

Q2 2003 Earnings Call

Company Participants

- Alfredo Egydio Setubal, Investor Relations Director
- Curtis Smith, Corporate Participant
- Henri Penchas, SVP
- Silvio Aparecido De Carvalho, Executive Director

Other Participants

- Beau Tucker, Analyst
- Jason Mollin, Analyst
- Joanna Curtis, Analyst
- Mario, Analyst
- Saul Martinez, Analyst
- Sylvia, Analyst

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. Instructions will be given at that time. If you require any kind of assistance during the call, please press star zero. As a reminder, this conference is being recorded. At this time, I would like to turn the conference over to Curtis Smith [ph] from Thompson Financial [ph]. Please go ahead, sir.

Curtis Smith {BIO 16748580 <GO>}

...at the top of the page. I would like to point out that news tools have been (inaudible) 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 the specific link. Second, Itau has developed a presenter-controlled mechanism which allows the speaker to move the slides automatically throughout the presentation with faster loading images. If you want to share your opinion with us on these new resources available, please send an e-mail to investor.relations@itau.com.ir.

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

With us today in Sao Paulo this morning are Mr. Alfredo Egydio Setubal, Investor Relations Director; Mr. Henri Penchas, Senior Vice President; and Mr. Silvio Aparecido de Carvalho, Executive Director. First, Mr. Setubal will comment on Second Quarter, 2003, results. And afterwards management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr. Setubal. Please go ahead, sir.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Good morning. It's a pleasure for us to be back to our traditional quarterly conference call about the results of Banco Itau holdings. First of all, I think it's a very important quarter for us. Net income was very good and it's important to analyze this quarter because the results are almost totally recurrent in terms of the operations of the bank. We don't have much non recurrent results this quarter different from other quarters. So it's good to see how strong our operations in the local (inaudible) market (inaudible) have been.

We'll start with the highlights for this quarter. The results increased 8.7 when we compare to the First Quarter of 2003. We finished with 776 million reais. This gives us a return on equity of 32.1% annualized. We continue to be able to have high returns, as in past years. Stockholders equity finished at 10.7 billion reais, an increase of 8%, mainly because we issued new shares to pay part of the DBA [ph] transaction. We paid the local shareholders partly in shares, as you remember. And part of this increase in stockholders equity is made through the market to market position in the securities available for sale that we have. We are going to see these numbers ahead in more detail.

Market capitalization finished with 21.1 billion reais. We continue to be the largest bank in terms of market capitalization. Solvency ratio, the (inaudible) ratio continued to be high, 18.5 by the end of this quarter and continued to give us a very good position to continue to increase our assets. Efficiency ratio, 46% above the First Quarter, continued to be a very good number and we are going to see this later. non-performing (loans) increased compared to the First Quarter. We finished with 4%, 4.65%, due to the economic environment in Brazil.

We can see now the state of income. We can see on the first line the financial margin. We show a reduction when we compare it to the First Quarter. We finished with a reduction of 18.6% at 2.3 billion reais, mainly because in the First Quarter we had strong gains from the market to market. Remember that we finished 2002 with a very high interest rate, (inaudible) very high. During the year, especially in the First Quarter, we had a very good positive movement from the market so the Second Quarter financial margin was reduced, also due to the reduction in the dollar against the real, the valuation of the real.

Provisions for loan losses increased a little due to the environment, the economic environment in Brazil. We made some extra provisions on the corporate side on some loans at Itau BBA [ph]. We did the same in the First Quarter, if you remember. It's important to say that these loans that we made provisioned at Itau BBA are guaranteed by the sellers. So in reality we were not; it was not necessary to make the provisions. But we decided, as in the First Quarter, to make the provisions in the balance sheet, even having the guaranties from the sellers.

We show here on the third line credits recovered. It's important; this year you can see in the First Quarter 86 million reais recovered; the Second Quarter, 136m. It's important to remember that last year we did a lot of write offs. And this year, 2003, because of this high level of write offs we have been able to recover more than in the past. So we decided to show you these numbers to show that our recovery this year has been very important.

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In terms of banking fees, 1.2 billion reais as necessary expenses, a little increase. Recurrent income, 793. Extraordinary income, 17 million reais, very low when we compare to the First Quarter when we did the amortization of the good will of Banco Fiat and some amortization that was still on the balance sheet of BBA. So we finished with 776 million reais, an increase of almost 9% with total assets of 106.8 billion reais, which shows, as I said at the beginning, a very strong quarter for the bank, especially because we were able to show you the strength of the quality of our operations in the banking activity.

In the statement of income in more details, we open in Itau; but with (inaudible) so you can see the results. And we can see with Banco Itau BBA that in this quarter we have lower results compared to the First Quarter of this year, especially because of the provision level that increased, as I said a few minutes ago. We made provisions at Itau BBA of 91 million reais for some companies and this imposed a reduction in the net income of Banco Itau BBA. It's important to say here that Itau BBA is not yet all a wholesale bank in this first semester because some of the operations of Banco Itau are with BBA. For instance the consumer credit operation of Finostria [ph] that we bought is being transferred to Banco Itau last month and this month.

So the First Quarter and also this quarter were also influenced by this. Paris Bank [ph], we did the transfer in June and July so; and we still have a lot of credit, corporate credit, on the books of Banco Itau that we are going to transfer until the end of the year. So, to really have a good view of Itau BBA as a wholesale bank, we are going to see more next year and this quarter. And next quarter will be; we will have some transfer of assets to Itau BBA. So we'll still have mixed results from Itau BBA these two quarters of 2003 and some extra in these two remaining quarters of the year.

The next slide shows us the net foreign exchange position. It is important to spend a few minutes on this. We have \$2.4 billion outside Brazil in terms of investments. That in reais means 7 billion reais. So we can see in the first slide when we compare to the First Quarter a reduction because of the valuation of the real against the dollar, not because we reduced these investments. The level of investments continues to be the same.

So we can see in the next slide the liabilities indexed to foreign currency. That is higher than the permanent foreign investments that we have. So at the end of this quarter, as we have been saying in the last conference calls, we finished with 225 million reais, which is around \$80m, a net negative position in dollars on our balance sheet. So we remember that in the; when we finished the Third Quarter, since then in September of last year, we have been reducing our exposure in terms of dollars. And you'll remember that by the end of September the position of the bank was very high and the valuation of the real was very high.

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We discuss here and we show you in the conference calls and presentations that (inaudible) the real was over devaluated and we've started since September to reduce our exposure in terms of dollars following the markets and following what is happening here in Brazil. So we finished this quarter with a net position of negative \$80m, which proved to be the correct decision because of the devaluation of the real continued through the months and we were able, through our treasury operations, to reduce the losses, potential losses that we could have had if we hadn't done any kind of move.

We can see in this slide now the results effected by the foreign exchange on our net income. The final number is 51 million reais negative because if you follow this chart you see in the first slide foreign exchange valuation of investment abroad a negative of 769 because this \$2.4 billion that we have outside Brazil gives us this negative impact.

The second line we can see a positive number of 642. That was the result of local operations effected by the foreign exchange valuation. In this line we include mainly the hedge that we did in the future markets here in Brazil to compensate the position that we have abroad and the market to market recovery of the prices of the securities that we have linked to dollars.

And another important line is the results of securities selling. That was a gain that we realized selling securities. So the final results, effectively 51 million negative, compared to 297 million positive in the First Quarter. If you want, during the Q&A part of this conference call we can give more details.

The financial instruments, market to market, we showed you that we still have a lot of unrealized gains in our assets. If we realize all the gains and provisions in securities and all the assets we would have a net income impact of 1.8 billion reais. That is higher than it was in the First Quarter and the impact on the stockholders equity would be 1.4 billion reais.

We can see the most important part of this unrealized gain when we go to the next slide and we see the gains that we have, the level of provisions that we have in the securities portfolio. So we can see following this slide on June 3rd trading securities, the cost was 9.2 billion reais and a market value of 9.3b, almost the same level. These 20 million reais were included in our net income. The securities available for sale; we had a gain during this quarter, lower than in the First Quarter but it's still important. As you know, this gain was not passed through the net income but goes directly to the stockholders equity. You can see the 531 million reais gain in the (inaudible) securities that increase our shareholders equity.

(inaudible) nothing changed. Derivatives also had a gain. And all these gains (inaudible) impacted the stockholders equity. And we still maintain, as in the First Quarter, the additional provision for the securities portfolio of 545 million reais. So in total we have unrealized results just in the securities portfolio of 1.076 billion reais. That shows an increase of 270 million reais when we compare to the First Quarter of this year. It's important to note that the gains are very important. And we increased the level of provisions during this quarter.

When we go to the credit operations, we see a reduction of a little bit more than 800 million reais due to the valuation of the real in our total portfolio and of course due to the conditions, the economic conditions, in Brazil, we have been more selective in terms of providing credit for our clients.

If we go to the next slide, we see that we continue to have a concentration on the corporate side. 58% of the total credit operations are to corporate business, (inaudible) important that Itau BBA has today and will continue to have in the future in terms of credit operations. The small and medium size companies, we have a small reduction due to the environment but we continue to be very, very interested in growing this credit portfolio of small and medium sized companies.

Individuals; a small reduction means 22% of the total portfolio. Credit cards increased a little during the quarter compared to the First Quarter, representing 6% of the total credit and the increase was mainly because we continued to increase the numbers of credit cards in the year of 2003. We restate, with this high level of interest rate, this is a business that is decreasing. So we continue to be concentrated in the corporate. If we look at the bottom of the charts, we see that one third or around one third is foreign currency credits and two thirds in reais.

Non-performing loans and coverage; we have a (inaudible) in the non-performing. You see in the yellow/orange line an increase to almost 9% in the individuals, also an increase on the corporate side and in companies; more in medium size companies, an increase to 2.35 against 2% in the First Quarter. This is due to two reasons mainly; the increase in provisions at Itau BBA, as I mentioned. And also because of the valuation of the real. Most or almost 100% of the foreign exchange; of the foreign currency credits are on the corporate side. That was reduced in the quarter because of the valuation of the real.

So we increased the provision and reduced the portfolio. So the final number increased in terms of non-performing. Compounding individuals and companies, we finished the non-performance lower this quarter with 4.65% compared to 14, 16, 17 in the last two quarters. I think this deterioration is normal, due to the environment that we have here in Brazil with slow growth and high interest rates. Coverage was also reduced to 173% but continues to be very, very comfortable.

In terms of provisions, this chart shows you the provisions for loan losses, 3.1 billion in terms of total provisions. And 2.2 billion would be the minimum required by the Central Bank in terms of the legislation. And we continue to have 848 excess provisions which we think is very good, especially analyzing the economic environment in Brazil. So we are very comfortable with the quality of our assets and with the success and the level of provision and the excess provision that we still have in our balance.

Deposits, assets under management, increased a little, especially (inaudible) and we are recovering deposits from the market to market crisis of 2002. Banking services fees increased 3.6% in the quarter. You can see in this chart that 15 million reais was the contribution of the (inaudible) already. We can see also an increase in mutual fund management fees due to the recovery of the deposits in the mutual fund business, our

mutual fund business. And also credit cards increased 5.2% in terms of fees this year due to the increase of the (inaudible).

Insurance capitalization and pension funds continue to be an important business for us. We are giving more details this quarter also because it's relevant in terms of net income already at these three operations combined. You can see operating margin of 161 million reais compared to 144 million reais in the First Quarter. And the net income of these three operations; the net income was 106 million reais. It was very good and continued to increase in terms of importance on our balance sheet. You can see on the bottom also the combined ratio that's continued to be below 100 and the claim ratio that was reduced in the quarter when we compare it to the First Quarter. So these operations, special pension plans, gained importance in terms of net income for Banco Itau Holding.

As administrative expenses is something that we are giving more and more attention to, as we have been saying in the last conference calls, we continue to be very tight on controls in terms of expenses and we are showing you that we have been able to really control the expenses more, preparing the bank for an environment that will come with lower interest rates, lower (inaudible) and more volume in terms of credit. So it's important to continue this trend of controlling the administrative expenses. You'll see that the administration expenses increased 4%, one quarter compared to the other. But mainly because of the expenses of Banco Fiat that we are starting the process of integration and doubling this quarter and the next quarter the numbers for Banco Fealty will be lower due to this integration of the operations.

So we can also see in this other chart about the administrative expenses, just to give you an idea how tight and how we are controlling the expenses, we compare here the first semester of 2003 when we had 3.5 billion reais in terms of total administrative expenses. And we compare it to the first semester of 2002. And we add into the first semester of 2002, as is written in the footnotes of this chart, the total expense that we have to date with Banco BBA and Banco Fiat. And you see that the level this year is a little bit lower than compared with the scenario of the first semester of 2002.

So either it's high inflation, labor increase, (inaudible) depreciation when we compare these two periods that impacted our contracts in dollars, the increase in telecom and energy and so on, you see that we have been able to almost keep it almost flat. These costs are almost flat, reflecting the efficiency ratio that we finished in the First Quarter of this year. You see in this chart that for Fourth Quarter already we have been able to keep it below 50% and you see on the right of the chart the annualized 12 months accumulated; we are seeing three quarters already accumulated (inaudible) 50% was very good.

To finalize, payments in (inaudible) on capital we increased in this first half compared to the first half of 2002. We declared 407 million reais compared to 153 million reais in dividends for the quarter. And to finalize, for those that are interested, we are having our annual meeting here in Sao Paulo on the 20th of August. It will be one afternoon. We are going to present Itau BBA with Mr. Carlos Bracher, the Executive President of Itau BBA. We are going to give more details about the (inaudible) financing (inaudible) and our President and CEO, Mr. Roberto Setubal, will talk about strategy and performance. For

those of you in Brazil, maybe you will be interested in coming. It will be a pleasure for us to receive you.

With these slides, I've finished the first part of the conference call and we are now open for the Q&A part of this conference call. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Mr. Saul Martinez with Bear Stearns.

Q - Saul Martinez {BIO 5811266 <GO>}

Good morning, gentlemen. I just have a few questions. You mentioned in your conference call that you had reduced foreign exchange exposure going back to September of last year given your expectation that the real would appreciate. I just wanted to get a little bit of color in terms of your expectation for the real going forward, particularly by year end. And a little bit of color on some other macroeconomic indicators, particularly GDP and interest rates for this year and for next year. Thank you.

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

The GDP for this year; we are expecting something around 1.5% of growth. It could be a little bit higher or a little bit lower maybe. But around this level. For the next year, we expect growth above 2%, maybe 2.5. Between 2 and 2.5%. Of course it will depend also on how the international economy will be and so on. But we think with the reforms and the reduction in interest rates that we think will happen (inaudible) during this semester, we will see more growth next year. Something around 2.5 I think today is a good number for next year.

In terms of foreign exchange, it's of course very difficult to give a position. We expected the foreign exchange to be something between 310, 315, 320 for the end of the year. Of course this will be (inaudible) issue of euro bonds and so on continues almost at the level we had during this year. Of course if (inaudible) we can have it a little bit higher. If it's (inaudible) is higher, a little bit lower. But we think something between 310, 315, 320 is a good range for the dollar under the conditions that we have today.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. What about interest rates? Do you have a house view on what you think the field will be by year end?

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

We expect that by year end interest rates will be between; somewhere between 18 and 20%, the (inaudible) rate. We think that inflation is very, very low. We have seen some

deflation already in some indices for last two or three months. We think with the approval last night of the Social Security reform; and so we think the Central Bank in the next meeting through this year will reduce more deeply the interest rate. This is our expectation. Something between 20 and 18% for (inaudible).

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, great. Thank you.

Operator

Our next question comes from Mr. Jason Mollin with Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

Good morning, everyone. My question is a specific question. I guess you could refer to page five of your presentation about the results that you showed from your foreign exchange position. We see in the quarter; you highlight that you showed a loss of 769 million reais which is a lot lower than one would expect if we look historically at this 7b; above 7 billion reais permanent foreign investment abroad. If we look at the 16% appreciation of the real during the quarter we could expect more of a loss, in the range of 1.2 billion reais.

And the second part of the question is related to the fact that the tax effect is so low on the results that you show, the 686 million gain. You show a tax effect of only 44m, basically a 6% tax rate. If we look, for example, just at the First Quarter results you're showing, you showed a 29% tax rate. If you could help us understand, one, why your foreign exchange; the loss on your foreign exchange; from foreign exchange variation on your investment abroad is so much lower than we would expect. And, two, why the tax rate was so low, since I believe that the gains on your hedging are taxable.

A - Henri Pechas {BIO 1525748 <GO>}

Good morning, Jason. Henri speaking.

Q - Jason Mollin {BIO 1888181 <GO>}

Good morning, Henri.

A - Henri Pechas {BIO 1525748 <GO>}

Jason, the first question; we had exactly the same questions here in our (inaudible) conference call. When we bought 95% of BBA, the German shareholders sold outside Brazil 49% of Itau, of BBA. So we have a position; we have an investment outside Brazil that is denominated in reais. So you have to reduce from when you are talking a consolidated statement. I have from Brazil to foreign investments; I have this investment when I look at my investment outside, my revenue investment of 400 million in Brazil. So that's the reason why in consolidated terms the foreign exchange valuation is lower than was expected if I had just the position denominated in dollars. And the second position (inaudible) is also the investments we have in euros. So we had an appreciation of the

euro against the dollar. So the two factors resulted in the variation of the investments of just 769.

Q - Jason Mollin {BIO 1888181 <GO>}

So; but let me ask this question. Is that permanent foreign investment of over 7b; is that the right number we should be considering or; I don't know how to reconcile the impact of the appreciation of the currency on this. In the end, it should net itself out.

A - Henri Pechas {BIO 1525748 <GO>}

Jason, it's a very difficult question. We will prepare the reconciliation and we will put it on our site for you and for all the analysts that want it. But it's exactly that. It's a reduction in the investment due to an investment (inaudible) 49% of (inaudible) outside Brazil. So obviously the total long dollar position is reduced from that. And the second main question is the devaluation of the dollar against the euro in the period. But I'll provide that this afternoon. All the analysts will have that on our site, in our investor relations site.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much.

Operator

Our next question comes from Mr. Beau Tucker [ph] with Merrill Lynch.

Q - Beau Tucker

Thank you. Hello, everybody. A couple of quick questions. Just the final points on the long dollar position. Given your expectations for the currency at the end of the year, should that indicate to us that at the moment you're actually short (inaudible). Should that indicate to us that you have or would likely reverse that position over either Q3 or Q4?

And then a couple of quick questions. One is maybe you could share with us your expectations for how reserve requirements may develop over the rest of the year, given what we know about the progress on inflation. And then the final question. Just in that you've now integrated to a substantial extent the Banc of CS [ph] and Finostria [ph] businesses, maybe you could tell us a little about the credit quality trends you're seeing in those businesses and if in any way they differ from our original expectations at the time you made the acquisitions?

A - Henri Pechas {BIO 1525748 <GO>}

Beau, Henri speaking. With the position we have in dollars, the long (inaudible) position we have in dollars of more than \$2 billion invested abroad. And with the expectation that we have about the devaluation of our currency against the dollar until the end of the year, we now intend to be neutral. So we will keep our neutral position in that. That's due to the cost, the internal interest rate we have in our country. If you imagine the dollar now is 303; it was one hour ago the last time I looked at that; that amount (inaudible) by the internal;

the interest is higher than the number we expect at year end. So for the moment we intend to be neutral in our position in foreign exchange.

The second part of your question was about the reserve requirements. The Central Bank is starting to lower the actual levels of reserves. For the moment they are just starting that. No doubt that they will reduce that, the actual amount. We don't know if they will reduce it this year, or if they will reduce it just at the beginning of the next year. In our (inaudible) for the moment we are considering that they maintain the actual level of reserve requirements until the end of the year.

The first question you had is about the operation of (inaudible) Finostria [ph]. The operations are exactly what; exactly with the (inaudible) that we made in our evaluation for the (inaudible) the market for car loans is lower than anticipated, the sales and the financing of cars is lower. So we have a reduction in the actual volume. Today, the government announced a reduction in taxes for popular cars. Probably with that the numbers will be increased. But (inaudible), for the moment we don't have any surprise in the (inaudible) and things like that. It's actually as budgeted. The only number that's lower is the volume due to the actual growth we have in Brazil. I believe those were your three questions. Okay, Beau?

Q - Beau Tucker

Thank you, very much, Henri. That was very complete. Thank you.

Operator

Our next question comes from Mr. Mario [ph] (inaudible) with (inaudible).

Q - Mario {BIO 1505554 <GO>}

Good morning, everybody. My question is in regard to your capitalization ratio. You posted a DIS ratio of close to 19% which is well above industry standards. And there are some people who might argue that you are over capitalized at these levels, especially in light of the weak economic or weak (inaudible) credit in Brazil. So I would just like to hear from you about possible uses of your capital in the next six to 12 months.

A - Henri Penchas {BIO 1525748 <GO>}

Mario, Henri speaking. Mario, I agree with you. We have a very comfortable DIS ratio. Even if you read the footnotes in the balance sheet, you'll see that if we realize (inaudible) gains (inaudible) that number will be higher (inaudible). For the moment, Mario, as we said in the last two years, we are open to acquisitions and everything that is proposed to us that makes sense for our shareholders to increase their return on equity and to increase the market value of the bank is being studied at the moment. Last year we had two acquisitions and this year for the moment we are studying some things. But nothing in particular.

Q - Mario {BIO 1505554 <GO>}

There has been some speculation in the local press that you might be interested in Lloyd's Bank. Would you want to comment on that?

A - Henri Pechas {BIO 1525748 <GO>}

I cannot comment about any particular operation. As I said before, we are studying all the things that are brought to us. And that make sense for our shareholders to increase their return on equity (inaudible). We will study; we have the capital and we have the management to do that.

Q - Mario {BIO 1505554 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Miss Joanna Curtis [ph] with JP Morgan.

Q - Joanna Curtis {BIO 20294595 <GO>}

Gentlemen, I wanted to focus in on the question of asset quality on two counts. First of all, you talked about the recovery which picked up. And I just wanted to get a sense; and I noticed in particular that they seem to have come in from the credit card company amongst others, what your expectations are on the recovery side for the rest of the year. Do you see this as a one-off or a trend that should remain strong in the second half?

And on the provisioning front in general, the provisioning levels that we saw in the first half of this year were definitely lower than at least we were expecting. And if you could talk a little bit about what provisioning levels might be in the second half of the year and if it is conceivable to have overall positioning for the bank this year be less than last year by your estimates.

A - Silvio Aparecido De Carvalho {BIO 1932648 <GO>}

Joanna, Silvio speaking. (inaudible) we are expecting that the (inaudible) in the same level that we had in these two other quarters. And today the ratios that we are seeing are at the level that we show in this conference. We are not seeing any big difference in terms of companies and in terms of the individuals.

Q - Joanna Curtis {BIO 20294595 <GO>}

And recoveries as well? You say...

A - Silvio Aparecido De Carvalho {BIO 1932648 <GO>}

In terms of recoveries, the same level that we had in the Second Quarter.

Q - Joanna Curtis {BIO 20294595 <GO>}

Great. And if I could ask a second question, just on the tax rates; obviously you've paid higher; on an effective rate basis, higher taxes in the first half of the year because of the currency position, the hedging of that. If we look on an annualized basis, the fact that you're looking at keeping this position fairly neutral for the rest of the year; is there an effective tax rate (inaudible) that we can look at for this year? I mean it should, in effect, be quite elevated relative to the prior years, if I'm correct.

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A - Silvio Aparecido De Carvalho {BIO 1932648 <GO>}

Just a moment.

A - Henri Penchas {BIO 1525748 <GO>}

Joanna, Henri speaking. Joanna, as you know, the fluctuation of our currency against the dollar for the permanent investments we have outside Brazil are not taxable and not deductible. So if we have in the quarter a strong depreciation of the real against the dollar, due to our long; and if we have a long position in permanent investments in dollars, this gain is not taxable. On the other hand, if we have a devaluation of the dollar against the real, the loss of that position is not deductible. So that explains the situation in the effective tax due to the income. That depends (on the fluctuation) of the foreign currency against our currency for the permanent investments we have outside Brazil. The other position in the (inaudible) securities all are taxable and deductible so that the main effect is the long position we have in permanent investments.

Q - Joanna Curtis {BIO 20294595 <GO>}

Thank you.

Operator

(Operator Instructions)

Our next question comes from Miss Sylvia [ph] (inaudible) with Goldman Sachs.

Q - Sylvia {BIO 16970194 <GO>}

What are your expectations for long growth for the remainder of the year and in 2004? In particular, which segments do you think would pick up if the economy does recover? You mentioned car loans, giving tax incentives. But what other segments do you think could recover going forward?

A - Silvio Aparecido De Carvalho {BIO 1932648 <GO>}

Sylvia, Silvio speaking. (inaudible) the second semester of this year we are expecting (inaudible) about 10%. For the next year, it depends on the condition of the (inaudible) this situation that we see in this second semester. We haven't started to prepare the budget yet. We are expecting at this moment that the macroeconomics will improve in this situation if the interest rates come down and (inaudible) goes much higher than this year, we (inaudible) will be much higher than this year.

Q - Sylvia {BIO 16970194 <GO>}

Okay, thank you.

Operator

(Operator Instructions)

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

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

Thank you, all for being with us. I think it was a very good conference call in terms of questions. I think we are open if you have additional questions after the more detailed analysis of our balance sheets with notes and (inaudible), please contact us and we'll be very happy and try to answer all your questions very promptly. Once again, as I said at the beginning, it was very good quarter, (inaudible) so you can analyze that as the recurring operations of the bank due to the fact that the impact of no extraordinary gains was very small. Thank you, again.

We hope to have another conference call for the First Quarter. And don't hesitate if you have any questions to contact us, through the telephone or through the Internet Web site (inaudible). Thank you.

Operator

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

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