

Q3 2006 Earnings Call

Company Participants

- Alfredo Setubal, IR Director and EVP
- Daniela Hueda, IR Advisor
- Henri Penchas, SVP and CFO
- Silvio De Carvalho, Executive Director of Controllershship

Other Participants

- Jason Mollin, Analyst
- Jordan Amwartz, Analyst
- Jorge Kuri, Analyst
- Juan Partida, Analyst
- Mario Empelban, Analyst
- Mario Pierry, Analyst
- Paulo Ribeiro, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by.

(Operator Instructions)

At this time, I would like to turn the conference over to Miss (Daniela Hueda) of Financial Investor Relations Brazil. Please go ahead ma'am.

Daniela Hueda

Good afternoon, ladies and gentlemen and welcome to Banco Itau Holding Financeira SA's Conference Call to discuss the Third Quarter 2006 results. I would like to mention that a slide presentation has also been made available on the company's investor relation's website at www.itauir.com during this call.

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 any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

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

First, Mr. Alfredo Setubal will comment on the Third Quarter 2006 results. Afterwards, management will be available for a question and answer session. It is now my pleasure to turn the

call over to Mr. Alfredo Setubal. Mr. Setubal you may now begin.

Alfredo Setubal {BIO 1528623 <GO>}

Good morning, for those in the U.S., Good afternoon, to people in Europe. We are starting our conference call to comment the results for the Third Quarter of Banco Itau Holding. For those who are following through the Internet or through the slides, through the presentation. We are on slide number 1, highlights.

The first highlight is the result, 71 million reais. After the amortization of the goodwill we were net in terms of fiscal effect of the acquisition of BankBoston in Brazil, 1.7 billion reais. So the result was very affected by this amortization. The net income considering the 9 -- the first nine months of the year, we finished with 3 billion reais. 3.29 billion -- billion reais. What give us annualized return on equity of 22.6. Portfolio of equity finished with 21.6 billion reais. After the issue of the shares that we gave subscribed by Bank of America, to complete the Brazilian transaction, we still had the Chile and Uruguay to issue shares after the approvals of the Central Bank of Brazil and the central bank of those countries.

The second highlight is the result not considering the BankBoston operation. The net income in terms of managerial information, in our view will be 1.549 billion reais for the Third Quarter, not considering the amortization of the goodwill and provision for restructuring of BankBoston.

This would represent a 4.9 increase in terms -- when we compare to the Second Quarter what we would give annualized return on equity of 31.6. For the recurrent result for the year would reach 4.4 billion reais and annualized return on equity of 33%. So in our view, the recurrent result for this quarter was very in line with the results that we have been releasing in the previous quarter and in line with the guidance that we have always give you in terms of growth of the bank.

The third highlight is the lower portfolio in this year including the BankBoston. Including BankBoston we would show -- we show 20.2% in terms of growth when we compare to the Second Quarter and 32.6 compared to December.

Highlight number 4, we show the numbers, not including the BankBoston credit operations. So the growth would be 5.9 when we compare to the Second Quarter. Mainly in the personal loans and vehicles that are segments that we have been growing in the last quarters.

The fifth highlight is the -- related to provisions. We increased the excess -- exceeding provisions above the requirement of the Central Bank of Brazil 100 million reais in the quarter. So we reach an excess provisions for loan losses of 1.7 billion at the end of the quarter.

By the other hand we reduced our provision for securities in the quarter in 180 million reais during the period as our BAS ratio increased a little from 16.3 to 16.8, related to the acquisition of the BankBoston and the issue of the shares of Itau Holding to pay for this to Bank of America.

On slide number 3, we have a more detailed explanation about the non-recurrent effects net of taxes for the quarter. So beginning with the net income that we released of 71 million, going, how do we get to the 1.549 billion in terms of recurrent net income, not including the BankBoston operation. So we see at the beginning and the top of the slide, we see the BankBoston results from -- for the year, 145 million reais. We made adjustments, especially for the criteria for loan provisions and amortization. The impact is 194 positive. Amortization of the goodwill and the tax related to this goodwill. So at the end we finish with 1.835 billion reais for results.

But we also had non-recurrent results at Banc Itau Holding. Example of this is the results that we have for selling securities that was held in our portfolio. A positive result of 109 million reais for the quarter, net of taxes always. Reversal of additional provisions for securities, 119. Hedge of

FINAL

Bloomberg Transcript

BankBoston positions, 12 million and the extraordinary result related to our XL insurance operation. So at the end, we had 286 million reais, nonrecurrent results in the quarter, related exclusively to the Itau Holding, not considering BankBoston. So at the end we finish with the recurrent result of 1.549 billion reais with an increase when we compare to the Second Quarter of 2006.

If we go to the next slide we see that it is in the Third Quarter, the results of BankBoston would be 43 million reais. So if we add that to the 1.549, at the end we finish with a recurrent result of almost 1.6 billion reais for the quarter.

Slide number 5 is a traditional one that we used to show you. I think here the highlight here in this quarter in these slides is the market capitalization at the end of September, 76 billion reais, now the number is higher because of the appreciation of the shares.

On slide number 6 we analyze the results in more details. The managerial financial margin, 3.9 billion with an increase of 4.6 always related to the increase in terms of volume for credit and the mix that continues to increase in terms of personal loans, consumer credit and middle markets.

Provisions for loan losses increased a little in the quarter. We've finished quarter with 1.254 billion reais. Fees, almost flat in the quarter. We are going to show in slide in a few minutes. Non-interest expenses, 2.886, which was an increase of 6.5. Also we are going to explain a little bit more about this increase. So we finish with this results. We have this net interest margin of 3.948 billion.

We go with this number to the slide number 7 and we are going to discuss more about details of this financial margin. We split the numbers here in the slide is a new -- this slide, is a new disclosure that we're making in this quarter, that we are going to disclose every quarter from now. More details about how the margin is composed. So we see, in the first line, operations not sensitive to variation in the basic interest rate. That means an average balance in the Third Quarter of 101 billion reais.

In this slide, we have a financial margin of 2.807 billion reais. That means related -- mainly related to the spread and the increase of volumes in terms of credit and the mix that I mentioned just before.

In the second line, we see the operations sensitive to variation in the basic interest rate. The total volume for this is 26,845 billion reais that gives a contribution of 940 million reais in terms of net financial margin. That's mainly related to the main deposits and floats and things related to the assets of the bank that have influence in terms of interest rate.

So the net interest margin for these 2 segments, 3.747 billion reais. We add back 149 in treasury gain. We reduce 85 million in terms of capital allocation to this treasury operation. So the net contribution of the treasury operations in the quarter is 64 million reais. And the number that we have been showing in the last quarters, that is the result related to the hedge of the foreign exchange risk that we have with the capital that we have in our subsidiaries and branches outside Brazil that gives us a result of 137 million reais in the quarter. So the total number for the margin, 3.948 billion reais. So here we are increasing our disclosure for the composition of the net interest margin. More details than in the previous quarters.

In this slide we can see, in the Third Quarter, at the left side of the slide 127.905 billion reais. We go with this number to the next slide and we show you a new slide of, a new disclosure, a new -- for your analysis. Sensitivity analysis about this numbers. So you can see this 127.905 in the top of the quarter of the slide, the Third Quarter. And here, the numbers that we have in terms of operations sensitive to the variation of the interest rate, like we mentioned before. So we have 11.753 billion reais in demand deposits. So the number of foreclosures, compulsory deposits, contingent liabilities, contingent assets, tax and social security liabilities and so on, working capital. So at the end we have these 26.844 million reais.

With this number, we show you in the bottom of the slide that for each 1% reduction in interest rate, in the SELIC rate, we impact 268 million reais in the year. That means almost -- around 67 million reais per quarter. That's the number that I think is very important for you to see the effect that can happen for each 1% reduction in the SELIC rate.

Of course, we have to compensate that number with more volumes in terms of credit, more service fees for the -- to our clients. And of course, we have to always keep our eyes open in terms of reduction, in terms of cost. So we believe that the environment in Brazil will continue to be good in terms of growth of the economy. We are more optimistic about the growth for next year than the coming years in general. So we believe that we will be able to continue to grow our credit portfolio. We believe, like we have been saying, that in relative terms, we expect the non-performing loans to remain at the same level that we have today, in this quarter. And we will continue our reduction in terms of cost. So we are very confident that we will be able, in the coming quarters, in the coming years to more than compensate the reduction of the interest rate in our numbers.

Going towards slide number 9 is a slide that we usually show in our presentations, in our conference calls, is the loans by type of customers. You can see here, at the left side of this slide, the numbers with BankBoston. We finished with almost 90 billion reais in terms of credits and I'd like you to pay attention that with BankBoston, we increased more our participation in terms of corporate loans and small and medium sized loans.

These numbers is more clear to see with the -- we move to slide number 10. We can see at the right slide that we increased our mark -- our presence in the middle market with the acquisition of the BankBoston operation and with middle market increase inside Itau in terms of 20 to 22% and corporate loans remained mostly flat, a little increase in terms of participation in the composition of our portfolio. So BankBoston increased our share in terms of middle market. It is something that we enjoyed a lot in this acquisition because our market share in middle market is smaller than in other markets and we could remain flat in terms of corporate.

In terms of nonperforming loans on page 11. We can see that the numbers remain mostly flat, even considering the old criteria or the new criteria that we started to release in the Second Quarter. We expected these figures to remain almost in the same level for the coming quarters. We don't -- we are not seeing deterioration or change. We have been more restrictive in terms of concession of spread than in the last quarters. So we believe these numbers are probably to remain flat in relative terms for the coming quarters.

Coverage ratio remains 164%, what give us good room to continue the growth in terms of credit.

On slide 12 also is a new disclosure that we are starting this quarter. It is the non-performing loans by segment. So we can see here the NPL ratio for September 3rd and June 3rd. We can see that in the banking Itau -- Bank Itau, in the banking operations related to -- mainly to middle markets and individuals in the banking operation, we have an increase in the quarter from 6.6 to 8.3. Credit cards in terms of checking account holders, reduce the NPL from 7.5 to 6.2.

In terms of Itau EBITDA, the NPL remained very, very low, 0.1%. When we analyze Itaucred, our debit personal consumer credit company and business, we see that in terms -- the overall number of these Itaucred divisions, reduced from 7.1 to 6.4. Here we see a more detailed disclosure in this segment. We see vehicles reducing from 5.4 to 5. Credit card, non account holders mainly here are on the credit cards that we received after the (strip) of the credit card company with CitiBank. Also a good number, like before, with our account holders, reduced from 9.9 to 6.8. And Taii increased a little more the NPL to 13.9 coming from 12.6. So the overall number is 5.4, a little increase of 5.1, mainly pushed by Taii, that we believe that with being more restrictive, like we have been in the last 2 quarters, these numbers tend to reduce a little in the coming quarters.

On page 13, service fees, not including BankBoston. We see a number that's also a little increase when we compare to Second Quarter. Here we have a provision of 50 million reals from the securities that haven't paid in the quarter. So we made a provision of 50 million reals. But we compared September '06 with September '05. We see that we have been growing almost 14%.

On slide 14, non-interest expenses. Here also not including BankBoston. We see that we have some increase in the quarter in some expenses. The first one is personal because we have the union negotiation in September. So we have an impact of 21 to 27 million reals in these numbers. And all the -- 2 others, nonrecurrent expenses in the quarters.

The first one is 36 million with third party services, mainly regarding the processes of acquiring and incorporating BankBoston. So we don't expect to repeat the 36 million. This was one-shot expenses. Then also 54 million reals, this is PMF, the tax that we pay for moving money through the checking account because of the issue of debentures of our leasing company. This also will not repeat again so these 2 numbers, 36 plus 54 is -- means 90 million reals that we will not repeat.

We go to slide 15 and see that the formal number of our efficiency ratio in the quarter is 48.3%. Not considering these 90 million reals that I explained just before, the efficiency ratio would be -- or should be 46%, much more in line with the 45 that we were in the Second Quarter.

Going to slide 16, we have unrealized gains. Of course we realized some of the gains like I explained at the beginning of this conference call. We reduced the total -- unrealized gains to 2.2 billion reals against 2.4 in the previous quarter.

On slide 17, we have the traditional segmentation pro forma numbers and segments that we have, I will pass very fast through these next slides. I think there is not more -- much more news about that.

We see on slide 18, in the pro forma segment for these 4 segments, that we have Itaúbank with 744 million reals in terms of our results. Itaú BBA 318, Itaúcréd 210, and the corporation 277, closing with 1.549 billion (sic; see slide).

We see on slide 19, the more detailed pro forma for Bank Itaú. On slide 20 you have more numbers about Itaú BBA. And slide 21 is the new disclosure also about Itaú BBA in terms of credit operations. Here showing the evolution of credit. Also including the structure -- transactions structure, notes and debentures and bonds that Itaú BBA also carries in its portfolio. So it means that the total risk in terms of credit at the end of September is 30.423 billion reals. In not only the 25 and 500 (keep) that you can see in the balance sheet.

In the slide 22, Itaúcréd. This one I would like to say some comments. We finished Itaúcréd non-checking account holders, clients with an increase in terms of net income, we finish with 210 million reals against 182 million in the previous quarter. It's reanalyzed in more details in the bottom, in the second part of this slide. We see that vehicles reduced the contribution in the quarter because of more adjustment in the provisions. Credit card increased, as I show you, last provision for loan -- for losses in credit card, increased from 21 to 91 million reals in the quarter. And a more detailed (CoTài) our consumer -- new consumer credit company. We divided CoTài in 4 big blocks. The first one is its own operation, So Tái overall operation finish the quarter with 35 million reals in losses, against 28 in the Second Quarter.

It's own operation, 21 million reals in terms of losses, Itaú with CBD, our joint venture is with CBD, is 23 million reals in losses. The third is Americana, (Los) Americana joint venture with us, 5 million reals in terms of loss. It is important to remember that we have just 50% of the capital of these 2 companies, Itaú CBD and Itaú Americana. So the number that we are releasing here, 23 million losses and 5 million in terms of losses are 100% of the company in only our participation. Here are consolidated 100% numbers.

And the credit consignment, 14 million reais positive. So i.e. consolidate numbers, finish with 35 million reais in terms of losses.

The here -- the evolution of net income and earning per shares. We issued shares in the quarter because Bank of America showed the numbers a little bit different than in the previous quarter that we show you, more increase in terms of earnings per share. We believe when BankBoston became more accretive by the middle of 2007, the earnings per share will increase more than the profit.

On slide 24 we see here, just for your information. And more analysis the balance sheet of BankBoston. How is this -- the numbers of BankBoston would be split into the 4 segments that we release our results. I think you have more details of this in slide 25 that is our last one. The result of BankBoston also is splitted into the 3 segments that we have, Itaubanco, Itau BBA and Itaucred where the operations of BankBoston will be allocated in the quarters ahead.

Let's finish our presentation then we are all open for your questions that you; the questions that you may have after the presentation ends, release of the results and the MD&A.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions)

Our first question comes from Jason Mollin with Bear Stearns. Please go ahead.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone, thank you. My first question is related to the outlook for fee income growth. We've seen your fees remain relatively stable over the last several quarters, despite the increased activity in loan growth. In the Third Quarter, specifically, we saw some decline in your credit card fees and we can see from the data that your growth in credit card lending has slowed. But you also mentioned in your release that there was competitive pressure it seems like on annual fees. Excuse me. So if you could give us a bit of guidance on how we should look at the fee income growth line, if now, as you pointed out in your presentation, fees are up 13.6%, cumulative nine months, versus the same period last year. Should we expect more pressure on fees as competition heightens?

And my second question is related to the loan growth outlook, specifically we did see you pull back, it's interesting, in the credit cards, the growth slowed and then, according to this good detail you're giving us, with the lower provisions your profitability increased from that segment and we saw your nonperforming loans, total loans decline in the credit card segment. Should we expect the Fourth Quarter to be strong in growth and net income? Growth in volumes as well as net income?

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

Jason, Silvio speaking.

Q - Jason Mollin {BIO 1888181 <GO>}

Hi Silvio.

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

Hi. In terms of the fees, we mentioned that we -- in terms of credit card, we have some competitive increasing. This is basically related with fees that we charge annually and we gave some exemption for other kinds of customers that belonged to our customer base.

In terms of guidance, we are continuing to expect around 15% this year in 2006 relation to 2005. This same -- this same guidance for 2007, expected to grow fees around 15% include BankBoston.

In relation to the credit card options, the portfolio not increase so much. Is related with our -- the way that we are grant -- grant credit. We become more selective, we become more critical in terms of the amount as a result of our customer bases. That's the reason because the portfolio not increase so much but you already have the provision decrease.

In terms of low growth for 2005; 2006, we expect it to grow 25%. That's the guidance. Normally, the Fourth Quarter is stronger than other quarters. That's the scenario that we see today. And for 2007, expected to grow 20% that the basically the figure that we are working this moment. We didn't finish the budget yet. But that's our vision in terms of card growth for 2007.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you.

Operator

Thank you for your question Mr. Mollin. Our next question comes from Jorge Kuri of Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning gentlemen. Now that you've been inside BankBoston, can you give us an update on what the expectation is for synergies out of the full merger of BankBoston into the Itau operations please?

A - Alfredo Setubal {BIO 1528623 <GO>}

Jorge, we are -- in terms of BankBoston, we expect that we will be accretive in the second semester of '07. We are integrating the bank in this moment, probably it will take until the middle of the First Quarter '07. The expectation in terms of synergy, we are working with a synergy around 30%. That is basically the figure that we are considering internally at this moment.

Q - Jorge Kuri {BIO 3937764 <GO>}

30% of the cost structure of BankBoston, is that right?

A - Alfredo Setubal {BIO 1528623 <GO>}

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

Can you just tell us, once that happens and -- I don't know what the timing is of that, I don't know if the end of 2007, end of 2008, what should be the profitability of the BankBoston operation?

A - Alfredo Setubal {BIO 1528623 <GO>}

The normal profitability of BankBoston, recurrently based in our view, not considered synergy, is around 20%. The implementation of this process will take until the middle of 2007.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Thank you, very much.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. I just have a quick question on your branch expansion. We noticed that you continue to expand Itau's existing branch network. If you can give us an update on that, how many more branches do you plan on opening this year and next year. Thank you.

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

Mario. Mario, we continue to expanding our branch basically, Itau and the Taii as well. Itau is expected to open more 130 branches. The same number of branches that we are opening in 2006, we'll do in 2007. In terms of expansion of Taii. We continue to expand the number of stores and the kiosks in the supermarket. Probably we will see 900 in the end of this year. More -- 50 next year.

Q - Mario Pierry {BIO 1505554 <GO>}

Great. Thank you, Silvio.

Operator

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

Q - Juan Partida {BIO 4768925 <GO>}

Hi. Good morning. Question again on the growth in the consumer portfolio. We saw that your asset quality improved quite significantly in the credit card portfolio. But also growth declined, profitability increased. But should we expect to see the same thing at other personal loans at the bank which -- whose quality deteriorated and also at Taii meaning lower speed in growth but better asset quality?

A - Alfredo Setubal {BIO 1528623 <GO>}

We are expecting that the provision will be flat in this First Quarter of '06. Basically it will be stabilized in this First Quarter, at least to the Third Quarter and in the relations of the other quarters. We expected some reduction in 2007, not so much, because you continue to target this market where it is higher than normal portfolio of the bank.

Q - Juan Partida {BIO 4768925 <GO>}

So in contrast with the card portfolio, we shouldn't see a reduction in growth in personal loans?

A - Alfredo Setubal {BIO 1528623 <GO>}

No, we expect to do the same track.

Q - Juan Partida {BIO 4768925 <GO>}

Okay, thank you.

Operator

Thank you, Mr. Partida. Our next question comes from (Jordan Amwartz) with (Philadelphia Financial). Please go ahead.

Q - Jordan Amwartz

Hey guys. Thanks for taking my question. Two questions please. First one, on the reserve ratio, your reserves as a % of E through H loans are now down to 88%. Is there a minimum that that reserve is going to go to?

A - Alfredo Setubal {BIO 1528623 <GO>}

Jordan, we -- our policy to be very conservative. We make normal provision card in the central bank holds. The after they implement the central bank holds. Normally we have a stress model in terms of credit that we measure situations that's not normal. If it appears that we need the additional provisions, normally we do. In this quarter we made 100 million reals in additional provision just for credited. The reserve in relation to the total portfolio is not a figure that we are targeting. It's a consequence of the model. We are continuing to have a coverage ratio in this quarter of about 164%.

Q - Jordan Amwartz

Okay so you look -- you -- it's a fall out. You don't look at the actual reserve ratio to E through H and target a number. It's what follows out the FN number.

A - Alfredo Setubal {BIO 1528623 <GO>}

Yes, it's a consequence of the models.

Q - Jordan Amwartz

Okay. And second question is, you said that your credit card fees were targeting 20% up next year. Would you also be targeting 20% credit card growth or will the profitability on the credit cards go up or down. In other words are you targeting 20% loan growth and 20% fee growth or is the fee growth different from the loan growth in credit cards next year?

A - Alfredo Setubal {BIO 1528623 <GO>}

No, servicing fees will grow around 15%, one five, in the total. Credit card will be part of that. In terms of low growth, 20% is the figure that we are working this moment.

Q - Jordan Amwartz

So you're working at 20% loan growth, 15% fee growth?

A - Alfredo Setubal {BIO 1528623 <GO>}

Yes.

Q - Jordan Amwartz

Thank you.

Operator

And thank you Mr. Amwartz. (Operator Instructions)

Our next question comes from Victor Galliano with HSBC. Please go ahead.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. Good morning. I just wanted to ask a bit about the other BankBoston operations, Chile and Uruguay, can you talk about those and perhaps how close you are to a conclusion of the deal there and what I'm trying to work out here is what sort of an impact this is going to have in terms of the balance sheet and earnings as well. I mean my estimation here is this is going to add about 8% to

the new Itaú balance sheet. But what is the outlook for earnings here and in particular, one thing that strikes me as interesting is the 50% market share you have in Uruguayan credit cards.

A - Henri Penchas {BIO 1525748 <GO>}

Good morning. Henri speaking. We are -- we already closed the transaction between us and Bank of America. We are just waiting for the central bank approvals in Brazil and in Uruguay and Chile. Probably will get that at the end of this quarter or in the next, or in the First Quarter of 2007. It doesn't depend on us, it depends just the formalities and the needed approvals of central banks.

The operations, as we disclosed, are accretive. Uruguay, as you mentioned, the 50% of market share in credit card businesses, it's a very small operation. And Chile that we have -- we are the 13 or 14th bank in the country. And we are just starting to see what we will do in this country.

The effect also of the goodwill amortization is 400 million reais. Before the tax deferred credit. It's not a substantial number and we will amortize that in the same quarter -- in the quarter that the central bank will approve the operations.

Q - Victor Galliano {BIO 1517713 <GO>}

Thank you.

Operator

Okay, thank you for your question Mr. Galliano. Our next question comes from Jorge Kuri with Morgan Stanley. Please go ahead

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, sorry. A follow up question. Your consumer loans now represent around 50% of your total loans. Do you expect this ratio -- and this is all. I think, from around 35% two years ago. Do you expect this ratio to continue to expand? In other words, do you think consumer loans can grow again next year ahead of 20%, which is your guidance for total loans? And from a risk management perspective, how much more can this ratio go up before you start to feel a bit uncomfortable about exposure to the consumer lending. Thank you.

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

Jorge. This is -- this figure, 50% is not a figure that we are targeting. Normally you don't look that. In reality we look at the opportunities and the risk of return that we put in our models. In this case, we'll continue to expand consumer debt, that is the vision that we have today.

Remember that these ratios decreased after the integration of BankBoston figures. Because BankBoston futures has more participation in the loan portfolio in terms of asset mix.

Q - Jorge Kuri {BIO 3937764 <GO>}

I guess -- thanks Silvio for your explanation there. I guess the question is also do you think consumer loans can continue to grow way ahead of total loan growth going forwards? For example, 2007 you have an estimate for 20% loan growth. What do you think that would be for consumer loans next year?

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

It will be more concentrated in terms of individuals. In terms of car loans and in terms of personal loans because, that big corporate companies not take -- not putting money in the bank system today. They are utilize more capital market. In the SME we all grow around 25% probably next year. The individuals, probably we will grow 25 as well. And the cards we will grow 30%.

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm sorry. So you said, 20% total loan growth, 25% loans through individuals? Is that right?

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks Silvio.

Operator

Thank you, again for your question Mr. Kuri. Our next question comes from Victor Galliano with HSBC. Please go ahead.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, hi. Sorry. Follow up question on what you were discussing earlier, those new disclosures, which you gave regarding the sensitivity analysis on the assets and liabilities. Just to confirm here, what you're saying here, if I heard you correctly, is a 1% reduction in the SELIC rate will cost 268 million reais per year, or 67 million per quarter. Is that correct?

A - Alfredo Setubal {BIO 1528623 <GO>}

It is correct before tax.

Q - Victor Galliano {BIO 1517713 <GO>}

Right. Okay. I just wanted to confirm that. Thank you.

Operator

Thank you, again for your question Mr. Galliano. Our next question comes from Paulo Ribeiro with Bear Stearns. Please go ahead.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Good afternoon. My question is related to non-interest expenses. You disclosed that the agreement with the unit costs you 27 million in additional salary expense in this quarter. I assume that that's just for September and so we can just multiply by 3 to apply it for the next quarter.

But more specifically -- just want to confirm that, you also booked a 50 million -- you had a 50 million -- a 60 million charge in profit sharing. Is that in relation to the bonus that you pay in the beginning of next year and if that's a total amount or are you still will accrue more over the coming quarter? Thank you.

A - Alfredo Setubal {BIO 1528623 <GO>}

Paulo, in terms of the negotiations to the union. 3.5 is the increased in salary and you another part that is share in the profits. A profit share using an accrual basis. You'll have some effect during the First Quarter.

In September, remember that is our policy, I think is the policy of the Brazilian system. We increase all the provisions related with vacations and related with the other benefits that we pay in the end of the year, that 13 salary, that the part we have to -- we made it a restatement of the provisions. It's currently based, is not proportionally the effect in the personnel expenses in the First Quarter because in reality you have 90 month the vacation and provision. For example that will be restated.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you for your question Mr. Ribeiro. Our next question comes from Jason Mollin with Bear Stearns. Please go ahead.

Q - Jason Mollin {BIO 1888181 <GO>}

My question has been answered, thank you very much.

Operator

Okay. Thank you, again sir. (Operator Instructions) Our next question comes from (Mario Empelban) with Arthur Capital. Please go ahead.

Q - Mario Empelban

Hi Silvio and apologize if this question has been asked before but I -- could you please comment on the fees and why they were flat sequentially and what are you looking for going forward. To things that can keep; start growing again in the Fourth Quarter or -- and beyond.

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

The guidance that we are giving it relation to the service fees that during 2006 in relation, in 2005 that deals will grow 15%. We are not changing this guidance at this moment. We have some increase in terms of the competition; it is basically with disclosure that in credit card. And that's the scenario that we are seeing in service fees. For next year, we expect that it will grow 50% again in 2007, in relation to 2006, including bank costs.

Q - Mario Empelban

So accumulated to the year, your fees have growth 8% and you think that you'll make up the 15% in the Fourth Quarter? This is what you're saying?

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

No. I am saying the total of the year 2007, in relation to the total year of 2006, will be 15% including BankBoston.

Q - Mario Empelban

Okay. Thank you.

Operator

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

A - Alfredo Setubal {BIO 1528623 <GO>}

Thank you. Thank you for all for participating in this conference call. I think we provided some new disclosure, I think important disclosure that we are intending to do in the coming quarters. I think our results are very solid. We continue to be very confident in the coming quarters that we are going to release good returns and good results for the bank. Thank you for your time and we are going to be back for the coming quarter results on the beginning of next year. Thank you.

Operator

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

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript