

Q1 2007 Earnings Call

Company Participants

- Alfredo Setubal, IR
- Daniela Ueda, IR
- Eduardo Vassimon, EVP
- Henri Penchas, SVP and CFO
- Marco Antunes, Director of Accounting
- Silvio de Carvalho, Executive Director of Controllershship

Other Participants

- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Juan Partida, Analyst
- Louise Byrne, Analyst
- Mario Pierry, Analyst
- Rodrigo Santos, Analyst
- Stephen Barret, Analyst
- Unidentified Participant, 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. 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. Daniela Ueda of Financial Investor Relations, Brazil. Please go ahead, Ma'am.

Daniela Ueda

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 could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic condition, market risks and other factors.

With us today in this conference call in Sao Paulo are Alfredo Setubal, Investor Relations Director of ItaÃº Holding; Henri Penchas, Senior Vice President and CFO of ItaÃº Holding; Silvio De Carvalho, Executive Director of Controllershship of ItaÃº Holding; Eduardo Mazzilli Vassimon, Executive Vice President of ItaÃº BBA and Mr. Marco Antunes, Director of Accounting of ItaÃº Holding.

First, Mr. Alfredo Setubal will comment on the First Quarter 2007 results, afterwards, management will be available for a question-and-answers session. It is now my pleasure to turn the call over to Mr. Alfredo Setubal.

Alfredo Setubal {BIO 1528623 <GO>}

Good morning, for those who are in the U.S.. Good afternoon for those who are in Europe. It is a pleasure for us to be back to talk about the First Quarter results of Banco ItaÃº Holding.

The first page, Page 2, for those who are following through the internet slides, there is a first slide on number 2 page. And the highlights for the First Quarter. The first one is the results, the recurring net income of 1,902 million Reais, increase of 5.8% when we compare to the last quarter of 2006. And annualized ROE of 31.3, we changed some criterions in this quarter. And we'll talk about in the next slide.

Another highlight for the result is the reduction of 110 million in expenses for loan losses, due to the better environment in terms of credit quality and a decrease of 91 million Reais in non-interest expenses, when we compare these two numbers to the last quarter of 2006, we have a net income per share of 1.59 Reais.

The second highlight is the growth of the loan portfolio in the quarter, the growth was 7.9%, within these numbers the operations of BankBoston in Chile and Uruguay totally in this quarter are being consolidated.

The growth which we saw in the three main sectors that we are growing our credit portfolio are personal loans with increase of 20.7% in the quarter, vehicles 10.1% in the quarter as compared to the December of 2006. And the small and medium-sized companies, 19.3%. So the demands for these three segments continue to be very high and we continued to focus on these three segments.

Additional provisions are the third highlight; we increased the excess by 50 million Reais on both the requirements of the Central Bank of Brazil and we finished the quarter with 1.75 billion Reais in additional provisions for credit.

With respect to non-performing loans, we finished the quarter with 5% and BIS ratio, we continue to have a high-level of 16.5%.

In the next slide, we show our reconciliation of net income of the Fourth Quarter to compare with the First Quarter of 2007, because we did an adjustment in the accounting

criteria of the expenses of commissions paid to car dealers.

Until last quarter of 2006, we were the only public bank to expense totally in the quarter. The expense paid in terms of commissions to the car dealers when we were granted a credit. Now, we are starting to do the same criteria to the other banks, that is expense through the credit life. So this change had an impact of 208 million Reais in this quarter.

Another change when we compare to the tradition of ItaÃº of paying interest over capital instead of dividends. We are going to talk about this in the next slide. We have a positive impact of 156 million Reais. So this explains the different criteria that we used in this quarter. I would like you to go to the next page, next slide.

I don't know if all of you understand the difference between interest on capital and dividends. According to the legislation in Brazil, all of the companies have to remunerate the shareholders paying dividends or interest on capital. Interest on capital is deductible for tax purposes and dividends are not paying after the net income.

There is a limit that companies can use to pay the interest on capital. And this is the long-term interest rate that is fixed by the BNDES quarterly and nowadays this number is little bit above 6%. And this 6% is the limit we have to use for the stockholders' equity to calculate the limit in terms of Reais.

So we are reaching the limit that we can use this fiscal legislation to pay in terms of dividends or interests on own capital. So the Board of the bank decided that we are going to pay dividends instead of interests on own capital because of this limitation that we have to use the legislation.

So what we are doing is to declare a dividend and this has fiscal impact in terms of the number that we release quarter-to-quarter. So we are going to pay dividends monthly that we usually pay annually. So this year we are going to pay monthly dividends and the complementary dividend that we are going to announce in the middle of the year related to the first semester results will be declared our dividend and not interest on capital.

By the end of the year, we are going to declare interest on capital to pay the complementary dividends related to 2007 results. So from the next quarters ahead we are going to make provisions on interest on capital that we would be declared in 2008 related to 2007. I know that it's a little bit confused. But I think it's important for all the analysts to consider that in their models because this affects directly the total amount of tax and social contribution that we pay.

If you have some doubts, you please use the Q&A part of this conference call. And then we can re-explain better.

Going to slide number five, we see that the stockholders' equity among all the number that are in this table is 24.971 billion Reais and this is the limit that we use to calculate interest on capital and the results of 1.9 billion have this recurring ROE of 31.3%.

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Efficiency ratio is another highlight 44.1 in a quarter due to the continuation of the growth of the credit portfolio and the better controlling of expenses as I've said at the beginning of the presentation.

Going to the slide number six, we can see the ItaÃº Holding pro forma, the managerial results. We see the managerial financial margin with a growth of 2.9% when we compare to the last quarter of 2006, always remembering that all these numbers include the BankBoston in Chile and Uruguay in this quarter, the total quarter on consolidated Reais.

Banking operations with a small increase of 1.9%, treasury gains lower than in the Fourth Quarter due to the market conditions in the First Quarter of 2007. We have an increase in the management of foreign exchange risk.

You remember that we hedged the capital that we have outside Brazil in our branches and subsidiaries, i.e. around \$3.5 billion; we transform these into CDI that is SELIC interest rate here in Brazil to get the benefit of these high interests rate here in Brazil and instead of facing the valuation of the Reais against the dollar.

So all of these we have a change. In the past, we used to hedge considering the net remuneration of the SELIC rate and from this quarter on we are considering the total CDI SELIC rate to hedge the position.

And another factor that influenced this number is that we started to hedge also the capital of the bank of Chile and Uruguay. The result of loan losses we saw a small decrease in terms of provisions in the quarter when we compare to the last quarter of 2006. And we finish provisions with 1.266 billion Reais.

Banking fees, we have some reductions we are going to see a table in the coming slides that explains better these numbers. And non-interest expenses that we have some reduction showing that we continue to be in control of the expense.

On page 7, loans by type of customers, we can see that the total loan portfolio increased to 101 billion Reais. We continue to increase the credit portfolio. This quarter we had some reduction in dollar credits, because of the valuation of the Reais against the dollar. But in a way we increased individuals' portfolio to 46.5 billion, with an increase of 4%, this is mainly in vehicles and personal credit.

Vehicles are where we saw the increase 10%, in the market that it continues to be very heated and it will continue to be very important this year as you can see that almost 20% of the total credit portfolio of ItaÃº Holding is in the vehicles side, where ItaÃº has around 24% in terms of market share.

Within the Credit cards, you will see a reduction, when we compare to December of 7%. This is seasonable, because of more use of credit cards in Christmas and vacation period in the last quarter of each year.

In terms of companies, we can see, the corporate with reduction, we are going to explain better that the reduction is not so high as is shown here; 8%. Here we have the influence of the valuation of the Reais in the credit portfolio in dollars, which is mainly in corporate side. But we can see small and medium sized companies, with an increase of 11.2% that is one of the markets that we continue to be focusing to increase our credit portfolio.

On slide number 8, we can see that the trend in terms of changing totally, the composition of our credit portfolio continues. The loans of corporate side, the big companies continue to reduce in relative terms when we compare to the total portfolio of ItaÃ°, 24.4% is the companies -- big companies credit portfolio.

And individuals and small and medium-sized companies continue to gain participation in our credit portfolio. Individuals reached 46.9%, it's the highest level in the last years in terms of participation of our credit portfolio. And the same for small and medium-sized companies that reached 24.1%, also the highest level in the last years.

Non-performing loans and coverage ratios on page 9. We see a better performance for all the segments. Individuals reduced from 8.1 to 7.8. And companies reduced from 2.2 to 2.1 and this we finished with 5% in total non-performing loans and our coverage ratios continue to be 166% which is very comfortable for our position.

On page 10 we have a breakdown of the delinquency ratio by segment. Here I would like you to pay attention on the note, the 5% that I mentioned in the last slide represented total portfolio including Chile and Uruguay. So if we exclude Chile and Uruguay, the NPL would be 5.2, which is a small reduction when we compare to the 5.3% of December of last year.

But anyway, it's in line to what we have been saying and that we were expecting stabilization on even some reduction in the NPL ratio. And I think we continue to be comfortable with this strategy of the bank to increase credit portfolio with individuals and small and medium-sized companies. We think the situation is totally under control and we are not seeing any risk of increase in terms of delinquency in these segments.

On page 11, you will find funding for the bank. We continue to see the increase in deposits and in mutual funds. And one thing that you should pay attention is the foreign exchange portfolio that increased 10 billion Reais when we compare to the last quarter of 2006. This is also seasonal and these numbers are more stable for the next quarters than the number that we showed in the last quarter of 2006.

Banking fees on slide 12. You can see that the total has a small reduction when we compare to the last quarter of 2006. And here we have the influence of the reconsolidations of BankBoston Chile and Uruguay and without that numbers the total would be 2,384 million Reais.

But also we made a provision to INSS, the Social Security in Brazil that is delaying [ph] in terms of payments and we made a provision of 16 million Reais for this delayed payment

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in this quarter. So we have these two influences of the operations of Chile and Uruguay and the provision of the social security.

On page 13; noninterest expenses, as I said we have a reduction and a better control of expenses in this quarter. If we do not consider the number of Chile and Uruguay, then numbers would be even better instead of 3.28 billion Reais, the number would be 3,145 million Reais, with a 6.7% decrease when we compare to the last quarter of 2006. So I think these numbers shows that we continue to be very focused on the efficiency of the bank.

On the page 14, talking about the integration of BankBoston Brazil into ItaÃ°, the integration of the branch network through the platform -- the technological platform of ItaÃ° and PersonalitÃ© is going on. The process in this idea is to finish it by the Second Quarter of 2007. So by this period in the Third Quarter, we are going to use all other systems and technology of ItaÃ° to serve all the networks of the bank and this view of course bring some efficiency to our operation.

In terms of small and medium size companies the customers of BankBoston is also in the way to transfer to the platforms of ItaÃ° in the middle market. And in terms of corporate clients they were already in the platform of ItaÃ° BBA. So in the Second Quarter we expect to show you even better numbers in terms of efficiency due to this reduction in terms of costs to maintain the two banks separate.

You can see on page 15 that we have this much better efficiency ratio of 44.1% and we expected these coming quarters to show numbers around these 44%, 45%, 46%, in terms of efficiency ratio.

Page 16; financial instruments; market value, just to show you that we have unrealized gains of 2.4 billion Reais in line with the last quarters that we didn't change much, within these numbers.

On page 17, the traditional four segments that we have are retail bank, corporate and investment bank, ItaÃ° BBA, Itaucred, that is our non-banking client operation. And the corporation, where we allocate the excess of capital. Showing the managerial results for these four segments, we see the total result of 1.9 billion of Reais ItaÃ° Holding. We have for Itaunanco the retail operation 1,259 million Reais, that means that we had in these operations considering the capital allocated to this operation of 41.3% which is very high and very good.

ItaÃ° BBA has a managerial result of 243 million and return RAROC of 18.6%. Itaucred 297, with a RAROC of 41.6 that continues to be a very high and very profitable operation. And the corporation where is the excess of capital of 10.2% in terms of return on capital. And these altogether gave us this total 31.3% in terms of return of equity.

Going to the next slide on page 19, we can see the Banco ItaÃ° pro forma of this result of 1.2 billion Reais. We can see in the managerial financial margin. And we have a small increase. Going in more details of this managerial margin, we can see banking

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operations, we see small decrease what is normal in the first and last quarter because of vacation and less activity.

Treasury gains in the case of Banco ItaÃ° we have increased when we compared to the last quarter of 2006. And the gains from the hedge of the capital outside Brazil that most of these subsidiaries are in under the Banco ItaÃ°.

So we have these results in terms of loan losses, increase in terms of provisions of 7.6% due to the most of the growth in terms of assets are under the Banco ItaÃ° operation. Severance fees quite stable in terms of Banco ItaÃ°. And non-interest expenses we have these reductions also here, that helps to increase our efficiency ratio.

Going even deeper in details, we see that credit cards, continues to be very important in terms of results, even considering the competition increased a lot in this segment. But continues to be very important for us and we increase results of 6% and finish with a 162 million Reais in terms of results. The number of cards increased 1%, we finished with 13.5 million cards issued and the billing reduced because of the First Quarter traditionally less active in terms of use of credit cards.

Insurance, pension plans and capitalization, these three segments show results lower when we compare to the first and the last quarter of 2006, here we finish with 185 million compared to 247 million Reais. I would say that in terms of pension plan the results continue to be very good and growing business and we are growing and continuing to increase our market share.

The results in terms of insurance were lower, as can see in the table, they were below, that we have a worst combined ratio and increased the claim level in terms of insurance. So these affected the insurance business.

On page 22, we can see ItaÃ° BBA pro forma. In managerial margin we see less gains from treasury operations in the quarter and also a reduction in banking operations. Banking operations we have an expense of 30 million of funding expense that will be amortized against the loans that we'll go through the next quarters.

In terms of provisions for loan losses, ItaÃ° BBA has a positive provision this quarter, 44 million due to some recoveries and increase of quality of some client. Fees reduction also mainly because of less activity in the case of investment banking and non-expenses also show a reduction of 9.3%. So the total results for ItaÃ° BBA, 244 million Reais, which is a reduction when we compare with the last quarter of 2006 where the gains from treasury were much higher.

On page 23, you can see that the ItaÃ° BBA loans and security portfolio. You can see here that the loan portfolio is quite stable when we consider the credit that we have to provide using the deposits for agriculture. Most of our credit goes to agro business. So this is under control of ItaÃ° BBA client. So you can see when we consolidate everything, the reduction is not so high as it appears when you just look for the numbers that we show in the other table.

Also it's important to say that ItaÃ° BBA has been more conservative in terms of lending for big companies, especially when the spread is not so high. We prefer not to increase the credit portfolio with lower spreads.

Itaucred, is the channel that we have for our non-accounting holders of Banco ItaÃ°. The three main business here car financing that continues to be very important with a contribution in terms of net income of 235 million in the quarter which is an increase of 14% and credit cards for non-accounting holders also important, 83 million Reais against 69 in the quarter before.

And the TaiÃ operation, our consumer credit company, that continues to have a negative contribution in the First Quarter of 21 million Reais. But we continue to see better results.

We continue to be confident that by the end of the year TaiÃ operation will be breakeven and from 2008 and on the contribution will be positive in the TaiÃ operation as is scheduled. We always said in the last two years that the TaiÃ operation would be accretive in 2008 and we will continue to believe that this will be reached.

To finalize the increase of our net income and net income per share, you see that we continue to increase both in terms of recurrent income result and per share. We continue to be very focused on our market capitalization and results to increase these numbers. This is the final presentation and we are now open for the Q&A session.

Questions And Answers

Operator

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

A - Daniela Ueda

Our first question comes from (inaudible).

Q - Unidentified Participant

Hello. Good morning, greetings from Portugal. I will speak in English because of the international audience. I would like to know what does ItaÃ° pretends to do or expects to do with the participation in BPI, because I believe there is an unrealized gain of about 600 million euros which is quite a lot of cash. So my question is do you intend to sell this, do you intend to increase this participation. And also are there any plans for ItaÃ° to expand their operations in Portugal that are insignificant right now? Thank you.

A - Alfredo Setubal {BIO 1528623 <GO>}

Good afternoon. In terms of our participation in BPI, we are very happy with the stake that we have there. We are very confident that the management will continue to provide the

good returns that they showed in the last quarters. I think they plan that the Company release the market in terms of growth of business we consider that we'll be achieved.

So we continue to be very happy shareholders at BPI. We continue to believe in the management. And it is not our intention to sell our participation in BPI and we are also not considering this moment to increase the participation that we have in BPI. We continue to be in line with the management. So our intention is to keep the participation that we have there.

In terms of increase our business in Portugal, we do have the Itau Europa business, our bank in Portugal that controls the participation in BPI and we continue to increase the operations of Itau Europa. We just announced the acquisition of the BankBoston private banking operations in Miami. Our intention also is to increase Itau Europa operations with the acquisition of the private bank of ABN.

So we continue to invest through our subsidiary in Itau Europa that is controlled by the holding company ItaÃ'sa where Banco ItaÃ° Holding has a stake of 20% in terms of private banking and credit portfolio with companies in Europe and in Brazil.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Okay. Thank you for your question, sir. Our next question comes from Jorge Kuri with Morgan Stanley. Please go ahead Sir.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have three questions, the first one is, given the explanation that you gave about payment of yield-on-capital and dividend, what do you expect now to be your effective tax rate for 2007, that's the first question. Second, filings to the CVM show that Redecard is going to do an IPO, can you tell us what you are going to do, is this only a secondary offering or sorry, is it a primary or secondary offering.

Are you selling part of your stake in Redecard? And the third question is can you give us a little bit of color on fee income which was from probably less than what the market was anticipating this quarter and I know it was a difficult seasonality but if you could tell us a little bit about what is happening in terms of the competitive environment or order and what the expectation is for full year in fee. Thank you.

A - Henri Penchas {BIO 1525748 <GO>}

Jorge. Good morning Henri speaking. Jorge, as we speak it and that's the chart number four, we will consider and we will pay and declare as dividends all the payments that we will disimburse it in the year of 2007. The complementary dividend related to 2007 that will be declared in 2008.

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We'll begin to be provisioned as interest on capital, probably in the end of the Second Quarter, third and First Quarter of this year. So that's, what we are going to do. So the real income tax will be lower in the second, third and First Quarter, due to the consideration of the remuneration of shareholders as interest on capital. Just as part of the remuneration, in the Second Quarter and probably the full remuneration in the third and First Quarter.

Your second question Redecard. Redecard, we filed with CVM to an IPO and after that the banks, that our shareholders of Redecard including ourselves, we negotiated with the Company to buy that. We are now during the period, that the company has a preference for the acquisition. After that, we will see what we will do with that. But probably, probably no, surely we suspended the register of an IPO for 45 to 50 days.

The third question of fee income, in our budget we are expecting an increase of around 10% in fee income 2007 in comparison with 2006. I believe that's all.

Q - Jorge Kuri {BIO 3937764 <GO>}

Yes. Henri, just a quick follow up, let me make sure I understood. The Redecard IPO is suspended for now for 45 days because you are trying to negotiate on acquisition, an acquisition of Redecard from the current shareholders' or an acquisition of Redecard from a third party?

A - Henri Penchas {BIO 1525748 <GO>}

No, excuse me. Excuse me, I made a confusion Jorge. The IPO that was suspended is Serasa.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay.

A - Henri Penchas {BIO 1525748 <GO>}

The Redecard, no, we are just in the process of an IPO.

Q - Jorge Kuri {BIO 3937764 <GO>}

So the question is are you selling part of your stake of Redecard or is just Redecard raising money for the internal...?

A - Henri Penchas {BIO 1525748 <GO>}

We are selling the three shareholders', that's ItaÃ°, Unibanco and Citibank; we are selling part of our possession.

Q - Jorge Kuri {BIO 3937764 <GO>}

And is it public, what part of your possession you're selling?

A - Henri Penchas {BIO 1525748 <GO>}

We haven't decided yet what part. And we still are studying. If we have first the capital increase, a primary offer and after that the secondary with our shares. The amounts are not still decided Jorge.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. I have two questions. First, you mentioned on your presentation that you expected BankBoston synergies to start up here in second half of the year. I was wondering if you could quantify the synergies, because the fee income growth of 10% I believe would be on a standalone basis. But if we include BankBoston, would your fee income growth forecast be increased.

Then the second question is related to your efficiency ratio. As you mentioned, you expect your efficiency ratio to remain near current levels. But does this mean that you would assume that you were expecting further pressure on net interest margins. So does this mean that your cost base will be reduced even more or what is your forecast for costs?

A - Henri Penchas {BIO 1525748 <GO>}

Mario, in terms of BankBoston today it's very difficult to measure precisely the contribution in terms of synergy in costs and in terms of the synergy in revenues. But our expectation is that the BankBoston cost is around the 10% of Ita's cost. If we may consider that if we integrate all the branches till June and the all segments, we expect that in the Second Quarter the synergy in cost will be around 180 million reais. That's the total of the semester.

In relation to the efficiency ratio, we have considered that the revenues related with financial margin will grow in terms of volumes. But on the other hand it will decrease because we expect reduction in the SELIC interest rate. But we expect that financial margin will increase. But the percentage of the net interest income will be reduced about 50 basis points.

In terms of costs, we expect that costs will grow around 8% in cost 2007 in relation to 2006. It means that the efficiency ratio will be a little bit above the same level that we will report in the First Quarter or a little bit higher around 46, 45.

Q - Mario Pierry {BIO 1505554 <GO>}

Just a follow up then, I didn't understand then the synergies that you mentioned of BankBoston of 180 million, is that on the cost side or on the revenue side?

A - Henri Pechas {BIO 1525748 <GO>}

It's in relation to the cost side.

Q - Mario Pierry {BIO 1505554 <GO>}

So you, (inaudible).

A - Henri Pechas {BIO 1525748 <GO>}

A portion of that was absorbed at the, during the first, during the first semester. But will be totally implemented in the second semester.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So just for me to be clear then, you expect a reduction of 180 million reais in costs following the integration of BankBoston. Did I understand that right?

A - Henri Pechas {BIO 1525748 <GO>}

No. When we are totally integrating our platforms, when we finish the integration, we are supposed to have 180 million reais in cost reduction in the total of this semester. It's not exactly the BankBoston. But both ItaÃ° and BankBoston together.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. And what about this fee income forecast of growth of 10% this year? Is that including BankBoston or is that on a standalone basis?

A - Henri Pechas {BIO 1525748 <GO>}

It will include the BankBoston.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

Thank you for your question Mr. Pierry. Our next question comes from Daniel Abut with Citigroup. Please go ahead.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. Most indicators we have seen suggest that the economy has been accelerating. And you probably see that impacted in your both volume growth and asset quality figures that we saw. The volume growth was a little murky as you explained

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because of the consolidation of the Chile and Uruguay, operation of BankBoston and also what happened in the corporate portfolio.

So I wanted to know, given what you are seeing in the economy, what are your expectations for loan growth for the year as a whole, do you continue to be comfortable with the guidance you had given before of 20 to 25% loan growth or is that starting to look conservative in the context of what's going on in the economy. And second, with respect to asset quality, would you expect that the trends that we have seen this quarter will continue given the strength of the economy?

A - Henri Pechas {BIO 1525748 <GO>}

We have to consider that in the First Quarter we have appreciation of about 4.1% in the growth of credit. But we continue with the same guidance that we will grow 20 to 25% in the current portfolio as whole. In terms of the delinquency we expect that it will be a little bit lower than the last year inline with the First Quarter.

Q - Daniel Abut {BIO 1505546 <GO>}

So Henri to make sure I understand it, 20 to 25% your [weighted average] guidance is excluding the addition you have in the portfolio of BKB Chile and Uruguay or including that?

A - Henri Pechas {BIO 1525748 <GO>}

It's include everything considered the figures of December because in December we didn't consolidate the figures of BankBoston Chile and Uruguay. It means that in this year we are consolidate and it will grow 20 to 25, probably closer to 25.

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

Organic growth less than that and even counting from the contraction in the corporate portfolio we have seen, in the First Quarter you still seeing you are going to end up with close to 25%?

A - Henri Pechas {BIO 1525748 <GO>}

Yes that's where it is more affected by the appreciation of the real where we concentrate more credit to induct it in dollars.

Q - Daniel Abut {BIO 1505546 <GO>}

On the asset quality side if I can do a follow up SÁlvio why haven't we seen an improvement in the NPL ratio yet in both the credit card operations and TaiÃ particular as you said we have been seeing improvements almost in every segment.

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

We have an improvement in the bank operations. It is, it's very clear. If you want to consider ItaÃ°, we have this improvement. And we are expected that the other operations will be improving the next quarter.

Q - Daniel Abut {BIO 1505546 <GO>}

So you are starting to see some stabilization in the other operations as well?

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

Yes.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, S lvio.

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

Okay.

Operator

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

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, my main questions have already been asked. But just one follow-up if I could. On the, on Ita  BBA, I mean you've seen returns come down to below 20% in terms of return-adjusted, risk-adjusted return on capital. Would you expect these to improve in the near term in Q2, I mean it looks like we've seen probably more activity in terms of, in terms of the equity and debt capital markets in Q2 than we saw in the more volatile Q1?

A - Marco Antunes

Yes good morning. As Alfredo mentioned, there was a once-off effect of an expense of \$30 million in the banking margin. So this won't be present in the future, this is one point. Second point, yes we believe that we will have more favorable environment for investment banking activities looking ahead. And also treasury results in this First Quarter was not as good as it was in the last quarter of last year. So altogether I think it's reasonable to expect a better performance in the future.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Thank you for your questions Mr. Galliano. Our next question comes from Stephen Barret with Nevsky Capital. Please go ahead.

Q - Stephen Barret {BIO 20736781 <GO>}

Hi. I was wondering if I could ask a follow-up question on fee income. Your guidance of 10% this year I was wondering why the growth is just so low, is it basically because of

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competitive pressure. And secondly I was wondering if you could give any guidance on net financial income and provisioning? Thank you.

A - Marco Antunes

Yes the service fee guidance as it relate with more operations in terms of the competition, basically credit card (inaudible) into order. It's important that we are growing in fees related with credit. In terms of funds under management behind our guidance the reduction in SELIC interest rates, this year that we will create some reduction in fees related with some funds that is related with performance. Can you repeat the second question please?

Q - Stephen Barret {BIO 20736781 <GO>}

Yes, I was wondering if could give any guidance full year for net financial income, because it's just little like when you sort of you stripped out all the one-off. And you stripped out the treasury FX result. It just seem like you had quite a lot of margin compression in the First Quarter. And I was just wondering if you could give any guidance for net financial income for the full year.

And also in terms of provisioning I mean previously you have guided at sort of growth provision charge of around 1.5 to 1.6 billion reais a quarter. And now it does clearly before the recent accounting change and given your comments on credit quality, you don't really expect a significant improvement from the First Quarter. I was wondering if you could give any guidance for the full year.

A - Marco Antunes

Our vision that the credit quality improved in the First Quarter. And we will suppose that it will repeat the same level for the next quarter. In relation to the net interest income, our guidance, that's probably in 2007, it will reduce 50 basis points when you compare with 2006.

Q - Stephen Barret {BIO 20736781 <GO>}

And so basically on provisioning, you expect around 1.5 billion charge every quarter this year. Is that right?

A - Marco Antunes

Maybe it's a bit little higher, a big part of the portfolio will grow. But the ratios will decrease.

Q - Stephen Barret {BIO 20736781 <GO>}

Okay. And just one last question, if I may. Given all your comments on the tax rate, I was wondering if you could just give us some sort of working assumption, I mean if you use sort of a 28 to 30% effective tax rate for this year and next, is that realistic? Hello?

A - Marco Antunes

Just a moment, please.

Q - Stephen Barret {BIO 20736781 <GO>}

Yes, sorry.

A - Marco Antunes

Well I suppose that to the tax rate, it will be around 28 to 30%.

Q - Stephen Barret {BIO 20736781 <GO>}

So that is the realistic assumption to work with?

A - Marco Antunes

That's the impression that we have today in our managerial account.

Q - Stephen Barret {BIO 20736781 <GO>}

Okay. I'm sorry, just one final clarification on the Redecard IPO, that's going to be a primary equity raising initially followed by potentially secondary offering, is that right?

A - Marco Antunes

Yes. It's not decided, it's not already decided. But probably yes, we have a small primary and after that a secondary.

Q - Stephen Barret {BIO 20736781 <GO>}

Sounds great.

A - Marco Antunes

But it's not decided yet.

Q - Stephen Barret {BIO 20736781 <GO>}

Okay. Thank you very much for your time.

Operator

Our next question comes from Mr. Louise Byrne [ph] with Credit Suisse.

Q - Louise Byrne

Yes, hi good morning. Just wanted to get some more color on the market for credit cards. We've noticed slight decrease in your market share. Is that due to competition from your largest competitor, is that something related to the many changes that you've made in the segment in the recent past. And how should we expect this market share to behave in '07, '08. Thank you.

A - Henri Penchas {BIO 1525748 <GO>}

Luis, can you repeat the question?

Q - Louise Byrne

Sure. I'm just saying in terms of market share for credit cards, the market share you have a graph in your press release showing that it has decreased quarter-by-quarter, in the past four quarters. Is that due to more competition from let's say particularly with American Express. Is that something related to the restructuring of the credit card business inside ItaÃ°. And also should we expect you to be more aggressive going forward, maybe trying to regain this market share?

A - Henri Penchas {BIO 1525748 <GO>}

The market share that we got is related to with the operation that we bought with our own operation with Itaucard, under the operation that we bought from Unibanco in 2004. And today the competition, like I mentioned, increased. And we lost a little bit market share. But on the other hand, we increased the number of shares that were sold. That's basically the market today. We do not expect that to continue to reduce this market share.

Q - Louise Byrne

Any specific actions you are taking or should we expect the market to normalize and are you concerned by this at all, or would you expect this to be natural given the high share that you have?

A - Alfredo Setubal {BIO 1528623 <GO>}

It's not our concern, its normal competition, nothing especially.

Q - Louise Byrne

Okay and just a second question. There has been some controversy I have noticed in analyst reports concerning the reversal of provisions at BBA. I was just wondering, if you could give us a specific figure for that for the reversal provisions for corporate loans at BBA?

A - Eduardo Vassimon

Sure, it's Vassimon speaking. This is a reversal of provisions that are made related to some loans that were in arrears in the past quarters. Those loans were either paid or regularized. So it's a reversal of those provisions.

Q - Louise Byrne

Great. I was just wondering if you could get a specific figure, because some analysts spur very different numbers here.

A - Alfredo Setubal {BIO 1528623 <GO>}

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There are basically two clients. That's the information I have here presently. So if you need more information, then we can clarify in the future.

Q - Louise Byrne

All right. Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Rodrigo Santos with Meta Asset Management.

Q - Rodrigo Santos {BIO 19791576 <GO>}

Good morning. I just want to clarify the guidance on the fee income. I was reviewing your last year guidance in the last conference call. And it was 10% on ItaÃ°banco. But 15% on a consolidated basis, meaning ItaÃ° Holding. And now you mention 10%. I just wonder, what is the guidance for ItaÃ° Holding on a consolidated basis for the fee income?

A - Henri Pechas {BIO 1525748 <GO>}

I will need to clarify statistical in this guidance. Remember that before BankBoston was consolidated, we started the consolidation from the 1st of May in Brazil, 2006. When you put apples with apples, it means that the service fees will grow 200%. And when you put just the accounting figure, we mentioned around 15.

Q - Rodrigo Santos {BIO 19791576 <GO>}

Okay. So year-on-year, full-year accounting figure is 15? That's right?

A - Henri Pechas {BIO 1525748 <GO>}

Yes.

Q - Rodrigo Santos {BIO 19791576 <GO>}

Okay. Then if I may I would like to ask a second question regarding the interest on capital. What was the criteria for doing the adjustment for the recurring profits on interest on capital. When you put your 156, is it what would have been the full benefit, if you had paid all the money as interest on capital? Is that what it is, how did you get to 156?

A - Henri Pechas {BIO 1525748 <GO>}

Yes, exactly that. The amount is a number if we had provision in the First Quarter, exactly as we provisioned in the First Quarter of last year.

Q - Rodrigo Santos {BIO 19791576 <GO>}

Okay. Then you mentioned that the effective tax rate for this year is around 28 to 30%. Is that the figure that you expect to be maintained going forward? Or I mean in the medium to long-term, do you expect the effective tax rate to go beyond that, higher than 30%?

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A - Henri Penchas {BIO 1525748 <GO>}

We are expecting further that we will be around this level, 28 to 30%. The taxation in Brazil is 34. But we are expecting around 28, 30.

Q - Rodrigo Santos {BIO 19791576 <GO>}

Okay. Thank you very much.

Operator

Thank you for your question Mr. Santos. Our next question comes from Juan Partida with J.P. Morgan. Please go ahead.

Q - Juan Partida {BIO 4768925 <GO>}

Hi. Good morning. And I am sorry if this question was asked. I was a little late to the call. But, we saw a relatively significant increase in your holding of securities, marketable securities. I think above and beyond what should be expected from the consolidation of BankBoston? Is there any particular reason for that? I noticed that that helped to press your net interest margins this quarter?

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

Silvio speaking. Portion of that, is important to tell that it's related with repose. We increase our operation with repose; it was a question of opportunity and a question of market. That's basically one of the components that we increased, the secured profile. There are other portions related to with the consolidation of the operation of the BankBoston.

Q - Juan Partida {BIO 4768925 <GO>}

Okay thank you.

Operator

Thank you for your question Mr. Partida. Our next question comes from Stephen Barret with Nevsky Capital. Please go ahead.

Q - Stephen Barret {BIO 20736781 <GO>}

Hi. I apologize to repeat this question, I missed a part of your answer. Did you say that in terms of fee income, if we look at your accounting numbers, you are looking for growth of 15% this year?

A - Alfredo Setubal {BIO 1528623 <GO>}

Yes.

Q - Stephen Barret {BIO 20736781 <GO>}

Okay. Thank you.

Operator

And thank you for your question sir. (Operator Instructions) This concludes today's question-and answer-session. Mr. Setubal at this time you may proceed with your closing statement sir.

A - Alfredo Setubal {BIO 1528623 <GO>}

Thank you, all for participating with us in this conference call. We are very confident about the next quarters of the bank. We think the First Quarter was very good, very strong and we will continue to be very confident in terms of delinquency ratio that we will continue and thus control, expense we will continue and control.

And credit portfolio we will continue to grow. I think the environment in terms of Brazilian economy is very good and we will continue these reductions in interest rates will give us more confidence to continue the growth of the bank. Thank you for your time and hope to be back in the Third Quarter conference call. Thank you.

Operator

Thank you, Mr. Setubal. That does conclude our Banco ItaÃ's First Quarter 2007 results conference for today. Thank you very much for your participation. You may now disconnect your line.

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