

Q2 2004 Earnings Call

Company Participants

- Alfredo Setubal, IR Director
- Candido Bracher, VP Bando Itau BBA SA
- Henri Penchas, SVP & CFO
- Silvio De Carvalho, Executive Director Controllershship
- Thomas Carsten, Host

Other Participants

- Gustavo Hungria, Analyst
- Isor Pallazios, Analyst
- Jason Mollin, Analyst
- Mario Pierry, Analyst
- Philippe Cruz, Analyst
- Scott Piper, 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. (Operator Instructions)

At this time, I would like to turn the conference over to Mr. Thomas (Carsten) from Thompson Financial. Please go ahead, Mr. Carsten.

Thomas Carsten {BIO 18797487 <GO>}

Good morning, ladies and gentlemen and welcome to Banco Itau Holding Financeira's conference call to discuss the Second Quarter 2004 results.

I'd like to mention that a slide presentation has also been made available during this call on the Company's Investor Relations website, at www.itau.com.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Security Litigation Reform Act of 1996. Therefore, actual performance may differ materially from that anticipated in any forward-looking comments as the result of macroeconomic conditions, market risks or other factors.

With us this morning in Sao Paulo, we have Mr. Alfredo Setubal, the Investor Relations Director, Mr. Henri Penchas, the Senior Vice President and CFO, Mr. Silvio de Carvalho, Executive Director, Mr. Candido Bracher, the Vice President of Banco Itau BBA, and Mr. Marco Antonio Antunes, the Director of Accounting for Banco Itau. First, Mr. Setubal will comment on the Second Quarter 2004 results and afterwards the 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.

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Good morning. It is a pleasure for us to be here again to talk about the results that we just released for the Second Quarter 2004.

For those who are following through the slides on the Internet, we are on slide number 1, with some highlights that we would like to give some attention. The first one is the result itself. R\$949 million, 8.3% above the First Quarter of 2004, which represents annualized ROE of 33.1%. Then what is more important in these First Quarter results is that it is totally recurrent. We didn't have any extraordinary gains or losses during the Second Quarter, in line with what happened in the First Quarter. So the first semester, the first six months of 2004, we show a very strong and recurrent result, which shows the quality of the operations that we have in the whole Itau Holdings and subsidiaries.

The second point that I would like to visit attention, is the credit portfolio, with an increase in the quarter of 8.8%. 8.9% in corporate. The small and medium sized companies, 12.6%, and individuals 8.1%. What shows what we have been saying, that we are growing in these 2 segments especially, the small and middle sized and individuals, where we can get more margins.

The third point is that the net interest, net interest margin remains almost flat in the Second Quarter, 12.7%, when we compare to the First Quarter.

The fourth point is some accounting practice that we have. We increased R\$55 million in the quarter in excess for provisions for securities and we finished the quarter with R\$600 million. So we increased R\$55 million in this line. And we maintained our exceeding provisions for loan losses in R\$1 billion. We did an increase in the First Quarter, we increased R\$94 million, if you remember. In the Second Quarter we remain with the same R\$1 billion in excess provisions in terms of credit.

The fifth point is technical provisions for insurance capitalization pension plans. In the case of pension plans, we finished with R\$7 billion, with a growth of 326% in the last 24 months. Much higher than the market growth, that was 153% for the last 24 months. So we continue to grow also in this quarter in a higher pace than the market.

The sixth point is efficiency ratio. For the seventh quarter in a row, we remained below 50%. What it shows and what we have been saying about the strong cost control that we have in the bank in the last years, and of course, due to the growth in revenues that we are showing because of the growth of the banking operations.

The seventh point is the solvency ratio. The (base) ratio, that remains 19.5%, much above the minimum in Brazil, is 11%.

The eighth point is the buyback that we made during the first semester; here is the number for the first semester. We bought 943 million shares and the average price for the preference shares, for the no voting shares of 253.12 cents per thousand shares. What it means, 1.7% of the total preferred shares.

Going to the second slide, we show you some macroeconomic ratios that affect the result. The CDI, the interbank rate, 3.6% in the quarter. Exchange rate 6.8%. The exchange rate finished the quarter in 3.1075. The IGPM, the inflation index, wholesale mainly, 4%, and savings 1.9% in the quarter.

On the third slide we have many numbers in terms of highlights. I would like to mention the stockholders' equity. We finished the Second Quarter with R\$12,787 million, against R\$12,478 million in the First Quarter. So we have a growth of R\$310 million. Much lower than the result, that was R\$949 million, mainly because of the impact of the reduction in the result of the available for sale

securities, that affected the requisite stockholder's equity. The buybacks that we did in the quarter and the dividends that we paid also in the quarter.

Going to the slide number 4, we enter in the credit operations. When we finished considering guarantees and the credit operation itself, we finished the quarter with R\$48,713 million, with a growth, like I said, in this quarter much higher than in the last quarter when we remained basically flat.

Going to the slide number 5, we can see more details about these credit operations, with the growth in the quarter of 8.8%. We finished with R\$48.7 billion, as I said. The most part, almost half of that, was corporate loans though the Itau BBA, that in the quarter grew. The growth was 8.9%.

The most important is the next 2 lines. In the medium sized and small companies, when they grew it was 12.6% in the quarter and 30% when we compare with the last 12 months. As we have been saying, the last two years we have been more focused on these segments, because Banco Itau has less in terms of market share in these segments. We are more aggressive, providing credit limits for these companies. And we have been growing faster than the market and recovering the market share that we lost in the last years. And of course, we had more margin in this, in these segments.

Another segment that we have been focusing in the last years, is individuals, and in this quarter the growth was R\$1 billion. These numbers are related to vehicles, where the growth in the quarter was R\$250 million. Personal loans R\$550 million, and credit cards around R\$200 million. That composes around the R\$1 billion growth for individuals.

That continues to grow and we expect the total loan portfolio we are reviewing our expectations in terms of growth for the credit portfolio for the whole year, for the 12 months as well of 2004. You remember that we were forecasting something around 17%, 18%. We are reviewing our forecast to 25% for the whole year when we consider the credit operations.

Going to the slide number 6, we can see the distribution between the credit in reais and in dollars. The proportion was almost the same of the First Quarter.

Going to the slide number 7, we can see the provisions, the level of provisions for loan losses. We finished with R\$3,065 million in terms of provisions, a little bit lower than in the First Quarter. The minimum required by the central bank regulations was R\$2,065 million. So we remain, as I said at the beginning of this presentation, we remain with R\$1 billion in terms of excess for provisions for loan losses, the same level that we were in the First Quarter, R\$94 million above the level of December 2003.

Non-performing on the next slide. We showed a good number again. The trend continues to be a reduction in the non-performing loans in the consolidated basis. We finished with 3.5% compared with 4% of the last 2 quarters, mainly because of individuals that reduced to 6.5%, again 7.3% in the last quarter, 2 quarters. And in the case of companies the reduction was much slower, just 1.9% to 1.8%. The coverage ratio remains a little bit above 200% and a little bit higher than 202% of the First Quarter. We finished the Second Quarter with 204% in terms of coverage ratio, that keep us very optimist about the level of provisions that we already have in the bank.

In terms of securities portfolio, in the slide number 9. We finish with R\$26.5 billion in total securities that we held on a consolidated basis for the Itau Holdings. Of this R\$26.5 billion, R\$4.2 billion is overnight operations and the rest is securities that we held. I would mention that if you are not considering the public securities that we have of the countries or the treasuries, half of that is public securities and half of that is private securities.

In the slide number 10, we can see service fees. We increased almost R\$51 million in the quarter and R\$210 million when we compare 12 months ago. The main growth was in current account service, checking account, credit cards and credit that we granted in the period with the growth of the credit portfolio. It continues to be very active and very important for us in terms of service fees.

On slide 11, we can see administrative expenses. In the total in the quarter, R\$2.002 million, against R\$2.009 million. We remain basically flat, as we have said, with the main positive event of the management for this year is to remain almost flat in nominal terms, when we compare the whole year of 2004 with the whole year of 2003. And we think we are going to get a number close to that for the whole year of 2004. We continue to be very committed with that goal of keeping expenses very under control.

On slide 12, we can see the market value for the financial instruments. The effect in the stockholders' equity at the end of the Second Quarter was in the same level of unrealized gains that we showed in the First Quarter. We haven't touched that number and as I said, we increased a little the provisions for securities in R\$55 million.

Now we are going to enter in this part of the presentation, there is the pro forma, the managerial accounting numbers for Banco Itau, and Itau BBA. They are the 2 main subsidiaries of Itau Holding. What we see in slide 14, we can see Itau, Itau BBA and the Corporation, as we showed in the First Quarter of this year. This is the same kind of slide that we showed in the last conference call, for the results for the First Quarter. And we can see the allocation of capital for Banco Itau, for Banco Itau BBA and for the Corporation.

When we consider the allocation of capital for Banco Itau, R\$7.4 billion, with a managerial result of R\$875 million, we can see that the ROE of Banco Itau, the commercial and retail banks, the return on equity was almost 56%. When we see Banco Itau BBA, the managerial results are R\$195 million, allocation of capital R\$3.5 billion, so the ROE for Itau BBA was 24%. And the rest of the capital, the excess of capital, R\$1.8 billion, was allocated in the Corporation. And the result was negative, especially because of the new accounting tax credit.

So we can see that we have excess of capital that we are going to talk a little about that in the next 2 slides. But we see that the recurrent operation of the bank, considering the allocation of capital, the returns are much higher than when we just analyze the whole number.

Entering in the banking operation of Banco Itau, just Banco Itau, that contains the retail operations of the bank, we can see the results of the R\$875 million. And I would mention here in this slide the good results that we have for provision in terms of loan losses for Banco Itau SA, that in the quarter was R\$212 million, when we compare to R\$352 million for the First Quarter. Mainly because of the best economic environment that we are having here in Brazil, with very low losses in terms of credit.

When we go to slide 16, we break down, as we have been showing the last quarters, the four big markets. The results of Banco Itau in banking, R\$562 million. Credit cards very important at 17% of the result, R\$151 million. The insurance and pension plans, R\$127 million, and fund management R\$35 million.

When we go to slide 17, we see the very good growth in terms of technical provisions. As I said, mainly the (specialized) provisions, the technical provisions, in terms of pension plans, that reached almost R\$7 billion in the quarter. And as I said, we have been growing much better than the industry in this segment of pension plans.

In terms of results for insurance, capitalization and pension plans, the 3 companies in the slide 18. We can see that the results for, the component results for these 3 companies were R\$127 million, against R\$120 million in the First Quarter. So we have 5.8% in terms of variation. What I also, I would

mention here, is the claim ratio in the insurance business that was lower than the 55% in the First Quarter. The Second Quarter was 51% in terms of claim ratio for insurance.

Asset management, we finished with R\$90 billion, with a growth in the last 12 months of 31.6%.

Now entering in the Banco Itau BBA pro forma, we can see that also in the provisions for loan losses was very low in the quarter. It was just R\$6 million and negative in terms of provisions. And you remember that in the First Quarter of 2004, we had R\$150 million positive in Itau BBA, because of the reversion of provisions from one company of the electrical sector that we made in the First Quarter of 2004. Itau BBA also continued to have good control in terms of administrative expenses, remaining mainly flat in the quarter.

Non-performing loans for Itau BBA, it was 1.2% against 1.4%, showing the good quality of the portfolio. When we consider in our classification that 96.6% of the credit portfolio of Itau BBA is classified as A, AA and B.

Slide 22 is a very important one when we talk about the excess of capital that we have and the measures that we have taken to use and give a good use for this capital. The first one, we increased dividends from 13 cents to 17 cents per thousand shares. We increased the dividend, (long) complementary dividend for this semester. We increased 31% when we compare to the same dividend that was announced one year ago.

We bought back shares in the quarter in this year. The total in the quarter was almost 930 million shares. So we bought shares using the capital. And also we announced last week a new company, a new financial company with the CBD to increase our participation in consumer credit. The investment was; that was announced last week; was R\$455 million for Itau.

In terms of evolution in our earnings per shares, almost three years, in the last 11 quarters, we increased the earnings per share. And the appreciation of our preferred shares, we continued to have very good performance when we compare 10 years, five years and the whole year, when we compare also against the Bovespa Index, our share continues to be very well appreciated. And Itau continues to be the bank with the highest market capitalization among all the Brazilian banks that are listed in the Bovespa exchange.

That was the highlights that we have to show you and we are here open for the questions that you may have about the results that we showed.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions)

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

Q - Jason Mollin {BIO 1888181 <GO>}

Good morning, or good afternoon to everyone. My question, I have two questions. The first is related to the expenses that we see at the consolidated level. They, you showed very good cost controls in this quarter, but you emphasized in your presentation again today that the objective of the bank is to maintain the expenses in 2004 at close to the level of 2003. And I believe that you were talking of no more than 1% growth in nominal terms when you gave your guidance earlier in the year. But so far we've seen that in the first half, we look at the total non-interest expenses, or administrative expenses as you report them, personnel and administrative, are up 12.8% year-over-

year. So if we're going to see that you can deliver on this objective of, at my calculation, just maintaining an increase of 2% year-over-year, we would need to see your second half expenses be about 7% less than they were last year. So if you can comment on that and if you still believe that that is viable.

And my second question is related to the level of provisioning in the quarter. You showed an improvement in asset quality. But still we saw on a consolidated level that loan loss provisions were only 2.2% of average loans in the quarter. Yes, we saw that that was the level in the previous quarter, but as you mentioned in the presentation you had a substantial recovery in BBA in the corporate portfolio. Is this the right kind of run rate that we should expect going forward, that loan loss provisions can be in the 2% range as opposed to the 4% range, where they were previous to the First Quarter?

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

Good morning, Silvio speaking. Related to the expenses, if you will see these figures from the second semester of the last year, you will see that we have increased very substantial during the second semester. We are not expecting this increase in this year. But just with the labor agreement that we expect to make in September. The other expenses we are expecting to maintain of flat, that is the reason, because we supposed that we will grow to well below the maximum 2% in expenses during the year, comparing 2004 with 2003.

So the Second Quarter, we expect an improvement, a continuing improvement in our (credit). Basically, because of the implementation in our First Quarter model that we're supposed to have a good quarter, it can be, because of the improvement in the economy in Brazil. Basically we had a growth in the income per capital and we are seeing these good sign in all the economy. That is the reason, because we are not expecting that the provision will have some, any deterioration in provision forecast. We are expecting that quarter-by-quarter we will stay in this level that we report in the Second Quarter.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much Silvio.

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

Okay.

Operator

Thank you for your question Mr. Mollin. Our next question comes from; and I apologize for the mispronunciation; Gustavo Hungria, from Banco Pactual. Please go ahead.

Q - Gustavo Hungria {BIO 3214058 <GO>}

Yes, that's correct. Good morning, everyone.

If I may, I just would like to go over these operating expenses, like the first question that was asked. In accordance with my calculations for you to maintain this flat growth, I mean the zero growth, in nominal terms from last year, 2004, this would mean that your capital would actually have to be lower in R\$500 million when you compare the second half of 2004 to the second half of 2003. And I just would like to understand in a little bit more detail where this reduction should be coming from.

And also my second question is related to the payout ratio. As you commented, you increased the interest on shareholders' equity and also the stock buyback and I just would like to see if there is a figure that we should be working with as a payout ratio for the bank going forward. Thank you.

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

Gustavo, it's Silvio (inaudible). Gustavo, sorry, English. Gustavo, we are expecting, if you see the figures, just like I mentioned with the question that Jason made, we have there some increasing in the expenses during the second semester of the last year. And we are not expecting the same. Weeks ago we are taking many measures doing the bank that we are expecting to appear in the figures during the Second Quarter. Like we mentioned in our SG&A, our internal campaign, there are many, many measures, including (capa porcente), energy costs, rental of the many buildings, many measures involved in the bank. That is expecting to maintain what we took to the market, that we maintain the expense flat.

Probably we'll have an increase about flat or the maximum 2%, but it is much lower than the inflation if you compare the expenses with the inflation in real terms. The second question, Mr. Alfredo Setubal will answer.

A - Henri Penchas {BIO 1525748 <GO>}

Henri speaking. Good morning. For the moment, as it was shown in one of the tables of the presentation, we are using the excess of capital to increase the dividends, we are increasing the buyback of shares and we made already one investment that was associated with the partnership with CBD. For the moment, we plan to the payoff of dividends in time to keep it at a level of 25%, 30%. By the other side, as always, we are starting a lot of new investments, probably one more may occur in this semester. And we are continuing with our buyback program.

As it was shown also, we have an excess of capital and we are managing the excess increased earnings per share and the return on equity for our shareholders.

Q - Gustavo Hungria {BIO 3214058 <GO>}

Okay. Thank you very much.

Operator

Thank you for your question Mr. Hungria. Our next question comes from Mario Pierry, from Deutsche Ixe. You may ask your question.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. I just wanted to clarify. You did mention that you are changing your loan growth forecast to 25% this year. During the First Quarter conference call, you gave us guidance of 17% loan growth. I wanted to understand if this increase in forecast is, 1, because the economy is running much better than you anticipated, or is it that Itau plans on being more aggressive in granting credit? Also, if you could provide us with your forecast breakdown by large corporate, SMEs and individuals. Thank you.

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

Mario, bon dias, Silvio speaking. Basically, we are increasing our forecast in terms of loan growth. Because of the economy, the economy in Brazil is improving the demand, the forecast is growing. And we show (these deals) in the fourth semester when we release the data. And that's basically the reason because we are changing our guidance.

We are expecting to grow to this year 25% here, December 2004 in relation to December 2003. Basically with the corporate companies, that is expected to grow 18% and SME we are expecting to grow 54%. And in the credit card we are expecting to grow 10%, personal loans we are expecting to grow 34% and the vehicles 25%. And we are not expecting to grow in mortgage. This break down means that we, in the total, expect to grow 25%. We had an assumption behind this

guidance in terms of the corporate loans that invested in dollars, that we are not expecting any depreciation of the reais in the second semester.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, Silvio. And also just to clarify then, what is your GDP forecast for Brazil for this year and has it changed from your previous forecast?

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

We are expecting it to grow in Brazil 4%.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, that's good.

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

It was 2.5% before.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Great. Thank you, very much.

Operator

(Operator Instructions)

Our next question comes from Isor Pallazios from Citigroup. Please go ahead.

Q - Isor Pallazios

Hello. Good morning gentlemen. I just have one quick question. In terms of the income growth, do we expect to see the same levels as reported previously or do you have a target for the end of the year? Thank you.

Operator

Mr. Pallazios, could you please repeat your question?

Q - Isor Pallazios

Hello?

Operator

Yes, please repeat your question.

Q - Isor Pallazios

Sure, my question was if the income growth is expected to be as this previous quarter, and if you have a guidance for the year. Thank you. Did you get my question?

A - Alfredo Setubal {BIO 1528623 <GO>}

We didn't understand, the sound was not very clear. If you could repeat, it would be good because we didn't understand.

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Operator

Mr. Pallazios, if you could please repeat your question now.

Q - Isor Pallazios

Sure, my question is regarding the income growth. Can you hear me? If the income growth is expected to grow at the same level as the Second Quarter.

A - Alfredo Setubal {BIO 1528623 <GO>}

Good morning, we expect it to grow 10% 2004 in relation to 2003.

Q - Isor Pallazios

Thank you.

Operator

Thank you for your question Mr. Pallazios. Our next question comes from Scott Piper from Morgan Stanley. Please go ahead with your question.

Q - Scott Piper {BIO 1962169 <GO>}

Good morning. My question pertains to the stock buyback. You mentioned you bought back shares, I think it was 1.7% of total shares. And I was curious; do you plan on retiring those shares? Do you plan on selling the shares back to the market at some point? And if not, do you expect this buyback to continue in the third and Fourth Quarter?

A - Alfredo Setubal {BIO 1528623 <GO>}

Good morning, Scott, it's Alfredo. We have an authorization from the Board to buy more shares than we did in this quarter. So according to the price that we believe is convenient, we can continue the policy of buying back. We are not intending, and the approval of the Board is, or to cancel, or to serve the option programs that we have in the bank. So these shares will not go to the market, only-- Today the amount of shares, it's important to say that the amount of shares that we have in treasury today is almost the same level that we need to serve the stock option programs for the next years. So we are not intent, or we are going to cancel part of that, or we are going to serve the stock option programs. That's the policy.

Q - Scott Piper {BIO 1962169 <GO>}

Okay. Thank you.

Operator

Mr. Piper, thank you for your question. Our next question comes from Philippe Cruz from Merrill Lynch. Please go ahead.

Q - Philippe Cruz

Thank you, very much. Hello everyone. I just have a couple of questions.

The first one is to clarify your target in terms of operating expenses. When you say that at most the operating expenses will grow 1% to 2%, I believe you mean this is in nominal terms. I just want to make sure that you are not referring to this in real terms, i.e. inflation plus an additional 1% or 2%.

Then my second question has to do with your target capital level. Is there a level of capitalization that you have as a target? And when do you expect to get there, given your high capital level at

the moment? And whether you; have you ambition to make another sizeable acquisition in the short term? That is it.

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

Philippe. Good morning, Silvio de Carvalho speaking. When I mention operational expenses, I am talking about nominal, nominal increasing. We are not including inflation in this assumption.

Q - Philippe Cruz

That's clear, thank you.

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

The second question, Mr. Henri, will you answer.

A - Henri Pechas {BIO 1525748 <GO>}

Philippe. Good morning.

Q - Philippe Cruz

Good morning.

A - Henri Pechas {BIO 1525748 <GO>}

As you know, we have an excess of capital and we are managing the excess of capital. We increased the return on equity and the earnings per share for our shareholders. For the moment, in the future probably, but it's in the long range for the moment. We believe that we, in a stable environment, we can manage the bank with a (inaudible) towards 25%, above the minimum level required by our authorities. So that means 13.75 cap, the actual 11% that's the minimum in Brazil.

But for the moment, as you saw in this quarter once again, we still can manage our capital in excess and to perform a very nice return on equity for our shareholders. So for the moment, we are managing to have the best increase in value of the bank and with the interest at the actual level, we still believe we can perform very acceptable returns on equity with this level. So we are not in a hurry with that and we are taking all the opportunities we have to increase the value of the bank for our shareholders.

Q - Philippe Cruz

Thank you, Henri, that was great.

Operator

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

Q - Jason Mollin {BIO 1888181 <GO>}

Hi, just a couple of follow-up questions on some comments that were made. One, you mention that the share buyback, or the shares in treasury, are sufficient to fund your stock option program. Have you been expensing your stock options? Is the first question.

And second, related to the change in the loan growth, the increase in the loan growth forecast, 25% from 17%. It seems like in absolute, the amount of loans in corporate is the largest portion of the increase, now looking for 18% growth. Is that related to the growth we saw in this quarter, because part of that was related to the change in the exchange rate? You mention that you're not assuming any additional change in the exchange rate in the second half of the year. But is that an

important part of the increase in the growth forecast as well? Is it just the growth we saw on corporate in the first six months, or basically in the Second Quarter, as a result of the depreciation of the reais versus the dollar? It also seems as if the growth of the small and medium sized companies is a bit higher, but I would imagine in absolute number, it really is the corporate portfolio that's driving your new loan growth forecast.

A - Henri Penchas {BIO 1525748 <GO>}

Jason, Henri speaking. The first part of your question, in Brazilian accounting, we don't expense the cost of the stock option. The only expense is the cost of capital of having the shares, of sterilizing the shares. That will be granted in the next 4 or five years. And if you look at the footnote, you'll see the number of stock option shares that we have and the number of stock that we bought back until that moment. And that is for the next 4 or five years. And our stock option program, the price of exercise of the option is corrected by inflation. So the cost that we have in Brazilian GAAP is the cost of (inaudible) of having that already sterilized in our network. In US GAAP now, as you know, we group that as an expense.

The second part of your question will be answered by Mr. Candido Bracher.

A - Candido Bracher {BIO 3158644 <GO>}

Concerning the growth on large corporate loans, our forecast for the year of 18.1% is compatible with the growth we've witnessed on the Second Quarter now. We have witnessed a total growth in this quarter of 8.9% and the growth before any foreign exchange effects would have been of 6.4%. So if we repeat the 6.4% on the 2 quarters ahead, we would have it slightly above the 18% forecast which we are assuming, that was visible and most probable.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much.

Operator

Thank you for your question Mr. Mollin. (Operator Instructions)

Our next question comes from Gustavo Hungria, from Banco Pactual. Please go ahead.

Q - Gustavo Hungria {BIO 3214058 <GO>}

Hi. I just have one more question and it's in regards to your income tax rate level. In the first half of 2004, the average of your income tax level compared to the pretax income was something around 30%, which is actually higher if you take, if you look at the historical levels. I would just like to understand the nature of this higher tax rate and what levels we should be expecting for the next quarters, assuming that we don't have much relevant variation in the foreign currency. Thank you.

A - Henri Penchas {BIO 1525748 <GO>}

Gustavo, Henri speaking. Gustavo, as you can see in one of the footnotes of the balance sheet, in this quarter we had a huge increase in the tax deferred assets that were not booked, of almost R\$200 million. So the main reason of the actual levels of the tax income rate, is that we didn't book a substantial part of the tax deferred credit of this quarter.

Q - Gustavo Hungria {BIO 3214058 <GO>}

Okay. Thank you.

Operator

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

A - Alfredo Setubal {BIO 1528623 <GO>}

Thank you for all who are following this conference call. I think, as I said at the beginning, the results for the Second Quarter and the First Quarter also were very good in terms of, because of being mainly recurrent results showing the quality of the operation that we have. Not having extraordinary gains or losses in this period. So I think you have a very detailed footnote, a very detailed MD&A and we are open for your questions by phone or by email if you have doubts yet left after this conference call. 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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