securities abroad .....	683,454	417,687
	<u>788,356</u>	<u>417,687</u>
Borrowings and onlendings (Notes 3a and 14)		
Foreign borrowings .....	1,194,693	920,842
Interbank onlendings .....	36,421	-
Domestic onlendings - official institutions - BNDES .....	1,849,349	1,253,679
Domestic onlendings - official institutions - FINAME .....	513,705	711,393
Domestic onlendings - official institutions - Others .....	84,512	31,347
	<u>3,678,680</u>	<u>2,917,261</u>
Derivative financial instruments (Notes 3c and 6) .....	1,050,572	740,914
Other liabilities		
Foreign exchange portfolio (Note 8) .....	1,407,298	2,148
Taxes and social security contributions (Note 17c) .....	663,138	560,334
Subordinated debt .....	-	106,745
	<u>2,070,436</u>	<u>669,227</u>
<b>TOTAL LONG-TERM LIABILITIES</b> .....	<b>39,307,827</b>	<b>23,939,142</b>
<b>DEFERRED INCOME (Note 3k)</b> .....	<b>28,860</b>	<b>21,631</b>
<b>STOCKHOLDERS' EQUITY (Note 15)</b>		
Capital - Domestic .....	4,223,086	2,877,207
Capital reserves .....	15,256	100,919
Revenue reserves .....	1,443,050	2,057,531
Adjustments to market value - securities and derivative financial instruments (Notes 3b, 3c and 5) .....	891	37,187
Retained earnings .....	203,263	245,279
	<u>5,885,546</u>	<u>5,318,123</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b> .....	<b>5,885,546</b>	<b>5,318,123</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b>99,267,654</b>	<b>54,836,881</b>

The accompanying notes are an integral part of these financial statements

**STATEMENTS OF INCOME (Note 3I)**

In thousands of reais, except net income per share

	2 <sup>nd</sup> six-month period of 2007	Years ended December 31	
		2007	2006
<b>INCOME FROM FINANCIAL INTERMEDIATION</b>			
Credit operations .....	464,576	649,168	1,264,369
Securities .....	2,515,889	4,762,503	2,607,570
Derivative financial instruments .....	152,095	53,548	909,677
Foreign exchange, net (Note 2) .....	114,654	140,426	-
Compulsory deposits .....	137	137	-
	<b>3,247,351</b>	<b>5,605,782</b>	<b>4,781,616</b>
<b>EXPENSES ON FINANCIAL INTERMEDIATION</b>			
Funds obtained in the market .....	(2,511,617)	(4,348,081)	(2,699,226)
Borrowings, credit assignments and onlendings .....	106,131	317,520	(224,432)
Foreign exchange, net (Note 2) .....	-	-	(27,676)
Allowance for loan losses (Note 7g) .....	(79,224)	(31,006)	(40,149)
	<b>(2,484,710)</b>	<b>(4,061,567)</b>	<b>(2,991,483)</b>
<b>GROSS PROFIT FROM FINANCIAL INTERMEDIATION</b> .....	<b>762,641</b>	<b>1,544,215</b>	<b>1,790,133</b>
<b>OTHER OPERATING INCOME (EXPENSES)</b>			
Commissions and fees (Note 17d) .....	246,407	379,362	263,134
Personnel expenses (Note 17e) .....	(116,679)	(217,062)	(178,690)
Other administrative expenses (Note 17f) .....	(178,644)	(336,071)	(163,466)
Taxes (Notes 3j and 17g) .....	(91,281)	(162,930)	(131,151)
Equity in the earnings of subsidiaries (Note 10a) .....	4,450	5,264	29,670
Other operating income (Note 17h) .....	8,392	61,529	172,013
Other operating expenses (Note 17i) .....	(14,385)	(23,494)	(78,336)
	<b>(141,740)</b>	<b>(293,402)</b>	<b>(86,826)</b>
<b>NET OPERATING INCOME</b> .....	<b>620,901</b>	<b>1,250,813</b>	<b>1,703,307</b>
<b>NON-OPERATING INCOME (EXPENSES), NET (Note 17j)</b> .....	<b>220,224</b>	<b>220,156</b>	<b>1,497</b>
<b>PROFIT BEFORE TAXATION AND PROFIT SHARING</b> .....	<b>841,125</b>	<b>1,470,969</b>	<b>1,704,804</b>
<b>INCOME TAX (Notes 3j and 12a)</b> .....	<b>(128,776)</b>	<b>(303,380)</b>	<b>(319,498)</b>
<b>SOCIAL CONTRIBUTION ON NET INCOME (Notes 3j and 12a)</b> .....	<b>(54,649)</b>	<b>(123,026)</b>	<b>(117,564)</b>
<b>NET DEFERRED TAXES (Notes 3j and 12a)</b> .....	<b>(6,884)</b>	<b>38,850</b>	<b>12,593</b>
<b>PROFIT SHARING</b> .....	<b>(104,517)</b>	<b>(163,437)</b>	<b>(174,771)</b>
<b>NET INCOME</b> .....	<b>546,299</b>	<b>919,976</b>	<b>1,105,564</b>
<b>NET INCOME PER SHARE - in reais</b> .....	<b>51.69</b>	<b>87.04</b>	<b>104.60</b>

The accompanying notes are an integral part of these financial statements

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Note 15)**

In thousands of reais

	Capital	Capital	Capital	Revenue reserves	Revenue reserves	Adjustments to	Retained	Total
	increase	incentives	Fiscal	Legal	Statutory	market value -	earnings	
		and other	incentives			securities		
			and other			and derivative		
						financial		
						instruments		
<b>Balances at December 31, 2005</b> .....	<b>2,755,795</b>	-	<b>97,348</b>	<b>187,864</b>	<b>1,226,384</b>	<b>27,479</b>	<b>245,279</b>	<b>4,540,149</b>
Capital increase .....	121,412	-	-	-	-	-	-	121,412
Revaluation of stock exchange membership certificates .....	-	-	3,571	-	-	-	-	3,571
Adjustments to market value - securities and derivative financial instruments .....	-	-	-	-	-	9,708	-	9,708
Net income for the year .....	-	-	-	-	-	-	1,105,564	1,105,564
Appropriation to legal reserve .....	-	-	-	55,278	-	-	(55,278)	-
Dividends paid/provided (R\$10.529 per share) .....	-	-	-	-	(111,281)	-	-	(111,281)
Interest on own capital paid/provided (R\$33.210 per share) .....	-	-	-	-	-	-	(351,000)	(351,000)
Constitution of statutory reserves .....	-	-	-	-	699,286	-	(699,286)	-
<b>Balances at December 31, 2006</b> .....	<b>2,877,207</b>	-	<b>100,919</b>	<b>243,142</b>	<b>1,814,389</b>	<b>37,187</b>	<b>245,279</b>	<b>5,318,123</b>
<b>Changes in the period</b> .....	<b>121,412</b>	-	<b>3,571</b>	<b>55,278</b>	<b>588,005</b>	<b>9,708</b>	-	<b>777,974</b>
Capitalization of retained earnings and reserves ...	-	1,345,879	(90,356)	-	(1,213,506)	-	(42,017)	-
Approval of capital .....	1,345,879	(1,345,879)	-	-	-	-	-	-
Revaluation of stock exchange membership certificates .....	-	-	4,693	-	-	-	-	4,693
Adjustments to market value - securities and derivative financial instruments .....	-	-	-	-	-	(36,296)	-	(36,296)
Net income for the year .....	-	-	-	-	-	-	919,976	919,976
Appropriation to legal reserve .....	-	-	-	45,999	-	-	(45,999)	-
Dividends paid/provided (R\$4.205 per share) .....	-	-	-	-	(44,442)	-	-	(44,442)
Interest on own capital paid/provided (R\$26.162 per share) .....	-	-	-	-	-	-	(276,508)	(276,508)
Constitution of statutory reserves .....	-	-	-	-	597,468	-	(597,468)	-
<b>Balances at December 31, 2007</b> .....	<b>4,223,086</b>	-	<b>15,256</b>	<b>289,141</b>	<b>1,153,909</b>	<b>891</b>	<b>203,263</b>	<b>5,885,546</b>
<b>Changes in the period</b> .....	<b>1,345,879</b>	-	<b>(85,663)</b>	<b>45,999</b>	<b>(660,480)</b>	<b>(36,296)</b>	<b>(42,016)</b>	<b>567,423</b>
<b>Balances at June 30, 2007</b> .....	<b>2,877,207</b>	<b>1,345,879</b>	<b>13,321</b>	<b>261,826</b>	<b>787,931</b>	<b>21,791</b>	<b>203,263</b>	<b>5,511,218</b>
Approval of capital .....	1,345,879	(1,345,879)	-	-	-	-	-	-
Revaluation of stock exchange membership certificates .....	-	-	1,935	-	-	-	-	1,935
Adjustments to market value - securities and derivative financial instruments .....	-	-	-	-	-	(20,900)	-	(20,900)
Net income for the six-month period .....	-	-	-	-	-	-	546,299	546,299
Appropriation to legal reserve .....	-	-	-	27,315	-	-	(27,315)	-
Interest on own capital paid/provided (R\$14.477 per share) .....	-	-	-	-	-	-	(153,006)	(153,006)
Constitution of statutory reserves .....	-	-	-	-	365,978	-	(365,978)	-
<b>Balances at December 31, 2007</b> .....	<b>4,223,086</b>	-	<b>15,256</b>	<b>289,141</b>	<b>1,153,909</b>	<b>891</b>	<b>203,263</b>	<b>5,885,546</b>
<b>Changes in the period</b> .....	<b>1,345,879</b>	<b>(1,345,879)</b>	<b>1,935</b>	<b>27,315</b>	<b>365,978</b>	<b>(20,900)</b>	-	<b>374,328</b>

The accompanying notes are an integral part of these financial statements

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

In thousands of reais

	2 <sup>nd</sup> six-month period of 2007	Years ended December 31	
		2007	2006
<b>FINANCIAL RESOURCES WERE PROVIDED BY:</b>			
Adjusted net income			
Net income .....	546,299	919,976	1,105,564
Amortization and depreciation .....	3,880	9,060	7,787
Amortization of goodwill of merged subsidiary .....	67,991	135,982	-
Equity in the earnings of subsidiaries .....	(4,450)	(5,264)	(29,670)
Amortization of goodwill .....	1,059	1,524	35,846
	614,779	1,061,278	1,119,527
Changes in deferred income .....	12,132	7,229	9,356
Resources from Stockholders - capital increase .....	-	-	121,412
Third party resources provided by:			
Increase in current and long-term liabilities			
Deposits .....	14,364,809	28,352,465	8,225,862
Securities sold under repurchase agreements .....	1,354,277	2,161,709	5,806,411
Funds from acceptances and issue of securities .....	225,253	758,541	45,319
Interdepartmental accounts .....	-	240,945	37,666
Borrowings and onlendings .....	1,878,217	4,113,240	-
Derivative financial instruments .....	-	964,720	-
Other liabilities .....	4,505,704	7,264,501	-
	22,328,260	43,856,121	14,115,258
Decrease in current assets and long-term receivables			
Securities and derivative financial instruments .....	2,552,670	-	-
Interbank accounts .....	-	-	45,143
Other receivables and other assets .....	-	-	787,023
	2,552,670	-	832,166
Dividends received .....	-	-	38,087
Decrease in investments in subsidiaries .....	-	170,600	40,084
Disposal of investments .....	19,885	19,885	768
Disposal of fixed assets .....	2,851	2,940	298
	<b>25,530,577</b>	<b>45,118,053</b>	<b>16,276,956</b>
<b>FINANCIAL RESOURCES WERE USED FOR:</b>			
Dividends paid/provided .....	-	44,442	111,281
Interest on own capital paid/provided .....	153,006	276,508	351,000
Investments in:			
Subsidiaries .....	9,497	12,822	167,544
Goodwill on purchase of investments .....	24,195	28,743	767,874
Other investments .....	875	875	1,005
Fixed assets .....	5,389	8,612	6,109
Increase in deferred income .....	12	110	1,083
Increase in current assets and long-term receivables			
Interbank investments .....	15,000,246	29,747,563	6,810,795
Securities and derivative financial instruments .....	-	1,669,433	4,743,162
Interbank accounts .....	38,691	35,852	-
Loan and other credit operations .....	5,766,679	5,387,382	2,088,425
Other assets .....	3,716,233	7,769,886	-
	24,521,849	44,610,116	13,642,382
Decrease in current and long-term liabilities			
Interbank accounts .....	5,370	-	-
Interdepartmental accounts .....	434,116	-	-
Borrowings and onlendings .....	-	-	342,187
Derivative financial instruments .....	593,423	-	374,815
Other liabilities .....	-	-	538,205
	1,032,909	-	1,255,207
	<b>25,747,732</b>	<b>44,982,228</b>	<b>16,303,485</b>
<b>INCREASE/(DECREASE) IN CASH AND BANKS .....</b>	<b>(217,155)</b>	<b>135,825</b>	<b>(26,529)</b>
<b>CASH AND BANKS</b>			
At the beginning of the six-month period/year .....	442,956	89,976	116,505
At the end of the six-month period/year .....	225,801	225,801	89,976
<b>INCREASE/(DECREASE) IN CASH AND BANKS .....</b>	<b>(217,155)</b>	<b>135,825</b>	<b>(26,529)</b>

The accompanying notes are an integral part of these financial statements

## **NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

All amounts in thousands of reais, unless otherwise indicated

### **1. OPERATIONS**

Banco Itaú BBA S.A. ("Itaú BBA") develops its business within a wholesale bank structure, dedicated to attending to customers.

### **2. PRESENTATION OF THE FINANCIAL STATEMENTS**

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

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

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

### **3. SIGNIFICANT ACCOUNTING PRACTICES**

#### **a) Interbank investments, Remunerated restricted credits - BACEN, Remunerated deposits, Securities sold under repurchase agreements, Funds from acceptances and issue of securities, Borrowings and onlendings and Other receivables and payables**

Transactions subject to monetary correction and foreign exchange variation and operations with fixed charges are recorded at present value, calculated "pro rata die" based on the variation of the contracted index and interest rate.

#### **b) Securities**

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

- i - Trading securities – securities acquired to be actively and frequently traded, adjusted to market value with a corresponding entry to the results for the period;
- ii - Securities available for sale – securities that can be negotiated but are not acquired to be actively and frequently traded. They are adjusted to their market value with a corresponding entry to the stockholders' equity account "Adjustments to market value – securities and derivative financial instruments"; and
- iii - Securities held to maturity – securities, except for non-redeemable shares, for which the bank has the financial condition and intends or is required to hold them in the portfolio up to their maturity, are recorded at cost of acquisition, or market value, whenever these are transferred from another category. The securities are updated up to their maturity date, not being adjusted to market value.

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

Decreases in the market value of securities available for sale and those held to maturity below their respective costs, resulting from non-temporary motives, are recorded in results as realized losses.

#### **c) Derivative financial instruments**

The derivative financial instruments are classified on the date of their acquisition, according to management's intention of using them either as a hedge or not, in accordance with BACEN Circular 3082/02.

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

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

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

#### **d) Loan and other credits operations (Operations with credit granting characteristics)**

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

#### **e) Allowance for loan losses**

The balance of the allowance for loan losses was recorded based on the credit risk analysis, at an amount considered sufficient to cover loan losses according to the rules determined by CMN Resolution 2682/99, among which are:

- i - Provisions are recorded from the date loans are granted, based on the client's risk rating and on the periodic quality evaluation of clients and industries, and not only in the event of default;
- ii - Based exclusively on delinquency, write-offs of credit operations against loss may be carried out after 360 days after the due date of the credit or after 540 days for operations that mature after a period of 36 months.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**f) Investments**

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

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

**g) Fixed assets**

Fixed assets are stated at cost of acquisition, less accumulated depreciation, restated up to December 31, 1995. Depreciation is calculated using the straight-line method, based on monetarily corrected cost, considering that the installations and equipment with residual value up to R\$3 are fully depreciated. Depreciation is calculated at the following annual rates:

Properties for own use .....	4% and 5%
Installations, furniture, equipment and security and communication systems .....	10%
Vehicles and data processing equipment .....	20%

**h) Deferred charges**

The goodwill of merged subsidiary corresponds to the goodwill on the purchase of the investment, which was transferred to deferred charges in accordance with Law 9,532/97, to be amortized in 64 months.

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

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

These items are assessed, recognized and disclosed according to the provisions set forth in CMN Resolution 3,535 of January 31, 2008.

**i - Contingent assets and liabilities:**

These assets and liabilities refer to potential rights and obligations arising from past events, the occurrence of which is dependent upon future events.

- Contingent assets: these assets are not recognized, except upon evidence ensuring a high reliability level of realization, usually represented by claims awarded a final unappealable judgment and confirmation of the recoverability of the claim through receipt of amounts or offset against another liability.
- Contingent liabilities: these liabilities basically arise from administrative proceedings and lawsuits, inherent in the normal course of business, filed by third parties, former employees and government bodies, in connection with civil, labor, tax and social security lawsuits and other risks. These contingencies are calculated based on conservative practices, being usually recorded based on the opinion of legal advisors and considering the probability that financial resources shall be required for settling the obligation, the amount of which may be estimated with sufficient certainty. Contingencies are classified either as probable, for which provisions are recorded; possible, which are disclosed but not recorded; or remote, for which recognition or disclosure are not required. Any contingent amounts are measured through the use of models and criteria which allow their adequate measurement, in spite of the uncertainty of their term and amounts.

**ii - Legal obligations - Tax and social security:**

These liabilities are represented by amounts payable related to tax liabilities, the legality or constitutionality of which are subject to judicial challenge, recognized at the full amount under discussion.

Liabilities and related escrow deposits are adjusted in accordance with the current legislation.

**j) Taxes**

These provisions are calculated according to current legislation at the rates shown below, based on the respective calculation bases.

Income tax .....	15.00%
Additional income tax .....	10.00%
Social contribution on net income (Note 17o ii) .....	9.00%
PIS - Social Integration Program .....	0.65%
COFINS - Social Contribution on Revenues .....	4.00%
ISS - Services Tax .....	up to 5.00%
CPMF - Tax on Bank Outflows <sup>(1)</sup> .....	0.38%

<sup>(1)</sup> As from January 1, 2008, as determined by law, the withholding and payment of this contribution were ended.

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

**k) Deferred income**

Deferred income refers basically to income received in advance of the contractual due date, which is not expected to be refunded and which can be recognized as effective income based on the passage of time.

**l) Determination of net income**

Net income is recorded on the accrual basis of accounting.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**4. INTERBANK INVESTMENTS**

Interbank investments can be summarized as follows:

	2007					2006				
	Balance	Due up to three months	Due from three to six months	Due from six to 12 months	Due after 12 months	Balance	Due up to three months	Due from three to six months	Due from six to 12 months	Due after 12 months
Investments in the open market										
Funded position										
Without free movement ...	2,015,028	474,127	-	19,660	1,521,241	2,702,717	252,174	36,274	353,834	2,060,435
With free movement <sup>(*)</sup> .....	638,756	403,162	235,594	-	-	52,339	688	51,651	-	-
	<u>2,653,784</u>	<u>877,289</u>	<u>235,594</u>	<u>19,660</u>	<u>1,521,241</u>	<u>2,755,056</u>	<u>252,862</u>	<u>87,925</u>	<u>353,834</u>	<u>2,060,435</u>
Financed position .....	11,225,683	32,325	-	4,948	11,188,410	7,367,559	1,371,677	275,895	356,896	5,363,091
	<u>13,879,467</u>	<u>909,614</u>	<u>235,594</u>	<u>24,608</u>	<u>12,709,651</u>	<u>10,122,615</u>	<u>1,624,539</u>	<u>363,820</u>	<u>710,730</u>	<u>7,423,526</u>
Interbank deposits .....	36,027,650	13,704,131	4,578,977	6,697,915	11,046,627	10,036,939	3,613,394	2,235,301	1,749,529	2,438,715
Total .....	<u>49,907,117</u>	<u>14,613,745</u>	<u>4,814,571</u>	<u>6,722,523</u>	<u>23,756,278</u>	<u>20,159,554</u>	<u>5,237,933</u>	<u>2,599,121</u>	<u>2,460,259</u>	<u>9,862,241</u>

(\*) At December 31, 2007, R\$16,214 were restricted to guarantee operations in the Brazilian Mercantile &amp; Futures Exchange ("BM&amp;F").

**5. SECURITIES**

	Adjustment (cost less market)				2007			
	Cost of acquisition <sup>(b)</sup>	Market value <sup>(c)</sup>	Gross amount	Net amount	Due up to three months	Due from three to six months	Due from six to 12 months	Maturity Due after 12 months
Trading: <sup>(a)</sup>								
Brazilian government securities .....	2,359,896	2,346,705	(13,191)		7,094	295,028	954,397	1,090,186
Foreign government securities .....	300,779	302,343	1,564		5,157	-	-	297,186
Debentures and commercial paper ....	58,223	58,214	(9)		12,113	-	9,749	36,352
Shares .....	48,182	51,085	2,903		51,085	-	-	-
Real estate receivables certificates ....	93,234	97,776	4,542		-	-	16,147	81,629
Eurobonds and others .....	355,801	350,648	(5,153)		-	-	-	350,648
Funds .....	314,569	314,569	-		314,569	-	-	-
	<u>3,530,684</u>	<u>3,521,340</u>	<u>(9,344)<sup>(d)</sup></u>		<u>390,018</u>	<u>295,028</u>	<u>980,293</u>	<u>1,856,001</u>
Available for sale:								
Brazilian government securities .....	12,409	12,412	3	2	-	-	-	12,412
Foreign government securities .....	1,031,862	1,034,330	2,468	1,635	480	517,756	497,013	19,081
Debentures and commercial paper ....	2,411,709	2,411,698	(11)	(9)	127,988	175,454	579,550	1,528,706
Shares .....	540,536	541,790	1,254	789	541,790	-	-	-
Real estate receivables certificates ....	69,217	68,732	(485)	(305)	217	8,266	2,194	58,055
Eurobonds and others .....	4,328,279	4,326,112	(2,167)	(1,218)	916,337	1,864,031	748,040	797,704
Funds .....	871,485	871,485	-	-	871,485	-	-	-
	<u>9,265,497</u>	<u>9,266,559</u>	<u>1,062</u>	<u>894<sup>(e)</sup></u>	<u>2,458,297</u>	<u>2,565,507</u>	<u>1,826,797</u>	<u>2,415,958</u>
Held to maturity:								
Brazilian government securities .....	89,855	116,846			9,364	1,240	10,105	69,146
Debentures and commercial paper ....	7,408	7,408			366	368	738	5,936
	<u>97,263</u>	<u>124,254<sup>(f)</sup></u>			<u>9,730</u>	<u>1,608</u>	<u>10,843</u>	<u>75,082</u>
Total .....	<u>12,893,444</u>	<u>12,912,153</u>			<u>2,858,045</u>	<u>2,862,143</u>	<u>2,817,933</u>	<u>4,347,041</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

	<b>2006</b>							
	<b>Cost of acquisition<sup>(b)</sup></b>	<b>Market value<sup>(c)</sup></b>	<b>Adjustment (cost less market)</b>		<b>Due up to three months</b>	<b>Due from three to six months</b>	<b>Due from six to 12 months</b>	<b>Maturity</b>
			<b>Gross amount</b>	<b>Net amount</b>				<b>Due after 12 months</b>
<b>Trading:<sup>(a)</sup></b>								
Brazilian government securities .....	1,794,097	1,812,901	18,804		208,671	48,509	339,359	1,216,362
Foreign government securities .....	1,610,716	1,614,066	3,350		37,354	4,162	-	1,572,550
Debentures and commercial paper ....	80,580	73,854	(6,726)		18,422	-	3,154	52,278
Shares .....	79,033	87,125	8,092		87,125	-	-	-
Bank certificates of deposit .....	225,236	225,236	-		225,236	-	-	-
Real estate receivables certificates ....	94,873	99,448	4,575		-	-	15,809	83,639
Term of energy certificates .....	121,326	122,377	1,051		33,372	33,376	55,629	-
Eurobonds and others .....	131,559	139,219	7,660		-	1,853	-	137,366
Funds .....	477,566	477,566	-		477,566	-	-	-
	<u>4,614,986</u>	<u>4,651,792</u>	<u>36,806<sup>(d)</sup></u>		<u>1,087,746</u>	<u>87,900</u>	<u>413,951</u>	<u>3,062,195</u>
<b>Available for sale:</b>								
Brazilian government securities .....	568,267	572,641	4,374	2,900	223,579	48,696	94,266	206,100
Foreign government securities .....	214,900	211,178	(3,722)	(2,342)	-	-	-	211,178
Debentures and commercial paper ....	2,366,144	2,368,391	2,247	1,414	388,401	37,994	146,163	1,795,833
Shares .....	550,371	556,204	5,833	3,671	556,204	-	-	-
Real estate receivables certificates ....	76,594	76,916	322	203	217	8,231	3,155	65,313
Eurobonds and others .....	2,220,490	2,267,977	47,487	31,341	604,496	81,617	420,251	1,161,613
Funds .....	945,619	945,619	-	-	945,619	-	-	-
	<u>6,942,385</u>	<u>6,998,926</u>	<u>56,541</u>	<u>37,187<sup>(e)</sup></u>	<u>2,718,516</u>	<u>176,538</u>	<u>663,835</u>	<u>3,440,037</u>
<b>Held to maturity:</b>								
Brazilian government securities .....	125,622	162,544			14,301	1,533	14,604	95,184
Foreign government securities .....	20,216	23,393			577	-	-	19,639
Debentures and commercial papers ...	8,863	8,858			549	530	1,005	6,779
	<u>154,701</u>	<u>194,795<sup>(f)</sup></u>			<u>15,427</u>	<u>2,063</u>	<u>15,609</u>	<u>121,602</u>
<b>Total .....</b>	<u>11,712,072</u>	<u>11,845,513</u>			<u>3,821,689</u>	<u>266,501</u>	<u>1,093,395</u>	<u>6,623,834</u>

<sup>(a)</sup> Securities classified as trading securities are presented in the balance sheet as current assets, regardless of their maturity dates.<sup>(b)</sup> Cost of acquisition plus income accrued up to the balance sheet date.<sup>(c)</sup> The market value is determined considering cash flow discounted to present value using interest rates or prices considered as representative of market conditions on the closing of the balance sheet, applicable for each type of security.<sup>(d)</sup> Recognized directly in the statement of income.<sup>(e)</sup> The unrealized gains/losses are recorded in a special stockholders' equity account net of taxes.<sup>(f)</sup> Securities held to maturity are not stated at market values for accounting purposes and the amounts presented are therefore only informative.**Comments:**

Securities given in guarantee amount to R\$3,269,570 (2006 - R\$1,477,787) and were given as guarantee of: (i) derivative financial instruments in the BM&amp;F R\$1,732,539 (2006 - R\$1,236,193); (ii) funding R\$1,435,203 (2006 - nil); and (iii) others R\$101,828 (2006 - R\$ 241,594).

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

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**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The globalization of the markets in recent years has resulted in a high level of sophistication in the financial products used. As a result of this process, there has been an increasing demand for derivative financial instruments to manage market risks, mainly arising from fluctuations in interest and exchange rates, asset prices and credit, aiming to hedge against default by counterparts. Accordingly, Itaú BBA is fully involved in the derivative markets for meeting the growing needs of its clients, as well as carrying out its risk management policy. Such policy is based on the use of derivative instruments to minimize the risks resulting from commercial and financial operations.

Most derivative contracts traded by the institution with clients in Brazil are swap and futures contracts, which are registered at the Brazilian Mercantile and Futures Exchange (BM&F) or at the Clearing House for the Custody and Financial Settlement of Securities (CETIP). BM&F future contracts involving interbank rates and U.S. dollars are mainly used to lock the financing rates offered to customers with maturity or currency mismatches between their obligations and the resources used to fund them. Overseas transactions are carried out with futures, forwards, options, swaps and credits, with registration mainly in the Chicago, New York and London Exchanges.

The main risk factors of the derivatives, at December 31, 2007, were related to the foreign exchange rate, interest rate, U.S. dollar coupon and Reference Rate coupon, Libor and variable income. The management of these and other market risk factors is supported by the infrastructure of sophisticated statistical and deterministic models. Based on this management model, the institution, with the use of transactions involving derivatives, has been able to optimize the risk-return ratios, even under highly volatile situations.

The institution carries out operations involving credit derivatives with the purpose of optimizing the management of its exposure to the credit risk of the assets of its balance sheet.

The operations carried out for loan portfolio management reduce the specific risks of the debtor counterpart, transferring these risks, totally or partially, to the institution that sells the hedge. Such risks are daily monitored in view of the credit limits established for each counterpart, thus ensuring that they are properly managed.

Under normal conditions, the exchange prices are the best indicators of the fair value of the financial instruments. However, not all instruments have liquidity or quotations and, in these cases, it is necessary to adopt present value estimates and other pricing techniques. To obtain these market values, the following criteria were adopted:

- Swaps: the cash flow of each leg is discounted to present value, according to the corresponding interest curves, obtained based on the BM&F prices and/or market prices of the government securities for Brazilian transactions, and on the international exchange prices for transactions carried out abroad.
- Futures and Forward contracts: quotation on the exchanges or adoption of a criterion identical to those used for swaps.
- Options: statistical models that incorporate the volatility of the asset value, the interest rates, the exercise price and the spot price of the goods, such as the Black & Scholes model.
- Credit: pricing model involving a payment flow in the case of no event, and in the case of event, the notional amount is paid in exchange for unsettled securities.

These financial instruments have their notional values recorded in memorandum accounts and adjustments/premiums are recorded in balance sheet accounts.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

Derivative financial instruments can be summarized as follows:

**a) SWAP and arbitrage transactions <sup>(\*)</sup>**

	2007				2006			
	Amounts per contracted rates and indices			Market value	Amounts per contracted rates and indices			Market value
	Assets	Liabilities	Net position	Net position	Assets	Liabilities	Net position	Net position
i) Index:								
a) Foreign currency .....	16,117,298	23,109,436	(6,992,138)	(6,671,326)	20,527,591	18,318,209	2,209,382	2,619,005
b) Floating rates .....	17,925,357	1,158,340	16,767,017	16,801,294	19,575,125	58,657,538	(39,082,413)	(39,000,936)
c) Fixed rates .....	13,499,887	12,086,441	1,413,446	1,505,664	68,815,760	11,245,770	57,569,990	57,048,701
d) Interbank market .....	19,128,366	29,818,864	(10,690,498)	(10,904,229)	13,806,808	33,899,073	(20,092,265)	(20,106,599)
e) Indices .....	5,083,359	5,535,053	(451,694)	(460,034)	4,255,112	4,647,920	(392,808)	(420,546)
f) Others .....	14,198	141,645	(127,447)	(130,679)	126,219	127,602	(1,383)	(1,803)
	<u>71,768,465</u>	<u>71,849,779</u>	<u>(81,314)</u>	<u>140,690</u>	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>
ii) Counterparties:								
a) Companies .....	14,307,895	14,357,466	(49,571)	73,177	15,873,258	15,358,217	515,041	397,929
b) BM&F .....	8,919,689	8,904,203	15,486	39,662	11,345,130	11,338,611	6,519	(347)
c) Financial institutions .....	3,753,198	3,985,898	(232,700)	(141,780)	60,081,912	60,180,491	(98,579)	(90,476)
d) Related parties .....	44,787,683	44,602,212	185,471	169,631	39,806,315	40,018,793	(212,478)	(169,284)
	<u>71,768,465</u>	<u>71,849,779</u>	<u>(81,314)</u>	<u>140,690</u>	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>
iii) Maturity:								
a) Due up to three months .....	17,720,759	17,527,294	193,465	196,653	72,891,634	72,955,547	(63,913)	(61,968)
b) Due from three to six months .....	11,789,166	11,644,561	144,605	165,217	7,816,333	7,791,427	24,906	32,525
c) Due from six to 12 months .....	13,397,815	13,346,140	51,675	91,180	10,367,865	10,329,304	38,561	47,943
d) Due after 12 months .....	28,860,725	29,331,784	(471,059)	(312,360)	36,030,783	35,819,834	210,949	119,322
	<u>71,768,465</u>	<u>71,849,779</u>	<u>(81,314)</u>	<u>140,690</u>	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>
iv) Market:								
a) BM&F .....	8,919,689	8,904,203	15,486	39,662	11,357,946	11,346,462	11,484	4,531
b) Over-the-counter market .....	62,848,776	62,945,576	(96,800)	101,028	115,748,669	115,549,650	199,019	133,291
	<u>71,768,465</u>	<u>71,849,779</u>	<u>(81,314)</u>	<u>140,690</u>	<u>127,106,615</u>	<u>126,896,112</u>	<u>210,503</u>	<u>137,822</u>

<sup>(\*)</sup> The arbitrage transactions are classified in Other receivables and Other liabilities - foreign exchange portfolio.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**b) Options**

	<b>Premium paid or (received)</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Cost</b>	<b>Market value</b>	<b>Cost</b>	<b>Market value</b>
<b>i) Contractual rights:</b>				
a) Foreign currency .....	30,185	24,137	19,843	9,677
b) Reais .....	1,492	917	1,567	1,562
c) Securities .....	620	349	8,151	6,437
d) Indices .....	29,543	15,073	19,286	11,108
e) Shares .....	251,163	251,617	175,163	194,520
f) Others .....	9,611	6,414	3,657	5,264
	<u>322,614</u>	<u>298,507</u>	<u>227,667</u>	<u>228,568</u>
<b>ii) Contractual obligations:</b>				
a) Foreign currency .....	(82,384)	(56,521)	(25,193)	(11,000)
b) Reais .....	(54,169)	(34,403)	(19,688)	(10,276)
c) Securities .....	(542)	(329)	(6,302)	(3,823)
d) Indices .....	(34,909)	(21,008)	(18,985)	(10,621)
e) Shares .....	(2,747)	(2,452)	-	-
f) Others .....	(4,731)	(4,079)	-	-
	<u>(179,482)</u>	<u>(118,792)</u>	<u>(70,168)</u>	<u>(35,720)</u>
<b>Total .....</b>	<u><u>143,132</u></u>	<u><u>179,715</u></u>	<u><u>157,499</u></u>	<u><u>192,848</u></u>
<b>iii) Counterparties:</b>				
a) Companies .....	252,640	254,112	174,317	193,986
b) Futures and Stock Exchanges .....	(68,200)	(46,432)	(8,811)	(5,653)
c) Financial institutions .....	(43,585)	(28,310)	(9,300)	1,373
d) Related parties .....	2,277	345	1,293	3,142
	<u>143,132</u>	<u>179,715</u>	<u>157,499</u>	<u>192,848</u>
<b>iv) Maturity:</b>				
a) Due up to three months .....	(44,179)	(16,831)	(9,789)	3,364
b) Due from three to six months .....	228,985	233,898	174,213	193,518
c) Due from six to 12 months .....	(42,237)	(37,305)	(9,456)	(7,875)
d) Due after 12 months .....	563	(47)	2,531	3,841
	<u>143,132</u>	<u>179,715</u>	<u>157,499</u>	<u>192,848</u>
<b>v) Market:</b>				
a) Exchange traded options .....	(68,253)	(46,492)	(8,812)	(5,653)
b) Over-the-counter market .....	211,385	226,207	166,311	198,501
	<u>143,132</u>	<u>179,715</u>	<u>157,499</u>	<u>192,848</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**c) Futures contracts**

	2007			2006		
	Cost <sup>(*)</sup>	Market value	Net position	Cost <sup>(*)</sup>	Market value	Net position
<b>i) Index:</b>						
a) US dollar coupon (DDI)						
Purchase position .....	14,101,138	14,070,602	(30,536)	5,945,579	5,950,421	4,842
Sale position .....	(6,203,173)	(6,184,688)	18,485	(5,750,075)	(5,754,749)	(4,674)
b) Interest rate (DI1)						
Purchase position .....	619,710	619,928	218	17,252,496	17,261,007	8,511
Sale position .....	(7,142,933)	(7,146,080)	(3,147)	(5,081,780)	(5,084,270)	(2,490)
c) Foreign currency						
Purchase position .....	680,931	678,559	(2,372)	1,120,329	1,120,413	84
Sale position .....	(4,975,007)	(4,969,724)	5,283	(82,870)	(82,894)	(24)
d) Indices						
Purchase position .....	53,373	53,405	32	2,224,352	2,224,352	-
Sale position .....	(1,050,913)	(1,050,913)	-	(59,640,743)	(59,640,707)	36
e) Securities						
Purchase position .....	623,834	623,960	126	86,613	86,095	(518)
Sale position .....	-	-	-	(8,789)	(8,731)	58
f) Others						
Purchase position .....	1,488	1,488	-	2,279	2,279	-
Sale position .....	-	-	-	(933)	(933)	-
	<u>(3,291,552)</u>	<u>(3,303,463)</u>	<u>(11,911)</u>	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>
<b>ii) Counterparties:</b>						
a) BM&F .....	(2,242,724)	(2,254,635)	(11,911)	13,475,193	13,481,018	5,825
b) Financial institutions .....	(1,048,828)	(1,048,828)	-	(57,408,735)	(57,408,735)	-
	<u>(3,291,552)</u>	<u>(3,303,463)</u>	<u>(11,911)</u>	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>
<b>iii) Maturity:</b>						
a) Due up to three months .....	(5,164,060)	(5,155,213)	8,847	(50,509,417)	(50,508,873)	544
b) Due from three to six months .....	1,241,168	1,234,363	(6,805)	10,747,314	10,755,301	7,987
c) Due from six to 12 months .....	4,946,394	4,924,991	(21,403)	3,409,259	3,412,036	2,777
d) Due after 12 months .....	(4,315,054)	(4,307,604)	7,450	(7,580,698)	(7,586,181)	(5,483)
	<u>(3,291,552)</u>	<u>(3,303,463)</u>	<u>(11,911)</u>	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>
<b>iv) Market:</b>						
a) BM&F .....	(2,242,724)	(2,254,635)	(11,911)	13,475,193	13,481,018	5,825
b) Over-the-counter market .....	(1,048,828)	(1,048,828)	-	(57,408,735)	(57,408,735)	-
	<u>(3,291,552)</u>	<u>(3,303,463)</u>	<u>(11,911)</u>	<u>(43,933,542)</u>	<u>(43,927,717)</u>	<u>5,825</u>

<sup>(\*)</sup> Memorandum account.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**d) Other derivative financial instruments**

	2007		2006	
	Carrying amount	Market value	Carrying amount	Market value
i) Index:				
a) Foreign currency				
Purchase position .....	517,523	509,911	569,453	575,301
Sale position .....	(890,746)	(849,621)	(719,664)	(747,989)
b) Reais				
Purchase position .....	26,981	26,981	5,150	5,150
Sale position .....	(241,752)	(241,752)	(56,089)	(56,089)
c) Fixed rates				
Purchase position .....	7,784	31,131	4,830	46,716
Sale position .....	(9,359)	(46,613)	(6,095)	(36,215)
d) Others				
Purchase position .....	1,593	15,423	284	284
Sale position .....	(5,066)	(4,780)	(249)	(249)
	<u>(593,042)</u>	<u>(559,320)</u>	<u>(202,380)</u>	<u>(213,091)</u>
ii) Counterparties:				
a) Companies .....	(378,645)	(344,555)	(156,147)	(178,666)
b) BM&F .....	-	13,887	-	-
c) Financial institutions .....	(238,203)	(252,366)	(46,652)	(34,888)
d) Related parties .....	23,806	23,714	419	463
	<u>(593,042)</u>	<u>(559,320)</u>	<u>(202,380)</u>	<u>(213,091)</u>
iii) Maturity:				
a) Due up to three months .....	(142,416)	(136,147)	(50,115)	(50,697)
b) Due from three to six months .....	(84,654)	(82,499)	(39,469)	(42,820)
c) Due from six to 12 months .....	(261,538)	(246,745)	(89,486)	(104,956)
d) Due after 12 months .....	(104,434)	(93,929)	(23,310)	(14,618)
	<u>(593,042)</u>	<u>(559,320)</u>	<u>(202,380)</u>	<u>(213,091)</u>
vi) Market:				
a) BM&F .....	-	13,887	-	-
b) Over-the-counter market .....	(593,042)	(573,207)	(202,380)	(213,091)
	<u>(593,042)</u>	<u>(559,320)</u>	<u>(202,380)</u>	<u>(213,091)</u>

**e) Credit derivatives**

Itaú BBA utilizes credit derivatives for the following purposes (i) reducing or eliminating its exposure to specific risks from the assets in its balance sheet based on the concept of credit portfolio management and (ii) assuming risk positions by way of hedging purchases or sales based on the trading concept.

The transactions carried out for credit portfolio management mitigate the specific risks of the counterparty debtor, transferring these risks, totally or partially, to the institution that sells the hedge. These risks are monitored daily in view of the credit limits established for each counterparty, thus ensuring that they are properly managed.

The transactions realized by the Treasury Department are controlled daily through sophisticated pricing and risk market measurement models, affecting the VaR and VaR Stress limits established by it.

The transactions can be summarized as follows:

	Credit risk amount (*)		Effect on the calculation of the required net equity	
	2007	2006	2007	2006
Transferred:				
Credit swaps whose underlying assets are:				
Securities .....	(2,492,988)	(438,290)	(274,229)	(48,212)
Derivatives with companies .....	(70,000)	(50,000)	(7,700)	(5,500)
Total return rate swap whose underlying assets are securities .....	-	(160,350)	-	(17,639)
Received:				
Credit swaps whose underlying assets are:				
Securities .....	1,825,236	2,019,733	50,659	38,805
Derivatives with companies .....	140,000	100,000	15,400	11,000
Others .....	16,000	-	1,760	-
Total .....	<u>(581,752)</u>	<u>1,471,093</u>	<u>(214,110)</u>	<u>(21,546)</u>

(\*) Memorandum account.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

The market value of the credit derivative operations described above, recorded in assets, amounted to R\$28,447 (2006 - R\$46,431), and in liabilities, to R\$41,399 (2006 - R\$35,930).

During the year, there was no occurrence of a credit event as provided for in the agreements.

**f) The guarantees**

The guarantees given for derivative financial instrument transactions amounted to R\$1,748,753 (2006 - R\$1,236,193), represented by securities.

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

Itaú BBA is a wholesale bank and, therefore, concentrates its business mainly on large Brazilian and multinational corporations; consequently, individual loans involve high amounts (an average of approximately R\$15 million (2006 - R\$18 million) per customer).

The recommended credit limits are subject to a strict formal approval process by the Credit Committees, which includes, amongst others, the President, the Vice-Presidents, the Director of Credit and the Commercial Directors, depending on the involved amounts and periods, as well as "risk ratings" of the borrowed customers. The decisions of these Credit Committees are reported to the Executive Committee, which includes the President and certain directors of Itaú BBA. The credit limits exceeding certain amounts (related to the risk rating of the economic group) are discussed and evaluated by the Superior Credit Committee (CSC) of Itaú. The CSC is the highest level responsible for credit in the Group. The approvals are valid for periods until one year, depending on the risk rating attributed to each company and/or economic group.

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

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

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

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

	<u>2007</u>	<u>2006</u>
Credit operations:		
Loans and bills discounted .....	8,184,338	7,336,498
Financing .....	9,487,065	6,723,891
Foreign currency financing .....	1,038,679	365,041
Farming and agribusiness financing .....	2,430,014	2,125,796
Advances on exchange contracts <sup>(1)</sup> .....	1,326,031	516,626
Other operations <sup>(2)</sup> .....	34,914	52,587
	<u>22,501,041</u>	<u>17,120,439</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

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

	<b>2007</b>	<b>2006 <sup>(1)</sup></b>
<b>Public sector</b>		
Electrical energy generation and distribution .....	505,892	513,859
Chemical and petrochemical .....	148,447	159,200
Others .....	143,357	90,254
	<b>797,696</b>	<b>763,313</b>
<b>Private sector</b>		
<b>Industry and Commerce</b>		
Food and beverages .....	1,721,525	1,512,221
Autoparts and accessories .....	266,388	311,778
Agribusiness capital assets .....	183,470	77,621
Industrial capital assets .....	416,844	311,767
Pulp and paper .....	224,113	299,543
Distribution of fuels .....	182,365	191,522
Electrical and electronic .....	1,034,770	633,612
Pharmaceuticals .....	269,534	231,060
Fertilizers, insecticides and crop protection .....	1,037,019	618,573
Tobacco .....	268,600	209,976
Import and export .....	370,118	257,124
Hospital care materials and equipment .....	6,533	1,208
Construction material .....	258,628	292,718
Steel and metallurgy .....	1,243,101	931,008
Wood and furniture .....	381,831	296,675
Chemical and petrochemical .....	1,238,081	1,391,997
Supermarkets .....	3,234	10,532
Light and heavy vehicles .....	711,546	456,240
Clothing .....	410,737	327,691
Other - commerce .....	107,852	189,001
Other - industry .....	138,888	180,269
	<b>10,475,177</b>	<b>8,732,136</b>
<b>Services</b>		
Heavy construction (contractors) .....	440,563	197,111
Financial .....	449,795	404,443
Electrical energy generation and distribution .....	1,736,519	1,056,849
Holding company .....	1,065,493	485,513
Real estate .....	1,298,725	327,948
Media .....	581,688	556,987
Service companies .....	125,369	50,351
Health care .....	76,192	21,470
Telecommunications .....	381,739	853,569
Transportation .....	694,594	268,501
Other services .....	565,206	469,941
	<b>7,415,883</b>	<b>4,692,683</b>
<b>Primary sector</b>		
Agribusiness .....	2,852,560	1,992,408
Mining .....	754,458	755,564
	<b>3,607,018</b>	<b>2,747,972</b>
<b>Others</b> .....	<b>205,267</b>	<b>184,335</b>
	<b>22,501,041</b>	<b>17,120,439</b>

<sup>(1)</sup> The prior disclosure at December 31, 2006 was reclassified, to reflect the new breakdown of industry sectors as of December 31, 2007, to improve comparability.**c) Credit risk concentration**

	<b>2007</b>	<b>2006</b>
Largest debtor .....	1,362,314	694,829
Percentage of the total loan portfolio .....	6.05%	4.06%
20 largest debtors .....	6,965,616	5,190,240
Percentage of the total loan portfolio .....	30.96%	30.32%

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**d) Analysis of the loan portfolio by maturity**

	2007			2006		
	Abnormal <sup>(1)</sup>	Normal	Outstanding Total	Abnormal <sup>(1)</sup>	Normal	Outstanding Total
<b>Falling due installments:</b>						
1 to 30 days .....	515	4,045,913	4,046,428	1,148	2,120,445	2,121,593
31 to 60 .....	515	1,362,281	1,362,796	838	1,442,578	1,443,416
61 to 90 .....	545	1,381,222	1,381,767	125	1,497,360	1,497,485
91 to 180 .....	2,515	4,006,298	4,008,813	1,667	2,498,502	2,500,169
181 to 365 .....	10,111	3,980,202	3,990,313	29,408	2,643,746	2,673,154
Over 365 .....	5,216	7,526,904	7,532,120	31,335	6,684,409	6,715,744
	19,417	22,302,820	22,322,237	64,521	16,887,040	16,951,561
<b>Overdue installments:</b>						
1 to 14 days .....	676	121,453	122,129	2	75,359	75,361
15 to 30 .....	5,929	-	5,929	16,645	-	16,645
31 to 60 .....	1,913	-	1,913	7,906	-	7,906
61 to 90 .....	8,256	-	8,256	68,864	-	68,864
91 to 180 .....	40,535	-	40,535	102	-	102
181 to 365 .....	42	-	42	-	-	-
	57,351	121,453	178,804	93,519	75,359	168,878
	76,768	22,424,273	22,501,041	158,040	16,962,399	17,120,439

<sup>(1)</sup> Credits with installments overdue for more than 14 days.**e) Allowance for loan losses**

Risk level	Credit portfolio		Percentage of provision <sup>(*)</sup>	Allowance for loan losses based on the minimum required percentage		Allowance for loan losses recorded	
	2007	2006		2007	2006	2007	2006
AA	10,725,235	9,338,331	-	-	-	(52,538)	(45,758)
A	9,217,782	5,880,916	0.5%	(46,089)	(29,404)	(91,256)	(58,221)
B	2,394,965	1,577,506	1.0%	(23,949)	(15,775)	(71,609)	(47,168)
C	81,576	49,491	3.0%	(2,447)	(1,485)	(8,149)	(4,944)
D	12,600	183,997	10.0%	(1,260)	(18,400)	(3,779)	(55,181)
E	48,213	41,497	30.0%	(14,464)	(12,449)	(24,102)	(20,744)
F	-	6,110	50.0%	-	(3,055)	-	(4,276)
G	-	12	70.0%	-	(8)	-	(12)
H	20,670	42,579	100.0%	(20,670)	(42,579)	(20,670)	(42,579)
	22,501,041	17,120,439		(108,879)	(123,155)	(272,103)	(278,883)

<sup>(\*)</sup> Minimum percentage provision required by CMN Resolution 2682/99 per risk level.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**f) Restricted credit operations**

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

	Assets		Liabilities		Income/(expenses)	
	2007	2006	2007	2006	2 <sup>nd</sup> six-month period of 2007	Year 2006
Loans .....	-	175,531	-	-	-	12,380
Financing .....	286,479	351,458	-	-	(14,999)	37,015
Farming and agribusiness financing .....	-	29,736	-	-	129	1,094
Time deposits .....	-	-	-	29,746	(204)	(1,678)
Issue of securities abroad .....	-	-	187,791	226,673	18,879	(36,547)
Foreign borrowings .....	-	-	98,545	299,977	(3,435)	(11,779)
Total .....	286,479	556,725	286,336	556,396	370	485

At December 31, 2007, there were no operations in default.

**g) Changes in allowance for loan losses**

	2 <sup>nd</sup> six-month period of 2007	2007	Year 2006
Balance at the beginning of the six-month period/year .....	(193,760)	(278,883)	(240,186)
Provision recorded .....	(79,224)	(31,006)	(40,149)
Exchange variation on the allowances of the foreign branches .....	869	1,269	(317)
Loans written off .....	12	36,517	1,769
Balance at the end of the six-month period/year .....	(272,103)	(272,103)	(278,883)

**h) Recoveries of loans previously written off .....**

	2 <sup>nd</sup> six-month period of 2007	2007	Year 2006
h) Recoveries of loans previously written off .....	1,429	1,644	33,245

**i) Renegotiated loans .....**

	2 <sup>nd</sup> six-month period of 2007	2007	Year 2006
i) Renegotiated loans .....	70	70	998

**j) Assignment of credit without recourse**

In 2007, in accordance with CMN Resolution 2836/01, credit assignments without recourse were carried out in the amount of R\$538,671 (2006 - R\$471,145), for which the book value of the credits amounted to R\$537,617 (2006 - R\$471,149). The effect resulting from these transactions on stockholders' equity and on results, net of income tax, was R\$696.

**8. FOREIGN EXCHANGE PORTFOLIO**

The foreign exchange portfolio is represented by:

	2007	2006
<b>Assets - Other receivables</b>		
Foreign exchange purchases pending settlement .....	4,945,879	888,336
Foreign currency bills of exchange and term documents .....	107	1,443
Rights on foreign exchange sales .....	4,245,431	958,036
(-) Advances received .....	(71,653)	(71,335)
	9,119,764	1,776,480
<b>Liabilities - Other liabilities</b>		
Foreign exchange sales pending settlement .....	3,997,243	957,238
Liabilities for purchases of foreign exchange .....	5,198,517	895,311
Other .....	1,093	273
	9,196,853	1,852,822
<b>Memorandum accounts</b>		
Outstanding import credits .....	160,001	57,901
Confirmed export credits .....	25,890	38,771
	185,891	96,672

## NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006

(continued)

All amounts in thousands of reais, unless otherwise indicated

## 9. NEGOTIATION AND INTERMEDIATION OF SECURITIES

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Accounts receivable and payable on sale and purchase of assets .....	59,728	108,997	40,087	275,975
Contracts for loan of securities .....	-	-	-	10,499
Margin deposits .....	327,159	-	149,136	-
Other .....	-	-	10,081	10,078
	<u>386,887</u>	<u>108,997</u>	<u>199,304</u>	<u>296,552</u>

## 10. PERMANENT ASSETS

## a) Investments recorded on the equity method of accounting

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

	Capital - number of shares held		Percentage ownership %		Net income/(loss) for the year		Stockholders' equity		Book value of the investments		Equity in earnings (loss) 2 <sup>nd</sup> six-month period of		Year	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Itaú BBA Trading S.A. <sup>(i)</sup> .....	3,078,040,844	3,078,040,844	100.00	100.00	(1,910)	10,681	34,788	36,698	34,788	36,698	(2,634)	(1,910)	10,681
Puerto Cia Securitizadora de Créditos Financeiros <sup>(ii)</sup> .....	178,687,269	178,687,269	99.99	99.99	1,837	10,471	14,840	13,003	14,840	13,003	1,416	1,837	10,471	
Itaú BBA Securitizadora S.A. <sup>(ii)</sup> .....	-	1,999,994	-	99.99	-	129	-	2,129	-	2,129	-	76	129	
Delle Holdings S.A. <sup>(iii)</sup> .....	6,157,525	1,425,996	35.15	34.00	(2,622)	(535)	60,036	14,218	55,110	11,625 <sup>(iii)</sup>	5,619	5,212	(182)	
Banco Itaúsaga S.A. <sup>(i)(iv)</sup> .....	-	32,007	-	99.99	-	8,571	-	168,400	-	893,633 <sup>(iv)</sup>	-	-	8,571	
Banco Itaú Buen Ayre S.A. <sup>(v)</sup> .....	1,482,244	-	1.00	-	6,008	-	181,651	-	1,817	-	49	49	-	
									<u>106,555</u>	<u>957,088</u>	<u>4,450</u>	<u>5,264</u>	<u>29,670</u>	

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

<sup>(i)</sup> See Note 17I.

<sup>(ii)</sup> This company was extinguished, by dissolution, on May 31, 2007.

<sup>(iii)</sup> Includes goodwill on the purchase of investments of R\$34,009 (2006 - R\$6,790).

<sup>(iv)</sup> Banco Itaúsaga S.A. was acquired on October, 2006, and on January 31, 2007, was merged. The goodwill of R\$725,237 was transferred to Permanent assets - deferred charges (see note 10c) and is being amortized over 64 months.

<sup>(v)</sup> As from November, 2007.

	Balance at 12/31/2006			Changes			Balance at 12/31/2007		
	Cost	Accumulated depreciation	Net	Purchases	Disposals	Depreciation and amortization expense	Cost	Accumulated depreciation	Net
<b>b) Fixed assets</b>									
Properties for own use <sup>(i)</sup>									
Land .....	2,536	-	2,536	-	(1,268)	-	1,268	-	1,268
Buildings .....	8,177	(4,437)	3,740	-	(1,533)	(389)	3,690	(1,872)	1,818
	10,713	(4,437)	6,276	-	(2,801)	(389)	4,958	(1,872)	3,086
Other fixed assets for own use									
Installations .....	10,239	(3,081)	7,158	1,058	(72)	(1,048)	11,129	(4,033)	7,096
Furniture and equipment .....	6,588	(4,383)	2,205	1,063	(22)	(1,191)	7,200	(5,145)	2,055
Communication system .....	7,645	(3,576)	4,069	1,951	(4)	(1,206)	9,222	(4,412)	4,810
Data processing system .....	24,318	(18,441)	5,877	4,515	(40)	(4,209)	26,486	(20,343)	6,143
Security system .....	738	(297)	441	25	(1)	(99)	752	(386)	366
Transport system .....	245	(245)	-	-	-	-	245	(245)	-
	49,773	(30,023)	19,750	8,612	(139)	(7,753)	55,034	(34,564)	20,470
	60,486	(34,460)	26,026	8,612	(2,940)	(8,142)	59,992	(36,436)	23,556
<b>c) Deferred charges</b>									
Goodwill on the purchase of investments	-	-	-	725,237	-	(135,982)	760,905	(171,650)	589,255
Leasehold improvements and others .....	7,245	(2,251)	4,994	110	-	(918)	7,354	(3,168)	4,186
	7,245	(2,251)	4,994	725,347	-	(136,900)	768,259	(174,818)	593,441
Total - (b + c) .....	<u>67,731</u>	<u>(36,711)</u>	<u>31,020</u>	<u>733,959</u>	<u>(2,940)</u>	<u>(145,042)</u>	<u>828,251</u>	<u>(211,254)</u>	<u>616,997</u>

## NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006

(continued)

All amounts in thousands of reais, unless otherwise indicated

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

<sup>(i)</sup> Includes assets given in guarantee of lawsuits initiated by the bank (Note 17I).

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

Itaú BBA is involved in contingencies in the ordinary course of business, as follows:

**a) Contingent Assets:** There are no contingent assets recorded.**b) Contingent Liabilities considered as:****i - Probable loss** - The changes in the provisions for contingent liabilities, can be summarized as follows:

	2 <sup>nd</sup> six-month period of 2007			2007			Year
	Civil	Labor	Total	Civil	Labor	Total	2006
Balance at the beginning of the six-month period/year .....	47,044	7,310	54,354	44,316	6,848	51,164	46,860
Changes in the period reflected in results:							
Restatements/charges .....	2,294	484	2,778	5,022	1,040	6,062	6,232
Increase .....	498	2	500	498	7	505	1,193
Reversals .....	-	(38)	(38)	-	(38)	(38)	(1,899)
	2,792	448	3,240	5,520	1,009	6,529	5,526
Payments .....	-	(42)	(42)	-	(141)	(141)	(1,222)
Closing balance (Note 17b) .....	49,836	7,716	57,552	49,836	7,716	57,552	51,164

**ii - Possible loss** - represented by civil lawsuits amounting to R\$378 (2006 - R\$349) and labor lawsuits amounting to R\$7,747 (2006 - R\$3,787).

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**c) Legal Obligations - Tax and Social Security** - represented by amounts payable relating to tax liabilities, the legality or constitutionality of which is subject to administrative or judicial challenge. They are recognized at the full amount under discussion. The changes can be summarized as follows:

	<b>2<sup>nd</sup> six-month period of 2007</b>	<b>Year 2007</b>	<b>Year 2006</b>
Balance at the beginning of the six-month period/year .....	566,237	504,477	386,849
Changes in the period reflected in results:			
Restatements/charges .....	17,626	33,589	51,931
Increase .....	54,761	103,186	65,698
Reversals .....	-	(2,628)	-
	<u>72,387</u>	<u>134,147</u>	<u>117,629</u>
Payments .....	-	-	(1)
Closing balance (Note 17c) .....	<u>638,624</u>	<u>638,624</u>	<u>504,477</u>

The escrow deposits on litigation (Note 17a) amount to R\$515,893 (2006 - R\$315,481).

The main natures of processes are described as follows:

- Profit earned abroad - IRPJ and CSLL - R\$385,280 - Aimed at rejecting the requirement set forth by in article 25 of Law 9249/95 and paragraph 9, of article 2 of Regulatory Instruction 38/96, that deal with the taxation of profit earned abroad, as being unconstitutional. The corresponding escrow deposit totals R\$148,686.
- PIS and COFINS - Law 9,718/98 - R\$181,712 - Assert in the right of paying contributions to PIS and COFINS based on revenue, without adopting the provisions of Article 3, paragraph 1, of Law 9,718/98, which established the inappropriate extension of the calculation bases of these contributions.
- IRPJ - Article 8 of Law 8,541/92 - R\$39,338 - Illegality of articles 7 and 8 of Law 8,541/92, which had conditioned the deduction of the tributes and contributions on their effective payment (cash basis), considering improper deduction of tributes, including monetary correction, for which payment has been suspended by a judicial measure. The corresponding escrow deposit totals R\$37,760.
- PIS - Constitutional Amendment 17/97 - R\$16,412 - Aimed at rejecting the levy of PIS over the period, from the end of the term enforced by Constitutional Amendment 10/96 and the restart of its enforcement, with the enactment of Constitutional Amendment 17/97, based on principles of minimum advance not of 90 days without retroactivity with respect to tax laws and inexistence of legislation for this interim period. Also, aimed at paying PIS during the mentioned period based on Supplementary Law 7/70.

According to the opinion of the legal advisors, Itaú BBA is not involved in any administrative proceedings or lawsuits that may significantly affect the results of its operations. The combined evaluation of all existing provisions for all contingent liabilities and legal obligations, which are recorded based on the analysis of internal and external legal advisors, showed that the amounts provided for are sufficient, according to CMN Resolution 3,535 of January 31, 2008.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

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

	<b>2<sup>nd</sup> six-month period of 2007</b>	<b>2007</b>	<b>Year 2006</b>
Profit before taxation and profit sharing .....	841,125	1,470,969	1,704,804
Income tax and social contribution calculated at 25% and 9%, respectively (Note 3j) .....	285,983	500,129	579,633
Effects of permanent and temporary additions or (exclusions) in the tax calculation:			
(i) Exchange variation on foreign investments .....	78,490	176,737	52,093
(ii) Equity in the earnings of subsidiaries .....	(1,513)	(1,790)	(10,088)
(iii) Interest on own capital .....	(52,022)	(94,013)	(119,340)
(iv) Dividends, interest and tax incentives .....	(97,663)	(155,956)	(38,563)
(v) Other net exclusions net of other additions .....	(22,966)	(37,551)	(39,266)
Income tax and social contribution on net income .....	<u>190,309</u>	<u>387,556</u>	<u>424,469</u>

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

	<b>December 2006</b>	<b>Realization/ Reversal</b>	<b>Increase</b>	<b>December 2007</b>
Allowance for loan losses .....	92,318	(80,565)	89,896	101,649
Other temporarily non-deductible provisions .....	90,190	(18,083)	47,649	119,756
Social contribution to be offset (Provisional Measure 2158-35) .....	34,937	(29,795)	-	5,142
Adjustments to market value - securities and derivative financial instruments .....	22,436	(22,436)	5,160	5,160
Total tax credits .....	239,881	(150,879)	142,705	231,707
Deferred tax liabilities .....	(60,222)	42,524	(109,390)	(127,088)
Tax credits, net of deferred tax liabilities .....	<u>179,659</u>	<u>(108,355)</u>	<u>33,315</u>	<u>104,619</u>

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

**c) Expectation of realization of the tax credits**

The estimated timing of realization and present value of the deferred income tax and social contribution arising from Provisional Measure 2158-35, existing at December 31, 2007, in accordance with the expected generation of future taxable income based on technical studies, follows:

<b>Expected realization</b>	<b>Tax credits Temporary differences</b>	<b>Social contribution to be offset (PM 2158-35)</b>	<b>Total</b>
2008 .....	93,952	5,142	99,094
2009 .....	30,343	-	30,343
2010 .....	38,820	-	38,820
2011 .....	2,070	-	2,070
2012 .....	876	-	876
2013 to 2017 .....	60,504	-	60,504
Total .....	<u>226,565</u>	<u>5,142</u>	<u>231,707</u>
Present value (*) .....	<u>173,356</u>	<u>4,759</u>	<u>178,115</u>

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

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

Net income is not directly related to taxable income for income tax and social contribution calculation purposes, mainly because of differences between accounting practices and tax legislation, as well as corporate aspects.

Accordingly, the realization of the tax credits arising from temporary differences should not be taken as being indicative of future net income.

There were no unrecorded tax credits.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**13. FOREIGN BRANCHES**

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

	<u>2007</u>	<u>2006</u>
Current assets and long-term receivables .....	5,808,656	10,159,263
Permanent assets .....	79	74
Current and long-term liabilities .....	12,272,619	11,393,831
Deferred income .....	2,812	5,002
Net income for the 2 <sup>nd</sup> six-month period .....	(277,548)	24,900
Net income for the year .....	(317,422)	(65,354)

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

<u>Accounts</u>	<u>2<sup>nd</sup> six-month period of 2007</u>	<u>2007</u>	<u>Year 2006</u>
Credit operations .....	(178,299)	(470,078)	(175,872)
Securities .....	(669,442)	(1,406,093)	(308,278)
Derivative financial instruments .....	36,652	52,352	2,123
Funds obtained in the market .....	360,801	803,657	259,483
Borrowings, credit assignments and onlendings .....	211,715	484,124	59,741
Allowance for loan losses .....	1,356	3,999	2,124
Commissions and fees .....	(271)	(463)	(66)
Personnel expenses .....	(1)	2	3
Other administrative expenses .....	16	53	40
Other operating income .....	6,621	12,633	7,487
	<u>(230,852)</u>	<u>(519,814)</u>	<u>(153,215)</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**14. LONG-TERM LIABILITIES**

These liabilities are principally represented by: (a) interbank deposits, time deposits and securities sold under repurchase agreements with remuneration predominantly in floating interest rates; (b) local onlendings from Brazilian government institutions (mainly, BNDES and FINAME); and (c) issue of securities abroad and foreign borrowings, at rates ranging from 1.35% to 11.31% per annum plus income tax withholding, when applicable.

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

	<b>2007</b>						
	<b>Interbank deposits</b>	<b>Time deposits</b>	<b>Securities sold under repurchase agreements</b>	<b>Debentures</b>	<b>Interbank onlendings</b>	<b>Local onlendings from official institutions</b>	<b>Issue of securities abroad and foreign borrowings</b>
Due up to							
12/31/2009 .....	6,524,475	472,414	4,537,051	104,902	209	617,422	1,187,789
12/31/2010 .....	3,507,183	356,655	172,939	-	36,212	521,160	70,413
12/31/2011 .....	1,816,184	185,849	-	-	-	419,723	80,380
12/31/2012 .....	367,853	127,927	6,239	-	-	306,032	492,877
12/31/2013 to 12/31/2014 .....	764,423	88,565	-	-	-	345,496	46,254
After 12/31/2014 .....	12,792,026	-	-	-	-	237,733	434
	<u>25,772,144</u>	<u>1,231,410</u>	<u>4,716,229</u>	<u>104,902</u>	<u>36,421</u>	<u>2,447,566</u>	<u>1,878,147</u>

  

	<b>2006</b>						
	<b>Interbank deposits</b>	<b>Time deposits</b>	<b>Securities sold under repurchase agreements</b>	<b>Debentures</b>	<b>Interbank onlendings</b>	<b>Local onlendings from official institutions</b>	<b>Issue of securities abroad and foreign borrowings</b>
Due up to							
12/31/2008 .....	2,485,308	1,321,325	3,314,919	-	-	653,877	681,997
12/31/2009 .....	2,218,686	303,112	162,036	-	-	422,301	490,879
12/31/2010 .....	1,433,798	389,493	-	-	-	328,242	69,304
12/31/2011 .....	268,620	224,324	-	-	-	224,983	81,383
12/31/2012 .....	70,365	154,411	5,583	-	-	153,289	-
12/31/2013 to 12/31/2014 .....	-	106,900	-	-	-	143,957	14,966
After 12/31/2014 .....	6,735,173	-	-	-	-	69,770	-
	<u>13,211,950</u>	<u>2,499,565</u>	<u>3,482,538</u>	<u>-</u>	<u>-</u>	<u>1,996,419</u>	<u>1,338,529</u>

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

The capital of Itaú BBA comprises 10,569,052 (2006 - 10,569,052) nominative shares with no par value, equally distributed among common and preferred shares and held by local residents.

On April 30, 2007 the capital of Itaú BBA was increased by R\$1,345,879 through capitalization of retained earnings and reserves, without issue of any new shares. This capital increase was approved by BACEN on July 31, 2007.

**b) Dividends and interest on own capital**

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

**16. GUARANTEES TO THIRD PARTIES**

Guarantees to third parties amount to R\$7,946,313 (2006 - R\$5,351,097), represented by guarantees, sureties and other co-obligations.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

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All amounts in thousands of reais, unless otherwise indicated

**17. OTHER INFORMATION**

	<b>2007</b>	<b>2006</b>
<b>a) Other receivables - sundry:</b>		
Deferred income tax and contributions (Note 12b) .....	231,707	239,881
Escrow deposits on litigation (Note 11c) <sup>(1)</sup> .....	515,893	315,481
Taxes and contributions for offset .....	1,185	794
Amounts receivable from related companies .....	6,930	6,744
Others .....	31,131	8,711
	<u>786,846</u>	<u>571,611</u>
 <i><sup>(1)</sup> Substantially linked to tax litigation.</i>		
<b>b) Other liabilities - sundry:</b>		
Debt assumptions .....	-	4,630
Accrued liabilities .....	23,520	30,392
Provision for contingent liabilities (Note 11b) .....	57,552	51,164
Accounts payable - local onlendings - Finame .....	24,082	6,288
Agribusiness letters of credit .....	113,041	-
Others .....	54,589	7,253
	<u>272,784</u>	<u>99,727</u>
<b>c) Taxes and social security contributions payable:</b>		
Taxes and contributions on profits .....	56,617	260,971
Taxes and contributions payable .....	69,948	77,004
Provision for deferred taxes and contributions (Note 12b) .....	127,088	60,222
Legal liabilities - taxes and social security contributions (Note 11c) .....	638,624	504,477
	<u>892,277</u>	<u>902,674</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

	<b>2<sup>nd</sup> six-month period of 2007</b>	<b>2007</b>	<b>Year 2006</b>
<b>d) Banking service fees:</b>			
Income from economic and financial advisory .....	102,443	131,739	87,790
Income from brokerage .....	74,563	115,303	87,252
Loan operations and guarantees provided .....	37,804	67,647	58,373
Collection fees .....	20,053	36,806	20,907
Foreign exchange services .....	1,981	13,575	1,719
Other services .....	9,563	14,292	7,093
	<u>246,407</u>	<u>379,362</u>	<u>263,134</u>
<b>e) Personnel expenses:</b>			
Compensation .....	(81,551)	(150,861)	(122,867)
Welfare charges .....	(25,163)	(46,474)	(38,527)
Welfare benefits .....	(9,965)	(19,727)	(17,296)
	<u>(116,679)</u>	<u>(217,062)</u>	<u>(178,690)</u>
<b>f) Other administrative expenses:</b>			
Depreciation and amortization (Notes 10b and 10c) .....	(71,871)	(145,042)	(7,787)
Financial system services .....	(43,959)	(74,828)	(48,782)
Data processing and telecommunications .....	(15,922)	(33,275)	(30,962)
Third-party services .....	(15,335)	(27,587)	(23,398)
Facilities .....	(13,179)	(24,596)	(21,753)
Advertising, promotions and publications .....	(2,215)	(4,344)	(2,577)
Other .....	(16,163)	(26,399)	(28,207)
	<u>(178,644)</u>	<u>(336,071)</u>	<u>(163,466)</u>
<b>g) Composition of tax expenses:</b>			
COFINS .....	(62,638)	(111,263)	(90,267)
PIS .....	(10,212)	(18,137)	(14,690)
ISS .....	(12,884)	(18,877)	(13,894)
CPMF .....	(2,607)	(10,072)	(10,300)
Other .....	(2,940)	(4,581)	(2,000)
	<u>(91,281)</u>	<u>(162,930)</u>	<u>(131,151)</u>
<b>h) Other operating income:</b>			
Exchange gains - foreign branches .....	6,621	12,633	7,487
Reversal of provision for volatility .....	-	-	77,374
Income tax recoverable of the foreign branches .....	(13,314)	25,640	73,611
Charges and expenses recovered .....	1,217	2,302	2,664
Income on transactions of foreign branches .....	12,987	17,610	8,672
Other .....	881	3,344	2,205
	<u>8,392</u>	<u>61,529</u>	<u>172,013</u>
<b>i) Other operating expenses:</b>			
Goodwill amortization .....	(1,059)	(1,524)	(35,846)
Commission and financial intermediation expenses .....	(4,497)	(7,373)	(13,105)
Provision for contingent - Civil (Note 11b) .....	(2,792)	(5,520)	(5,471)
Expenses on export and import transactions and others related to foreign trade .....	(4,979)	(7,666)	(10,392)
Exchange losses - futures .....	-	-	(9,517)
Other .....	(1,058)	(1,411)	(4,005)
	<u>(14,385)</u>	<u>(23,494)</u>	<u>(78,336)</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

- j)** Non-operating income and expenses, net, refers basically to disposal of investments in BOVESPA R\$181,201 and BM&F R\$33,155.
- k)** The assets given as guarantee totaled R\$3,647,742 (2006 - R\$1,737,861), and were represented by: (i) Securities R\$3,269,570 (2006 - R\$1,477,787); (ii) Investments in the open market R\$16,214 (2006 - nil); (iii) Margin deposits R\$327,159 (2006 - R\$149,136); and (iv) other assets R\$34,799 (2006 - R\$110,938). Of these amounts, R\$1,844,562 (2006 - R\$1,360,088) were given as guarantee of operations in the BM&F and BOVESPA.
- l)** With respect to administrative proceedings filed by Bank (in accordance with article 32 of Law 10,522/02), the Bank has enrolled permanent assets totaling R\$34,799 (2006 - R\$110,938), represented by properties for own use of R\$11 (2006 - R\$6,168) and investments (shares) of the following subsidiaries: (i) Itaú BBA Trading S.A. R\$34,788 (2006 - R\$36,698); (ii) Puerto Cia Securitizadora de Créditos Financeiros (2006 - R\$2,098); and (iii) Banco Itaúsaga S.A. (2006 - R\$65,974). As a result of the unconstitutionality lawsuit 1976, the Federal Supreme Court declared unconstitutional the requirement of enrolling assets for considering voluntary appeals on April 10, 2007. Itaú BBA is requesting the cancellation of the enrollment of assets to the Federal Revenue Service.
- m)** In accordance with CMN Resolution 3198/04, Banco Itaú BBA S.A. adopted the single Audit Committee formed by the Itaú Financial Group, through the leading institution Banco Itaú Holding Financeira S.A. A summary of the Committee's report will be disclosed together with the financial statements of the leading institution on February 12, 2008.
- n)** Banco Itaú BBA S.A., through the leading institution Banco Itaú Holding Financeira S.A., adopted the structure for operational risk management in accordance with CMN Resolution 3380/06. The description of the structure for operational risk management is available on the website (<http://www.itaui.com.br>), under: corporate governance/ rules and policies/ policy on operational risk management.
- o) Subsequent event**
- i)** On December 28, 2007, Law 11,638 was approved in order to amend and revoke some provisions of Law 6,404, of December 15, 1976, and Law 6,385, of December 7, 1976 in connection with accounting practices, preparation and disclosure of financial statements. Article 9 of this Law sets forth that it will come into effect on the first day of the year subsequent to its publication. Accordingly, the amendments set forth in this law shall give rise to effects on the financial statements for the years ending January 1, 2008, and some of these amendments are awaiting regulation by BACEN and CVM, and should be in conformity with international accounting standards. Accordingly, ITAÚ BBA understands that it is not currently possible to determine the impacts of the adoption of this law. Among the major amendments set forth by this law, Itaú BBA already adopts the criteria for classification and valuation of financial instruments at market value (Notes 3b, 3c, 5 and 6). We highlight below the major amendments awaiting regulation:
- Substitution of the Statement of Changes in Financial Position with the Statement of Cash Flows;
  - Creation of the subgroup "Intangible assets" in Permanent Assets, which includes intangible assets intended for maintenance of the company or which are exercised for such purpose, including acquired goodwill. Fixed assets will now include assets arising from arrangements that transfer to the company any benefits, risks and controls of these assets, and deferred charges will now include preoperating expenses and restructuring expenses;
  - Creation of the subgroup "Asset valuation adjustments" in Stockholders' equity, which will include from adjusting asset and liability accounts to market value;
  - Adjustment to present value of long-term asset and liability financial instruments, with short-term instruments being adjusted when any significant effect arises;
  - Periodic analysis of the recovery of fixed assets, intangible assets and deferred charges;
  - In mergers and split-offs, carried out between independent parties and involving to the effective transfer of control, the assets and liabilities of the company to be taken over or arising from the merger or split-off will be recorded at their market value;
  - Change in treatment of tax incentives that will now pass through results, with an optional allocation to Revenue Reserve - Reserve for tax incentives and exclusion from the mandatory dividend calculation basis.
- ii)** Social Contribution on Net Income (CSLL) - Provisional Measure 413, of January 3, 2008, increased the CSLL rate from 9% to 15% for financial and financial-equivalent companies, as from May 1, 2008, which will generate an increase in CSLL expenses arising from that date, as well as an increase in deferred tax assets in proportion to the rate increase.

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2007 AND 2006**

(continued)

All amounts in thousands of reais, unless otherwise indicated

**18. RELATED PARTY TRANSACTIONS**

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

	Assets/(liabilities)		2 <sup>nd</sup> six-month period of 2007	Income/(expenses)	
	2007	2006		2007	Year 2006
Investments in the open market .....	13,395,765	8,466,745	634,547	1,154,742	624,275
Interbank deposits .....	30,844,698	7,546,016	1,669,402	2,687,751	705,590
Securities and derivative financial instruments .....	1,795,913	1,195,141	2,339,394	3,590,414	3,239,456
Interbank accounts .....	34,652	24,868	-	-	-
Other receivables:					
Foreign exchange portfolio .....	4,347,682	418,227	826,225	962,277	21,592
Income receivable .....	9	193	15,904	24,827	3,841
Negotiation and intermediation of securities .....	1,927	10,081	-	-	-
Amounts receivable from subsidiaries .....	6,930	6,744	-	-	-
Sundry receivables .....	253	408	-	80	55
Deposits .....	(51,697,177)	(24,280,597)	(2,488,237)	(4,348,808)	(2,150,963)
Securities sold under repurchase agreements .....	(82,336)	(984,509)	(32,594)	(66,129)	(28,100)
Issue of securities abroad .....	(3,789)	(1,741)	42	-	(319)
Interdepartmental accounts .....	(13,486)	(5,721)	-	-	-
Derivative financial instruments .....	(970,781)	(778,306)	(1,808,717)	(2,854,409)	(3,138,765)
Other liabilities:					
Foreign exchange portfolio .....	(4,324,981)	(485,243)	(682,578)	(839,305)	(24,278)
Social and statutory .....	(130,056)	(139,950)	-	-	-
Subordinated debt .....	-	(64,341)	237	(2,711)	(6,655)
Sundry liabilities .....	(239)	(1,765)	(33,412)	(50,787)	(45,288)

**THE BOARD OF DIRECTORS**

Mario Luiz Amabile  
Contador CRC 1SP129089/O-1

## **REPORT OF INDEPENDENT AUDITORS**

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

1. We have audited the accompanying balance sheets of Banco Itaú BBA S.A. as of December 31, 2007 and 2006, and the related statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended and for the six-month period ended December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Bank, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
3. In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Banco Itaú BBA S.A. at December 31, 2007 and 2006, and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the years then ended and for the six-month period ended December 31, 2007, in accordance with accounting practices adopted in Brazil.

São Paulo, February 11, 2008

**PRICEWATERHOUSECOOPERS** 

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/0-5

Carlos Augusto da Silva  
Contador CRC 1SP197007/0-2

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