

Q4 2007 Earnings Call

Company Participants

- Daniela Ueda, Financial IR- Brazil
- Henri Penchas, SVP, CFO
- Roberto Setubal, CEO, Pres.
- Unidentified Speaker, Company Representative

Other Participants

- Daniel Abut, Analyst
- Ian Smith, Analyst
- Juan Partida, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Banco Itau Holding Financeira's conference call.

(Operator Instructions)

At this time, I would like to turn the conference over to Miss Daniela Ueda of Financial Investor Relations Brazil. Please go ahead.

Daniela Ueda

(inaudible)--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 Roberto Setubal, CEO and President of Banco Itau Holding Financeira, Henri Penchas, Senior Vice President and CFO of Banco Itau Holding Financeira, Silvio de Carvalho, Executive Director of Controllershship of Banco Itau Holding Financeira, Candido Bracher, President of Banco Itau BBA and Marco Antunes, Director of Accounting of Banco Itau Holding Financeira. First, Mr. Roberto Setubal will comment on the 2007 results. Afterwards, management will be available for a question-and-answer session.

It is now my pleasure to turn the call over to Mr. Roberto Setubal.

Roberto Setubal {BIO 1525746 <GO>}

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Bloomberg Transcript

Okay. Thank you, Daniela. Good afternoon. Good morning for all of you. I am very happy to be with you all again this year. I will try to keep my presentation in 20 minutes so that we have enough time for questions.

Okay. Starting from page two for you that are following in the Internet session. We had a net income of R\$2.029 billion in this last quarter with a recurrent net income of R\$1.7 billion. This was an increase of 14% compared with last quarter and an annualized ROE of 25%. As an extraordinary item we had the sale of BM&F and Bovespa shares which accounted for a positive impact after tax of R\$340 million.

Also, an important highlight of this year was the growth of the credit portfolio. I will emphasize especially the Vehicles portfolio which grew last year 64% compared with 36% of the whole portfolio.

This year we have had many positive non-recurring effects that we show in the next page, page 3, where you can find especially the most important one was the disposal of the shares of Redecard which accounted for more than R\$1 billion in the Third Quarter, as you remember.

On page four we highlight some other key numbers of last year. The full year number is for net income was R\$8.474 billion, of those R\$7 billion was recurrent with the growth over last year, the year before, of 15.9%. Shareholders equity grew 22.9% to R\$29 billion so a very strong capital base that gives us a BIS ratio of almost 18% at the end of the year. Efficiency ratio also improved to 46% and non-performing loans was a very good year and we have a non-performing ratio of 4.4% coming from 5.3%, which was a major improvement in the year and gives us a strong offset[ph] on our portfolio quality for the year 2008.

Going to page five we have some important numbers also. I highlighted the treasury result of last quarter which was R\$313 million coming from a bad quarter, the Third Quarter, which was negative. This number is pretty much in line with the average number that we have had over the last two years. Probably you have a number on the average which is pretty much in line with that quarter number. So this was an important improvement in our recurrent net income that grew 14% over last quarter, especially given this treasury effect.

For the full year I think that I would like to highlight again the result of loan losses which was a very important contribution for our growth and result and numbers overall and that we have had expenses growing year over year of 13%. This was mainly due to the fact that we are strongly growing the bank. We are growing the bank in all the business lines, we have been opening branches, we have been hiring people from different lines which are in growth and this is pretty much in line with the growth of Brazil. And we are very positive about coming years on Brazil and the prospective of financial services in Brazil and especially on our potential growth here.

Going to the next page, page six, we have the loan portfolio broken down by segment and by product. I would highlight again the Vehicles portfolio which grew 64% and accounts for R\$30 billion almost at the end of the year. It's also important to highlight that Corporate business was very strong in the last quarter and we are now putting some more growth on our small and medium size Corporate portfolio, which we believe will go on next year. So we believe that we will be outgrowing the market in that segment.

The next page shows that we have been growing very strongly the credit portfolio over the years, 30% a year. And even more, 43% on the individuals, on the consumers portfolio. One of the portfolios that we believe will be growing very fast in the coming years is the mortgage portfolio, although it's a very small portfolio today. But over the years to come we believe that we will enjoy a very strong growth in the mortgage portfolio.

So we open here on the next page, screen number 8, the volume that we are signing up with price about mortgage loans. So we can see that's increasing quite fast and it will have an impact on our balance sheet over the years, although again we are coming from a very low level of mortgage activity in Brazil. Just to give you an idea, mortgage represents almost -- less than 10% of our automobile portfolio. So it's just to give you a relationship.

And we believe that in the next five, ten years this will clearly outgrow all the other portfolios. And given this perspective we have made a very important agreement with Lopes, a real estate broker for consumers, which is the biggest number one broker in Brazil. And we have finalized late in 2007 a partnership and they will select Itau as their bank for the finance the sales for the clients that they are selling houses and apartments. And we believe that this is a 20-year agreement and will be very important over the years to make our portfolio grow faster than the market.

On page number nine we give you an idea of how well our loan portfolio in terms of quality, performance. We came down a lot in terms of NPL ratios and we are very happy about that and we are very positive on our prospective for 2008. The non-performing loans that in December were at a level of 5.3% now is 4.4% with a very important improvement over the quarters in 2007.

The funding of the bank, as we can see on page ten, not only funding but also funds that we manage have been growing quite fast, 29% of growth last year, which is very strong growth. Going to page number 12, the banking service fees have been growing quite steadily at a lower speed than the credit portfolio but still growing quite strong and this year grew almost 12%.

And I have to comment with you the current account services that we have reduced, I think in August, the fee for clients have a small impact here in terms of growth and is doing very well. What happened is exactly what we were aiming for, we have been more competitive so that the consequence of this strategic movement was that we are opening much more accounts in the bank after that. But we are expecting a higher growth in number of clients for 2008 than the ones we have been enjoying over the years in the past.

Expenses overall, as you can see on page number 13, is growing at a reasonably high level compared to inflation. But this is mainly due to the fact that, as I mentioned before, we are expanding the banking activities very strongly, not only opening branches, as I have mentioned, we are going to open this year another 130 branches. But also expanding all business lines of the bank. So this requires some investment and some increase in terms of expense. But we are very aware and very clear that we have to grow revenues more than expenses and this is something that we are keeping track. But revenues are growing on a speed even higher than this one as we are looking here.

Another thing that I would like you to take a look with me is on page 14 is our unrealized profits are giving market value of a lot of financial instruments. I'd like to highlight to you that we have not realized profits that we could have realized in December of over R\$8 billion. Just to remind you that it represents almost 25% of our equity so we have profits that have not been realized as big as those that I have mentioned. And you can see on page 14.

Two numbers came in the last quarter, basically, although we have sold Bovespa and BM&F shares, we have also kept some of those in our investment portfolio so we still have unrealized gains given the quotation that those shares had at the end of the year. This shows how strong Itau is in terms of capitalization not only because of our very high level of BIS ratio but also the level of unrealized gains. This can give us a strong growth potential and we can also be open to acquisitions in the future.

Going to the performance of our three segments in the quarter on page 16 we can see that Banco Itau, which is related to our retail operations in our branches, have had a very strong performance

in last quarter as did well also the Itaú which accounts for our non-banking clients, finance clients. Basically, Automobile and Tái divisions also had a very strong quarter.

If we go to page 17 we can see that both have enjoyed very strong performances compared to last year, the same level of performance in the case of Itaú BBA. Although it's a very strong number, RAROC of over 20% for our corporate investment banking business is great performance, it has decreased from last year. So altogether numbers are still very strong from a RAROC. So 27% RAROC only for recurrent results, still very strong for our business and with strong prospects.

Last year when we announced our guidance we put a lot of very detailed numbers. And as we can see on page 18 and 19 we performed almost everything that we put as goals for 2007. We are very happy with the numbers that we had shown in 2007 and we are looking forward to a strong 2008.

As you can see on page 20, we have some guidance for 2008 and we believe that, given the very strong macroeconomic situation of Brazil, we don't believe that Brazil will be mainly affected by the crisis in U.S.A. and Europe. Brazil is enjoying a strong macroeconomic situation and probably, although the growth will not be as high as 2007 which was above the level 5%, we are forecasting 4.5% growth for Brazil this year. So we believe that credit will keep very strong growth, we are forecasting a 30% growth over the 43% that we had last year. So still very strong growth year after year. And we believe that this is mainly due to the prospects of Brazil and the Brazilian economy is very strong.

For small companies and medium size companies we are forecasting 25% growth, revenues coming from service will grow a little bit less than last year, especially because some restrictions that we have on charging fees on current accounts. As you know, Banco Central announced some restrictions and we have; we will lose some revenue the coming year. Efficiency ratio remains, we believe that we can keep the efficiency ratio at the same levels that we are today. So we are keeping the expansion of the bank and we are believing that we will keep the efficiency ratio at current levels, even considering the expansion that we are doing.

Delinquency ratio probably will remain in the same level that we have seen now. We are not looking for additional improvement because we believe that the optimal level of risk that we can take would be the current level, maybe a little bit even higher than the current level. So this is our forecast, our guidance for 2008. And in the last page you can see, which I believe is very important, how our recurring net income has been growing very steadily and gives us a very good prospective of the sustainability growth of our business in Brazil, especially given the good macroeconomic prospective.

I will end up here and I will be opening the session for questions. I have here with me Henri, Silvio and Candido, as you know.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Saul Martinez of Bear Stearns.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. I have two questions. First, can you talk a little bit about your capital strategy? You have an 18% BIS ratio, a 30% dividend payout ratio, which obviously contributes to the ROE compression that we've been seeing. Can you talk a little bit about the philosophy behind what seems to be a very conservative capital strategy? Then I have a follow up to that.

A - Roberto Setubal {BIO 1525746 <GO>}

yes. Well we are living in a very high growth moment and we believe that this capital is important. As you've seen, the growth of our portfolio we are forecasting more than 25%, 30% growth for the next year. It can be even higher than that as it was this year compared to our forecast. This will depend on how well the economy will perform. But this is a growth ratio that is a capital consuming growth ratio because we do not generate and we do not keep after the distribution of dividends the same level of growth in our capital base.

So for instance, last year we grew like 36% the loan portfolio and 22% our equity. So we have perspectives of higher growth than capital due internal generation. So this will consume some of the capital that we have in excess today. In addition to that, we believe that it's very important to keep some margin of excess capital. We have been in a market that rules have been changing, sometimes with high impact in terms of capital. For instance, last year, we had some movement in the regulation that impacted our ratio more than 1%. This occurred in the middle of last year, then again in September.

So we believe that it is important to keep some margin in order to account for this growth and also for the changes that we might see in regulation. Especially the prospective in regulation we are not sure exactly how Central Bank will regulate BIS II in Brazil and other things. So we still have some uncertainty on that in addition to the growth. And we also have been acquiring companies as you know. Over the years Itau has been a buyer, a strong buyer in the market and to be a fast buyer you need capital available. And so this is something that we also like to keep in order to be able to move fast.

An additional thing is buy back shares, we have for a long time been buying back shares on Itau. We have traditionally bought shares in many moments as we did now in January, we bought back shares, we bought more than 5 million shares, as we disclosed last week. So we will look at the opportunities of using the capital in the best way for the shareholders, trying to balance the growth that we are looking, the opportunities that we might see in terms of acquisitions, buying back shares and also keeping some additional margin for changes in regulations. We will, for the time being, keep the same level of distribution that we have had in the last years. This has been around 30% liquid for the shareholders after tax, 30% of our profits.

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Thank you for that very thorough answer, Roberto. Just one additional question, if you can just give us your thoughts on some of the regulatory and political environment and specifically whether you see any risk that the Central Bank is going to take any further actions to reduce lending growth.

A - Roberto Setubal {BIO 1525746 <GO>}

This has to do more with monetary policy and not with bank policy, let's put it this way. Central Bank is clearly signaling that he is worried about inflation pressures. So for the time being there's no prospective of interest rate reduction. I believe that some of the measures that they have taken in the beginning of the year, these would include reserves requirement over the listing companies and also the increase on the tax over financial movement operations is also in line with the monetary policy. So I don't believe that there will be any drastic change in the market. But the Central Bank will be very close with the market in order to have no pressures on inflation. And I think they have been very successful doing that.

On the other hand, the good news is that after the last session, we call it Copom in Brazil, a session that they establish the rate for the markets, like the FOMC in the U.S. we have the Copom in Brazil. The last meeting they finalized on the minutes that they were worried about the pressures but after that the number that came out in terms of inflation and prices overall and economic conditions overall, I believe, are better than the ones that they based their comments in

that moment. So I don't believe -- for the time being we don't see any further movement on Central Bank.

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Thank you very much.

Operator

Thank you, Mr. Martinez. Our next question comes from Juan Partida of JP Morgan. Please go ahead.

Q - Juan Partida {BIO 4768925 <GO>}

Hi good morning, I have two questions as well. The first one is related to the loans sold this quarter, they amounted to around R\$1.2 billion. My question is if you have calculated what your NPL ratio would have looked like without the sale. And also, over what period of time, if you had kept these loans on balance sheet, over what period of time you would have charged them off to try to calculate a normalization of that ratio?

The second question is if you could elaborate a little more on your Lopes venture, particularly the conditions for the additional R\$220 million to be paid and particularly, how will loans be booked? Are you going to book 100% of the loans or just 50% of the loans, if you could help us understand that better. Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, I'll make some comments on the venture with Lopes. Then I'll make some comments on the credit issue that you have raised and I will pass over to Henri that he would make some additional comments on that as well.

The Lopes venture, we believe that it's a very important venture for the perspective of the business of mortgages. The first thing that I'd like to mention is that the Lopes deal is a venture for 20 years so it's not something that's for the next quarter, it's something for the next many years ahead. Lopes is

Lopes is the number one broker in Brazil, it has very high prestige in the market. They have been around for more than 40 years. They are a well known, very reliable broker and highly regarded all over Brazil. Number one by far over the second. And we believe that mortgages, this is something about mortgages, just to give you an idea.

On the mortgage business, which in Brazil has now a very low position, the banks have a very small portfolios of mortgages. But this we believe will change over the next coming years. The level is very low and the growth will be very high. The level of portfolio, low volume of loans, now it's about 2% of our loan portfolio, just to give you an idea how small is that portfolio.

So we believe that it will enjoy high growth and be a very important portfolio probably, maybe if everything goes okay in Brazil in terms of macro conditions. It will be the number one portfolio maybe in five or ten years. Today is a small portfolio, 2% only. But we will enjoy high growth.

We believe that this is going to be a very important way to have relationships, stable relationships, with clients and so that you sign up some relationship when you do a mortgage for eight, ten years on average. And we believe that this stable relationship, will give us an opportunity to sell other products to those clients.

So the Lopes strategy is in addition to the branch network strategy for mortgages and we believe that we can sell mortgages through branches. But not only branches, we are not going to support our business only on the branches. We believe that we need other sources of origination of clients for that business and Lopes is the strategy that we have. By doing this partnership, we believe that we will have a lot of originations coming from Lopes. It will be a very important channel for us to originate loans, mortgage loans.

On the credit figures that we do, one thing that I would like to -- two things that I would like to make very clear before I turn over to Henri is number one, this does not affect our results, okay? Our results are not at all affected by those accounting procedures. Number two, these procedures have been very, call it an over time, consistent over time. This is very important to understand. And they are basically based on the idea that we do not like to keep on our balance sheet as loans that we don't believe that have perspectives of recovery. So all that we have been doing over the years and we try to be very consistent to invest is keep our loan portfolio as clean as possible and that's -- so that we have a clear number for our balance sheet. And Henri will make some additional comments.

A - Henri Pénchas {BIO 1525748 <GO>}

Good morning. Now after the exposition of Roberto, it's a very few things to say. But what's important is that the number that you have now is very consistent with the past. Because until two years ago, we were writing off all the loans that in the judgment of the board of the banks, the probability of recovery was small. And it's exactly that amount that now we are selling without any effect in the P&L statement.

So what --

A - Roberto Setubal {BIO 1525746 <GO>}

Just to complete, I would like to emphasize that improvements in NPL ratio that we have enjoyed last year is a real improvement of the quality of the portfolio and it has kept the -- this policy that we have discussed here is stable. So the improvement would have had -- even if you had kept these numbers, these loans on our portfolio would be a different number but also the trend will be the same.

Q - Juan Partida {BIO 4768925 <GO>}

Okay. Thank you. So the -- what you're saying is you would have charged off this R\$1.2 billion, for instance, in this quarter? If you hadn't sold it, you would have charged it off this quarter?

A - Roberto Setubal {BIO 1525746 <GO>}

Yes, yes. This is what we used to do. But Central Bank, in order to be -- to keep more comparability among the banks, that they defined clearly and very rigid way to write-off. So we cannot write off today. So -- but they allow us to sell it.

Q - Juan Partida {BIO 4768925 <GO>}

Okay. Just going back to Lopes, how will the loans be booked? Let's say, if Lopes generates R\$100 in loans, in mortgage loans for you. Would that be booked 100% as a loan for you? Or is it -- ?

A - Roberto Setubal {BIO 1525746 <GO>}

Yes. It will be booked as 100% loan for us. We will have the capital allocation for that 100% loans. And we have a profit sharing that accounts for cost of capital that we have and we share addition of over the cost of capital with loans, with Lopes.

Q - Juan Partida {BIO 4768925 <GO>}

Perfect. Thank you very much.

Operator

Thank you for your question, Mr. Partida. Our next question comes from Daniel Abut of Citi. Please go ahead.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, Roberto. A follow-up question to a prior one you addressed and also to your guidance. I wanted to know, as much you said that you are assuming 4.5% would be growth when you're talking about your guidance for loan growth and the like, what is your base case for interest rates? Are you assuming stable interest rates, some minor hikes? As a complement to that, depending on what your answer to that is, what are you assuming for net interest margin evolution this year after the big decline that we saw in recent years because the link[ph] was falling very rapidly?

A - Roberto Setubal {BIO 1525746 <GO>}

Hello, Daniel. Good question. I think that when we first announced this guidance for 2008, we thought that interest rates would decrease, Central Bank would decrease interest rates in 2008. At this moment exactly, I don't think that our basis -- basic scenario is that they will keep interest rates stable for the full year. So it's a more, I would say, a more difficult scenario.

Although it's a more difficult scenario, we kept the same guidance for NPLs because probably this would have more consequences for 2009 than 2008. We believe that we still have a chance of Central Bank reducing rates at the end of the year and second semester. But on the other hand, there's also possible -- a possibility that Central Bank increases rates this year, especially given the inflation pressures that we have seen in Brazil given the heating of the economy in this market.

I think that this is possible. But not probable. I think that the pressures are pretty much under control. The level of pressure -- I mean, we've seen some food prices increasing like every area in the world. But this -- the first sign that we have this year is that these pressures are reducing. So I still believe that there's no -- that we are not going to have interest rate increases, although I recognize that this is possible. If they increased interest rates, we will see some impact in NPLs this year and more of that in 2009.

Q - Daniel Abut {BIO 1505546 <GO>}

Just to make sure I understand, Roberto, you're still thinking that there is a possibility that they may start -- they may restart the easing cycle later in the year. But having said that, there's also the probability of some rate hikes in the short term?

As a follow-up to that, how would you record, in terms of your treasury position, if that short-term increase in interest rates were to occur? And I'm asking this question because, as you know, not so long ago we had some surprises on the treasury side. How are you positioned treasury-wise for the scenario of interest rate given that it is so uncertain?

A - Roberto Setubal {BIO 1525746 <GO>}

Daniel, yes, that's correct. We had a bad quarter in the Third Quarter. But as you could see on page five, we had recovered our performance on treasury to regular results in the last quarter. At this moment we have a very small position from the market. So this only what I can tell you.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Roberto.

Operator

Thank you, Mr. Abut. Our next question comes from Mario Pierry of Deutsche Bank. Please go ahead.

Q - Mario Pierry {BIO 1505554 <GO>}

Yes. Good morning. I have two questions also. The first is on your guidance for expense growth. You guided that you expect your delinquency ratio to remain at current levels. Are you going to give any specific guidance in terms of expense growth? Should we assume that with the continued expansion of your branch network that we should see expenses grow above 10% as they did in 2007? Also I wanted to hear your expectations for an increase in the number of employees? I think you mentioned that you expect the number of branches to increase by 130 and what does that translate in number of employees?

My second question has to do with your loan growth. Clearly you have been gaining market share this previous quarter. Your loans grew 11% while the market grew 8%. Who do you think you're gaining market share from? Could we -- could this be an impact or could this reflect that the international banks have been tightening their credit standards in Brazil following the crisis that they're seeing? Or do you think you're gaining market share from someone else? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay. Starting with this last question about the growth, I'm sure who we are gaining market share from. But it's hard to tell you only looking at this big number. We have a different mix than the market has and we have some positions where the market is growing quite fast, like the vehicles for instance. So the fact that we are gaining market share overall, not necessarily this gain is coming from the same competitors. Because in these segments we have different competitors and this will give -- very difficult to say who is the loser.

I'm not sure exactly about the foreign banks. Usually, you are right, foreign banks on crisis, they reduce their exposure in Brazil, they reduce their exposure locally and I'm not sure. But, what's going on. But clearly we have a very good year -- I mean a very good quarter on the corporate loans in the last quarter. I'm not sure. But they -- your explanation might be correct.

The other question was about expenses.

A - Unidentified Speaker

The employees.

A - Roberto Setubal {BIO 1525746 <GO>}

And employees. Expenses, yes, you have -- you can assume that our expense growth will be above 10%. We -- but you can also assume is that our efficiency ratio will be stable as we give as guidance, which means that we expect to have our top line growing as fast -- at least as fast as our expense line. We believe that we will -- in this expansion, we will be hiring employees and probably we will have a growth of something around 5% to 10% in number of employees for the next year.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So let me just follow-up then on the international competition. Have you seen already any effects of the Santander ABN Amro consolidation? Has there been -- have they been slowing down their lending in order to focus internally? Or is it too early to say that?

A - Roberto Setubal {BIO 1525746 <GO>}

I think it's too early to see anything like that, that you are mentioning. I cannot feel it.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

Thank you for your question, Mr. Pierry. (Operator Instructions) Our next question comes from Ian Smith of Nevsky Capital.

Q - Ian Smith {BIO 17539373 <GO>}

Hi. Good afternoon. I just wanted to follow-up quickly on the change in the reserve bank deposits from leasing companies. It's suggested by the Central Bank that there's about R\$160 billion of that sort of deposit in the system, which would imply an extra R\$40 billion that would need to go into reserves by the end of next year. Do you anticipate any sort of indirect fallout from sort of banks looking to fund that gap? Whether there might be any pressure on funding costs as a result?

A - Roberto Setubal {BIO 1525746 <GO>}

Well first I have to say, yes, you're right, the numbers you mentioned are correct. And they have to be understood as -- I have to remind you that these reserves requirement will have to be deposited in Central Bank over more than one year, I think. So it will be something very smooth from the market. So a big number for now. I mean, it's a number that we will see, the impact of that will be seen over the next year.

So it's very hard to say exactly what will happen. But I don't think this is a big number in the market. I think Central Bank did that much more to align this, there were some distortions on the market and the market started using the leasing companies to fund other operations than leasing and the Central Bank put the leasing company under -- the funding of leasing company under the same kind of funding procedures as other funding. So they basically equalized everything so that those distortions weren't anymore in the market. And the impact of this additional reserve that will be deposited in the Central Bank, I think it's hard to say the impact, especially because it will be so slowly that there will be hard to see exactly what will be the impact. But it's a small number on the total financial assets in Brazil. A very small number.

Q - Ian Smith {BIO 17539373 <GO>}

Thank you very much.

Operator

Thank you. Our next -- thank you, Mr. Smith. Our next question comes from Mr. Partida, JP Morgan.

Q - Juan Partida {BIO 4768925 <GO>}

Hello. Thanks. I would like to follow-up with the question on the fees. The fee you're expecting 8% growth in 2008. But I saw some comments on the press that perhaps, given the new regulation on fees. And competition, fees on current accounts are probably not going to grow that much or perhaps decline?

Also a big contributor, particularly in the Fourth Quarter. But throughout the year, to fees was -- were brokerage fees, which the expectation would be that they also decelerate substantially. So what would be the key drivers for -- to generate the same % expansion in fees in 2008? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay. Fees and our commissions and fees performance for 2007 and 2006, you can see on page 12. And looking in those numbers, you see that a very broad source of revenues that we have on

services. Although we have, as I mentioned, some restrictions to charge current account services, which will make some reduction probably in the current year, we still believe that the other revenues that we have, like asset management, credit cards and loans and collection services and others will make up the difference. So at the end of the day. And especially given this perspective of growth of the economy, we are in an economy that's growing like 4.5%, this is our number for 2008. When you have the economy growing at this level, financial activity is also very intense. So we believe that the 4.8% that we are giving as guidance will come from other than current account services, other certain current accounts.

Q - Juan Partida {BIO 4768925 <GO>}

Right. In the particular case of mutual fund fees, the growth in 2007 was just 1%. Do you anticipate - what's the strategy there? Is it the launch of more equity driven funds that could revive that segment of the market? Or what was it that caused the deceleration there and that should change in 2008?

A - Roberto Setubal {BIO 1525746 <GO>}

Well the asset management business is not enjoying a growth as big as other products in the bank. Especially because banks are looking forward funding alternatives to accounts for this loan growth and they are not putting in priority the growth of asset management. In addition to that, asset management is so -- funds like money market funds and others are being moved into deposits for the banks in order to account for this loan growth. So the asset management, will not be growing as it did in the past, especially in the traditional fixed income type of funds.

But you are right, on the other hand, we have some opportunities on stock shares funds that are being more popular nowadays in Brazil. But in Brazil, since we still have relatively high interest rates, stocks and other types of funds are not that much popular and most of the funds that we have are still fixed income, money market funds, which as I mentioned, will be suffering a little bit given the fact that the banks are looking forward funds alternatives and not as much selling funds for clients, fund products for clients.

Q - Juan Partida {BIO 4768925 <GO>}

Thanks, Roberto, very helpful.

Operator

(Operator Instructions) Our next question comes from Juan Hocar[ph] of Arthur Capital[ph].

Q - Unidentified Participant

Yes, hi. I just had a very quick question. If you could help us understand what the trends are in your net interest margin and what your outlook is for the coming year? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

I cannot give you a number. But overall, I would say that trends are -- some pressure or stress, clearly. Stable rates, interest rates. And more volume. In addition to -- when you think of the loan portfolio, you have to think two ways. One is the mix and the other is the pressure and stress. At the end of the day, I think the balance -- you see, I don't have a number to give you, I don't have a clear trend. But I'd say overall that the trend is a little bit of pressure on the net interest margin.

Q - Unidentified Participant

Okay. Thank you.

Operator

This concludes today's question and answer session. Mr. Setubal, at this time, you may proceed with your closing statements.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay. Thank you, all for being with us. It was very helpful to understand what the main things that you are -- you have in mind, what are your worries and I believe that was very useful for us and I suspect that it was also useful for you, this conference. Thank you very much once again. See you next time. Bye-bye.

Operator

That does conclude our Banco Itau 2007 Earnings Results Conference for today. Thank you very much for your participation. You may now disconnect.

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