

## Q3 2007 Earnings Call

### Company Participants

- Henri Penchas, SVP
- Silvio de Carvalho, Executive Director

### Other Participants

- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Maria Ada, Analyst
- Mario Pierry, Analyst
- Paul Tucker, Analyst
- Saul Martinez, Analyst

### Presentation

#### Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions) At this time, I would like to Ms. Daniela Ueda of Financial Investor Relations Brazil. Please go ahead.

during this call.

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

With us today in this conference call in Sao Paulo are Henri Penchas, Senior Vice President of Itau Holding, Silvio de Carvalho, Executive Director of Controllershship of Itau Holding, Eduardo Mazzilli Vassimon, Executive Vice President of Itau.BBA and Marco Antunes, Director of Accounting of Itau Holding. First Mr. Henry Penchas will comment on the Third Quarter 2007 results. Afterwards management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Henri Penchas.

#### Henri Penchas {BIO 1525748 <GO>}

Good morning, for you in the United States. Good afternoon other people in Europe. It's a pleasure to be again with you to speak about the results of the Third Quarter of 2007 of Banco Itau Holding Financeira.

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Let's move to slide number two where we have the highlights of the quarter. With a net income of R\$2.4 billion, with an increase of almost 15% in comparison with the Second Quarter, with a return on equity of 35.6% and, for the nine months, with a net income of R\$6.4 billion, with an annualized return on equity of 33.3%. The recurring net income of the quarter was R\$1.6 billion with an 18.2% decrease in comparison with the Second Quarter of 2007. We'll speak a little bit later about that when we will examine the net income of the quarter.

The loan portfolio had a very strong growth in the quarter of 8.8%, with a growth of 26.9% in the last 12 months. Vehicles, a growth of 14.7% in the quarter and 62% in annual terms. Small and medium-sized companies 9.8% and 26.4%. And credit card loans 6.8% in the Third Quarter. The treasury performance was not very good in this quarter due to the turbulence in the financial market due to the subprime loans and the liquidity affected all the markets in the world and we lost R\$64 million before taxes in the quarter, even not having loans or securities in the subprime sector but just the futures of interest in that.

The nonperforming loans ratio had a strong reduction and now represents just 4.7% of the portfolio. And the BIS ratio, we closed the quarter with 15.3% and we have a new regulation of Central Banco Brazil which will increase the number to 18.5%. That will be reflected in this quarter of 2007.

Let's move to slide number three. That's a new slide where we are showing the opening of demand deposit accounts. As you can see, just in the month of September we opened almost 181,000 demand deposit accounts. If we look at the year of 2006 and of 2005, in 2006 you'll see that the number was pretty stable. And now we've begun to increase this number. In August we opened 169,000, in July 157,000. That's due mainly to the focus of growth of the bank now that we have completely integrated BankBoston.

The year of 2006 and the beginning of 2007 we had to work hard to integrate BankBoston and now that that's finished we are growing again. With a very aggressive opening of demand deposit accounts, we reduced the fees for individuals in the Third Quarter. We are reducing now in the Fourth Quarter for companies and we are growing the number of branches. This year we grew 88 branches in the total number of the branches of Itau. This chart we can see very clearly how we are growing the number of customers.

The next slide, slide number four, just a reconciliation from the net income of R\$2.4 billion to the recurring net income of R\$1.6 billion. The mean effect is the non-operating result of R\$1.5 billion before taxes, due to the IPO of Redecard where we had 32%, 33% of the company and now we have 24% of the company. That was the main reason for the nonrecurring net income.

Next page, slide number five, you can see the main numbers. I'd like to pinpoint the market value of the bank of R\$111 billion, the BIS ratio of 15.3, the efficiency of 47.1 and the nonperforming of 4.7%, with a huge reduction from the 5.1% in the Second Quarter of this year.

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Slide number six is a comparison of the net income from the third and the Second Quarter where we can see very clearly the reduction in the income of the treasury from an income of R\$571 million in the Second Quarter to a loss of R\$64 million in the Fourth Quarter. The bank service fees we'll speak a little bit later and that's the reconciliation until the R\$1.6 billion for recurring net income in the Third Quarter.

Next slide, slide number seven, the net interest margin is pretty stable at the level of 11.4%, even with the decrease of the SELIC rate from 12% to 11.3% due to a richer mix and growth of volumes during the Third Quarter. Next slide, the growth of the loans, an 8.8% growth in the Third Quarter. Basically with 9.2% growth in the loans for individuals with a strong growth included in the 9.2% of 14.7% in vehicles, company loans of 8.5%, corporate 7.8% and medium and small 9.8% and Argentina, Chile, Uruguay with 13.6% growth, even with a small portfolio of R\$8 billion on the quarter.

Slide number nine, we have compound annual growth of the loans for individuals and for companies, which you can see the huge increase since December of 2003. Non-performing loans and corporate ratios, nonperforming for individuals, a reduction from 7.5% to 7.3%, companies 2.3% to 1.7% and the total from 5.1% to 4.7%. And the coverage ratio, at the same level of the Second Quarter of 2007, at 161%. Just a breakdown of the nonperforming loans by segment where you can see a reduction for Itaubanco, with a reduction for Itau BBA, a small increase for Itaucred from 6.4% in the Second Quarter to 6.5% and then the total reducing from 5.1% to 4.7%.

The funding, a growth of 5.3% in the quarter with 2.9% growth with customers, 39% growth with the market having a total of 5.3%. If we look in comparison with September 2006, the total growth is 25.7%, 22.5% with customers and 74% from the market. The next slide, just the growth of the funding with customers and with the market.

The next slide, the bank service fees, here I want to use a little bit of time just explaining this slide. In the Third Quarter we reduced our participation in Serasa. And Serasa, that was consolidated in (inaudible) now, it's not consolidated. So just the effect of Serasa was R\$42 million in the Second Quarter and now we recognize just the equity method of Serasa.

Redecard, that had an IPO in the Third Quarter, we reduced our participation from 33% to 24%. Just that reduction in the participation represented R\$35 million increase in the Second Quarter. So correcting the banking service fees with the effect of the reduction of participation in Redecard and the non-consolidation of Serasa represents a growth of 2.3% in the fees from R\$2.472 billion to R\$2.529 billion.

Next slide, page 15, the non-interest expenses, you can see the strong, strong control the management has of the non-interest expenses. Even considering that we have increased the salaries for the employees in banks now in the Third Quarter. The total represents a reduction of 2.2% of the total non-interest expenses in the Third Quarter in comparison with the Second Quarter.

Slide page 16, the fair market value of financial instruments, you can see a huge increase in the unrealized gains from R\$2.7 billion to R\$8.3 billion from the Second Quarter to the Third Quarter. Due mainly to the listing of Redecard where we have R\$5.2 billion of difference between market value and book value for the shares we still have. And with Serasa with a difference of R\$352 million between accounting and the market value of the shares that we still have.

Next slide on segmentation between the four segments that we have, Itaubanco, Itau BBA, Itaucred and the Corporation, where we carry the excess of capital. Slide 18 we can see the return net income of each segment and return on adjusted capital for each segment. Itaubanco, that's just for demand deposit customers with a recurring net income of R\$833 million and RAROC of 25.1%. Itau BBA for corporate customers and investment banks recurring net income of R\$321 million and a RAROC of 21.6%. Itaucred for non-customers, credit cards, auto financing and Taii with a recurring net income of R\$333 million and a RAROC of 40.2%. And a total recurring for the quarter of R\$1.6 billion with a RAROC of 23%.

Page 19, just a chart since the Third Quarter of 2005, of the net income and the recurring net income of each quarter. Next page, page 20, just a reminder that we will have a meeting the analysts on December 5th at the Buffet Rosa Rosarum in the morning beginning at 11 a.m. We'll continue the presentations of Itausa, Duratex, Elekerioz. And Itautec. And in the afternoon, the presentation of Banco Itau Holding Financeira.

I have finished this part of the presentation and I myself and my colleagues, we are open now to the questions you may have. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Our first comes from Jorge Kuri of Morgan Stanley. Please go ahead.

#### Q - Jorge Kuri {BIO 3937764 <GO>}

Hi good morning, everyone, I have two questions. The first one is can you tell us what the nature of the trading losses was? We did see at several of your peers, their Third Quarter numbers did not show any trading losses. So what exactly happened at Itau? I mean are these fixed income losses, equity losses? If you could provide any detail, I mean were these just mark-to-market and now that the markets have turned around do you expect to see those turn around in the Fourth Quarter?

#### A - Henri Penchas {BIO 1525748 <GO>}

Jorge, it's Henri speaking. It's a mark-to-market of interest rates.

#### Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. And the expectation for the Fourth Quarter, those losses have been wiped out I'm assuming?

**A - Henri Pechas** {BIO 1525748 <GO>}

We don't have expectations for the quarter. But probably it will be a normal quarter without surprises. I'll let you know 7th November.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Thanks Henri. Then the second question is can you provide some color on 2008, what's kind of like your preliminary view on credit growth, fee growth, expenses, net income, ROE?

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

Jorge, Silvio speaking.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Hi, Silvio.

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

We are expecting to grow credit 25% next year. Normally we don't give any guidance about are we -- we can give you some guidance in terms of expenses in terms of efficiency ratio. In terms of expenses we intend to continue to expand the bank in Brazil, probably we will open more branches. We didn't finish the plan yet but our guidance in relation to expenses, that will be a little bit higher than the inflation but lower than they have been used. That's basically the guidance.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

And on net interest margins, what's the expectation for '08?

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

Net interest margin I think will be a little bit come down because of the market economics that we are forecasting. We are supposed that SELIC interest rates will reach [ph] 10% in the end of 2008 and today it is 11.25.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Okay. Thanks.

**Operator**

Thank you for your question, Mr. Kuri. Our next question comes from Saul Martinez from Bear Stearns.

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**Q - Saul Martinez** {BIO 5811266 <GO>}

Hi good morning, gentlemen. I have a couple of questions. First, can you give us an update on your capital strategy? Your BIS ratio using the capital calculations you'll adopt in the Fourth Quarter is over 18%, you have the lowest dividend payout ratio of the major banks and a high ROE on a recurring basis. Under what circumstances would you return more capital to shareholders? And my second question is a related question and it's what are you seeing in the M&A market? And are you still constructive that you can do attractive deals?

**A - Henri Penchas** {BIO 1525748 <GO>}

Well. Good morning, Saul, Henri speaking.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Good morning, Henri.

**A - Henri Penchas** {BIO 1525748 <GO>}

As you know, we always manage or capital buying back shares and increasing dividends or interest on capital. Until now we were able to perform pretty well with that, keeping high returns on equity. We are still acting like that or we have opportunities to grow or we will increase the buy back of shares or increase a little bit the dividend. We'll manage that as we are managing in the past.

Opportunities, we are always open to opportunities. We are studying a lot of claims [ph] and niches on the external side also because we are still small in Argentina, we are small in Chile and we small in Uruguay. So we are open to study to see what increases the market value of the bank.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. Any update on BMG? I think the right of first refusal expires in early December, is there anything you'd be willing to say about your talks or past talks with them?

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

Okay, Silvio speaking.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Hi. Silvio.

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

In relation to the BMG we have a contract with the bank that this contract is to provide funding for the credit to Considiamadu [ph] and this contract will finish on December 8. That's the operation, we are talking with them but we didn't finish anything about to extend this contract. In this contract we have one clause that mentions if the family decides to sell the bank Itau has the right to first refusal.

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**Q - Saul Martinez** {BIO 5811266 <GO>}

And that first refusal on an acquisition of a stake in BMG also expires in early December, is that correct?

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

Yes.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. Thanks a lot.

**Operator**

Thank you for your question, Mr. Martinez. Our next comes from Daniel Abut from Citi. Please go ahead.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Good morning, gentlemen. two questions. One is just a follow up on a prior question related to the treasury operations, just to make sure I understood your response, Henri, correctly. Most of the losses you said were mark-to-market of interest rate sensitive positions therefore we should understand them as unrealized losses that could potentially be reversed, depending on market conditions. Is that right?

**A - Henri Penchas** {BIO 1525748 <GO>}

Yes.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Second, in your presentation I noticed in the press release you talked about an analogy there in order to give a better impression of what happened to your cost/income ratio, that in a more normal type of environment if the treasury had produced about R\$200 million of gains then the cost/income ratio would have been much better. When you said earlier in your remarks that you -- well you know already November 6 you expect a normal environment, is that what you are thinking? Is that a reasonable target in a more normal environment, give or take R\$200 million gain by your treasury operations?

**A - Henri Penchas** {BIO 1525748 <GO>}

Excuse me, Daniel. I don't know if I understood your question. That R\$200 million is just an average of the last eight quarters of the gains in treasury because, as you can see in the presentation, the gains of the Second Quarter were of R\$570 million. But as an average of eight quarters, after tax, the gain was of R\$200 million. So that's the number we consider recurrent.

**Q - Daniel Abut** {BIO 1505546 <GO>}

I understood that and -- Henri, I'd just like to put some numbers on your earlier remarks that you would expect the Fourth Quarter to be a more normal type of treasury operation environment and therefore you expect a more normal is R\$200 million, give or take a good proxy, to use preliminarily or not.

**A - Henri Penchas** {BIO 1525748 <GO>}

Yes.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Finally on the (inaudible) which was disclosed early on how much you're going to book in terms of nonrecurring gain in the Fourth Quarter. The remaining position you have, is it going to be mark-to-market? Or is it going to be kept at acquisition cost and only realized when and if that position gets sold?

**A - Henri Penchas** {BIO 1525748 <GO>}

It will be considered -- the gain will be of R\$250 million and the remaining position we have a gain of almost R\$1 billion, that will be considered only when realized, as Redecard and as Serasa.

**Q - Daniel Abut** {BIO 1505546 <GO>}

If we go back to that page that you showed us, I think it's page 16, we should add another billion more coming from the unrealized gains from the ovesa [ph] position.

**A - Henri Penchas** {BIO 1525748 <GO>}

Yes. And a number that I still don't know, that's the number of the IPO of BMF, Daniel. That probably will have the IPO this month.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Okay. Thank you very much, (inaudible).

**Operator**

Thank you for your question, Mr. Abut. Our next question comes from Paul Tucker of Egerton Capital. Please go ahead.

**Q - Paul Tucker** {BIO 2367847 <GO>}

Yes. Thank you very much. I just had two questions if I may. The first one was, just with regards to what you've done on banking fees, I wonder if you could give us a sense of what has been the competitive response to that price leadership, if you like, amongst the other Brazilian banks?

And secondly just on the operating expenses, you show in the slides number 15 you're pretty strong quarter on quarter variance down 2.2%, I just wonder whether you've run



those numbers also on a like-for-like basis, removing from the base Redecard and Serasa.

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

Silvio speaking. In relation to the competition, we are not as difficult to measure the impact that our fees reduction provoked. We didn't see clear movement. But this subject is in discussion with Febraban, that's the Brazilian Bank Association. Something probably will happen in the next couple of months in relation to this subject.

In relation to the cost that we had with Redecard it was R\$15 million and in relation to Serasa it was R\$28 million. This happened in the Second Quarter.

**Q - Paul Tucker** {BIO 2367847 <GO>}

I'm sorry. So Redecard was R\$15 million, Serasa was R\$28 million and those are the numbers from Q2?

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

Year-end.

**Q - Paul Tucker** {BIO 2367847 <GO>}

Okay.

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

R\$15 million in Redecard, R\$28 in Serasa.

**Q - Paul Tucker** {BIO 2367847 <GO>}

Okay, that's great. So we can work out the numbers. And just maybe just a follow up on the first question in a more general sense, have you seen a particularly aggressive debate going on at Febraban amongst other bank management teams that you think will result in them also reducing fees as we go into Q4 and into 2008?

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

I think the environment is more competitive today, Paul. I think that the competition is increased basically in credit cards and vehicles, that's the scenario probably for 2008.

**Q - Paul Tucker** {BIO 2367847 <GO>}

That's great. Thank you very much.

**Operator**

Thank you for your question, Mr. Tucker. Our next question comes from Mario Pierry of Deutsche Bank. Please go ahead. Pardon me, Mr. Pierry, do you have your line on mute?

**Q - Mario Pierry** {BIO 1505554 <GO>}

Hello, can you hear me?

**Operator**

Yes, sir.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay, I'm sorry. On the costs you showed a very tight cost control this quarter. I was wondering if it already reflects some of the synergies that you were able to realize from the BankBoston acquisition or we could see more synergies from BankBoston on the cost side coming through in the next couple of quarters?

And the second question is related to Taii, I think Taii lost about R\$18 million again this quarter, if you still expect Taii to break even by the end of the year? Thank you.

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

In terms of cost, this Third Quarter reflects part of the synergies related with BankBoston. I think it's almost done but we probably will have an additional synergy cost in the Fourth Quarter but very, very small. In relation to Taii, what we think at this moment it is possible to see that we will have many operations with Taii, basically three operations related to financial and consumer. The first is our own stores that were supposed to post activity in the Fourth Quarter. We are considering that the operation of Taii will take three years to achieve the breakeven.

And the second operation is the JV with CBD stores, we have to post that to you what the activity is as well in the Fourth Quarter. In relation to the JV with Lojas Americanas, we are supposed not to achieve the breakeven, probably we will achieve the breakeven in 2008. But it is a very, very small figure, probably is around R\$5 million in loss in the quarter.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. If I can ask another question also in regards to your loan growth as we've seen your loans up almost 30% this year. And if I recall at the beginning of the year we were talking about loan growth of maybe 20%. So what has been the surprise? Is it that the banks are feeling more comfortable and willing to lend again? Or is the operating or the macroeconomic environment in Brazil that much better that there's a lot more demand than you expected at the beginning of the year?

**A - Henri Penchas** {BIO 1525748 <GO>}

Mario, when we gave the guidance in the beginning of the year we mentioned 20%, 25%, that's our guidance in relation to credit. The environment in Brazil improved, we have a reduction in delinquency, the GDP grew, the corporations became more confident. That's, I think, the good message that we took from this year, we are more getting credit. That's basically the reason because we increase.

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**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Thank you very much.

**Operator**

Excuse me, our next question comes from Maria Ada [ph] with (inaudible). Please go ahead.

**Q - Maria Ada** {BIO 5550150 <GO>}

Hi. Good morning, I have a question regarding fee income evolution. Part the drop was due to the absence of Redecard and Serasa contribution as you already answered. But if we look specifically at current account fees, they have dropped 8.4% and you actually explained as this being part of the campaign launch which reduced even exempted some client fee charges. So I wonder on the back of this how do you expect fee income to behave in the next quarter, if you have any sort of guidance for 2008 income growth? And especially for the Fourth Quarter, if we will probably see current account fees also dropping? Thank you.

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

Maria, we announced to the market that we implemented a reduction in the fees, this happened last September. It is hard to explain why demand deposit services diminished. We are supposed that the impact of this policy to reduce fees will be R\$5 million per month and the auba [ph] will be appeared totally next year [ph] if you compare 2008 with 2007. But again you have to consider that we are increasing the customer base. According to the second slide on the presentation we show increasing number of checking accounts. That's the scenario that we are seeing for 2008.

**Q - Maria Ada** {BIO 5550150 <GO>}

Okay, perfect, thank you.

**Operator**

Thank you. Our next question comes from Daniel Abut of Citi. Please go ahead.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Just to follow up on the prior question, Silvio, in prior calls you have given a guidance of about 15% year-on-year fee income growth, which as you explained on page 14, if you account for the Serasa and Redecard affect, you are both there in the nine months of the year. Carrying to 2008 and given -- your change in fees for checking account which you will partly compensate with higher number of accounts, what's your best guess in terms of guidance for fee income growth for 2008?

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

Right now, I don't have the direct information about that at this moment. We are at this moment discussing the budget. We don't have the budget yet. But in my view, I think the

guidance in relation to service fee growth will be around 12% next year. But it's a growth guidance, probably we will review that in the beginning of next year in the conference call of the results of the year.

## Operator

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

## A - Henri Penchas {BIO 1525748 <GO>}

Thank you for the people that are with us, I hope I myself and my colleagues, we are always open if you have further questions or otherwise we'll see you at the analyst presentation on December 5th or in the presentation of the Fourth Quarter of this year. Thank you very much for being with us. Bye-bye.

## Operator

That does conclude our Banco Itau's Third Quarter 2007 results conference for today. Thank you very much for your participation, you may now disconnect.

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