

Q2 2007 Earnings Call

Company Participants

- Alfredo Egydio Setubal, IR
- Eduardo Mazzilli Vassimon, Executive vice president of banco itau bba
- Silvio de Carvalho, Itau chief accounting officer, EXECUTIVE DIRECTOR

Other Participants

- Carlos Marcheda, Analyst
- Daniel Abut, Analyst
- Jason Mollin, Analyst
- Juan Partida, Analyst
- Maria Lariposa, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Victor Galliano, 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. (Operator Instructions) At this time, I would like to turn the conference over to Ms. Daniella Ueda of Financial Investor Relations Brazil, please go ahead.

, 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 can 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, Alfredo Setubal, Investor Relations Director of Itau Holdings, Henri Penchas, Senior Vice President and CFO of Itau Holdings, Silvio de Carvalho, Executive Director of Controllershship of Itau Holdings, Eduardo Mazzilli Vassimon, Executive Vice President of Itau BBA. And Marco Antunes, Director of Accounting of Itau Holdings.

First, Mr. Alfredo Setubal will comment on the Second Quarter 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. Alfredo Setubal.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Good morning, for those who are in the United States. Good afternoon for those who are following us in Europe. I thank you for being here with us to listen to our comments on our Second Quarter results. For those who are following through the Internet we are going to start in the slide number two, highlights for the Second Quarter. The first is the results, the recurrent result of the Bank, BRL1.9 billion with an increase of 9.9% over the First Quarter of the year with annualized

return on equity of 29.8%. That represents a 30.5% when we consider the results for the first semester. In line with the results that we have been showing in the last years, in the last quarters and we are very confident about the future results of the Bank.

The second is results without considering the normal recurrent numbers that have influenced the results of the Bank. The number that we have published for the Second Quarter was BRL2.1b.

The second highlight is the growth of the loan portfolio. The growth was 3.7% in this quarter and 40.2% when we consider the last 12 months. This of course because of the growth of the economy that is higher than we saw in the last years. Probably the economy this year we will grow something between 4.5% and 5% a year. And this means that the portfolio, credit portfolio will grow much faster.

In the quarter we continued to see, like in the other quarters, strong demand for credit for individuals. Personal loans growth in the quarter was 1.8% and 11.3 when we consider the last 12 months. Vehicles continue to be very important part of the growth of our portfolio and we believe that this trend will continue in the coming quarters. The growth for this quarter was 12.4% and 58.6% in the last 12 months. Another segment that is continue to grow is small and medium-sized companies. The growth of the quarter saw 5.4% and in the last 12 months almost 60%. We continue to focus like in the other quarters in these three segments that we believe we will continue to push the growth of our credit portfolio in the coming quarters like we have been seeing in the last years.

The third highlight is related to the BRL400 million increase in the excess provisions for loan losses in this quarter. With this BRL400 million we achieved BRL2.1 billion in excess provisions in our view, in excess of the requirements of the regulations of the central bank of Brazil. We had a much more conservative, (we stress), than average, where were used to a certain mind the extent of the excess provisions in this quarter. We reanalyzed and put more conservative numbers in this rationale so this required more provisions for our credit portfolio.

We have seen major growth in the vehicle finance portfolio, like I mentioned in the second highlight some minutes ago, the levels are various, are considerably higher. Although the absolute amount of areas has increased, this in our view does not mean losses because these segments, such as the segment that we are talking about now, is vehicles finance. In this segment the low -- we have a very low loss given default. So we recover a lot of the provisions that we usually make. Anyway, since these -- the model, the internal model that we have is to determine the volume of provisions that is required as I mentioned changes the traditional, the mobile required more provisions. This is what we did in this Second Quarter.

The second point in the non-recurrent events that we would like to mention is public because we publish a version of our debt, is this -- because we've sold 22.3% of our participation in Serasa in the IPO. And this represented BRL485 million in income after tax. Always remembering that we keep 10.9% in participation still in Serasa and we have participation and a board member indicated by us.

The fourth highlight for the quarter is the non-performing loans ratio that remains almost stable, 5.1% in the quarter. This is the BIS ratio that we remain in 17.6, very high. But we -- if we consider the new regulations of the central bank of Brazil that started in the beginning of July, these new regulations bring our solvency ratio to 16%, still very high but lower than in the quarters and years before.

This slide number three we show in more details the non-recurrent effects on our demonstration of results. The Second Quarter result, BRL2.1b, we sold the Serasa, part of the Serasa participation with an impact of BRL485m, net -- always net of taxes. The provision BRL400 million means BRL264 million net of taxes. Escrow account of Itau BBA according to our contract, when we bought

the participation in BBA, there -- the escrow account that we have with the former controllers of BBA, BRL82m. We sold the headquarter, the building of BankBoston in Brazil, in Sao Paulo. This has a net impact of BRL75m. Amortization of goodwills, BRL19m. So the total nonrecurring effects are BRL196m, which brings the recurrent net income to BRL1.9 billion in the Second Quarter, with a growth of 0.9%, what in our view is a very good result for the quarter.

On the slide number four, other highlights, here I would mention the stockholder's equity that finished in June with BRL26.5b, with a growth of 6.3%. And our efficiency ratio of 45.8%, a little bit higher in relation to the Fourth Quarter. And I will detail a little bit more in terms of the expenses in the next slides.

On slide number five we have the Itau Holding pro forma, the managerial results. We can see that the net financial margin increased 5.3% in the quarter finishing with BRL5.250b. Here we can see small growth in banking operations. We have a good results in terms of treasury, taking advantage of the better results in the markets and the huge reduction in the country risk that makes appreciation in our portfolio, our security portfolio. Our results, in terms of the hedge that we have for the position, for the capital that we have abroad BRL262m. Banking fees, that increased 5.3% in the quarter in line with what we had been saying that these fees will continue to grow through the year. Result of loan losses, BRL1.2b, which is a small decrease when we compare to the First Quarter. And non-interest expenses BRL3.5b, with some growth in the -- when we compare to the First Quarter that we will analyze in more details in coming slides.

When we see in the slide number six, the loans by type of customers, as I said, we continue to focus individuals, personal credit and vehicles. And small and medium-sized companies continue to be our focus.

When we see here in this chart the corporate numbers we see a reduction in the quarter when we compare to the First Quarter, 3.1%. And also when we compare to December 2006, 4.4% reduction. This is due to the policy of Itau BBA to be selective because the spreads in corporate business have been very tight. And Itau BBA has been very active in terms of capital markets, continues to be the biggest Brazilian bank in terms of offers, IPOs both for equities and corporate bonds in the local and offshore markets. Compensating these revenues is becoming very important this year as part of the reduction of the loan portfolio of Itau BBA.

Mandatory credit continues to grow, especially when we saw the numbers for mortgage but these numbers are still small when we compare to the total credit portfolio of Itau Holdings.

We opened here in, online, different from other quarters, the loan portfolio that we have in Argentina, Chile and Uruguay, countries where Itau Holdings has retail operations, you can see here that we have BRL7.2 billion in loans in these three countries. With the total loans of BRL104b, almost BRL105b.

We can see in the next slide the change that has been happening in the last quarters with the increase of individuals and decrease in large companies. And the increase that we have now in our international operations in terms of credit portfolio that now represents almost 7% of the total credit portfolio of the Bank.

On the slide number eight we can see the non-performing loans and coverage ratio. As I said, when we compare it to the other quarters the consolidated number for non-performance, 5.1%, is almost stable when we see the last quarter and the other quarters, the other four quarters. We see a better result for individuals, that reduced from 7.8% to 7.5%, remembering that almost all over the year for 2006 these numbers were close or up over 8%. In terms of companies, we see more provisions for small and medium-sized companies so the number increased to 2.1% to 2.3%. The number is higher than in the other quarters.

Anyway, the coverage ratio is very comfortable yet. We continue to be very confident these numbers are very good in terms of coverage especially considering the excess provisions that we have. And as I mentioned, especially if we increase -- especially because of vehicles (sign up).

On slide number nine we can see non-performing loans in more detail by segment. We can see here the increase in terms of vehicles, both compared to the end of 2006 and the end of First Quarter in March, reaching 5.4%. It's still a number very comfortable. But increase a little through the year.

On slide number 10, the funding of the Bank both through deposits and asset management. We can see that we continue to grow the liquidity of the Bank. We increased in the quarter because of the growth of the credit portfolio that we believe that will continue. And also to make face to the more volatility of the market that we have been seeing since May, we decided to increase liquidity of the Bank to be more present in terms of liquidity to face the volatility and the growth of the credit portfolio.

On the slide number 11 we can see the banking fees that increased 5.3% or 17% when we compare 12 month. We continue to be very confident that the numbers that we announced will be in line with the growth of 15% this year. We can see here that we are line with this numbers. And of course this has influenced by the growth of the credit portfolio that continues to be important.

Non-interest expenses, we show this quarter an increase of 7.5% when we compare to the First Quarter of 2007. That was a very good quarter in terms of expenses especially because of provisions for vacations for the employees. As we mentioned at that time on the last conference call, this number in the quarter had three big impacts.

The first one is donations that the Bank made for the Itau Social Foundation to face our sustainability policy, that this Foundation do in terms of social activities here in Brazil. So this is -- we made a donation of BRL50m. The second impact is increase in the publicity, that's increased to almost BRL30 million this quarter. And also because of the consolidation of the numbers of the acquisition of our operations of private banking in Miami both for BankBoston International and also through ABN Amro, the Latin American private bank that we bought and it was approved by the Federal Reserve and the authorities of Portugal and Bahamas, in May. So this also was consolidated in the quarter.

This big increase in expenses, as I mentioned, had a deterioration in our efficiency ratio. But we believe that we will be able to be around this 45% through the year of 2007.

In terms of segmentation, on slide number 15, we can go straight to the slide 15, opens in pro forma in managerial results. Our recurring results, all of the recurring results, here we can see a total recurrent result of BRL1.9b. This split through the segments, we can see Bank Itau with BRL1.2 billion with ROE of 40.8%. Itau BBA BRL302 million in net income with ROE of 24% almost. Itaúcréd where we consolidated our non-client, non-checking account clients, (desk) financing, Taii operations and non-credit cards for non-checking account clients, BRL310 million with ROE of almost 40%. And Corporation, where we allocate the excess of capital, we saw a result of BRL52m. So we can see that all the segments have very, very good recurrent results for the quarter.

Here we can see there is an increase in the earnings per share in the quarter. And to finalize my presentation and to open to questions, we announced a stock split to increase the liquidity of the shares, especially for individuals, in line with the recommendations of Bovespa that wants shares with smaller price, the nominal price, to give a chance for more individuals to buy and sell our -- the stocks at Bovespa. So we were the fifth share in terms of nominal price so we now with this split we will give a chance to increase liquidity especially through the participation of individuals and the split also will be affecting our ADRs in New York and our CDRs in Argentina.

With that I finish the presentation and we are open for questions that you will probably have about the -- our Second Quarter results. Thank you.

Questions And Answers

Operator

Ladies and gentlemen we now begin the question-and-answer session. (Operator Instructions) Our first question is from Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, I have two questions. The first one is with relation to you level of delinquency. We look at the non-performing loan ratio we actually deteriorated 10 basis points this quarter. Do you still expect to see a modest improvement in delinquency for the rest of the year and if you do can you just tell us if you were surprised by the deterioration in asset quality this quarter? Because in the previous quarter we had seen a 30 basis points improvement. So just wanted to get a feel from you if you still expect that delinquency to improve?

Then the second question has to do with your costs. Seems like costs were higher than expected. I was wondering if you have already been able to realize any cost synergies related with BankBoston and what is your outlook for costs going forward? Thank you.

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

Silvio speaking. Respect to delinquency we are forecast that the ratio we get 5.1% on the second semester, they are a little bit lower than that. That is how you see the market. Remember that when you discovered the breakdown of this delinquency you can see improvements related with the individuals. In reality this ratio was a little bit higher than the First Quarter because of the small and middle companies. That to increase our (inaudible) portfolio about 60% in the year. And that's the reason because we see this a (inaudible) increase. And we are supposed that we will keep this ratio during the second semester.

In relation to the synergy of costs of BankBoston, the integration is finished already. Even though we are supposed to keep the guidance about one a day, (BRL1m), during the second semester, that's our guidance in relation to that. And this, with all the branches, all the people are here in the Bank and we sold the building, that's the main ops of the BankBoston, that's it.

Q - Mario Pierry {BIO 1505554 <GO>}

Silvio, just to be clear, the synergies of BRL180 million with BankBoston, none of that has been realized yet, right? And also, is that all going to come in the form of costs or are we also going to see synergies with revenues and this BRL180 million includes revenues and costs?

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

Revenues is not included this figure, we are talk about costs. A portion of that is already happened but the most important part to you it starts in July. And we supposed the Third Quarter it's possible to have a portion of that. In reality we are mention BRL180 million fourth semester, BRL360 million per year. But you be difficult to show this figure because the Bank is totally integrated. The revenues is incorporated already, all the operations is appeared and we are doing business with the companies and with the customers.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

Sir, are you ready for your next question? Pardon Mr. Setubal, are you ready for your next question?

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

Yes. Go ahead.

Operator

The next question is from Daniel Abut, from Citibank.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, gentlemen. I wanted to ask you, if I recall correctly at the end of May you announced that you have renegotiated a contract for the payrolls with the State of Rio de Janeiro entwine an additional payment of BRL750m. I wanted to ask you if that payment has already been made, therefore if that's already been reflected in the numbers as of the Second Quarter and in that case, if it has in what line of your balance sheet do we see the asset that was created to be amortized over time? And how much of that amortization was already charged to the P&L of this quarter and in what line of the income statement would we find it?

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

Silvio speaking. We finish the contract with Rio de Janeiro government, though we are -- we are considering expenses according to the duration of the contract. In reality it is accrual basis and it's appear included in the other administrative expense.

Q - Daniel Abut {BIO 1505546 <GO>}

How much did you charge within the other admin expenses for the, Silvio, related to this contract, this quarter?

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

Just a moment please. Daniel, I will send this information later. I don't have the information here on my hands.

Q - Daniel Abut {BIO 1505546 <GO>}

Two things if you can say it would be helpful, Silvio. One is, how much was charged this quarter already as part of other admin expenses? And second, how much will you be charging on an ongoing basis every quarter, which may be a different amount given that this being the First Quarter, it may have been an irregular figure, figure not indicative of the regular charges you will be charging in Third Quarter, Fourth Quarter etcetera?

And second, where in the asset side, on what line of the asset side do we see the asset that was created to be amortized over time?

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

I have this information to provide to you later, Daniel.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Silvio.

Operator

Our next question is from Victor Galliano, HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hello, I was just wondering if you could recap, in terms of your guidance for the full year looking at the net figures, namely loan portfolio growth, fee income growth?

And maybe if you can also give us some, in terms of specifically looking at Itau BBA, would it be fair to say that there is more or that there is potential in Q3 for a better return to come from this business? As we saw quite a lot of capital markets activity in July, which clearly Itau BBA should be benefiting from.

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

The guidance in relation to the service fees, that we are not changing in relation to the last one that we talk with the market. In reality we are forecast that the (targets) we wrote in 2007 in relation to 2006, 15%, 1-5.

Q - Victor Galliano {BIO 1517713 <GO>}

And loans?

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

Loans, we grow 20, 25% in the year. Most of them are related with individuals and SME. We are not expecting to grow so much with the corporate companies. Basically we are forecast that the corporate loans will grow 5%.

Q - Victor Galliano {BIO 1517713 <GO>}

So basically you are not changing any of your guidance?

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

No. We are keeping the guidance.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you. And on Itau BBA?

A - Eduardo Mazzilli Vassimon {BIO 5349410 <GO>}

Good morning, Vassimon speaking. As for Itau BBA capital markets activity in the Third Quarter, you are right, July was a good month with more activity. The highlight was (Citicard) transaction. It's still early to say if the whole quarter will be better because of the recent turbulences in the market but July was a good month.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Yes, hello everyone. My question is related to the loan growth and market share of Itau that we saw in the Second Quarter, particularly in the personal loan segment and the corporate loan segment. I don't have the data for the whole system yet but, versus some of your larger peers or

competitors we saw Itau lose some share and frankly the 11% year-on-year growth in personal loans, less than 2% quarter-on-quarter growth in that segment. And the decline in personal loans. If you can give us some color of what you are seeing in those segments it would be interesting to hear.

Then as a follow-up on the expense side, because there have been some questions I guess related -- given the 7.5% quarter-on-quarter growth in expenses and what Alfredo mentioned was the advertising, the donations, the training was referenced in your press release, costs. Is that something that we should see as ongoing and is this level of expenses in the Second Quarter a good run rate that we should be looking for particularly maybe even more if you continue to grow?

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

Silvio speaking. In terms of loan growth we are expecting to grow as we see more individuals like I mentioned. The main driver is relate with car loans that we expect it to grow a lot, 40% this year, 45%. And the credit card about 25%. And the SME around the (30%), that is the way the guidance is.

Mr. Vassimon, you talk about the corporate loans.

Q - Jason Mollin {BIO 1888181 <GO>}

Silvio. But in the quarter itself, was there something driving the performance that we saw in the Second Quarter, meaning is that this is a conscious effort not to grow rapidly in the personal loan segment and focus only on auto or credit cards, or is this a demand issue?

And the same in the corporates because we did see actually your book decline, it's only one quarter. But we saw some of your competitors grow that segment.

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

I think it is a question of demand. We are -- you know that we are more focusing cars. But it is a question of the market. But we are not changing basically our guidance.

Just to commenting H2 expense, after that you will transfer to Mr. Vassimon. In terms of expenses I think the First Quarter expenses just too low. In reality the ratio of Second Quarter is more realistic of what we expect for the year. Consider that in the September we have the negotiations with the unions. That will happen in September, in the Third Quarter. But this year we expect that the expenses we will grow around the 8%, 9% in total expenses in relation to 2006. Consider Banco Itau in apples-with-apples.

I will transfer to Mr. Vassimon

A - Eduardo Mazzilli Vassimon {BIO 5349410 <GO>}

Yes. In relation to the corporate loan portfolio, as Mr. Setubal mentioned in his presentation, spreads are under pressure and we are being quite selective in which type of assets or which credits we want to hold in our balance sheet. I would say that the trend would be more in terms of re-originating and distributing assets and credits rather than keeping them in our books.

We've been quite active in capital markets so we are the leading bank in the local fixed income market. So I don't expect a growth in the corporate loan portfolio this year. I think the best estimate would be a flat number. But we have been, again, very active in distributing loans both through capital markets and in the banking segment through syndicated loans.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much.

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

Thank you.

Operator

Our next question comes from (Maria Lariposa) with (Sacurco Itura).

Q - Maria Lariposa

Good morning. I have some questions regarding Itau Taii's operations. When we look at the improvement in NPLs for this book, basically it was conducted by the higher payroll loans growth in the period than the other products then. So I wonder if was there any change in approval rates for this, for the riskier products?

And also if you could give some hints on what would be a feasible NPL? Considering that the base today in the loan book is very small, the feasible NPL for these operations, what would be, just an idea?

And last, if you could comment a bit about how well are doing the partnership with LASA and CBD? Because my impression is that you're being a bit more aggressive in credit cards and co-branded credit cards.

And I wonder if you have some sort of guidance related to the current issues with relation to these partnerships. Thank you.

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

In the operation of Taii, the delinquency rate, we are supposed to stay around the 15%. That's big business of Taii, I don't think so, you have a big improvement. If you look -- when you look at the operations of Taii, stores, the strategy with the CBD, the JV with LASA (Americanos), the delinquency is higher than 15%. 15% is because we include in this figure, the (consignados), the payroll operations that you have included in this segment. Basically, the NPLs of the Taii is around 20%. And we continue to see that it will be possible to achieve the breakeven in the Fourth Quarter.

Q - Maria Lariposa

And what about the strategy in credit cards from these partnerships with the retailers?

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

The strategy related with the credit cards, we continue -- our challenge is to keep our market share that we have today. Our market share is around 23% and we are very, very focused to keep this level of market share. And we have made some efforts to penetrate in lower segments, offering credit cards to keep the level of delinquencies of the products.

And just to come back to the question of Taii, our approval rate is 10%. We didn't change our policy.

Q - Maria Lariposa

Okay.

Operator

Our next question is from Saul Martinez, Bear Stearns.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi everybody. I have a question on asset quality as well. And specifically, what exactly are your internal models telling you that make you feel you needed to boost your excess provisions? Given that you already had so much, a fair level of excess provisions to begin with and that your NPL ratio, at least over the last couple of quarters, has been showing a positive trend. Is it just conservatism on your part or are you seeing something that worries you in your loan book?

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

Silvio speaking. Our internal model -- first, you have to see in our portfolio a big change that happened in the last couple of years. We are much more (stronger) in car loans. This quarter, we decided to analyze some distress scenarios and in this scenario it showed that we would increase our provision in a conservative way related with the total portfolio.

Q - Saul Martinez {BIO 5811266 <GO>}

Is it relegated then specifically to the mix shift and the greater proportion of auto loans and in a stress scenario, would you have greater losses in that segment than you had realized -- than you had previously?

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

Yes, exactly. Because in cases of the car, the level that in delinquencies, it is flat for a long time.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thanks a lot.

Operator

Our next question is from Daniel Abut, Citibank.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, gents, just a follow-up question. I think, Alfredo, you said in your remarks that one of the highlights of the quarter in slide four was a significant increase in shareholders' equity. And you're absolutely right, if you look year-over-year, if you recognize that the equity has expanded more than 50%. And in that context sustaining an ROE of 30%, 31% as you've been showing over the last quarters is no small achievement. But the question is, is there any room for you to consider managing your capital more efficiently in order to enhance your ROE? For example, increasing the pay-out ratio in terms of dividends, dividends as a percentage of your income? Given that you've been realizing a lot of non-recurring gains that nobody considers in their analysis. But they still sit there as part of your book value.

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

We are keeping our policy in terms of dividends. Our policy is to pay around 30% of the net income and we will maintain that. Today we mentioned to have a BIS ratio about 17.6% and consider the new regulations that will be implemented at the beginning of July. Our BIS will decrease from 17.6% to 16%. That's it. And today, we know that we have excess capital. But you know as well that we always analyze the opportunities that create value for our shareholders. We are maintaining this policy.

Q - Daniel Abut {BIO 1505546 <GO>}

So you pay a ratio out at around 30%?

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

Yes 30%.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Silvio.

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

Okay.

Operator

Our next question is from Juan Partida from JP Morgan.

Q - Juan Partida {BIO 4768925 <GO>}

Hello. Good morning. My question is related to the net interest margin. I understand your guidance was changed and it's still a compression of 50 basis point year-on-year versus last year for 2007. But I was wondering if you could (dig) deeper and tell us what your expectation is just for the net interest -- the interest margin excluding any trading and hedge gains? Because I think we saw some compression of 20, 30 basis points this quarter. Now should we expect more compression going forward? Thank you.

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

(Technical difficulty) maintain our guidance in terms of (technical difficulty). When you talk about the core business of the Bank, it (isn't basically a question) to consider just the level of normal liquidity of the Bank, because we mentioned that we increased the liquidity in the Second Quarter. But if you make the adjustment in this level of liquidity, then net interest margin will drop to just 30 basis points. We disclosed this information in the page (60) of our (NG&A). We made there specific figures to show that. That (inaudible) was keeping our guidance in terms of the net interest margin about 60 basis points.

Q - Juan Partida {BIO 4768925 <GO>}

Thank you very much.

Operator

Our next question comes from Mr. (Carlos Marcheda) with Unibanco Portara).

Q - Carlos Marcheda

Good morning, gentlemen. Just a question, yesterday you announced that you expect -- that the earnings are going to have on the sales of (Credicard) amount to around BRL1b. I was just wondering how you're going to use those earnings? Are you going to reinforce provisions? Are you going to invest in the business, maybe open more branches? And what will -- can we expect from the use of these gained in the sale of the shares over the next couple of quarters?

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

Carlos, in relation to the -- your questions, we didn't decide what to do yet. With this, we will happen in the next month. And the -- but remember, that these -- we are supposed to (not invest the time) to create additional position, (create) like I mentioned before.

Q - Carlos Marcheda

Okay. Okay. Thank you.

Operator

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

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

Thank you for all who were with us on this conference call. As I said and I think we all on the conference show in the answers of the questions, I think the results were very good. We are very confident. We feel that the current results of the Bank are very solid. We continue to believe that the credit portfolio will continue to grow as the economy continues to grow and we think that our prospects are very good for the coming quarters. Thank you for your time and we will go back -- we will come back for the Third Quarter results. Thank you, your time.

Operator

That does conclude our Banco Itau Second Quarter 2007 results conference for today. Thank you very much for your participation. You may now disconnect.

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.

FINAL

Bloomberg Transcript