

Service Fees Make Brazil Banks Incredibly Profitable

Contributed by André Deak
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For decades the growth of the Brazilian banking sector has continued uninterrupted, preserved even during periods of economic crisis in the country. With the publication of the financial balance sheets of some of the most important banks that operate in Brazil, it is already possible to discern that 2004 was another year of profit growth.

According to a survey by the Austin Rating consulting firm, based on a sample of 27 banks whose balance sheets were published early in 2005, the sector's net profits increased 22.4% compared with 2003, for a total of US\$ 5.23 billion (13.74 billion reais).

Only 6 of the 27 banks failed to achieve profit growth. February 22, the Itaú Bank announced that in 2004 it obtained the biggest net profits in the history of banks whose shares are publicly traded: US\$ 1.437 billion (3.776 billion reais).

The Bradesco Bank made US\$ 1.165 billion (3.06 billion reais), followed by the Bank of Brazil, with US\$ 1.151 billion (3.024 billion reais), while the Unibanco had a positive balance of US\$ 457 million (1.2 billion reais). Other banks have not yet released their results.

Analysts and the banks themselves identify three factors as the main reasons for profit growth in 2004: loan interest earnings, service charges, and Brazilian government public debt instruments, which remunerate investors with among the world's highest interest rates, currently at an annualized 18.75%.

The vice-president of the National Association of Financial Executives (Anefac), Miguel de Oliveira, points out that, until the first half of 2004, the revenues of the ten largest banks were derived from loans (44%), investments in government debt instruments (34%), service charges (14%), and sundry other sources of income (8%).

Oliveira says, however, that when the government begins to elevate the benchmark interest rate on its papers - as has been the case since September, 2004 - banks stop lending money and start to buy more government papers, which pose less risk of default.

Another piece of information provided by the vice-president of the Anefac is that the revenues obtained from service charges alone "would in themselves be sufficient to cover all of some banks' personnel expenses.

Revenues from service charges correspond to 105% of these expenses - they pay for the full amount, and there's something left over."

Most of the services charges that exist at present only began to be charged in 1996, when the government adopted various measures to save the sector, which was going through a crisis.

"Now we already have around 40 fees that weren't previously charged," he adds.

Translation: David Silberstein
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