

**Credit Opinion: Banco Itau BBA S.A.**

**Banco Itaú BBA S.A.**

*Sao Paulo, Brazil*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Bank Deposits -Fgn Curr	Ba2/NP
Bank Deposits -Dom Curr	A1/P-1
NSR Bank Deposits -Dom Curr	Aaa.br/BR-1
Bank Financial Strength	B-
Senior Unsecured MTN	Baa3
<b>Banco Itau BBA (Nassau Branch)</b>	
Outlook	Stable
Senior Unsecured	Baa3

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**Key Indicators**

**Banco Itau BBA S.A.**

	[1]Jun-08	Dec-07	Jun-07	Dec-06	Jun-06	Avg.
Total Assets (US\$B)	68.46	56.05	40.28	25.65	18.55	[2]92.11
Share Equity (US\$M)	3,944	3,323	2,861	2,487	2,251	[2]32.37
Pre-Provision Profit/Tt.Avg. Assets	2.20	1.57	1.67	3.90	4.95	3.49
ROAA	1.31	1.13	1.07	2.55	2.97	2.29
NIM	2.61	1.96	2.14	4.21	5.04	3.90
Oper Expenses/Gross Op. Revenues	26.58	36.64	38.03	22.61	21.66	27.72
NPL/Gross Loans & Lease	--	--	0.17	0.70	0.10	0.24
BIS Ratio	16.40	17.90	17.60	17.20	16.30	17.20

[1] As of June 30. [2] Compound annual growth rate.

**Opinion**

**SUMMARY RATING RATIONALE**

Moody's assigns a bank financial strength rating (BFSR) of B- to Banco Itaú BBA, which translates into a baseline credit assessment of A1. The B- BFSR for Itaú BBA is in line with that of Banco Itaú, and incorporates its established market position as a wholesale and investment bank in the Brazilian financial system. As a subsidiary of Banco Itaú Holding Financeira S.A., Itaú BBA adopts risk management policies and practices, as well as monitoring and controls tools from its parent, which reflect in robust asset quality and market risk indicators. The ratings also reflect the challenges of pressuring margins in the wholesale banking business and the competition in Itaú BBA's target markets. Itaú BBA contributes nearly 19.3% of Itaú Holding Financeira's recurring net income and accounted for 34% and 21% of its assets and capital, respectively, as of June 2008.

Itaú BBA's long term global local currency (GLC) deposit rating is A1. Moody's assesses the probability of systemic support to both Itaú S.A and Itaú BBA as being very high, with the understanding that systemic support would be forthcoming for any entity of the Itaú Holding Financeira group. The A1 GLC, however, does not benefit from any potential systemic support because the rating is already at the same level as the local currency bank deposit

ceiling for Brazil.

### **Credit Strengths**

- Established franchise in the wholesale and investment banking businesses is reflected on Itaú BBA's position in league tables and on its market share in targeted segments.
- Broad and well defined client base and product platform ensures comprehensive client relationship and cross selling potential. Management has invested in building specialized product and staff to deal with expanding business opportunities.
- Financial margin has been growing on the basis of higher business volumes and treasury gains, and supported by adequate credit and operating costs.
- Operational independence ensures agility in clients' response and origination.

### **Credit Challenges**

- Contribution of non-interest earnings continues to grow, but it is still modest relative to wholesale and market-related earnings. The bank's wholesale franchise inherently generates less stable earnings.
- Potential economic slowdown and intense competition in corporate and investment banking businesses may pressure the bank's margins, and thus, earnings generation opportunities.
- Large credit risk concentrations -- typical of wholesale banks - may expose Itaú BBA's earnings to volatility in case of asset quality deterioration. Recent market shifts may lead to increasing credit monitoring and provisioning.

### **Rating Outlook**

All ratings have stable outlook.

There are no upward rating pressures for Itaú BBA at this point. The BFSR of B- is the highest rating assigned to Brazilian banks. The local currency rating A1 is already at the local currency bank deposit ceiling for Brazil and it could only move with an upgrade of the ceiling.

### **What Could Change the Rating - Down**

Significant deterioration in the operating environment that could cause the bank's profitability, asset quality, or equity to be under pressure, could trigger a rating action. The bank's large credit exposures could increase its vulnerability to asset quality problems in a downturn scenario, with negative effect on the ratings.

### **Recent Results and Developments**

The bank's recurring net income in June 2008 was R\$685 million, or 83.3% higher than the result reported in June 2007. The main drivers behind Itaú BBA's improved performance were a robust increase in a) revenues from credit operations, which jumped 122% y-o-y and were supported by a loan book that expanded 54.5% on an annual basis; and b) in revenues from securities operations, which were up by 77.5%. Itaú BBA accounted for about 19.3% of the group's total recurring income in June 2008.

The increased volatility in the global and domestic markets as of lately has resulted in increasing funding costs for Brazilian banks overall, including Itaú BBA, although it is primarily funded by Banco Itaú. More limited access to foreign funding may temporarily affect the bank's business volumes and margins.

Credit quality has been maintained, reflecting the adequate origination and monitoring of the bank's loan book, and compares favorably with that of other wholesale banks. Moody's however, anticipates some deterioration in asset quality may occur if economic activity slows down and market conditions deteriorate such that .

### **DETAILED RATING CONSIDERATIONS**

Detailed rating considerations for Itaú BBA's currently assigned ratings, as follows:

#### **Bank Financial Strength Rating**

Moody's assigns a B- bank financial strength rating to Banco Itaú BBA, which is supported by its solid market position in corporate lending and investment banking. Itaú BBA's disciplined management of both credit and market risk has ensured a solid track record of profitability and asset quality indicators. The bank's BFSR is in line

with that of Banco Itaú S.A., and it benefits from common risk management policies and controls, and corporate governance practices.

The rating also incorporates the concentration and volatility of Itaú BBA's earnings, which are inherent to wholesale banks. The increasing competition in its targeted markets may result in pressures to margins and business opportunities, with possible negative effects also coming from increased volatility in both global and domestic markets. Itaú BBA is well positioned to benefit from its ability to source business among the broad client base of Itaú group. Its recent performance in the investment banking segment also attests

#### Qualitative Rating Factors (70% weighting)

##### Factor 1: Franchise Value

Trend: Neutral

The B- score for franchise value reflects Banco Itaú BBA's position as the largest wholesale bank in Brazil, with total assets of R\$117.2 billion. The bank is a subsidiary of Banco Itaú Holding Financeira S.A., which controls 95.75% of its total shares and 50% of its common shares. Itaú BBA's primary target market is large Brazilian and international corporations operating in Brazil, and it is now expanding operations into the South Cone, and particularly to Argentina, where it intends to capture business flows of its Brazilian customers to other Latin American countries.

Itaú BBA's has a well established franchise as a corporate lender and investment bank, which enjoys solid positions in both capital markets and corporate finance structuring and distribution. As of June 2008, Itaú BBA held a 46% market share in origination and distribution of fixed income bonds, and a 29% share in the equities market. In the near and medium term, Moody's views Itaú BBA was remaining a competitive operation because its global bank peers may be distracted with their own restructurings and business limitations.

Itaú BBA's predominantly wholesale-based earnings, such as corporate lending and trading, tend to be more volatile in nature, weighting negatively in the analysis of its earnings stability. As cash management and other recurring fee-based initiatives take hold, the bank is expected to boost its recurring, non-interest earnings. However, in a more volatile environment, management may well gear the bank's balance sheet to a more defensive position, which could reflect in larger liquidity profile and thus, higher market-related revenues.

##### Factor 2: Risk Positioning

Trend: Neutral

Itaú BBA scores a B in risk positioning, which reflects the ingrained risk management and control culture of the Itaú Group, in addition to close involvement of senior management in risk decisions and monitoring. The bank has an independent treasury function and takes its own proprietary positions, under the limits defined by BIHF. Credit risk concentration is only average, and reflects the large borrower exposures that are characteristic of wholesale banks. The potential deceleration of economic activity in Brazil in the coming months may lead to stress in certain industry segments and could reflect in increased volatility in Itaú BBA's balance sheet.

The bank's financial reporting is produced in Brazilian GAAP, and also consolidated under BIHF's quarterly filings, which follow both Brazilian and US GAAP. Those contain pro-forma information about the bank's earnings and a discussion of its market risk management.

##### Factor 3: Regulatory Environment

Moody's will comment on the Brazilian regulatory environment in a separate publication.

##### Factor 4: Operating Environment

Trend: Improving

By using the scorecard, we grade the Brazilian operating environment at a D. The D derives from a score of E for economic stability (measured as nominal GDP volatility over the 20-year period 1985-2005) and D for integrity and corruption. (The integrity and corruption index is based on data from the World Bank, which ranks approximately 200 countries worldwide.) The legal system's score of C indicates the average length of time required for the execution of guarantees in Brazil, in the absence of reliable references for mortgage foreclosure.

#### Quantitative Rating Factors (30% weighting)

##### Factor 5: Profitability

Trend: Weakening

Itaú BBA's net income was up 83.3% in June 2008 from 1H07, reflecting a more robust contribution of treasury gains and revenues from loan operations to bottom-line results. Investment banking activity boosted commission and fee income by 39.4% in the 2H08.

Profitability indicators in the 2Q08 were the result of 16.8% lower q-o-q client-related margins, which were affected by increased FX volatility in client derivative transactions. Market-related margins, on the other hand, were up 95%, having benefited from gains largely with fixed income instruments in the bank's proprietary positions. The activity in investment banking was boosted by equity deals in the quarter; fee earnings and commissions accounted for 21% of total earnings.

The bank's performance in the coming quarters is likely to be pressured because of the increased turmoil in international and domestic markets. Indeed, the recent surge in the cost of wholesale deposits during the 3Q08 and at the beginning of the fourth quarter is likely to maintain the volatility of Itaú BBA's profitability metrics. Moody's, however, views Itaú BBA as well positioned to benefit from a flow of business even if opportunities for investment banking and corporate lending decelerate in the coming months. Its broader local franchise and relationship with its target client base may give it an advantage in a scenario of uncertainty, relative to the local operations of global banks.

As a refinement to our analysis, we adjust the bank's net own securities portfolio to a 100% risk weighted asset base as per Basel II (although such weighting is not required by Brazilian regulators). The adjusted profitability metrics are only slightly lower than the reported three-year average and do not affect the bank's profitability score, which remains comfortably at the high score of A.

Factor 6: Liquidity

Trend: Weakening

Itaú BBA's B+ score in liquidity derives from its predominantly wholesale deposit base, although a large portion of its funding is supplied by Banco Itaú. The interbank and repo domestic markets are primary sources of funds, complemented by international trade finance, onlending and bond issuances. As a result of markets' turmoil and global deleveraging, the volume of foreign trade lines available to Brazilian banks has declined substantially, and this could temporarily affect the bank's cost and ability to finance its client base. Measures taken by the Brazilian central bank are expected to alleviate pressures both for local and foreign currency availability.

Factor 7: Capital Adequacy

Trend: Neutral

For regulatory purposes, Itaú BBA's capital is managed at the holding company (Banco Itaú Holding Financeira) level. The group's BIS total capital ratio stood at 16.4% in June 2008, and it is thus above the minimum regulatory requirement of 11%. The score for capital adequacy is A, in line with Itaú's. At those levels, the group is well positioned to continue expanding, as credit and market conditions allow further disciplined growth.

Factor 8: Efficiency

Trend: Neutral

The score of A in operating efficiency reflects Itaú BBA's low overall cost to income ratio, characteristic of a wholesale bank. The bank's operating revenues are also composed of income from fees and commissions generated by its investment banking activities, aside from interest income on Itaú BBA's large loan book. Inherently, the non-interest income tends to fluctuate year-on-year depending on the performance of the fee-based activities. We expect the bank to further enhance its fee generation over time as the investments in specialized personnel and regional expansion contribute to growth and earnings. Under current market conditions, however, the bank may experience a slowdown in business activities, while its expenses remain at current levels.

Factor 9: Asset Quality

Trend: Neutral

Itaú BBA's asset quality is supported by a solid track record and a minimum level of non-performing loans, despite a robust credit expansion; such performance reflects the bank's strict credit guidelines and discipline. There have been no material changes in the bank's delinquency ratios, and for the most part, they remain consistent with its risk profile and levels registered in previous years. As previously stated, Moody's does expect deterioration in asset quality in the coming quarters, as specific industry segments suffer with rising costs, unfavorable pricing and FX rates. Itaú BBA has been actively monitoring its loan book and has added to provisions as needed.

## Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency deposit rating of A1 for Banco Itaú BBA. The rating is supported by Itaú BBA's Baseline Credit Assessment of A1, which is directly related to its BFSR of B-. The bank's limited participation in the core deposits market and in the payment system in Brazil would make it less likely to receive systemic support. However, Moody's believes that the authorities would make no distinction in supporting Itaú BBA, which is an integral part of the Itaú group. Therefore, Moody's assesses a very high probability of systemic support to Itaú BBA, in line with the assessment made for Banco Itaú. The resulting A1 local currency rating is at the local currency bank deposit ceiling for Brazil (LCBDC), and therefore, it does not benefit from any support uplift in the rating.

### Notching Considerations

Moody's does not rate subordinated debt for Banco Itaú BBA. Ratings for subordinated notes, however, would follow Moody's notching convention.

### National Scale Rating

Itaú BBA is rated Aaa.br/BR-1 by Moody's on Brazil's National Scale. The rating is supported by Itaú BBA's strong creditworthiness in the domestic market as indicated by its A1 baseline credit assessment and A1 local currency rating, which maps into an Aaa.br national scale rating.

### Foreign Currency Deposit Rating

Moody's assigns a Ba2 foreign currency deposit rating to Itaú BBA. The rating is constrained by Brazil's foreign currency deposit ceiling of Ba2.

### Foreign Currency Debt Rating

Moody's foreign currency senior debt for Itaú BBA (Nassau Branch) is rated as Baa3, which is at the country ceiling for foreign currency bonds in Brazil.

## ABOUT MOODY'S BANK RATINGS

### Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

### Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

### National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's

globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

#### Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

#### Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes, however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

#### About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

#### Rating Factors

##### Banco Itaú BBA S.A.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
<b>Qualitative Factors (70%)</b>						<b>C+</b>	
<b>Factor: Franchise Value</b>						<b>B-</b>	<b>Neutral</b>
<b>Market Share and Sustainability</b>	x						
<b>Geographical Diversification</b>		x					
<b>Earnings Stability</b>				x			
<b>Earnings Diversification [2]</b>							
<b>Factor: Risk Positioning</b>						<b>B</b>	<b>Neutral</b>
<b>Corporate Governance [2]</b>							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
<b>Controls and Risk Management</b>		x					
- Risk Management		x					
- Controls	x						
<b>Financial Reporting Transparency</b>		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information		x					
<b>Credit Risk Concentration</b>			x				
- Borrower Concentration			x				

- Industry Concentration	x						
<b>Liquidity Management</b>		x					
<b>Market Risk Appetite</b>		x					
<b>Factor: Operating Environment</b>						D	Improving
<b>Economic Stability</b>					x		
<b>Integrity and Corruption</b>				x			
<b>Legal System</b>			x				
<b>Financial Factors (30%)</b>						A-	
<b>Factor: Profitability</b>						A	Weakening
<b>PPP % Avg RWA</b>	--	--	--	--	--		
<b>Net Income % Avg RWA</b>	--	--	--	--	--		
<b>Factor: Liquidity</b>						B+	Weakening
<b>(Mkt funds-Liquid Assets) % Total Assets</b>	-10.92%						
<b>Liquidity Management</b>		x					
<b>Factor: Capital Adequacy</b>						A	Neutral
<b>Tier 1 ratio (%)</b>	14.63%						
<b>Tangible Common Equity % RWA</b>	14.63%						
<b>Factor: Efficiency</b>						A	Neutral
<b>Cost/income ratio</b>	26.31%						
<b>Factor: Asset Quality</b>						A	Neutral
<b>Problem Loans % Gross Loans</b>	0.31%						
<b>Problem Loans % (Equity + LLR)</b>	0.98%						
<b>Lowest Combined Score (9%)</b>						B+	
<b>Economic Insolvency Override</b>						Neutral	
<b>Aggregate Score</b>						B-	
<b>Assigned BFSR</b>						B-	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information  
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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