

## Q2 2006 Earnings Call

### Company Participants

- Alfredo Setubal, IR Director
- Henri Penchas, SVP and CFO
- Lidia Borus, Financial IR
- Silvio De Carvalho, Executive Director Controllershship

### Other Participants

- Jordan Hymowitz, Analyst
- Mario Pierry, Analyst
- Paolo Herbero, Analyst
- Pedro Guimaraes, Analyst
- Rafael Camargo, Analyst
- Stephen Barrett, Analyst
- Yolanda Courtines, Analyst

### Presentation

#### Operator

Ladies and gentlemen. thank you for standing by. At this time all lines are in listen-only mode. Later there will be question-and-answer session, instructions will be give at that time. (Operator Instructions) As a reminder this conference is being recorded.

At this time, I would like to turn the conference over to Ms. Lidia Borus of the Financial Investor Relations, Brazil. Please go ahead.

#### Lidia Borus {BIO 21620257 <GO>}

Good morning, ladies and gentlemen and welcome to Banco Itau Holdings Financeira S.A. conference call to discuss Second Quarter 2006 results.

I would like to mention that a slide presentation has also been made available on the Company's Investor Relations website at [www.itauir.com](http://www.itauir.com) during this call.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in this conference call in Sao Paulo are Mr. Alfredo Setubal, Investor Relations Director, Mr. Henri Penchas, Senior Vice President and CFO, Mr. Silvio de Carvalho, Executive Director of Controllershship, Mr. Candido Bracher COO and President of Banco Itau BBA; and Mr. Marco Antunes, Director of Accounting.

First Mr. Alfredo Setubal will comment on Second Quarter 2006 results. Afterwards, management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr. Alfredo Setubal. Mr. Setubal, you may now begin.

## **Alfredo Setubal** {BIO 1528623 <GO>}

Good morning, for all those in the U.S.. Good afternoon for those in Europe. Sorry for the delay to start but the conference call in Portuguese was a little bit longer than we expected.

For those who are following through the slides we are going to slide number one, highlights of the Second Quarter results. The first one is the result. Sales, BRL1.5b, 2.6% than the First Quarter 2006. What means that our ROE of 35.1% in line with the last quarters showing a very strong and recurrent result in the Second Quarter. When we see the first semester where the net income was almost BRL3b, 19.5% higher than the First Quarter “; first semester of 2006 showing annualized ROE for the first semester 35.7%.

The second highlight is the loan portfolio which grew 3.8% in the quarter, 10.5% in the first half of 2006. The growth came from, like the quarters before, from personal loans 9.8% in a quarter and car financing 12.8% in the quarter, in line what we have been saying in the previous quarter that are the main areas that we are focusing our credit growth.

The third highlight is the additional provision. Here we have some changes. We increased our excess provision for loan losses in BRL100 million in the quarter. The models that we use require that they increase because of the increase in delinquency. We increased BRL100 million in the quarter and BRL230 million in the first half of 2006. So we finish the first semester with BRL1.6 billion in excess provisions when we compare it to the legislation of the Central Bank.

The second movement that we did in provisions was a reduction in provisions for securities in BRL100 million due to the better environment in the first semester, when we saw the country risk reducing a lot during this period. So our model also required less provisions for devaluation for the securities that we carry in our treasury operations. We finish here with BRL180 million for volatility risks in our securities portfolio.

The fourth highlight is the non-performing loans that we are going to talk later. We have to make a change in the criteria for this non-performance. But using the same criteria that they used until the First Quarter, we saw an increase from 4 to 4.4% in the Second Quarter, in line what we said that our expectation was to reach 4.5% in this quarter.

And the fifth highlight is the BIS ratio that even with the growth in the “; portfolio remains in 16.3%.

Going to slide number 2 and we see that our stockholder equity finished with BRL17.5m, an increase of 5.6% in the quarter. And the efficiency ratio that finished 43.5% is a very good number when we compare it to 45.2%. We are also going to explain more about that in the coming slides.

Slide number 3, non-recurring assets after tax, net of tax effect. I think it's an important slide, that we spend some minutes here. We see that we finish with a net income of BRL1.498b. During this quarter we had many non-recurrent effects. The idea here is to show that this non-recurring effect doesn't affect much the recurrent operations of the Bank. We can see here that we sold some securities that were classified as for being for sale that impacted BRL64 million negative. We reversed additional provision for securities, like I said. And the net impact was BRL66m. The hedge for BankBoston's positions BRL36 million positive, results from lower loan losses BRL13 million positive, loans that we sold BRL122 million negative, exceeding allowance BRL66 million positive, effects of the adequacy of credit cards criteria to the same criteria of Banco Itau is more conservative BRL69 million positive. So the recurrent net income, when we analyze considering all these effects, would be BRL1,477m. So you can see that our recurrent result was very strong during this period even considering this mainly non-recurrent effect. So it's important to notice that we continue to have a very strong banking operation in this Second Quarter.

Going to the slide 4, the Itau Holding pro forma numbers. We can see that we had a reduction in the net financial margin. They reduced 4% in this quarter when we compare it to the First Quarter. This was mainly because of the treasury operations. That was a result from treasury operations in the quarter was much lower than the very good quarter that we had in the First Quarter of 2006. The Second Quarter the volatility increased a lot, especially after May. So the result in this quarter was much lower and the main impact when we saw the net financial margin.

Result for loan losses. The 4.7% reduction in the level of provisions is good, banking fees almost in line with the First Quarter and non-interest expense a reduction of 2.5% in the quarter. That we are going to show in more detail some slides ahead. So we finish with BRL1.4 billion almost BRL1.5 billion net income with 2.6% increase and the ROE of 35.1%.

Looking at the managerial financial margin in slide 5, here are the numbers we are showing before tax, different from slide three that it was after tax. Here we can see that the recurrent banking operations increased BRL75m. So it's important to note it this to show that our Bank operations continue to be very solid not considering the treasury operations. So you can see that we finish with BRL3,458 million in recurring banking operations. When we compare the same numbers with the First Quarter we see BRL3,383m. So as I said BRL75 million increase in recurring banking operations, result is very good.

The treasury operations, as I said, due to the market volatility the results were much lower and the management of our foreign exchange rate was almost BRL14 million reduction. So here is slide number five and slide number three just to conclude again it shows that strong banking operations that we have and will continue to have in this quarter

considering all the non-recurrent effects. I think is important to notice that it is strong banking operations that we released this quarter.

Going to slide number six, loans by type of customer, we see that we increased in all the segments, credit cards, personal loans, vehicles, small and medium sized companies in the quarter. The only exception is the Corporate Business. That continues to be not very active. Companies continue to use capital markets, IPOs and debentures. So the total credit portfolio for the corporate companies, mainly through (WDA) operations had a nominal reduction of 3.7% in this period. So the total loans finished with BRL74.7b, a total increase in the quarter the total portfolio 3.8%, which is very good and in line with what we have been saying especially in growth through the middle market and consumer trend especially for new business.

Slide number seven, the composition of the loan portfolio that we have been showing the last conference calls. We see here the big change that happened in the last two years when in 2004, June 2004, corporate loans represented 45.6% and individual was 28.3%, have a dramatic change in this composition. Now it's almost the opposite; 29% for the companies and 45% for individuals. This, of course, requires a lot of investment in technology and credit analysis and models to support these changes in the composition of our portfolio.

These changes, when we analyze slide number eight, we see that there is increase in transform individuals and for middle market requiring more provisions for loans and reduce our compensation rate. Here, as I said, we have a change in criteria required by the Central Bank and through the First Quarter of 2006 we used it to write-off all the loans that we considered not to be good. The Central Bank required our change. In our view this position that we had was more conservative because we immediately write-off and took from our balance sheet the bad loans. The Central Bank required a change asking us to make the write-off just after 180 days, six months after reclassifying the loans in the page. That means 100% provision. So we change this quarter the criteria. But we are showing here to be more comparable the two criteria, the new one and the old one.

When we analyze the old criteria we see that our credit number from loans increased in total from 4 to 4.4%, in line, as I said, with the number that we announced that was our expectation in the end of the First Quarter that this number will increase to 4.5%. So, we reached the former criteria to 4.4%. When we analyze the new criteria we see that this number is 5.1% and we going more in details looking for companies, big and middle size companies increased from -â€" decreased from 1.5 to 1.4% on the old criteria and increased to 1.6% in the new one. The bigger change, of course, is in the number from the loans for individuals where we have been growing more fast. That increased from 6.5 to 7.1% on the old criteria to 8.1% in the new one. So, this is the new criteria that we are going to release from now on but we are very comfortable with the position that we had before. The criteria that we used that we now view as more conservative to show a more reliable credit portfolio. But in the end we finish with very good cover ratio yet, 164% due to the increase and a good level of excess provisions that we have, as I mentioned in the beginning, BRL1.6 billion at the end of the First Quarter in excess provision. So we are very comfortable with this position.

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Slide number nine, banking fees. For the Third Quarter in a row they are almost the same level. I think here, in the Second Quarter, what is more notable is the reduction compared to the First Quarter in the Investment Banking due to market volatility. Many mandates that we have in capital markets or IPOs and (programs) was postponed to the third and Fourth Quarter. So we believe that these numbers will recover in the coming quarters. This has been influenced in the maintenance of the same level of tariff fees in this Second Quarter.

Slide number 10, non-interest expenses. I think here is good news. We will be able to keep lower 2.5% level of expenses compared to the First Quarter of 2006. Here especially because we have less labor provisions in the quarter. We don't expect this number to be recurrent because we continue to expand our branch network especially when we consider the Taii, our consumer credit operations. So, we believe that the level of expenses when we analyze the overall 2006 compared to over 2005 we show an increase especially because of this new investment that we are doing in our network of branches.

Going to slide 11 this control "â€"; more control our expenses, plus the increase in credit portfolio that increased our revenues shows an efficiency ratio 33.6% what we consider to be a very good number for the bank.

Slide 12 we see that we still have BRL2.4b, almost the same level that we had in the First Quarter of unrealized gains of assets that we had.

To slide 13, we see the segmentation that we use to show you in the presentations and conference call splitting our Holdings into four pieces. Itaubanco is mainly our retail, Itau BBA Corporate and Investment banking, Itaucred our Non-accounting Holders Client business and Corporation where we allocate the excess of capital.

Going through slide 14 we see these four segments and the results, not a pure result for these four segments. We see Itaubanco has a BRL1,026 million in result. That means 42% ROE for Banco Itau itself when we consider the capital that is allocated to this operation. In the case of Itau BBA BRL298m. When we consider the recurrence of capital allocated to Itau BBA we see almost 28% in return which is very good this business. Itaucred, BRL121m, that means a ROE of 23.7%. Here we have the impact of the Taii operation that we are investing and with Corporation where the excess of capital with an ROE of almost 22%. These compound the average of 35.1% at ROE that we showed in disc one.

Going into details through the four segments we see Itaubanco results coming BRL1,326 million mainly coming from the banking operations and we have a good result in the case of treasury of Itaubanco. Credit card holders account for BRL162 million and insurance another BRL87 million and capital management BRL45m.

Going into detail you can see the credit card operations at BRL162 million were increased in the quarter of 3.1% and I would note here the last provision that we were able to make in this segment during this quarter.

Slide 17, insurance, pension plans and capitalization. We see here a much higher result 18.0% increase when we compare to the First Quarter of 2006. Meaning when we analyze change in plans that we continue to increase a lot and what is responsible for almost BRL100 million of this BRL187 million and a good result of our insurance Company that has a combined ratio of 86.4% and a claim level of 50.4%. We are taking more care in terms of underwriting the insurance. Of course, we are losing some market share here but we are focusing more results than in market share which we think is a good strategy for our shareholders.

In the case of Itau BBA the result was very influenced by the banking operations because of the reduction that I mentioned, of 3.7% of the credit portfolio in Itau BBA and also the remuneration of the cash flow due to the reduction in interest rate by the Central Bank. Another impact, very important of course in this quarter, was the reduction of the gains from the treasury. The First Quarter, the market "€"; the overall market international and in Brazil was very positive that we were very able to make a very good profit in the First Quarter of 2006. The Second Quarter, due to the volatility after May, the results were not so good as in the First Quarter. But at the end we finished with BRL298 million what is a very good result for the bank. When we compare to the first semester of 2005 with 2006 we see an increase of 19% in net income.

Itaucred, our Non-accounting Holders, Checking Accounting Holders business. We see a result of BRL121 million reduced 12% when we compare to the First Quarter of 2006. Here mainly because of the Taii operation that we increased the losses in the quarter to BRL41 million when we compare to BRL35 million in the last "€"; in the First Quarter. Here mainly because of the investments that continued to be made in opening new stores and point of sales of Taii, we expect it to finish with more than 900 points of sales of Taii by the end of the year. We continue to open these points, of course, this investment reduced -"€" increased the losses in the quarter and we have to add to that the increase in delinquency also given though that the credit portfolio is not so big. But it in anyway affected the result.

Credit card holders, we have a reduction mainly to BRL38 million in the quarter compared to BRL58 million in the First Quarter mainly because of the criteria that we adopt to the credit card holder that we've seen from the credit card company. We see the bank putting in the same criteria of Itaubanco.

And vehicles continue to be the main driver in terms of results for this segment and with a net income of BRL125 million and an increase of 8% compared to the First Quarter of this year. And we believe that this segment will continue to be the main driver for the segment in the second semester also.

Earnings per share, we increased more than the net income because of the cancellation of shares that we made in this period of the last 12 months. So an increase in earnings per share of 13.4%, net income 12.4%.

This is the presentation of the pro forma balance sheet of Itau Holdings. If we already have the approval of the Central Bank of the Banc of America in relation of the operations

of BankBoston in Brazil, we can see that the total assets would be BRL194.5b. The credit portfolio would increase from BRL67 to BRL76 billion and the stockholders equity from BRL17.5 to BRL19.8b. And Assets Under-management would increase from BRL139 to BRL167b. So we expect that the Central Bank to approve these transactions with Banc of America during the month of August. And probably if this comes true, from September on we are going to consolidate the operation of BankBoston in the total.

This is the presentation, numbers and explanation that we would like to make in the first part of the conference call. And now we are all open to questions that we may have to the numbers that we read. Thank you.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen we will now begin the question-and answer-session.

Our first question comes from Mario Pierry of Deutsche Bank. Please go ahead.

### Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. I have two questions. The first is you mentioned on your press release that you expect non-interest expenses to trend higher in the second half of the year due to the expansion plan. If you could just give us an update of your expansion plan, how many more stores you plan on opening for Taii, things like that?

Also about the salary negotiations, what kind of salary increases are you expecting for your employees in the Third Quarter? I think you negotiate every Third Quarter of every year.

And then the other question is on BankBoston. You provided the pro forma balance sheet. Can you also give us an idea what kind of net income BankBoston reported in the Second Quarter? And also if you have made a decision, if you plan to write-off all the goodwill of the transaction and if you have also given some more thought about acquiring the other BankBoston assets in Latin America, the operations in Chile and Uruguay? Thank you.

### A - Silvio De Carvalho {BIO 20450971 <GO>}

Mario, Silvio speaking.

### Q - Mario Pierry {BIO 1505554 <GO>}

Hi Silvio.

### A - Silvio De Carvalho {BIO 20450971 <GO>}

In relation to the expansion plans that we talk about in the beginning of the year, our intention is it increase about 160 branches, Itau branches during this year. We continue with these plans and probably we were back to the expenses of the bank during the second half of the year.

**Q - Mario Pierry** {BIO 1505554 <GO>}

How many of these branches have you already opened?

**A - Silvio De Carvalho** {BIO 20450971 <GO>}

We have opened already 50 branches.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay.

**A - Silvio De Carvalho** {BIO 20450971 <GO>}

And in relation to the Taii operation, as well, we have in this moment 710 branches include stores, our own stores, the kiosks with CBD and the kiosks with the Lojas Americana. These are totaling 710 and we intending to finish the year with 900. And we continue to expand these stores, basically, the stores and the kiosks in order to capture all the spaces of Brazil.

In relation to the negotiation with (St Turiz) that we will have in next September. Basically, we have re-negotiated the re-pricing terms of inflation.

In relation to BankBoston and I will transfer it to Mr. Penchas. Just a moment please.

We don't have for the moment -- we have some minor problems. The first one is that Central Bank of Brazil did not approve the operation until now. We expect that they will approve now during the month of August.

And the second that they haven't published their income statements for the first six months of the year. So that's why we have just a pro forma balance sheet with assets and liabilities.

**Q - Mario Pierry** {BIO 1505554 <GO>}

All right. And what about the writing off of goodwill of this transaction, should we expect you to use some of your un-realized gains to offset some of the charges that you will probably take in the Third Quarter?

**A - Silvio De Carvalho** {BIO 20450971 <GO>}

We have not decided until the moment how we will amortize that. But probably we will use part of the un-realized gains to offset part of the 100% amortization of the goodwill of that transaction.

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**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. And then finally, what about if you have analyzed the other assets of BankBoston in Latin America, like the Chilean and Uruguayan operations? Have you made a decision already if you should plan of acquiring those assets as well?

**A - Silvio De Carvalho** {BIO 20450971 <GO>}

Yes. We are just finishing the due diligence. The quality of the assets is very, very good and we are just completing the details for the contracts for that without any surprise.

**Q - Mario Pierry** {BIO 1505554 <GO>}

All right, thank you very much.

**Operator**

Thank you. Our next question comes from Yolanda Courtines of JP Morgan. Please go ahead.

**Q - Yolanda Courtines** {BIO 1552757 <GO>}

Hello, yes, two questions. One, I just wanted to hear a little bit more on the outlook for fee income growth, the deceleration you partly explained for the drop off in the collections part of your fees. But if you could talk a little bit about fee income growth for the year, how you see -- what other elements can come into the picture to help accelerate the fee income growth again from here, or if you think we've reached a more peak mature level of growth in the fee income line?

And then secondly, in terms of lending momentum, if you can just talk a little bit more about the balance between growth and asset quality, particularly, in more of the sub-prime lending business that you're doing?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

In terms of such fees, we expected to grow 2006 in relation to 2005, 15% and we continue with the same guidance that we talk about before.

In relation to the collections that we show in the Second Quarter compared with the First Quarter, basically, in the First Quarter we had a very active collection in terms of tax in Brazil, mainly related with cars and with real estate. And this happened, basically, on shot in the First Quarter. It is a seasonable aspect that will not happen in the Second Quarter.

And in the Second Quarter with respect to that -- the operation will continue normal growth according the transaction of our -- increasing our customer base.

In relation to the loan growth, it's expected to grow 25% within the Bank as a whole, more related with individuals. And in terms of corporate companies we expect it to grow 4%. In

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terms of individuals it's more concentrated with vehicles than what we forecast. Not different regulations, or what we gave -- what we give in terms of the guidance before.

**Q - Yolanda Courtines** {BIO 1552757 <GO>}

And I guess what I was asking, more in connection with the lower income market with your Taii and with your various store branded cards etc., is how where you are in terms of credit granting, how you're feeling about growth versus asset quality there?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

The asset quality that we expect in the Second Quarter is the same level that we show in the Second Quarter. We do not see -- the situation will not be a big improve. The (lending) positions probably will be around the Second Quarter.

**Q - Yolanda Courtines** {BIO 1552757 <GO>}

But it is growth-less because you've tightened your credit granting at all here?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

I would expect a little bit improvement in the Brazilian economy because of some seasonable factors as increasing minimal salary, we are more selective in granting credit for Taii customers. And inflation probably will be lower. That's the main drivers of these assumptions.

**Q - Yolanda Courtines** {BIO 1552757 <GO>}

And what level of approval ratings are you running right now, roughly, in that segment?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

In Taii the approval rate is around 10% of the total proposals.

**Q - Yolanda Courtines** {BIO 1552757 <GO>}

Okay. Great. Thank you, very much.

**Operator**

Thank you, Miss. Courtines. Our next question is from Stephen Barrett of Thames River Capital. Please go ahead.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

Good morning. Previous guidance has been for Taii to break even around the middle of next year. Is that still the case?

And secondly, you mentioned in the report that the effective tax rate basically rose because of the decline in TGLP. TGLP fell again in July to 7.5%. Could you give us some

sort of guidance on effective tax rate for the second half of the year? Will it be around 31%, 32%?

And finally, just on time deposits, you've seen quite a sharp shift in the mix of your funding in the last two years, with very high growth in time deposits. I was just wondering if you could explain what's behind that. Thanks very much.

**A - Alfredo Setubal** {BIO 1528623 <GO>}

We are supposed that the effective tax rate will be around 31%, 32% because it was not possible to July the tax regulator with the way that we paid before through the TGLP interest for shareholders, as an impact. Probably we will pay through dividends. And this has not had the same impact.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

So you're saying, basically, your effective tax rate is going to rise to 31%, 32% going forward?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

Yes, yes. And can you repeat please the second question?

**Q - Stephen Barrett** {BIO 20736781 <GO>}

The first question was just on Taii. Your previous guidance was that it was going to break even around the middle of next year. Is that still going to be the case?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

Yes, we are -- in our guidance that we will achieve the break even in Taii operations in the Fourth Quarter of 2007.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

Okay. And then, it was just on your funding. You've seen very sharp growth in time deposits over the last two years. I was just wondering if you could explain what is the strategy behind that.

**A - Alfredo Setubal** {BIO 1528623 <GO>}

I have to come back to the two year and a half to explain this question. In the past Itau acquired many state banks. These banks were prepared by the government to (inaudible) and they came up, these banks, inject the cash in that and we had a very, very high liquidity in our operations.

We utilize this liquidity to increase our credit positions during this period of June 2005. And after that the liquidity activity minimal level that Itau would like to operate and now we are increasing collateral with the cities. Basically, we are in the market competing with more funding to support our credit growth.

But all the operations that in terms of the credit that we provide, we have a positive spread and the -- basically, that we consider in our internal models in managerial accounting, the contribution from the cities for the profitability of the Bank and the contribution from the credit -- for the profitability of the Bank for each segment.

But when you look the total balance sheet, compare the total there for deposit and the cost of the deposit, naturally, it's increasing when you compare it to the past because the cities have more participation than in the past and this will continue.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

Okay, thank you. I just have one last question if I can. Basically, your cost guidance for this year is basically for total, non-interest expense growth to be around 12%, 13%. Is that right?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

It's around 10%, 2006 in relation to 2005.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

Sorry, I missed the figure. Was it 12?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

It will be -- we have this positive impact in the Second Quarter. When you revise for the total of the year we are forecasting 10%.

**Q - Stephen Barrett** {BIO 20736781 <GO>}

Okay, thank you.

**Operator**

Thank you, Mr. Barrett. Our next question comes from (Paolo Herbero) of Bear Stearns. Please go ahead.

**Q - Paolo Herbero**

Good morning. I want to talk a little bit more about Taii. I know you talked a lot about it already. But I read in the local press that you slowed down the rate of opening branches due to the higher than expected increase in delinquencies. So I would like to get a little color on that from you.

And also how much it costs to set each item? I know you have different kind of branches for Taii. But if you're going to give me an idea of how long it costs -- how much it costs to open and how long it costs for you to recover on each branch. And how many you expect to open next year? Thanks.

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**A - Alfredo Setubal** {BIO 1528623 <GO>}

One of our -- when we start our own stores that we open, it takes three years to achieve the break even.

**Q - Paolo Herbero**

Perfect. And, again, is it true that you're slowing down your opening of Taii stores because of the higher than expected rise in delinquency this year?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

Yes. We reduce a little bit the way that we are increasing the number of stores. We reduce a little bit the -- slow down a little bit because of the delinquency.

**Q - Paolo Herbero**

And that also signals you are more cautious in general in that segment and if it is, what are the -- you're reducing the number of stores. Your approvals standard is already at 10%. Is there anything else that you can do in order to select better the clients?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

Not any other comments. The effect will appear during the second -- the next couple of quarters.

**Q - Paolo Herbero**

Okay, sorry just to finalize. How many stores are you planning to open next year from the 900 that you're going to close this year? How many are you going to add in '07?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

In terms of CBD I think we will open more 50 kiosks to finalize the total operations. In terms of our own stores I think we will open more 40 -- around 40 stores. And the operation of Lojas Americana is totally complete.

**Q - Paolo Herbero**

Okay, perfect. Thank you.

**Operator**

Excuse me, our next question comes from Mr. Rafael Camargo with Credit Suisse.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Good morning. I'd like to have a better understanding of the money market costs. I think it was 100% in relation for the First Quarter. So can you explain better what are the components of this account and what to expect going forward? Thank you.

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**A - Alfredo Setubal** {BIO 1528623 <GO>}

Just to understand clear your question, we mentioned that we are more active to increase the overall position with cities and our credit portfolio are increasing to the level that we mentioned before. To provide funds for this we are more active in the institutional market where we have to pay a little bit higher interest rates, when you compare with Selic.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

So, you expect going forward that this level of the money market accounts to stay at this current level right?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

Yes.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Okay. And just one last question. If you have a very comfortable BIS rate and very comfortable excess capital, why do you explore this money market instrument if they are so expensive?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

The BIS calculation, you have to look very deeply, is a consequence of the average of the total assets. And compared with the net worth, we have the Level 1 and the Level 2. In this moment the Level 2 we were not issued new subordinate debt, being according our disclosure the maturity of this subordinate debt is decreasing. And therefore we have a BIS ratio around 16.3. And we are -- to provide funds for the Bank we have to go to the markets and they get more deposits than before.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Okay, thank you.

**A - Alfredo Setubal** {BIO 1528623 <GO>}

It's not totally linked, the BIS ratio with the cash position because, for example, when you talk about mortgages, the weighted assets is a little bit lower; 50%; and the total assets is 100%, just to give you an example.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Okay, thank you.

**Operator**

Our next question comes from Mr. Pedro Guimaraes with Banco Pactual.

**Q - Pedro Guimaraes** {BIO 1973955 <GO>}

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Hello. Most of my questions were already answered. In fact, it's just a simple question related to the Consumer Finance business, especially, with the breakdown in division between the Taii segment, CBD joint venture with Lojas Americana joint ventures, (inaudible) and the Taii PC.

The question that I have is trying to understand the difference between the delinquency rates in each one of them and also the risk adjusted deals because, the key question that I have is, what is the difference that Itau wants when you lend directly through the Taii branches, when you lend through CBD, through Americanas and the (Consignado) that are still 65% or 70% of the total Taii loan portfolio?

So this is an important question also because regarding of the resolution 2682, how much more you lend the Consumer Finance, we also should expect higher provisioning levels. So I just want some more information to be able to put some more in depth analysis in my model. Thanks a lot.

**A - Henri Penchas** {BIO 1525748 <GO>}

Pedro, Henri speaking. We can provide you after the delinquencies ratios, provide to the market the difference between the four operations you mentioned. As a general guidance the Consignado has the lower delinquency ratio and has also, obviously, the lower spread.

After that, you have Lojas Americanas and CBD with a higher delinquency ratio than the Consignado. But lower than the Taii delinquency. So the higher delinquencies in Taii, lower in Lojas Americanas and CBD and much lower in Consignado.

**Q - Pedro Guimaraes** {BIO 1973955 <GO>}

Okay. Just for us it's -- also if you could elaborate a little in terms of comparing the delinquency rates at least of Lojas Americanas and CBD and all the unsecured loans that you have that you usually lend to the Itau clients. I would like to know if you have some difference in terms of the unsecured loans that you have through your own branches and through these joint ventures?

**A - Henri Penchas** {BIO 1525748 <GO>}

I don't have the numbers here with me. But the delinquency ratio is higher in that operations that in the normal operation of a branch. The spread is also much higher for that operation. So, we have to look that carefully comparing the spread, the delinquency and the net income.

**Q - Pedro Guimaraes** {BIO 1973955 <GO>}

Okay, thank you.

**Operator**

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Thank you. Our next question comes from Jordan Hymowitz of Philadelphia Financial. Please go ahead. Pardon me Jordan, please go ahead with your question sir.

**Q - Jordan Hymowitz** {BIO 1501428 <GO>}

Most of my questions were answered as well. I just was wondering, you think it will be probably three or four more quarters before there is any absolute increase in the net interest income after provision? On the last call you said it would probably be towards late '06 or early '07 and the net interest income after provisions has been flat now for about three quarters. So do you think it will be the Fourth Quarter '06, First Quarter '07 before we'll see an up-pick?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

We expect that the provisions will be stabilized in the level of Second Quarter. That is how we see our position in this moment. We are not seeing that the delinquency will increase so much. But we are not expect that will decrease in this moment.

**Q - Jordan Hymowitz** {BIO 1501428 <GO>}

So my question is about the net income interest after provision has been flat the past three quarters. Do you think it will be flat the next two as well and then start to pick up in '07, is that the thought process?

**A - Alfredo Setubal** {BIO 1528623 <GO>}

No, we explained that in the presentation. Basically, Jordan, in the First Quarter of this year it was a seasonable aspect related with tax collections, with some heavy news for IPOs that affected the Second Quarter. We expect that in the Third Quarter and the Fourth Quarter of this year we will increase it and the environment being our guidance in terms of a 50% increase in services fees in 2006 in relation to 2005.

**Q - Jordan Hymowitz** {BIO 1501428 <GO>}

Okay, thank you.

**Operator**

Thank you. (Operator Instructions) That concludes today's question and answer session. Mr. Alfredo Setubal, at this time you may now proceed with your closing statements.

**A - Alfredo Setubal** {BIO 1528623 <GO>}

I'd like to thank you all for your participation. We had a record number of participants through the telephone and probably through the internet also. So for us it's very important your participation to be with us. I think we finish the quarter already with a very good recurrent number. I think we have very solid banking operations. We expect these to continue in the coming quarters and we expect to be with you to release the Third Quarter. And continue to have this good trend in our results. Thank you for all and good day.



## Operator

That does conclude our Banco Itau Holding Financeira conference for today. Thank you, very much for your participation. You may now disconnect.

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