

# **Banco Safra S.A. and its Subsidiaries**


**Condensed Consolidated Financial  
Statements for the Years Ended  
December 31, 2006 and 2005  
and Report of Independent Accountants**


## Report of Independent Accountants

To the Board of Directors and Stockholders  
Banco Safra S.A.

- 1 We have audited the accompanying condensed consolidated balance sheets of Banco Safra S.A. and subsidiaries as of December 31, 2006 and 2005, and the related condensed consolidated statements of income, changes in stockholders' equity and of changes in financial position for the years then ended, expressed in Brazilian reais. 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 audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the companies; (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the condensed financial statements; and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall condensed financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the condensed consolidated financial position of Banco Safra S.A. and subsidiaries at December 31, 2006 and 2005, and the condensed consolidated results of operations and the condensed consolidated changes in financial position of Banco Safra S.A. and subsidiaries for the years then ended, in conformity with accounting practices adopted in Brazil, taking into consideration the condensed presentation of the accompanying financial statements as mentioned in Note 1.
- 4 We have audited the statutory consolidated financial statements of Banco Safra S.A. and subsidiaries as of December 31, 2006 and 2005 (not presented herein) upon which we expressed an unqualified opinion dated February 12, 2007.

São Paulo, February 12, 2007

  
PricewaterhouseCoopers  
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## Banco Safra S.A. and its Subsidiaries

### Condensed Consolidated Balance Sheet

For the Years Ended December 31

Amounts expressed in thousands of reais

| <b>Assets</b>   | <b>2006</b>       | <b>2005</b>       |
|---|-------------------|-------------------|
| Cash and due from banks (Note 2)  | 1,795,593         | 2,926,183         |
| Interest-bearing deposits in banks  | 1,175,828         | 3,215,330         |
| Federal and private securities purchased<br>under resale agreements         | 1,012,412         | 5,333,846         |
| Securities (Notes 2 and 3)  | 26,054,786        | 9,074,845         |
| Derivative financial instruments (Notes 3 and 14)                           | 664,032           | 218,466           |
| Loans and lease finance receivables (Note 4)                                | 23,026,844        | 19,476,439        |
| Less: allowance for credit losses (Note 5)                                  | (849,645)         | (834,378)         |
| Net loans and lease finance receivables (Note 4)                            | 22,177,199        | 18,642,061        |
| Property and equipment and deferred charges, net                            | 290,532           | 303,549           |
| Other assets (Note 9)   | 2,710,680         | 2,625,173         |
| <b>Total assets</b>   | <b>55,881,062</b> | <b>42,339,453</b> |
| <b>Liabilities</b>  |                   |                   |
| Deposits:   |                   |                   |
| Non interest-bearing deposits   | 2,055,652         | 1,192,100         |
| Interest-bearing deposits   | 9,287,000         | 9,092,785         |
| Total deposits (Note 6)   | 11,342,652        | 10,284,885        |
| Federal and private securities<br>sold under repurchase agreements (Note 7) | 26,363,038        | 11,140,563        |
| Other borrowed funds (Note 8)   | 4,599,740         | 7,550,501         |
| Derivative financial instruments (Note 14)                                  | 4,754,734         | 4,856,071         |
| Other liabilities (Note 9)  | 5,018,216         | 4,842,250         |
| <b>Total liabilities</b>  | <b>52,078,380</b> | <b>38,674,270</b> |
| Minority interest   | 3                 | 18                |
| <b>Stockholders' equity (Note 10)</b>                                       |                   |                   |
| Capital stock   | 1,411,900         | 1,411,900         |
| Capital reserves  | 68,393            | 61,220            |
| Unrealized gain on securities available for sale                            | 17,307            | 3,418             |
| Retained earnings   | 2,305,079         | 2,188,627         |
| <b>Total stockholders' equity</b>   | <b>3,802,679</b>  | <b>3,665,165</b>  |
| <b>Total liabilities and stockholders' equity</b>                           | <b>55,881,062</b> | <b>42,339,453</b> |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## Banco Safra S.A. and its Subsidiaries

### Condensed Consolidated Statements of Income

For the Years Ended December 31

Amounts expressed in thousands of reais

|   | <u>2006</u>        | <u>2005</u>        |
|---|--------------------|--------------------|
| <b>Interest income</b>  |                    |                    |
| Loans   | 3,714,563          | 3,437,537          |
| Investment securities and deposits in banks                                       | <u>2,382,844</u>   | <u>1,949,396</u>   |
|   | <u>6,097,407</u>   | <u>5,386,933</u>   |
| <b>Interest expense</b>   |                    |                    |
| Derivative financial instruments  | (595,101)          | (750,203)          |
| Deposits, funds purchased and securities sold under repurchase agreements         | (3,124,086)        | (2,308,920)        |
| Other borrowed funds  | <u>(291,491)</u>   | <u>(315,845)</u>   |
|   | <u>(4,010,678)</u> | <u>(3,374,968)</u> |
| <b>Net interest income</b>  | 2,086,729          | 2,011,965          |
| <b>Allowance for loan losses and recoveries of loan losses</b>                    | <u>(97,363)</u>    | <u>(238,199)</u>   |
| Net interest income after provision for loan losses and recoveries of loan losses | 1,989,366          | 1,773,766          |
| <b>Other operating income (Note 12)</b>   | 931,356            | 812,768            |
| <b>Administrative expenses (Note 11)</b>  | (1,209,957)        | (1,153,555)        |
| <b>Other operating expenses (Note 12)</b>   | <u>(586,173)</u>   | <u>(456,987)</u>   |
| <b>Total operating income</b>   | 1,124,592          | 975,992            |
| <b>Non operating income</b>   | 32,595             | 4,131              |
| <b>Income before income taxes and minority interest</b>                           | 1,157,187          | 980,123            |
| <b>Income tax and social contribution</b>   | <u>(374,684)</u>   | <u>(346,222)</u>   |
| Income before minority interest   | 782,503            | 633,901            |
| <b>Minority interest</b>  | <u>(1)</u>         | <u>(1)</u>         |
| <b>Net income for the year</b>  | <u>782,502</u>     | <u>633,900</u>     |
| <b>Earning per share - in reais</b>   | <u>0.84</u>        | <u>0.68</u>        |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## Banco Safra S.A. and its Subsidiaries

### Condensed Consolidated Statement of changes in Stockholders' Equity

For the Years Ended December 31

Amounts expressed in thousands of reais

|   | <u>2006</u>      | <u>2005</u>      |
|---|------------------|------------------|
| <b>Capital stock</b>  |                  |                  |
| Balance, beginning of year  | 1,411,900        | 1,411,900        |
| Capital stock increase  | -                | -                |
| <b>Balance, end of year</b>                                       | <u>1,411,900</u> | <u>1,411,900</u> |
| <b>Capital stock reserve</b>                                      |                  |                  |
| Balance, beginning of year  | 61,220           | 46,294           |
| Capital stock reserve increase                                    | 7,173            | 14,926           |
| <b>Balance, end of year</b>                                       | <u>68,393</u>    | <u>61,220</u>    |
| <b>Unrealized gains (losses) on securities available for sale</b> |                  |                  |
| Balance, beginning of year  | 3,418            | (16,179)         |
| Unrealized gains  | 13,889           | 19,597           |
| <b>Balance, end of year</b>                                       | <u>17,307</u>    | <u>3,418</u>     |
| <b>Retained earnings</b>  |                  |                  |
| Balance, beginning of year  | 2,188,627        | 1,938,710        |
| Net income for the year   | 782,502          | 633,900          |
| Prior year adjustments (Note 1 g)                                 | -                | (53,783)         |
| Dividends/Interest on stockholders' equity (Note 10)              | (666,050)        | (330,200)        |
| <b>Balance, end of year</b>                                       | <u>2,305,079</u> | <u>2,188,627</u> |
| <b>Total stockholders' equity</b>                                 |                  |                  |
| Balance, beginning of year  | 3,665,165        | 3,380,725        |
| Capital stock reserve increase                                    | 7,173            | 14,926           |
| Unrealized gains on securities available for sale                 | 13,889           | 19,597           |
| Prior year adjustments (Note 1 g)                                 | -                | (53,783)         |
| Net income for the year   | 782,502          | 633,900          |
| Dividends / Interest on stockholders' equity (Note 10)            | (666,050)        | (330,200)        |
| <b>Balance, end of year</b>                                       | <u>3,802,679</u> | <u>3,665,165</u> |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## Banco Safra S.A. and its Subsidiaries

### Condensed Consolidated Statement of Changes in Financial Position

For the Years Ended December 31

Amounts expressed in thousands of reais

|  | <u>2006</u>       | <u>2005</u>      |
|--|-------------------|------------------|
| Financial resources were   |                   |                  |
| Provided by (used in)  |                   |                  |
| Operations   |                   |                  |
| Net income   | 782,502           | 633,900          |
| Non cash charges credit  |                   |                  |
| Equity   | (4,910)           | (7,499)          |
| Provision for losses in other assets   | (41)              | 92               |
| Depreciation and amortization  | 34,705            | 39,342           |
| Allowance for loan losses (excluding recoveries)                             | 123,185           | 251,213          |
| Financial resources provided by operations                                   | <u>935,441</u>    | <u>917,048</u>   |
| Minority interest  | (15)              | (11)             |
| Capital stock reserve increase   | 7,173             | 14,926           |
| Dividends/Interest on stockholders' equity                                   | (666,050)         | (330,200)        |
| Prior year adjustments   | -                 | (53,783)         |
| Unrealized gains on securities available for sale                            | 13,889            | 19,597           |
| Net financial resources provided by operations                               | <u>290,438</u>    | <u>567,577</u>   |
| <br>   |                   |                  |
| Deposits and other financing activities                                      |                   |                  |
| Non interest-bearing deposits  | 863,552           | 11,859           |
| Interest-bearing deposits  | 194,215           | 794,068          |
| Federal and private securities sold under<br>repurchase agreements           | 15,222,475        | 1,607,232        |
| Other borrowed funds   | (2,950,761)       | 1,112,772        |
| Derivatives financial instruments  | (101,337)         | (838,175)        |
| Total financial resources used in<br>deposits and other financing activities | <u>13,228,144</u> | <u>2,687,756</u> |
| <br>   |                   |                  |
| Other activities   |                   |                  |
| Cash and due from banks  | 1,130,590         | 1,885,748        |
| Other liabilities  | 175,966           | (8,649)          |
| Other assets   | (85,507)          | 496,992          |
| Other, net   | (16,737)          | 3,509            |
| Total financial resources applied to other activities                        | <u>1,204,312</u>  | <u>2,377,600</u> |
| <br>   |                   |                  |
| Increase in financial<br>resources invested in income earning assets         | <u>14,722,894</u> | <u>5,632,933</u> |

## **Banco Safra S.A. and its Subsidiaries**

### **Condensed Consolidated Statement of Changes in Financial Position For the Years Ended December 31**

**Amounts expressed in thousands of reais (continued)**

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|   | <u>2006</u>       | <u>2005</u>      |
|---|-------------------|------------------|
| Increase in income earning assets                                   |                   |                  |
| Interest-bearing deposits in banks                                  | (2,039,502)       | 2,293,684        |
| Federal and private securities purchased under<br>resale agreements | (4,321,434)       | 2,667,979        |
| Securities and derivatives financial instruments                    | 17,425,507        | (1,597,975)      |
| Loans and lease finance receivables                                 | <u>3,658,323</u>  | <u>2,269,245</u> |
|   | <u>14,722,894</u> | <u>5,632,933</u> |

The accompanying notes are an integral part of the condensed consolidated financial statements.

# **Banco Safra S.A. and its Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005  
Amounts expressed in thousands of reais**

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## **1. Presentation of Financial Statements and Summary of Significant Accounting Practices**

The principal accounting practices adopted for recording operations and preparing the condensed consolidated financial statements of Banco Safra S.A. and its subsidiaries (the “Bank”) comply with the accounting practices adopted in Brazil and the instructions of the Brazilian Central Bank (BACEN).

These policies vary in certain significant respects from generally accepted accounting principles in the United States and other countries including format and presentation of financial statements, foreign currency translation, methods of accounting and levels of disclosures for loans, marketable securities and other banking and financial activities also including, but not limited to, related party transactions, derivative financial instruments, off-balance sheet financing and concentrations of risk.

The accompanying condensed consolidated financial statements do not purport to be prepared or to account for the effects of such differences. However, certain reclassifications have been made and notes have been deleted from and added to the statutory consolidated financial statements originally reported in Brazil in accordance with accounting practices adopted in Brazil and BACEN regulations, in order to facilitate the understanding by foreign users. Furthermore, these condensed consolidated financial statements do not segregate the balances of assets and liabilities between current and long term, which is also required by Brazilian Corporate Law. According to the original statutory consolidated financial statements, the current assets and liabilities balances at December 31, 2006 are R\$ 48,576,740 (2005 – R\$ 36,713,678) and R\$ 38,561,798 (2005 – R\$ 23,539,074), respectively.



## Banco Safra S.A. and its Subsidiaries

Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005  
Amounts expressed in thousands of reais

### (a) Basis of presentation

The condensed consolidated financial statements include the accounts of the Bank and its subsidiaries, which are listed below. All material intercompany transactions have been eliminated.

| Subsidiary  | Activity          | Ownership - % |       |
|---|-------------------|---------------|-------|
|   |                   | 2006          | 2005  |
| Banco Safra (Cayman Islands) Ltd.                                 | Banking           | 100.0         | 100.0 |
| Banco Safra de Investimento S.A.                                  | Banking           | 99.9          | 99.9  |
| Safra Leasing S.A. – Arrendamento Mercantil                       | Leasing           | 99.9          | 99.9  |
| Safra Cia. Securitizadora de Créditos Imobiliários <sup>(i)</sup> | Securitization    | 99.9          | -     |
| Safra Distribuidora de Títulos e Valores Mobiliários Ltda.        | Securities dealer | 99.9          | 99.9  |
| Safra Corretora de Valores e Câmbio Ltda.                         | Brokerage         | 99.9          | 99.9  |
| Safra Vida e Previdência S.A. <sup>(ii)</sup>                     | Insurance         | 99.9          | 99.9  |
| Safra Seguros Gerais S.A.   | Insurance         | 99.9          | 99.9  |
| Sercom Comércio e Serviços Ltda. <sup>(iii)</sup>                 | Services          | 99.9          | 99.9  |
| Elong Administração e Representações Ltda.                        | Services          | 99.9          | 99.9  |
| Aratu Segurança e Vigilância S/C Ltda.                            | Security          | 99.9          | 99.9  |
| Taquari Representações e Participações Ltda                       | Services          | 99.9          | 99.9  |
| Berillo Táxi Aéreo Ltda. <sup>(iv)</sup>                          | Services          | 99.9          | 99.9  |
| Filobel Indústrias Têxteis do Brasil S.A. <sup>(v)</sup>          | Industry          | -             | 73.9  |
| Stone Fountain Investments Inc.                                   | Services          | 99.9          | 99.9  |
| Kiama S.A.  | Services          | 99.9          | 99.9  |

(i) Created on June 2006

(ii) On December 2005, Superintendence of Private Insurance - SUSEP approved the change of social denomination of Safra Seguros S.A.

(iii) On August 2006, Safra Comércio e Serviços Ltda. had its social denomination changed to Sercom Comércio e Serviços Ltda.

(iv) Company acquired on January 2005.

(v) Company acquired on July 2005 and merged by the Bank on December 2006.

## **Banco Safra S.A. and its Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005  
Amounts expressed in thousands of reais**

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### **(b) Foreign currency transactions**

All foreign currency denominated assets and liabilities are translated into reais at period-end exchange rates. Foreign exchange trading positions, including spot and forward exchange contracts, are valued monthly at estimated current market rates and the result is included in other income and other expenses.

### **(c) Securities**

Pursuant to BACEN Circular 3068/01 and supplementary regulations, securities are classified according to management's intended use thereof, in one of the following three categories: trading securities, available for sale or securities held to maturity.

- (i) Securities classified in the trading category are recorded at market value and the realized and unrealized gains and losses are recognized in the statement of income.
- (ii) Securities classified as available-for-sale are recorded at market value and related income is recognized in the statement of income, except that gains and losses arising from the variation in market value, not yet realized, are recognized in a specific account in stockholders' equity, net of the corresponding tax effects.
- (iii) Securities held to maturity are recorded at purchase cost plus accrued income.

### **(d) Loans and lease finance receivables**

Loans are reported at the principal amount outstanding, net of unearned income and the allowance for credit losses. Unearned discount is recognized as income over the terms of each loan. Interest is accrued on the daily balance of the principal amount standing. Direct finance leases, which include residual values of leased equipment, are carried net of unearned income. Income from these leases is recognized using the effective interest rate method.

### **(e) Allowance for loan and leasing losses**

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans and leases are charged against the allowance for credit losses according to an established delinquency schedule or when management believes that the collectibility of the principal is unlikely.

The allowance was provided at an amount that management believes will be adequate to absorb losses inherent in existing loans and leases, based on evaluations of the individual and collectibility, collateral of these transactions, prior loss experience, the current economic scenario and requirements of the National Monetary Council, which determines the use of

## **Banco Safra S.A. and its Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005  
Amounts expressed in thousands of reais**

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percentages that vary from 0.5% to 100% on each credit transaction, classified in accordance with progressive risk levels.

### **(f) Property and equipment and deferred charges**

Property and equipment and deferred charges are stated at cost plus monetary correction, which was recorded through December 31, 1995, less accumulated depreciation/amortization which is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight-line method over the terms of the related leases.

### **(g) Contingencies**

Provisions for contingencies, of any nature, are assessed by management on a periodical basis and are recorded as liabilities and are periodically reassessed by management, based on the status of each matter and the opinion of the Bank's legal advisors, and are considered by management sufficient to cover any probable losses.

During the second six-month period of 2005, management reconsidered its conclusion related to the procedures previously adopted for the calculation and recording of certain tax liabilities, and recorded the updated tax effects in tax expenses and retained earnings, based on the period of accrual.

### **(h) Derivative financial instruments**

In accordance with BACEN Circular 3082/02 and amendments, derivative financial instruments are classified, at the date of acquisition, at management discretion for purposes of hedging or not.

Financial instrument-based transactions, carried out at client's requests, for one's own account, or which do not comply with hedging criteria (mainly derivatives used to manage the exposure to Global risks), are stated at market value, including realized and unrealized gains and losses, which are recorded directly in the statement of income.

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

- i) Hedge against market risk – Assets and liabilities, as well as their related financial instruments, are accounted for at their market value plus realized and unrealized gains and losses, which are recorded directly in the statement of income.

## **Banco Safra S.A. and its Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005  
Amounts expressed in thousands of reais**

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- ii) Hedge against cash flows – The actual hedged amount of assets and liabilities, as well as their related financial instruments, are accounted for at their market value plus realized and unrealized gains and losses, less tax effects, when applicable, which are recorded in specific account in stockholders' equity. The non-hedged amount is recorded directly in the statement of income.

### **(i) Pricing methodology**

The method applied to determine the market values (probable realizable values) of securities and financial derivative instruments takes into account the economic scenario and uses pricing models developed by the Bank's management, which includes obtaining average prices practiced in the market, data released by various associations in the sector, the stock exchange and the futures and commodities exchange, at the balance sheet date. Accordingly, the results of these transactions may vary on their liquidation.

### **2. Cash and due from banks and restricted cash**

Aggregate reserves, in the form of deposits with the Central Bank and other institutions, of R\$ 3,075,142 (2005 – R\$ 1,448,167) were maintained to satisfy regulatory requirements and guarantees at December 31, 2006, which are restricted as to use by the Bank. They relate to deposits in cash amounting to R\$ 1,785,131 (2005 – R\$ 1,402,976) recorded in cash and due from banks and are subject to interest, and deposits in securities amounting to R\$ 1,290,011 (2005 – R\$ 45,191) recorded in securities at December 31, 2006.

### **3. Securities and derivative financial instruments**

At December 31, 2006 and 2005, the securities and derivative financial instruments portfolio are as follows:

## Banco Safra S.A. and its Subsidiaries

### Notes to the Condensed Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 Amounts expressed in thousands of reais

|   | 2006            |                          |                |                 |               |            | Market value adjustment |
|---|-----------------|--------------------------|----------------|-----------------|---------------|------------|-------------------------|
|   | Carrying amount | Market value by maturity |                |                 |               | Total      |                         |
|   |                 | Less than 90 days        | 91 to 180 days | 181 to 360 days | Over 360 days |            |                         |
| Trading Securities (*)                    |                 |                          |                |                 |               |            |                         |
| Private sector                            | 662,051         | 661,865                  | -              | -               | -             | 661,865    | (186)                   |
| Brazilian Treasury Bonds                  | 21,255,683      | 21,263,671               | -              | -               | -             | 21,263,671 | 7,988                   |
|   | 21,917,734      | 21,925,536               | -              | -               | -             | 21,925,536 | 7,802                   |
| Available-for-sale                        |                 |                          |                |                 |               |            |                         |
| Private sector                            | 1,155,087       | 1,093,208                | 428            | 20,418          | 40,555        | 1,154,609  | (478)                   |
| Brazilian Treasury Bonds                  | 1,364,184       | 26,655                   | 51,334         | 37,130          | 1,275,863     | 1,390,982  | 26,798                  |
|   | 2,519,271       | 1,119,863                | 51,762         | 57,548          | 1,316,418     | 2,545,591  | 26,320                  |
| Held to maturity (**)                     |                 |                          |                |                 |               |            |                         |
| Treasury Bonds - Other Countries          | 1,583,659       | -                        | -              | 1,583,659       | -             | 1,583,659  | -                       |
|   | 1,583,659       | -                        | -              | 1,583,659       | -             | 1,583,659  | -                       |
| Derivative Financial Instruments (Assets) |                 |                          |                |                 |               |            |                         |
| Forward contracts                         | 643,725         | 643,725                  | -              | -               | -             | 643,725    | -                       |
| Swap - receivable                         | 12,871          | 5,243                    | 3,134          | 3,851           | 5,766         | 17,994     | 5,123                   |
| Non Deliverable Forward                   | 2,218           | 1,548                    | -              | 650             | 20            | 2,218      | -                       |
| Option contracts premium                  | 89              | 95                       | -              | -               | -             | 95         | 6                       |
|   | 658,903         | 650,611                  | 3,134          | 4,501           | 5,786         | 664,032    | 5,129                   |
|   | 26,679,567      | 23,696,010               | 54,896         | 1,645,708       | 1,322,204     | 26,718,818 | 39,251                  |

## Banco Safra S.A. and its Subsidiaries

### Notes to the Condensed Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 Amounts expressed in thousands of reais

| 2005                                      |                    |                      |                |                    |                |                |                            |
|---|--------------------|----------------------|----------------|--------------------|----------------|----------------|----------------------------|
| Market value by maturity                  |                    |                      |                |                    |                |                |                            |
|   | Carrying<br>amount | Less than 90<br>days | 91 to 180 days | 181 to 360<br>days | Over 360 days  | Total          | Market value<br>adjustment |
| Trading Securities (*)                    |                    |                      |                |                    |                |                |                            |
| Private sector                            | 14,983             | 14,983               | -              | -                  | -              | 14,983         | -                          |
| Brazilian Treasury Bonds                  | 8,107,557          | 8,111,735            | -              | -                  | -              | 8,111,735      | 4,178                      |
|   | 8,122,540          | 8,126,718            | -              | -                  | -              | 8,126,718      | 4,178                      |
| Available-for-sale                        |                    |                      |                |                    |                |                |                            |
| Central Bank Bonds                        | 2,344              | -                    | -              | 2,318              | -              | 2,318          | (26)                       |
| Private sector                            | 656,538            | 539,769              | 5,335          | 14,574             | 96,009         | 655,687        | (849)                      |
| Brazilian Treasury Bonds                  | <u>265,509</u>     | <u>55,690</u>        | <u>48,702</u>  | <u>36,039</u>      | <u>149,691</u> | <u>290,122</u> | <u>24,613</u>              |
|   | 924,391            | 595,459              | 54,037         | 52,931             | 245,700        | 948,127        | 23,738                     |
| Derivative Financial Instruments (Assets) |                    |                      |                |                    |                |                |                            |
| Forward contracts                         | 138,718            | 138,879              | -              | -                  | -              | 138,879        | 161                        |
| Swap - receivable                         | 76,200             | 20,709               | 24,313         | 21,762             | 10,712         | 77,496         | 1,296                      |
| Non Deliverable Forward                   | 1,981              | 893                  | 638            | 182                | 268            | 1,981          | -                          |
| Option contracts premium                  | 110                | 85                   | -              | 25                 | -              | 110            | -                          |
|   | 217,009            | 160,566              | 24,951         | 21,969             | 10,980         | 218,466        | 1,457                      |
|   | 9,263,940          | 9,092,562            | 85,976         | 87,286             | 256,681        | 9,293,311      | 29,373                     |

(\*) Maturity considers the maximum term expected by management to trade the securities.

(\*\*) As defined by article 8° of Circular No. 3068 of BACEN, the Bank has the intention and financial capacity to hold these securities to maturity.

On December 31, 2006 and 2005, there were no financial instruments derivatives designed for hedge.

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### 4. Loans and Lease Finance Receivables

#### (a) By economic sector

|  | <u>2006</u>       | <u>2005</u>       |
|--|-------------------|-------------------|
| Domestic operations                        |                   |                   |
| Commercial and industrial (*)              | 15,286,421        | 12,882,468        |
| Lease financing (**)                       | 4,339,458         | 3,979,132         |
| Real estate                                | 12,008            | 22,812            |
| Consumer installments                      | 2,619,490         | 1,418,517         |
| Banks and other financial institutions     | 368,342           | 328,927           |
|  | <u>22,625,719</u> | <u>18,631,856</u> |
| Foreign operations                         |                   |                   |
| Commercial and industrial                  | 400,049           | 844,583           |
| Banks and other financial institutions     | 1,076             | -                 |
|  | <u>401,125</u>    | <u>844,583</u>    |
|  | 23,026,844        | 19,476,439        |
| Allowance for credit losses                | <u>(849,645)</u>  | <u>(834,378)</u>  |
| Net loans and lease finance<br>Receivables | <u>22,177,199</u> | <u>18,642,061</u> |

(\*) Includes in 2006, balances with public companies in the amount of R\$ 41,954 (2005 - R\$ 42,178).

(\*\*) Includes in 2006, balances with public companies in the amount of R\$ 247 (2005 - R\$ 5,704) and operational leasing in the amount of R\$ 7,771 (2005 - R\$ 19,472).

#### (b) By maturity

|                     | <u>2006</u>       | <u>2005</u>       |
|---------------------|-------------------|-------------------|
| Past Dues:          |                   |                   |
| Less than 14 days   | 913,867           | 631,283           |
| Over 15 days        | 493,900           | 310,340           |
|                     | <u>1,407,767</u>  | <u>941,623</u>    |
| To mature:          |                   |                   |
| Less than 90 days   | 10,044,644        | 8,715,458         |
| 91 days to 360 days | 6,455,959         | 5,600,893         |
| Over 361 days       | 5,118,474         | 4,218,465         |
|                     | <u>21,619,077</u> | <u>18,534,816</u> |
| Total               | <u>23,026,844</u> | <u>19,476,439</u> |

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### (c) By rating

Management recorded an allowance in excess of the minimum amount required by the National Monetary Council (BACEN Resolution 2682/99). These amounts were reevaluated and approved by management on a periodical basis. At December 31, the break down of loan and leasing portfolio by rating was as follows:

| Rating | Total credit outstanding |                   | Allowance for loan losses |                |
|--------|--------------------------|-------------------|---------------------------|----------------|
|        | 2006                     | 2005              | 2006                      | 2005           |
| AA     | 13,974,575               | 12,783,713        | -                         | 67,258         |
| A      | 5,332,253                | 3,727,530         | 37,076                    | 39,697         |
| B      | 1,597,406                | 1,411,252         | 22,215                    | 47,217         |
| C      | 594,478                  | 441,706           | 24,800                    | 49,968         |
| D      | 517,054                  | 461,706           | 71,900                    | 150,087        |
| E      | 381,853                  | 212,584           | 159,298                   | 109,231        |
| F      | 282,464                  | 166,358           | 196,393                   | 122,976        |
| G      | 38,625                   | 34,504            | 37,598                    | 30,335         |
| H      | 300,365                  | 217,609           | 300,365                   | 217,609        |
|        | <u>23,019,073</u>        | <u>19,456,962</u> | <u>849,645</u>            | <u>834,378</u> |

The above portfolio excludes other operational leasing and leasing contracts in process in the amount R\$ 7,771 (2005 - R\$ 19,472) and transactions made by the non-financial subsidiary entities, in the amount of R\$ 5 on 2005.

### 5. Allowance for Loan Losses

|  | 2006           | 2005           |
|--|----------------|----------------|
| Balance, beginning of period                           | 834,378        | 656,346        |
| Provision charged to operations (excluding recoveries) | 123,185        | 251,213        |
| Loans and leases charged off                           | (107,917)      | (73,181)       |
| Balance, end of period                                 | <u>849,645</u> | <u>834,378</u> |
| Recoveries of written-off credits during the period    | <u>25,822</u>  | <u>13,014</u>  |



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### 6. Deposits by maturity

|                        | <u>2006</u>       | <u>2005</u>       |
|------------------------|-------------------|-------------------|
| Less than 90 days      | 4,115,530         | 3,902,985         |
| 91 to 360 days         | 3,804,067         | 2,164,699         |
| Over than 360 days (*) | 3,423,055         | 4,217,201         |
|                        | <u>11,342,652</u> | <u>10,284,885</u> |

(\*)Includes subordinated debt eligible for Tier II in the amount of R\$ 450,352 with maturity in 2016 and bearing interest rates of between 104% and 106% of the rate for Certificado de Depósito Interfinanceiro – CDI (Interbank Brazilian Deposits).

### 7. Federal and private securities sold under repurchase agreements - by maturity

|                    | <u>2006</u>       | <u>2005</u>       |
|--------------------|-------------------|-------------------|
| Less than 11 days  | 19,863,318        | 9,514,803         |
| 12 to 360 days     | 2,244,737         | 87,477            |
| Over than 360 days | 4,254,983         | 1,538,283         |
|                    | <u>26,363,038</u> | <u>11,140,563</u> |

Securities and securities purchased under resale agreements in the aggregate amount of R\$ 13,750,035 (2005 – R\$ 9,571,915), were pledged as collateral for securities sold under repurchase agreements.

### 8. Other Borrowed Funds

This figure is composed mainly of the on-lendings and securities issued abroad, as follows:

#### (a) By operation

|                                   | <u>2006</u>      | <u>2005</u>      |
|-----------------------------------|------------------|------------------|
| Foreign Loans                     | 1,280,588        | 1,519,198        |
| On Lending ( local institutions ) | 2,892,771        | 2,326,759        |
| Collateralized Mortgage Notes     | 40,503           | 26,703           |
| Securities Issued Abroad          | 385,878          | 3,677,841        |
|                                   | <u>4,599,740</u> | <u>7,550,501</u> |

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Foreign loans include lines of credit with average terms of two years and interest equivalent to LIBOR plus spreads up to 4%. Securities issued abroad include Euronotes with maturities through 2016 and which incur average annual interest rates of 5.5% (2005 – 10%). During 2006, a portion of the Euronotes were repaid before their maturity.

### (b) By maturity

|                    | <u>2006</u>      | <u>2005</u>      |
|--------------------|------------------|------------------|
| Less than 90 days  | 1,232,830        | 578,404          |
| 91 to 360 days     | 729,721          | 1,486,165        |
| Over than 360 days | 2,637,189        | 5,485,932        |
|                    | <u>4,599,740</u> | <u>7,550,501</u> |

### 9. Other Assets and Liabilities

Other assets include substantially foreign exchange transactions of R\$ 1,906,369 (2005 – R\$ 1,994,369), tax credits of R\$ 228,783 (2005 – R\$ 158,759), income tax recoverable of R\$ 177,646 (2005 – R\$ 158,281) and deposits made under legal requirements of R\$ 91,153 (2005 – R\$ 89,290).

Other liabilities include substantially foreign exchange transactions of R\$ 1,927,766 (2005 – R\$ 1,993,670), income tax, social contribution and social security taxes payable of R\$ 296,625 (2005 – R\$ 337,269), provision for contingencies of R\$ 702,075 (2005 – R\$ 456,721), insurance technical provisions of R\$ 542,318 (2005 – R\$ 368,754), interest on stockholder's equity payable of R\$ 405,891 (2005 – R\$ 770,202), deferred income tax of R\$ 667,534 (2005 – R\$ 454,711).

### 10. Stockholders' Equity

Capital stock consists of 464,772,872 common and 463,982,327 preferred, no par value, authorized, issued and outstanding shares.

The articles of incorporation provide that as of December 31 of each year, 5% of net income after deductions and legal provisions is to be allocated to the legal reserve account. Such allocation will no longer be required when the reserve balance reaches 20% of the share capital amount.

Dividend rates are fixed at 1% and 2% of the outstanding common and preferred capital stock, respectively, per annum.

## **Banco Safra S.A. and its Subsidiaries**

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On December 31, 2006 dividends in the amount of R\$ 377.000 were declared and provided for, which will be submitted to the Ordinary Stockholders' meeting for approval. During the year ended December 31, 2006, the Bank paid interest on stockholders' equity that is charged to retained earnings, in the statement of stockholders' equity, similar to proposed dividends in the amount of R\$ 289,050 (2005 – R\$ 330,200), such interest is deductible for tax purposes, and reduced the income tax and social contribution of the year by approximately R\$ 98,277 (2005 – R\$ 112,268). Interest on stockholders' equity proposed and not paid to the stockholders is restated by the accumulated variation of the Interbank Deposits - DI, calculated and disclosed by the Central System for the Custody and Financial Settlement of Securities - CETIP.

### **11. Administrative expenses**

Administrative expenses include substantially labor expenses of R\$ 526,643 (2005 – R\$ 505,883), taxes and contributions of R\$ 196,041 (2005 – R\$ 184,709), service expenses of R\$ 271,996 (2005 – R\$ 244,214), depreciation and amortization of R\$ 34,705 (2005 – R\$ 39,342), expenses with rent of R\$ 31,916 (2005- R\$ 28,456) and advertising expenses of R\$ 8,929 (2005 – R\$ 6,851).

### **12. Other operating income and other operating expenses**

Other operating income includes substantially net fees from asset management of R\$ 232,901 (2005 – R\$ 202,706), trade financing income of R\$ 152,262 (2005 – R\$ 193,678), other commissions from clients of R\$ 301,483 (2005 – R\$ 250,205), insurance operations income of R\$ 68,569 (2005 – R\$ 60,390), fees and reimbursement of costs of R\$ 2,575 (2005 – R\$ 4,747), equity results of R\$ 4,910 (2005 – R\$ 7,499).

Other operating expenses include provisions for contingencies of R\$ 228,885 (2005 – R\$ 75,931), expenses with credit renegotiations of R\$ 10,315 (2005 – R\$ 15,287), claims and other insurance and open private pension expenses of R\$ 75,672 (2005 – R\$ 81,260), monetary variation charged on interest on stockholder's equity of R\$ 97,654 (2005 - R\$ 99,880), and foreign exchange adjustments taken by the company in respect of certain U.S. dollar-linked assets of R\$ 59,696 (2005 - R\$ 80,112).

### **13. Income Tax and Social Contribution**

The current income tax and social contribution expenses have been calculated at statutory rates (income tax 25%, social contribution 9%) on adjusted taxable income in accordance with specific legislation. The pre-tax income was adjusted by the exchange rate variation on investments in foreign subsidiaries, interest on stockholders' equity, net of the amounts received and temporarily non-deductible provisions. These items give rise to tax timing differences, and in accordance with accounting practices adopted in Brazil generate deferred tax assets and/or

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liabilities. The Bank has recorded tax credits and tax liability in the amount of R\$ 228,783 (2005 – R\$ 158,759) and R\$ 667,534 (2005 – R\$ 454,711), respectively, relating to tax timing differences and tax loss carry forward and has unrecorded tax credits which correspond to an off-book deferred income tax asset of approximately R\$ 490,819 (2005 – R\$ 432,896). The off-book asset is recorded when recoverability is considered to be probable.

#### 14. Derivative financial instruments

The derivative financial instruments portfolio at December 31, 2006 and 2005 are shown as follows:

#### 2006

##### (a) Swap

|                   | Notional<br>Amount | Carrying<br>Amount | Market value by maturity |                   |                    | Total              |
|-------------------|--------------------|--------------------|--------------------------|-------------------|--------------------|--------------------|
|                   |                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days   |                    |
| Interest Rate     |                    |                    |                          |                   |                    |                    |
| Assets            | 3,635,060          | 3,944,298          | 1,039,089                | 1,031,287         | 1,336,002          | 3,406,378          |
| Liabilities       | <u>(3,317,732)</u> | <u>(3,656,729)</u> | <u>(859,274)</u>         | <u>(975,913)</u>  | <u>(1,279,880)</u> | <u>(3,115,067)</u> |
|                   | <u>317,328</u>     | <u>287,569</u>     | <u>179,815</u>           | <u>55,374</u>     | <u>56,122</u>      | <u>291,311</u>     |
| Foreign Currency  |                    |                    |                          |                   |                    |                    |
| Assets            | 232,501            | 229,882            | 135,181                  | 62,114            | 32,335             | 229,630            |
| Liabilities       | <u>(549,829)</u>   | <u>(547,711)</u>   | <u>(329,229)</u>         | <u>(123,545)</u>  | <u>(97,450)</u>    | <u>(550,224)</u>   |
|                   | <u>(317,328)</u>   | <u>(317,829)</u>   | <u>(194,048)</u>         | <u>(61,341)</u>   | <u>(65,115)</u>    | <u>(320,594)</u>   |
| Values to receive | -                  | 12,871             | 5,243                    | 6,985             | 5,766              | 17,994             |
| Values to pay     | -                  | (43,131)           | (19,476)                 | (13,042)          | (14,759)           | (47,277)           |

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#### (b) Forwards

|                          | Notional<br>Amount | Market value by maturity |                   |                  | Total            |
|--------------------------|--------------------|--------------------------|-------------------|------------------|------------------|
|                          |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                  |
| Brazilian Treasury Bonds |                    |                          |                   |                  |                  |
| Assets                   |                    |                          |                   |                  |                  |
| Buying                   | <u>643,725</u>     | <u>643,725</u>           | <u>-</u>          | <u>-</u>         | <u>643,725</u>   |
|                          | <u>643,725</u>     | <u>643,725</u>           | <u>-</u>          | <u>-</u>         | <u>643,725</u>   |
| Liabilities              |                    |                          |                   |                  |                  |
| Buying                   | <u>(641,400)</u>   | <u>(641,400)</u>         | <u>-</u>          | <u>-</u>         | <u>(641,400)</u> |
|                          | <u>(641,400)</u>   | <u>(641,400)</u>         | <u>-</u>          | <u>-</u>         | <u>(641,400)</u> |

#### (c) Options

|                  | Notional<br>Amount  | Premium            | Market value by maturity |                    |                    | Total              |
|------------------|---------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|                  |                     |                    | Less than<br>90 days     | 91 to<br>360 days  | Over<br>360 days   |                    |
| Foreign Currency |                     |                    |                          |                    |                    |                    |
| Buying           |                     |                    |                          |                    |                    |                    |
| Call option      | 9,782               | 85                 | 85                       | -                  | -                  | 85                 |
| Put option       | <u>434</u>          | <u>4</u>           | <u>10</u>                | <u>-</u>           | <u>-</u>           | <u>10</u>          |
|                  | <u>10,216</u>       | <u>89</u>          | <u>95</u>                | <u>-</u>           | <u>-</u>           | <u>95</u>          |
| Selling:         |                     |                    |                          |                    |                    |                    |
| Call option      | (14,980,804)        | (2,122,500)        | (675,760)                | (975,555)          | (759,433)          | (2,410,748)        |
| Put option       | <u>(19,135,445)</u> | <u>(1,544,711)</u> | <u>(397,942)</u>         | <u>(661,833)</u>   | <u>(591,771)</u>   | <u>(1,651,546)</u> |
|                  | <u>(34,116,249)</u> | <u>(3,667,261)</u> | <u>(1,073,702)</u>       | <u>(1,637,388)</u> | <u>(1,351,204)</u> | <u>(4,062,294)</u> |

#### (d) Non Deliverable Forward – NDF

|                    | Notional<br>Amount | Market value by maturity |                   |                  | Total            |
|--------------------|--------------------|--------------------------|-------------------|------------------|------------------|
|                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                  |
| Buying commitment  | 64,584             | 38,454                   | 21,268            | 4,862            | 64,584           |
| Selling commitment | <u>(109,447)</u>   | <u>(86,324)</u>          | <u>(23,123)</u>   | <u>-</u>         | <u>(109,447)</u> |
|                    | <u>(44,863)</u>    | <u>(47,870)</u>          | <u>(1,855)</u>    | <u>4,862</u>     | <u>(44,863)</u>  |
| Values to receive  | 2,218              | 1,548                    | 650               | 20               | 2,218            |
| Values to pay      | <u>(3,763)</u>     | <u>(2,284)</u>           | <u>(1,345)</u>    | <u>(134)</u>     | <u>(3,763)</u>   |
|                    | <u>(1,545)</u>     | <u>736)</u>              | <u>(695)</u>      | <u>(114)</u>     | <u>(1,545)</u>   |

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#### (e) Futures

|                               | Notional<br>Amount  | Market value by maturity |                     |                    | Total               |
|-------------------------------|---------------------|--------------------------|---------------------|--------------------|---------------------|
|                               |                     | Less than<br>90 days     | 91 to<br>360 days   | Over<br>360 days   |                     |
| Buying commitment             |                     |                          |                     |                    |                     |
| Foreign exchange coupon – DDI | 507,676             | 92,912                   | 163,028             | 218,509            | 474,449             |
| Interest Rate – DII           | 1,390,200           | -                        | -                   | 1,174,511          | 1,174,511           |
| Dollar Future – DOL           | <u>1,370,833</u>    | <u>1,354,103</u>         | <u>-</u>            | <u>-</u>           | <u>1,354,103</u>    |
|                               | <u>3,268,709</u>    | <u>1,447,015</u>         | <u>163,028</u>      | <u>1,393,020</u>   | <u>3,003,063</u>    |
| Selling commitment            |                     |                          |                     |                    |                     |
| Interest Rate – DII           | (27,893,700)        | (4,242,884)              | (20,987,377)        | (1,206,905)        | (26,437,166)        |
| Dollar Future – DOL           | <u>(121,755)</u>    | <u>(119,728)</u>         | <u>-</u>            | <u>-</u>           | <u>(119,728)</u>    |
|                               | <u>(28,015,455)</u> | <u>(4,362,612)</u>       | <u>(20,987,377)</u> | <u>(1,206,905)</u> | <u>(26,556,894)</u> |

#### (f) Foreign Currency Swaps

|                    | Notional<br>Amount | Market value by maturity |                   |                  | Total            |
|--------------------|--------------------|--------------------------|-------------------|------------------|------------------|
|                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                  |
| Foreign Currencies |                    |                          |                   |                  |                  |
| Selling commitment |                    |                          |                   |                  |                  |
| Swap – SCC         | <u>(311,998)</u>   | <u>(82,481)</u>          | <u>(106,427)</u>  | <u>(107,196)</u> | <u>(296,104)</u> |
|                    | <u>(311,998)</u>   | <u>(82,481)</u>          | <u>(106,427)</u>  | <u>(107,196)</u> | <u>(296,104)</u> |

### 2005

#### (a) Swap

|                   | Notional<br>Amount | Carrying<br>Amount | Market value by maturity |                   |                    | Total              |
|-------------------|--------------------|--------------------|--------------------------|-------------------|--------------------|--------------------|
|                   |                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days   |                    |
| Interest Rate     |                    |                    |                          |                   |                    |                    |
| Assets            | 3,013,099          | 3,272,782          | 611,719                  | 821,309           | 1,807,157          | 3,240,185          |
| Liabilities       | <u>(2,590,290)</u> | <u>(2,844,024)</u> | <u>(355,191)</u>         | <u>(661,725)</u>  | <u>(1,826,411)</u> | <u>(2,843,327)</u> |
|                   | <u>422,809</u>     | <u>428,758</u>     | <u>256,528</u>           | <u>(159,584)</u>  | <u>19,254</u>      | <u>396,858</u>     |
| Foreign Currency  |                    |                    |                          |                   |                    |                    |
| Assets            | 3,437,345          | 3,452,248          | 116,804                  | 47,920            | 3,286,034          | 3,450,758          |
| Liabilities       | <u>(3,860,154)</u> | <u>(3,866,787)</u> | <u>(358,674)</u>         | <u>(178,109)</u>  | <u>(3,326,357)</u> | <u>(3,863,140)</u> |
|                   | <u>(422,809)</u>   | <u>(414,439)</u>   | <u>(241,870)</u>         | <u>(130,189)</u>  | <u>(40,323)</u>    | <u>(412,382)</u>   |
| Values to receive | -                  | 76,200             | 20,709                   | 46,075            | 10,712             | 77,496             |
| Values to pay     | -                  | (61,881)           | (6,051)                  | (16,680)          | (70,289)           | (93,020)           |

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#### (b) Forwards

|                          | Notional<br>Amount | Market value by maturity |                   |                  | Total            |
|--------------------------|--------------------|--------------------------|-------------------|------------------|------------------|
|                          |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                  |
| Brazilian Treasury Bonds |                    |                          |                   |                  |                  |
| Assets                   |                    |                          |                   |                  |                  |
| Buying                   | <u>138,879</u>     | <u>138,879</u>           | <u>-</u>          | <u>-</u>         | <u>138,879</u>   |
|                          | <u>138,879</u>     | <u>138,879</u>           | <u>-</u>          | <u>-</u>         | <u>138,879</u>   |
| Liabilities              |                    |                          |                   |                  |                  |
| Buying                   | <u>(138,879)</u>   | <u>(138,879)</u>         | <u>-</u>          | <u>-</u>         | <u>(138,879)</u> |
|                          | <u>(138,879)</u>   | <u>(138,879)</u>         | <u>-</u>          | <u>-</u>         | <u>(138,879)</u> |

#### (c) Options

|                  | Notional<br>Amount  | Premium            | Market value by maturity |                    |                    | Total              |
|------------------|---------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|                  |                     |                    | Less than<br>90 days     | 91 to<br>360 days  | Over<br>360 days   |                    |
| Foreign Currency |                     |                    |                          |                    |                    |                    |
| Buying           |                     |                    |                          |                    |                    |                    |
| Call option      | 10,396              | 105                | 80                       | 25                 | -                  | 105                |
| Put option       | <u>156</u>          | <u>5</u>           | <u>5</u>                 | <u>-</u>           | <u>-</u>           | <u>5</u>           |
|                  | <u>10,552</u>       | <u>105</u>         | <u>85</u>                | <u>25</u>          | <u>-</u>           | <u>110</u>         |
| Selling:         |                     |                    |                          |                    |                    |                    |
| Call option      | (18,924,164)        | (2,982,363)        | (521,712)                | (956,153)          | (1,797,299)        | (3,275,164)        |
| Put option       | <u>(23,883,918)</u> | <u>(1,277,729)</u> | <u>(409,939)</u>         | <u>(451,089)</u>   | <u>(486,107)</u>   | <u>(1,347,135)</u> |
|                  | <u>(42,808,082)</u> | <u>(4,260,092)</u> | <u>(931,651)</u>         | <u>(1,407,242)</u> | <u>(2,283,406)</u> | <u>(4,622,299)</u> |

#### (d) Non Deliverable Forward – NDF

|                    | Notional<br>Amount | Market value by maturity |                   |                  | Total           |
|--------------------|--------------------|--------------------------|-------------------|------------------|-----------------|
|                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                 |
| Buying commitment  | 72,990             | 37,742                   | 26,701            | 8,547            | 72,990          |
| Selling commitment | <u>(98,455)</u>    | <u>(15,734)</u>          | <u>(3,458)</u>    | <u>(80)</u>      | <u>(19,272)</u> |
|                    | <u>(25,465)</u>    | <u>22,008</u>            | <u>23,243</u>     | <u>8,467</u>     | <u>53,718</u>   |
| Values to receive  | 1,981              | 893                      | 820               | 268              | 1,981           |
| Values to pay      | <u>(1,873)</u>     | <u>(1,481)</u>           | <u>(392)</u>      | <u>-</u>         | <u>(1,873)</u>  |
|                    | <u>108</u>         | <u>(588)</u>             | <u>428</u>        | <u>268</u>       | <u>108</u>      |

## Banco Safra S.A. and its Subsidiaries

### Notes to the Condensed Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 Amounts expressed in thousands of reais

#### (e) Futures

|                               | Notional<br>Amount  | Market value by maturity |                    |                    | Total               |
|-------------------------------|---------------------|--------------------------|--------------------|--------------------|---------------------|
|                               |                     | Less than<br>90 days     | 91 to<br>360 days  | Over<br>360 days   |                     |
| Buying commitment             |                     |                          |                    |                    |                     |
| Foreign exchange coupon – DDI | 1,218,568           | 292,516                  | 161,733            | 674,454            | 1,128,703           |
| Interest Rate – DII           | <u>2,423,000</u>    | <u>-</u>                 | <u>862,381</u>     | <u>1,250,865</u>   | <u>2,113,246</u>    |
|                               | <u>3,641,568</u>    | <u>292,516</u>           | <u>1,024,114</u>   | <u>1,925,319</u>   | <u>3,241,949</u>    |
| Selling commitment            |                     |                          |                    |                    |                     |
| Foreign exchange coupon – DDI | (595,708)           | -                        | (3,370)            | (531,315)          | (534,685)           |
| Interest Rate – DII           | (18,283,500)        | (11,102,361)             | (5,195,102)        | (1,258,693)        | (17,556,156)        |
| Dollar Future – DOL           | <u>(57,932)</u>     | <u>(56,799)</u>          | <u>(1,196)</u>     | <u>-</u>           | <u>(57,995)</u>     |
|                               | <u>(18,937,140)</u> | <u>(11,159,160)</u>      | <u>(5,199,668)</u> | <u>(1,790,008)</u> | <u>(18,148,836)</u> |

#### (f) Foreign Currency Swaps

|                    | Notional<br>Amount | Market value by maturity |                   |                  | Total            |
|--------------------|--------------------|--------------------------|-------------------|------------------|------------------|
|                    |                    | Less than<br>90 days     | 91 to<br>360 days | Over<br>360 days |                  |
| Foreign Currencies |                    |                          |                   |                  |                  |
| Buying commitment  |                    |                          |                   |                  |                  |
| Swap – SCC         | <u>152,146</u>     | <u>-</u>                 | <u>147,655</u>    | <u>-</u>         | <u>147,655</u>   |
|                    | <u>152,146</u>     | <u>-</u>                 | <u>147,655</u>    | <u>-</u>         | <u>147,655</u>   |
| Selling commitment |                    |                          |                   |                  |                  |
| Swap – SCC         | <u>(206,684)</u>   | <u>-</u>                 | <u>(78,269)</u>   | <u>(117,941)</u> | <u>(196,210)</u> |
|                    | <u>(206,684)</u>   | <u>-</u>                 | <u>(78,269)</u>   | <u>(117,141)</u> | <u>(196,210)</u> |

## 15. Management of Investment Funds

The Bank is responsible for the management of several investment funds, with net assets amounting to R\$ 26,518,662 (2005 - R\$ 19,964,269) as at December 31, 2006, of which R\$ 6,079,821 (2005 - R\$ 4,174,882) are funds of funds and R\$ 20,438,841 (2005 - R\$ 15,789,387) are investment funds, which are recorded in an off-balance sheet memorandum accounts of the Banks. Performance and administration net fees during the year totaled R\$ 232,901 (2005 - R\$ 202,706) and were presented as “other operating income”.

## 16. Other informations

- Commitments in respect of securities, guarantee bonds and other guarantees issued by the Bank in the normal course of its business amount, at December 31, 2006, to R\$ 3,435,604 (2005 - R\$ 2,451,787) and are recorded in off-balance sheet memorandum accounts of the Bank. Management does not anticipate any material loss as a result of these transactions.
- Non operating income refers to a gain obtained on disposal of fixed assets.



## **Banco Safra S.A. and its Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements  
for the Years Ended December 31, 2006 and 2005**

**Amounts expressed in thousands of reais**

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- c) In January 2007 the Supervisory Board decided to declare dividends in the amount of R\$377.000 from retained earnings. In addition the Bank borrowed subordinated debt eligible for Tier II in the nominal amount of R\$ 248,876 (Note 6).

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