

Q3 2003 Earnings Call

Company Participants

- Achilles Kato, Industrial Relations
- Alfred Setubal, President, CEO, Director

Other Participants

- Jason Mallon, Analyst
- Mari Pearri, Analyst
- Philippe Cruz, Analyst
- Unidentified

Presentation

Operator

Ladies and gentlemen. thank you for standing by. At this time all lines are in a listen-only mode. Later, there will be a question and answer session and instructions will be given at that time. If you should require any kind of assistance during the call, please press star, '0'.

As a reminder, this conference is being recorded. At this time, I would like to turn the conference over to Mr. Achilles Kato [ph] from Thomson Financial. Please go ahead sir.

Achilles Kato

Good morning, Ladies and Gentlemen and welcome to Banco Itau Holding Financeira SA Earnings Conference Call to discuss Third Quarter 2003 results. My name is Achilles Koate with Thomas Financial Investor Relations, Brazil. Banco Itau apologizes for the inconvenience caused with the time change of the conference call. Unfortunately, technical problems are outside of Banco Itau's control. We have done everything possible to minimize the delay caused.

I would like to mention that slide presentation has also been made available on the company's Web site at www.itu.ir.com. during this call. I would like to remind you of the tools that had been developed at the Itau Holdings Investor Relations Web site.

First users may now send their questions in advance prior to the conference call or after the presentation by clicking at a specific link.

Second, Itau has developed a presenter controlled mechanism which allows the speaker to move the slide automatically throughout the presentation.

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Also, Itau has developed a slider internet bases. If you want to share you opinion with us on these new tools available, you can send an e-mail to Investor.relations@itau.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Security Litigation Reform Act of 1996.

Actual performance could differ materially from those anticipated in a forwarding looking comments as a result of the macro economic conditions, market risks and other factors.

With us today, in the conference call are Mr. Alfred Setubal, Investor Relations Director, Mr. Anki Beinchet [ph] SVP and Mr. Steve de Kavadu [ph] Executive Director. First Mr. Setubal will comment on Third Quarter 2003 results.

Afterwards, management will be available for question and answer session. It is now my pleasure to turn the call over to Mr. Setubal. Mr. Setubal you may now begin.

Alfred Setubal

Thank you. Good morning, It is a pleasure for us again to be with you to comment about the Third Quarter results. Let me now review a very good and very solid especially if we consider that no way such a narrow results in the net income that we realized.

The first client is more highlights about the performance in the members which symbolize the quarter with (inaudible) equity of 11 million, 500 millions Reals with a growth of 6.4% if we compare with the Second Quarter of this year. This growth is mainly because of some gains in available sale social securities and of course, the net income from the quarter. ROE remained very high for the quarter, above 30% again and as I said at the beginning, mainly recurrent translating results.

The DIS ratio, we finished the quarter with 21.5 considering Q1 and Q2 with an increase of 300 basic points and when we compare to Second Quarter, what figures very possible position in terms of solvency and give a lot of room to grow our assets especially credit assets. Consistency ratio, we finished the quarter with 46.8 with a very good number. Again, we are going to see this in the next two slides.

Going through slide number 2, statement of income. We finished the quarter with 807 million Reals with a growth of 4%, when we compare to the Second Quarter and total assets was 119 million Reals.

In this slide, I would like to comment the net interest margin, the first slide when we finished with 2.7 million Reals with a growth of 10.8 when we compare to the Second Quarter. This growth is mainly because of the risk of credits that we have, we change and we grew especially the middle market companies, credit portfolio during the quarter and we are going to see the sun's light perhaps what give us small spread and more margins.

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Of course, the net interest margins were also be impacted by the treasury gain because of the reduction in interest rate during the quarter and again by the Central bank of Brazil. We had some gains in our securities portfolio. Parts of these gains are safe agreeable for sale security that goes directed to the effects of holders equity and part goes to this margin.

Also we had some trading gains in treasury that represents the gains, the total increase in the net interest margin. Going to the second line, the provision for loan losses, we can see huge growth, we are going to be compared to the Second Quarter.

The Second Quarter 484 million Reals in provisions in this Third Quarter 659. This means an increase of 36% and mainly because we did reclassification for one big client in the latest coal sector. Then we had to increase because of this reclassification, the level of provisions for these loss.

The second reason was because we increased the exceeding provision in 65 million ryans during the quarter to face uncertainty, see or not see in the future so we increased and are going to see in the next slide, the exceeding provisions for the quarter.

As much as expenses, I am going to talk a little bit later in this presentation. And the slide # 3, we can see there are ryans for the last 8 quarters.

We can see that for the last seven quarters, we have our ryans higher than 25% and analyzed of course and the last five quarters we have them over 12 %. So that means, we continue to have a very good performance and returns for our shareholders.

Slide # 4, we can see a brief down or all consolidation net income. We can see that banking considering banking, just Banc Itau operations 36% of our net income, Itau debt [ph] that is the wholesale of arm of Bank Itau represented 23% of the total net income, Credit card operations 18%, Insurance pension plan and capitalization 17% and after management 6%.

That shows that the insinuation what we have in our pending activity that represents a good verification in terms of income and sources for the bank, not depending only on credit and things related to insurance rates.

We can see the next slide, a moderate pay view of these break downs and this Swiss lights relates to the banking of Itau, we can see the last interest margin which shows some growth quarter to quarter, mainly because of the aspects that I mentioned some detailed before, especially, the increase in the middle market credits full swung and no one also doing the effort of Itau was mainly flat for the period.

So, if we continue to just banking of the Itau 308 million Reals are required. The next line shows the Banco Itau, bank statement from the failed and renovisionist with 219 million Reals for the wholesale and national Banco Itau Holding. Here I would like to mention again that the increase from Owen Welsaw's [ph] provision in the Second Quarter was 34

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million Reals which increased these level of provision to 175 million Reals, mainly because of this recordification of the company of the electro volt factor.

In terms of credit cards, the next line, we can see that in the quarter, the results in terms of credit cards, the whole operation of credit card represented 148 million Reals which was a slight decrease from the 166 million Reals that we have in the Second Quarter and for the year from January to September 146 million Reals, what shows that it is continued to be very important a reason for the bank.

If you analyze the NG&A, you feel that for this quarter and the number of cards were almost the same when we compare it to Second Quarter and a small reduction in terms of revenues from that bill. The next line showed insurance capitalization pension plan and I would like to mention clippings in this slide.

First one is net income, where we can see a growth for 106 million in the Second Quarter to 147 million in the Third Quarter, very good result and we mentioned that we have been growing in terms of (inaudible) business especially the pension plan that continuous to grow very fast in Brazil and we are recovering the delay that we have in this business.

Another thing that I would like to mention is the combined ratio, that for the quarter was a little bit better than in the Second Quarter. We finished with 97.6% in several combined ratio for the insurance business, where is a very good ratio and had little bit better than the Second Quarter.

In the next slide we can see also the growth in terms of technical provisions for just read business line and we have been growing in a very good pace for the last five quarters. We finished with almost 6.1 billion Reals in terms of technical provisions and this number will increase after we finish the deal with AGF, we are buying the expansion from business of AGF here in Brazil that represents 459 Reals in provisions.

What we said we are going to increase the acquisition of this portfolio of clients and technical reserves about 15% of the total technical reserves of the pension plan. And we are going to increase around 80% for the total technical reserves for this business line.

So, we continue to pay attention and we want to increase our market share and our presence, especially in the pension plan business. That is what the main objective of the acquisition of the portfolio AGF in Brazil.

The next slide is the portfolio management, the asset management of (inaudible) with the Net Income in the quarter of at 49 million Reals total asset to the management we finished with 71.8 billion Reals. This number we will increase 1.2 billion Reals with the acquisition of AGF, that is the total number that results the management of the AGF bank that we are also buying in this deal.

The next slide is about the security portfolio, as it is important to mention that very small part of our security portfolio continued to be classified and has the maturity and we

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continue to have a very good number in terms of realized results for these portfolios that we carry on in the assets of the (inaudible).

About almost 30 billion Reals is the total portfolio of security then we have realized the gain of 1.2 billion Reals in these portfolio. We divided 679 already adjusted in this stock holders equity and 445 million Reals in additional provisions for the market to market to market of the security. So 1.2 billion is the realized result compared to 1.1 billion during the end of the estimate.

So, we continue to have a very good gain and realized the gain in these portfolios especially because of the reduction in if your actually we continue to have evaluation of the portfolio. The next slide is about the credit operations, we can see that we have reduction in the portfolio for this quarter again. And we go to the next client. We can see a breakdown of the credit operations and we can see that the main reduction was in the corporate side when we compare Second Quarter to Third Quarter the reduction in the corporate credit portfolio was almost 1.8 billion Reals where the main reduction in terms of portfolio.

Here I would like you to see that the small and medium size companies we increase almost 300 million Reals in the quarter in this segment and made it (inaudible) if one year goes by the end of September 2002 the increase in the segment was almost 800 million Reals that is good increase. It is a segment that we would like to continue to go in terms of credit operations.

Going to the next slide we see the provision for revenue losses, the total provisions in the bank and the consolidated 3.29 billion Reals, the minimum required by the legislation of the central bank is 2.3 and we have an excess provision as I said of 913 million Reals with an increase on this line of the additional provision of 65 million in the quarter we increase (inaudible).

If we see the next page we can see the long performance lower than the cover relations and they performing lower we can see the orange line the known performance ratio for individuals that we have a reduction in the quarter to 8.25% in terms of companies that we increase mainly because of they were (inaudible) this try in terms of their actual sector we increase to 2.53.

So the final number, the compounded number was 4.71 with a slight increase when we compare with the 4.55% of the Second Quarter. In our view this is a very good number and we have, we show in the last slide very good level of provision of our portfolio.

And also we can see this very good levels of reached the covered ration when we increase again to almost 190% of the portfolio and this is a very solid position for our credit portfolio.

Banking and service schemes is like 16 we will increase quarter to quarter around 6% the banking service scheme and mainly because of asset management, which is money is

coming back to mutual fund this year and collection of the first two lines of these two slides.

Collection also increased from 77 to 89 million Reals in terms of collection versus increase before these services. Another point is credit cards that we can see it from reduction in terms of revenue for the quarter, as I said the quarter was not so active in terms of credit card operations.

Although continued to be a very, very important business for us. Going to (inaudible) expenses in the quarter we have the total expense of 1.9 R\$ as compared to 1.8 R\$ of the Second Quarter. Increase of 8% leading the course of union negotiation, annual new union negotiations that was done in September and with labor agreement in salary increase of 12.6% and a bonus for the employees.

The bonus, the total impact of the union negotiation was 106 million in (inaudible) 56 of these were the bonus and 62 were the things relation to (inaudible) and 13 salary and things like that we already made the provision in the Third Quarter balance sheet. So the total impact was 106.

In terms of total expenses if we do not have the (inaudible) if you don't have acquired possibly, (inaudible) we have a decreased of 100 R\$ when we compared to last year. So we continued in a week effort to control and this also reduced a nominal expenses at the bank and the effort that we are doing we continue on this 18 in this light of both efficiency ratio. Then, we continued for five quarters with efficiency ratio below 50%. It was our goal to achieve any possibility to reduce.

We did that in the last five quarters and we continued also on the orange part of this graphics at 43.2% which we accumulate in the next 12 months. So we will continue our effort to reduce expenses to increase our net income.

We realized the result, we have to 2 billions and 70 million Reals that have realized change in our assets, not considering the 913 in additional provision that we have for our credit portfolio as I mentioned some slides ago. So we have received a very good provision in terms and realized gains in our assets, consolidated affect. It was reviewed and now stopped.

There is slight depreciation of our shares that we continued to have due to this performance in the last year to be continued to have a very good gain, when we see long term return for our shareholders, above the banking system and above the rate fact index presentation, where will be at the Brazil day in New York next November 17. And we have a presentation there.

We saw the 20 Brazilian companies and we have also some room for one of one meeting during the day of this meeting in New York. With this, we finish the first part of this Conference call and now we are able to answer question. Thank you.

Questions And Answers

Operator

Ladies and Gentleman we will now begin the question and answer session. If you have a question, please press the star key followed by the '1' key on a touch tone phone now. If at any time we would like to remove yourself from questioning queue, press the pound key. Our first question comes from Mr. Jason Mallon [ph] with Westerns [ph]

Q - Jason Mallon

Hello, everyone, my question is related to your financial income and what you highlighted in your presentation related to trading games. We have, you to disclosed very clearly the games on your trading portfolio as well as the unrealized games available for sale and go through your book value.

Could you tell us what the total realized trading games were as the components of your net financial income and I think it will be interesting to know as well how that you spoken out because you give us the breakdown between the bank as well as the DVA Itau. How you allocate those between those two operations.

A - Alfred Setubal

Hello Jason, (inaudible) speaking. Good afternoon. Jason just we have reported is about 268 is in the range is thought off before tax. And we have 145 in (inaudible) a mark to mark during quarter end of trade book value. That the total include both the Itau and the Banco Itau DVA.

Q - Jason Mallon

Let me clarify, the R\$265 includes the R\$145 of the trading or that's separate?

A - Alfred Setubal

It is separate.

Q - Jason Mallon

Okay. So the total impact would be the sum of the two.

A - Alfred Setubal

Yes. Both before tax.

Q - Jason Mallon

: Thank you, very much.

Operator

Our next question comes from Mr. Mari Pearri [ph] with Dutsche ISC [ph].

Q - Mari Pearri

Good afternoon, everybody. I have a question with regards to provision charges went forward. You did mention in your presentation that there was a significant increase this quarter. What should we expect in terms of provision charges in the next couple of quarters?

A - Alfred Setubal

Good afternoon, Strictly speaking, we are expecting the similar that we had in the Third Quarter, basically with the individual and the company. These increasing provisions that we had in the Third Quarter was more related with the specific estimate and that can be made later due to the later call effectible and we expected that these gradually hit over.

Q - Mari Pearri

Are you fully provisioned for this quarter.

A - Alfred Setubal

No, we are not fully provisioned. We have 70% of this correct proof world wide.

Q - Mari Pearri

Okay. Thank you, very much.

Operator

Our next question comes from Ms. Yulanda [ph].

Q - Unidentified

And how does you Itau define what are you not performing loan is and you got the same amount recount area?

A - Alfred Setubal

Hello. We define non-performing loans, the loans that they are overdue over 180 days; sorry it is 60 days that is overdue. And in the Itau we consider that the total of current that the document has in exposure with the bank. And these become no approval.

Q - Unidentified

Okay. Yes I could barely hear you on that last remark you made.

A - Alfred Setubal

Sorry.

Q - Unidentified

Okay you mentioned 50 days plus two and it is the total loan that becomes past two, not just the installments, correct?

A - Alfred Setubal

Yes

Q - Unidentified

Okay. Thank you, very much.

Operator

Ladies and Gentlemen, as a remainder if you would like to pose a question, please press the star key followed by the '1' on your touch tone phone now. All right, next question comes from Mr. Maripyegi [ph] with Duetshe IXE [ph]

Q - Unidentified

Hello. So if you could followup now on your capitalization ratio, which saw a significant increase, this quarter, or your DIS ratio jump to 21.5%. So first I would like to hear from you at what level will the management be comfortable with implying what is the minimal DIS ratio that the Itau be comfortable with and now what do you plan to do with your excess capital?

A - Alfred Setubal

We considered the minimal 48-hour a first class banking with 13.5%. Remember that in Brazil the minimum is 11%. We consider that we have 21.5% today and this excess of capital and we plan to utilize this capital to increase the loan for following the future. And the second reason, we are awaiting and we are analyzing all the possibility to make a decision in Brazil even in the insurance sector or in the bank.

Q - Unidentified

What about increasing dividend payments or must we initiate buy back for them?

A - Alfred Setubal

The (inaudible) problem is more amounts for the banking. Always we have a opening problem to get into the policies of the bank for long time. And if you would concede that fact from the system from the values for our shareholder, we will buy that shares. That is basically the problem and we don't intend to distribute in this all the kind of seasons. All our problems we can distribute around the 30% of the profits.

Q - Unidentified

(inaudible) thank you very much.

A - Alfred Setubal

Thank you.

Our next question comes from Mr. Philippe Cruz [ph] from Merrill Lynch.

Q - Philippe Cruz

Hello everyone. My question is related to the customs, the distraction right now in Brazil to increase the customs rate to 7.5% and to see if this is going to apply to the Banks and hearing that it may not and if so, what will be the impact for Itau for a potential increase?

Q - Unidentified

This is a new increasing fact, you are not attacking the banking, It is for now no financial companies. Apparently the little group, we forget that this increasing factors we will affect our (inaudible).

Q - Philippe Cruz

Sir, can you repeat the last part? It is not going to affect the banks?

Q - Unidentified

Yes, not indeed, because the potential increase from 3% to 4% in the near future that will be the increasing effect for the banks. This new increase is for no financial companies.

Q - Philippe Cruz

Okay. Welcome.

Operator

Ladies and Gentlemen, as a reminder, if you would like to pose a question, please press the star followed by the '1' on your touch-tone phone now. Our next question comes from Mr. Marupyegi [ph] with Deutsche IXE.

Q - Unidentified

Thanks. If you could comment also on your expectations for long growth next year, if you could breakdown by segments that would be very helpful. Please?

A - Alfred Setubal

We are expecting to grow 10% in the First Quarter of this year and 10% in next year in nominal terms. Basically we think that it is great environment for consumer sector.

Q - Unidentified

Okay. In what sets do you think that the consumers can grow?

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A - Alfred Setubal

Basically the ecos that we start the work in Brazil during (inaudible) and we think that it depends how fast the economy will grow, considering that this moment that (inaudible) start to grow and I think it will bring down, quietly accordingly in real terms around 12% in the total of the (inaudible)

Q - Philippe Cruz

Okay. Perfect, thank you.

Operator

Ladies and Gentlemen, as a reminder, if you would like to pose a question, please press the star followed by the '1' on your one touchtone phone now. Again to pose a question, please press star, '1'. This concludes today's questions and answers session. Mr. Alfred Setubal at this time, you may proceed with your closing statements.

A - Alfred Setubal

Thank you, again for your time to be with us. Sorry again for the inconvenience of changing the schedule. I think we had as I said a very solid and strong result from the quarter. And we continue to be very aware of the necessity of controlling of expenses to maintain this level of return that we have been able to release in the last three quarters and we will continue to take all the opportunities to continue to increase shareholders value for our shareholders. And take advantage of the aspects of the Brazilian economy that we had been able to take advantage in these last quarters.

We continue to be mentioned during the presentation, very solid numbers in terms of provisions, note for credit and for securities. We have a very clean balance sheet in terms of assets. So we continue to be very optimistic about the future and about the results of Banco Itau.

Thank you, again and hope to be with you in the next conference call by the beginning next year, when we will release the year-end's results. Thank you.

Operator

That does conclude our Banco Itau's conference for today. Thank you, very for your participation you may now disconnect.

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