

Q4 2005 Earnings Call

Company Participants

- Henri Penchas, CFO
- Lidia Borus, Investor Relations Contact
- Roberto Setubal, President & CEO

Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Paulo Ribeiro, Analyst
- Pedro Gibarais, 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) As a reminder, this conference is being recorded. At this time, I would like to turn the conference over to Ms. Lidia Borus of Financial Investor Relations Brazil. Please go ahead.

Lidia Borus {BIO 21620257 <GO>}

Good morning, ladies and gentlemen and welcome to Banco Itau Holding Financeira S.A.'s conference call to discuss 2005 results.

I would like to mention that a slide presentation has also been made available on the Company's investor relations website at www.ItauIR.com during this call.

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

With us today on this conference call in Sao Paulo are Mr. said well Roberto Setubal, CEO of Banco Itau Holdings Financeira; Mr. Henri Penchas, Senior Vice President; Mr. Silvio de

Carvalho, Executive Director of Controllershship; Mr. (Canja Dublacha), COO and President of Banco Itau BBA; and Mr. Marco Antunes, Director of Accounting.

First Mr. Roberto Setubal will comment on 2005 results. Afterwards, management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr. Roberto Setubal. Mr. Setubal, you may begin.

Roberto Setubal {BIO 1525746 <GO>}

Thank you. Good morning. Good afternoon for all of you. Thank you for being with us. I will talk for more or less 20 minutes; try to keep as much as possible on this schedule and then we will open for questions and you can answer -- make questions for anybody that is here with me.

Starting on Slide 1, the highlights of Banco Itau for the year and for the quarter. And net income for the quarter was 5.4% above last quarter, making 1.4 billion Reais and our total for the year was 5.2 billion Reais, which is an increase of 39%.

The credit portfolio, especially the (pay equals) on the credit cards has a major increase, as you can see in the numbers, 80% and 40% in the year. Provisions, we have increased it except provision, except the central bank group's for that (quadrant) 117 million Reais. Total for the year, 1.37 billion.

Our nonperforming loans ratio has stayed almost at the same level as before at the level of 3.5 and our capital ratio is at 17%.

I would like to go ahead by showing you the perspectives that we stated in the conference call at the beginning of the year, the last year and comparing with the results we have in the year. At the beginning of the year, we mentioned that we would focus on increasing the credit portfolio to individuals and to smaller and medium-sized companies. And this is what we have done. Individuals have the portfolio grew by 57% and small business by 31, much above other levels. And because of this, share in our portfolio has increased for those two segments.

We have mentioned that we would consolidate our initiatives in the area of consumer finance and basically this is the major effort that we have done in the year was that and we opened more than 600 branches and stores in (bonjasufaran) in Americanas as well as in the cities of Brazil, in the streets of Brazil. Our portfolio has been increasing very rapidly.

We mentioned that we would keep costs under control on the same basis of comparison. And as you can see on Page 7, although our costs our expenses have increased more than 15.8 -- 15%, when we adjust to the same basis, the cost have only increased by 5%. This was a little bit below our inflation rate.

We also mentioned that we would keep our ROE on the same level that we had before and we would did better than we expected. We are at the level of 30% in the year of 2005

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we delivered a 35% return on equity, which was a record for our history.

We also stated that we would open an additional transparency -- in line with our transparency (products), we would disclosure the new segment of consumer business and as you all know, we have done that. And we expect a small increase in the nonperforming loans because of our changing mix of going to a higher risk side of loans and this is exactly what happened but was pretty much under control and we could keep these high levels of coverage on our portfolio. So we could deliver exactly what we stated in our conference call in the beginning of last year.

Going into the numbers on Slide 14, we have here the increase in financial margin was 25% almost for the year but banking operations had a major increase of 30%. Under the (head), treasury has a decrease in the year and this was basically due to the fact that we have last quarter of last year of 2004, we have sold some of the securities that we had in our portfolio to offset the amortization of the credit card premium that we paid at that moment. And at that time, we mentioned that we have profit out of our security portfolio of something around 500 million Reais. And this is basically explains most of the decrease here in the gains of treasury.

Under the head services, fees, commissions have increased by 25%. And all those increasing revenues we have partially offset by the increase in the loan losses provisions. But at the end, we could grow faster our revenues and our expenses and last year we also had experienced an amortization of credit card, like I mentioned before. But at the end, we had a major increase in 39% of our bottom line. For the quarter, increase was 5.4%, pretty much in line with the quarters before.

The driver of our growth in revenues were our credit portfolio. As you can see on Page 16, our individual's portfolio has grown especially in the (Vaiegos) portfolio, which is growing very fast and we expect that this will keep on growing for this year.

Credit card portfolio has grown a lot but we have to consider if we have explained that the revenue -- no, the incorporation of credit card here, the companies that we have acquired. And personal loans have also increased it by a very large amount.

On the business sector, the growth not as big but are much more concentrated in volume in small business and middle market. Corporate portfolio has not increased that much, on only 7%. And basically the reason for that is that large companies are using much more capital markets to fund their investments and their operations. Right now, the capital markets in Brazil are very favorable and we have to have mainly many IPOs and mainly bond issues in the local market and companies are using pretty much that market to fund themselves. Prices are very good on that market.

The credit portfolio -- the contribution of the credit portfolio -- when we adjust to provisions has been pretty much in line with years before last quarter. But we are continuing developing the growth of the portfolio for this year as one of our strategies.

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Service fees have been increasing. The major increases that we have here is on credit card, as you can see on Slide 19. This increase is basically due to the acquisition of credit card in Orbitall for the year.

When we go to efficiency ratio, we can see that we have improved our efficiency ratio. We are at the level of 50% in efficiency ratio compared to 54 last year and this basically is considering all the expenses in this ratio, which is the international ratio. When we consider basically the administrative and personal expenses, our not considering non-operational expenses, our ratio goes even more efficient level, which is a level of (21)% number.

Now, I would like to talk a little bit about the segments that we have in Itau so we can go to Slide 23 and we opened the results of our three major divisions, the commercial bank and commission (repayer) Banco Itau. Itau BBA, which is our corporate division and Itaucred, which is the consumer segment.

Going ahead, next slide, we can see a breakdown of Itau's banking revenues and profit centers. Basically, all of the business is growing. Basically, what we have on the Itau banking is the fact that our treasury results, which were much lower than the year before. And as I explained, this was due to the fact that we have sold some (situates) last year and we have profit out of them to offset the amortization of the agreement that we have paid on acquisition of the credit card and other sold companies. So, basically the message is that the business -- the (full) business in line and growing and very healthy and going ahead.

When we go to Itau BBA, basically we can see the same picture. Last year, we had some recoveries in our loan loss portfolio but last year and the year before, both years we had recoveries. So it's positive results of those loan (losses). This was basically due to the fact that in 2002 because of the very negative microeconomic environment, we have done in 2002 and 2003, a lot of provisions, which have been reversed as the microeconomic environment has improved in Brazil.

Treasury is improving as banking operations and revenues, commissions from service is also improving. Expenses are under control. And at the end, we had a major gain, a major improvement on the (natural stem' of our corporate unit, which is Itau BBA.

Itaucred, which is our consumer credit division, is growing very much here. The name of the game is growth. We are in our (fredicos) unit growing very fast. Our results are improving quite fast. On credit cards, with the acquisition of the credit card company, 50% of the credit card company also results and improved a lot. On Taii, we are opening; it's a startup business, as you know. We have opened, as I mentioned before, 600 new stores. So coming from 30, we end the year with 650 stores. So it's a major investment that is startup period and the results are still negative and we expect this unit to break even in the last quarter of 2007. So again, although we had this negative impact of Taii, the overall result of the Itaucred unit is very positive and growing very fast in the bank.

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On Page 37, I would like to highlight that fact that we have been buying back shares and these have made our net income per share growing faster than the net income of the Company. And this as you know is a provisional policy of Banco Itau.

Going ahead, we can see that our share has been appreciating a lot in the last 12 months, 65% in U.S. dollars and 25% almost in five years and 28% in the last ten years. And this has to do with the consistency of the policies that we have in Banco Itau balancing, the growth and the profitability profits.

I would like to talk something about 2006, the perspectives and the way we are seeing our business segment. On Itau Banco, we expect to keep on our organic growth of our classic business lines, which basically means the branches -- we are growing the branches, opening new branches and this will keep on going for the year. We expect to have more focused on insurance business. We will start and we will talk a little bit later on that and to sell insurance also in our consumer business as a cross-sell. We expect to keep efficiency ratio same basis at the same level. We expect the portfolio -- the credit portfolio to grow by 25%. And we expect a moderate growth of nonperforming loans ratio, especially in the first semester of the year and we expect that the microeconomic environment will improve along the year as the economy will grow faster in the second semester and we expect improvement in loan losses for the second semester.

On Itau BBA, we are focusing more on investment banking, taking advantage of these very favorable market conditions and we will also keep focused on banking services. As you see, this has been a major source of revenue for the bank and we believe that we can keep on growing services for our corporate clients as well.

We expect also, we are continuously improving our management processing of Itau BBA so we expect to have the treasury results always as a positive area of results for the bank, a natural source of revenues for the bank. And we are investing in models and techniques in order to have this even improved.

Itaucred, the consumer credit division, we are growing all the units and like I mentioned, this is basically a fast-growing area of our conglomerates. We will grow even more our -- the (critical) finance area by opening and improving our presence in Brazil. We are going into regions that we basically are not present so far and we will be at the end of this year present in all of the regions of Brazil. We also expect to grow faster in new segments like trucks and buses, which we are (expecting) to be in that business as well.

We expect to consolidate our partnership with CBD and Lojas Americanas and grow the number of high yield plans. We expect also to launch new products in those business lines. As I mentioned, insurance will be one of them.

Others will be basically credit products. We expect also to grow our credit card for non account holders of Banco Itau. We expect to grow 20, 25% again this year. We expect also to integrate the credit card and Orbitall operations into Itau. And we will have operational gains and be more efficient in those areas as we finish those integrations, which will happen along this year.

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We expect the growth of credit in general to be very strong, (covered at) both 30%. And we expect that nonperforming loans, we will moderate growth -- we will grow as slowly as the years go by and depending on how we grow that business and how the economy goes, this can be a source of positive impact in our results.

We expect a favorable environment in general for the year in Brazil, which like I mentioned before and this probably will have a positive impact by the end of -- in the second semester on our loan loss provisions.

We also decided that we will have additional disclosures. We will disclose to you the operational risks that we have in the balancing line with Basel 2 propositions, we will start disclosing the operational risks in the First Quarter 2006.

For those were the facts that I would like to present to you and I'd very much like to hear your questions.

Questions And Answers

Operator

(Operator Instructions) Jason Mollin, Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. I have two questions. My first question is related to the outlook for fee income growth. Itau posted excellent fee income growth of over I think 25.5, 26% in the full year 2005 and we saw very strong growth in volumes. But something that we're not seeing is a lot of competitive pressure on pricing for fees and we at least haven't seen a lot of that and we haven't seen any regulatory pressure as we have seen in some other countries. Perhaps you could comment on the outlook for fee income growth, particularly if there could be pressure let's say on interchange fees for credit cards that we have seen in other markets like in Mexico or even in the U.S.

And my second question is related to your views on the development of the mortgage market in Brazil. I saw that Itau recently introduced a new mortgage product. Perhaps you could tell us about that and what you think it will take for this market to really take off and have an impact on Itau's financial statements.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, Jason, I'll start with service revenue that you mentioned. I think that we can keep growing the revenues service on Itau as a whole. You have to remember that we have a major impact on the growth of last three years because of Orbitall in credit card. So when you compare with the growth of the other like other services types, you will see that the growth was not as big as on credit card.

But I would expect that we could grow at that same pace that we had last year on the other lines, something around 10, 15% depending on the line of service; we can keep on growing the revenues on those services.

Yes, I don't agree that we don't have competitive pressure on that. I think that the pressure on the competition is strong. We face competition in most services that we provide because other banks provide same kind of services and they are very active in that business. I think that we have -- Itau has very good quality on the service that we provide to customers and this is probably our main competitive advantage.

From the regulatory side, we don't see pressure because basically when we compare it to other countries, basically the fees that we charge here in Brazil are smaller than other countries when you may compare some of it to international levels. So, we like that business, as you know. We are always focusing on servicing revenue. We think that this is pretty much in line with the culture of the bank and we will keep focusing on that kind of revenue.

Going to the mortgage business, yes, we have launched new products, just beginning of this month. We are offering customers a 15-year prefixed rates, which is something very new in Brazil. We have never heard of 15-year prefixed rate on mortgages in Brazil. So it is something new. The reflection from the clients are very good although this market is still small in Brazil. And it is small basically because of regulatory problems and also because in my opinion and this is a major reason because of the high level of interest rates. I would expect that this would be a big business in Brazil maybe two or three years from now because then, I would expect it to be -- we will have much lower interest rates and this will be a major factor to impose that market. I would expect growth this year in that segment, maybe very strong growth, although the bases that we are starting is very, very small. It represents roughly something between 1 and 1.5% of our assets. Okay?

Operator

Pedro (Gibaraís), Banco (Pactual).

Q - Pedro Gibaraís

Hi, I have two questions also, both regarding the loss. I think it's good to go back to these mortgage questions because I have not exactly a different understanding. But from what I understand of the rules of the Central Bank, the resolution 2005, (2001, 77) banks would also have a type of supply shark because it is not only the interest rates and I also learned that the legal framework has been improved a lot with all of the new regulations. But from what I learned and this would be an interest question also is we had 65% of the figure in deposits that should be directed to mortgage if you apply this rule, Basel 2 and Itau, we should have 10, 11, 15 billion Reais in (Marcus Landing). And what we see in the mortgage loans for both (Botadish) and Itau, it is below 2 billion Reais.

So I think the first question is exactly if you could update us with this change in the regulatory framework because there is a huge change and the question is will these regulatory be applied? Or if you believe that only this regulation will be applied when we

have an interest rate, a nominal [ph] interest rate as 10%, 12%. I think this is a very important point.

And the second one, it is regarding -- I make later -- but it's also regarding the loans and the potential reversal that you have in the 107 million Reais in excess provision for loan loss but I would also like to discuss the concept of what you call extraordinary or excess loan provisioning. Because in my opinion, with the change in portfolio, the dynamics of the loan portfolio. So focused on the Taii consumer finance and credit cards for loan current account holders, we should expect much larger delinquency rates. So what should be extraordinary provision one or two or three years ago in my opinion it is not the same of what we should have in the next two or three years.

So the second question would be exactly that. If you believe that this excess provision that you have just posted in the Fourth Quarter, it is really extraordinary or if you really think that it is an answer from this change relating to last corporations to loans to smaller consumers and especially to the poor region of Brazil. Thanks a lot.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, I will start with the mortgage regulation as you mentioned. Yes, Central Bank has changed the regulations but these won't change that much the perspective that I mentioned to you, Pedro. And you have -- yes you are right when you compare the amount of loans that we have with the 65% regulatory and monetary use of savings into that area, it seems quite distant. Yes, you are right but you have many other things that you can use as part of the things that you have to use the savings. For instance, you can use (seck Chicago's) the (recipe) do (Mobidales), which are securities, which are backed by houses or other types of real estate. So real estate packages are also part of the eligibility and you can also use all the loans that you offer to the companies that construct the buildings. You offer -- when you commit yourself to a certain level of loan, the total level is part of the numbers that we have to comply with the rules of Central Bank. So it's a very complex and very detailed thing but you can go with Silvio and he will be very happy to explain to you all those impacts. But basically, the message is we are for sure complying the rules. We don't see in our case, which may be different from other banks, any major impact because of the changes on those regulations.

Q - Pedro Gibarais

Roberto, since I would like to make a suggestion because I think you had an excellent answer. Just making the calculation here, you have around 20 billion Reais in savings, 19.8 billion that would lead to almost 13 billion Reais and you have 1.9 in mortgage you have around 500 million Reais, increased mortgage loans and the scale of the home builders in Brazil is still really small. So like at the end of the day, what I have is 10 billion Reais for Itau with a gain also for Botadish another 15 billion. And what I would like to ask to you, I know that Itau, it's clearly the bank that provides the most insightful information so this is why I'm asking you. Because the reduction in interest rates should be sharp, fast and this mortgage market should also answer very fast. So if you could provide for us in the near term some more detail about these earnings I would appreciate it a lot. Because I really think that this happened in Chile, Mexico and Turkey and it could happen really fast in

Brazil. I have some lots of different views of yours and if you could provide us with more information, I would really appreciate it a lot.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, Pedro. I believe that the numbers that we -- I think it's better for you to sit down with Silvio and we can go in detailed process in order to give you the information about how we comply with the rules of central bank about the savings (I) market (wrote).

Okay, in the case of mortgage, I don't believe that we will have a major impact in the year of 2005, 2006 or even 2007 in our results coming from this segment of mortgages. I think this is a huge potential for the banks in Brazil. I believe that I like a lot the idea of having big market of mortgages. We are -- we have big discussions here in Itau, how we have to position ourselves in terms of -- in order to take advantage of this huge potential that we will be there once the interest rates are down. But, as I mentioned, we're coming from a very low base and this will be take some time before we have (ready form) impact in our results, which I expect to happen probably after 2007. Okay for this year, I don't believe that anything will be meaningful and probably not next year as well. But like we are talking, the market has a huge potential. I agree on that.

Q - Pedro Gibarais

Regarding like the long-term provisioning level, like if you just think that this -- what is usually or extraordinary provisions, if you really believe that in the future will continue to be extraordinary or if you think that this focus towards risky business would lead you to use these 170 million Reais very soon?

A - Roberto Setubal {BIO 1525746 <GO>}

No, I believe that we -- except provisions, we calculate our excess provisions in a very conservative way. Basically, we have kind of stress in areas and we have tried to have provisions in order to cover the losses that we would come from stress scenario.

Our stress scenario, our motto probably is conservative because we viewed this model a few years ago and we keep basically same kind of practices. The microeconomic environment has changed a lot in Brazil and we will be addressing this issue along this year. Even because we have to do it because of the (bed of two) rules. So we will be discussing this more detailed during this year. Henri, can you comment on one please?

A - Henri Pechas {BIO 1525748 <GO>}

Pedro, I agree with everything. Just take care of when you're looking the numbers of Taii, that we have inside almost 1.1 billion of credit to Consignado, where the risk is very, very small. So you need to sleep when you examine the segment Taii, the credit of Consignado, of the other credit, that just 770 million with a huge provision.

Operator

(Operator Instructions) As a reminder, please limit yourself to two questions. Paulo Ribeiro, Citigroup.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Good morning. Just one quick question following up on the mortgage. If you could tell a little bit more about the regulatory environment in terms of bankruptcy law or reclaiming assets and makes you feel comfortable. Also on the funding side of it, if you could discuss initiatives like synchronization or how you would like to fund yourself of such a long mortgage. And quickly jumping into Itau credit, if you could talk a little bit about the investments in terms of (if the worst) or millions of Reais that you're planning for 2006 you mentioned you're opening.

Out last for Taii, you're also (the penetration) of the financing and all that, if that is going to be a significant investment in terms of millions of Reais. Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Starting with your last question, we're opening more or less I think around 300 stores in 2006. So, the growth will be not as big as we had in 2005. Then we will, like I mentioned, be looking much more to break even the business in the year after that. Regarding the growth of the assets, I don't have a clear number here in my mind. But for sure, the Taii business will be growing quite fast the assets. And then you have also maybe the question on --

Q - Paulo Ribeiro {BIO 1929952 <GO>}

On the mortgage, -- expecting the banking subsidiary or that to offer enough potential and also on the funding side, how you see that market developing to fund longer term --

A - Roberto Setubal {BIO 1525746 <GO>}

Starting with the delinquency law, the recovery that we have had changes in Brazil. The way we can recall for a mortgage loan. Yes, it has been improved a lot compared to what we had before. It is a much more strong law. We don't have still so far a major experience on that law. But the initial results are very positive. So this would be an additional issue -- additional thing that will help that business to grow. Recoveries will be much easier in the future than they were in the past.

Funding so far, this is not a problem because it's a very small business and we can hedge ourselves as we want in futures markets. This is so far not a problem. But down the road this might be an issue for development of that business. Then we would have to see how markets and futures market will be working at that moment.

I have here also a number that we are expecting for the end of 2006 on our credit consumer finance units, like I will -- Henri mentioned -- we had 780 million Reais at the end of this year as outstanding portfolio. This number probably we're expecting to increase to 1.7 billion. So it would go from almost 800 million to 1.7 billion. Is that okay?

Operator

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. I also have a couple of questions. First just to follow up on the question on the costs and the expansion of Taii in the consumer finance business. You also mentioned the expansion of the insurance business. So are we to expect non-interest expenses to grow at double-digit pace again this year or you mentioned that the number of branches you'll be opening is much lower than in '05. But should we still see costs raising at double-digit pace?

And then second question is related to your net interest margin surprised me quite a bit, the improvements that we saw this quarter, probably reflecting the better loan mix. So I wanted to understand also how do you see the evolution of your net interest margin in '06 as interest rates are coming down? And where -- you showed us that your individual portfolio now represents 42% of the total loan portfolio with significant improvements. At what level would you be satisfied? Where do you want to take this individual loan portfolio as a percentage of the total loan portfolio? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Like I mentioned, we are considering an increase of our loan portfolio and we also are expecting some pressure on margins as interest rates go down. But we expect to grow faster the portfolio than the reduction on expense. In addition to that, although we are leaving -- I would expect that on the loan loss side, we would have improvements along the -- as the microeconomic environment improves.

The improvement in microeconomic environment has two consequences. One is the reduction in interest rates, which you could argue that this would be a negative effect in our results. The other one is the improvement on the credit portfolio, the quality of the credit portfolio, would be a reduction on the loan loss. And I can tell you that given the size of our portfolio, the provision that we have and the impact that the interest rates have, the positive impact is much bigger than the negative impact. In other words, reduction on past-due loans and loan losses would be much more important than the reduction of the revenue that we would have given the reduction on interest rates.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And then on the question on the costs?

A - Roberto Setubal {BIO 1525746 <GO>}

Costs, we expect, like I mentioned, to keep our efficiency ratio at this same level, on the same basis. We expect loan costs to grow in line, on the same basis in line with inflation. This is what we announced.

Q - Mario Pierry {BIO 1505554 <GO>}

Just to follow up, you mentioned about the possibility of expanding your insurance business. Would you consider to do that through acquisitions as well or is this organic growth?

A - Roberto Setubal {BIO 1525746 <GO>}

We are always open to acquisitions. As you know, Itau has been very active in acquiring companies in any segment. If there's any opportunity we would be for sure analyzing that opportunity.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Good morning. I promise to be shorter. I'm assuming that given the investments in capacity you are doing right now, it seems that you think there is room to take market share in Brazil. How well prepared are the small and medium-sized banks to operate in an environment of lower rate? Can they really transition from a loan-based business to a lending business? And what type of estimate do you think -- how much is there out there for you to take? Thanks.

A - Roberto Setubal {BIO 1525746 <GO>}

Thank you, Jorge. Itau has been growing market share in very consistently along the -- it's not only because of acquisitions but also because of our organic growth. And we expect this to keep the years ahead. I think we have still space to grow our market share on an organic basis in addition to any acquisition that we might do in the future. For me, it's very difficult to say something about other banks that are in the market. But the only thing that I can say that we are looking to increase our market share.

Operator

Carlos Gomez, Legg Mason.

Q - Carlos Gomez {BIO 15024854 <GO>}

I have two questions. The first one refers to Basel 2. You mentioned before you will give us the operational risk. Can you give us a preliminary assessment about what Basel 2 would mean to you and to your capital ratio with the information you have? And when do you expect the Central Bank to implement Basel 2 in Brazil?

And the second question refers to your sensitivity to integrate. I know that (I can't make myself understand) 10 different scenarios. Can you give us maybe about the percentage that let's say how much each percentage declined in interest rates (with respect dusparios) would affect your interest revenue. Thank you.

A - Henri Penchas {BIO 1525748 <GO>}

Good morning, Carlos, how are you? Henri speaking. Carlos, for the first calculations we have, the implementation of Basel 2, taking into consideration all the operational risks and taking into consideration the credit risk, probably we will have an increase in our ratio from the actual 17. We have an increase obviously due to the operational risk and we will have a decrease in the credit risk. And overall, we will have a reduction.

Q - Carlos Gomez {BIO 15024854 <GO>}

Actually, can you validate -- (technical difficulty) the ratio of government bonds in (specialist) not investment grade? Do you consider that when you say they are (both year) reductions?

A - Henri Penchas {BIO 1525748 <GO>}

No, I don't consider that. Because for all the countries, that is a rule. You don't take into consideration your federal securities issued in your currency. And, as you can see in our balance sheet, Carlos, our (lab) of federal securities is very, very, very small. We closed now as of December with 6.6 billion Reais only in federal security. So that is what we expect. The Central Bank, they are working on that, probably 2008. After 2008, we will adopt FAS 02.

A - Roberto Setubal {BIO 1525746 <GO>}

Regarding the sensitivity on interest rates, I don't have a number here. but it's not difficult for you to figure out a number if you take into consideration that basically the reduction on interest rates will impact the working capital of the bank and basically one-third of demand deposits. This is basically the impact that we (technical difficulty).

Operator

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

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, thank you very much for being with us in this annual conference call that we do and thank you for your presence and thank you for the questions that we have made to us, which is always an opportunity to explain some additional things for you. Thank you, bye bye.

Operator

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

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