

Brazil
Credit Update

Banco Itau BBA S.A.

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Local Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
National	
Long-Term	AAA(bra)
Short-Term	F1+(bra)
Individual	B/C
Support	3
Support Rating Floor	BB
Sovereign Risk	
Foreign Long-Term IDR	BBB-
Local Long-Term IDR	BBB-

Outlooks

Foreign Long-Term IDR	Stable
Local Long-Term IDR	Stable
National Long-Term	Stable
Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

Financial Data

Banco Itau BBA S.A.	30 Jun 08	31 Dec 07
Total assets (USDm)	67,784.7	56,051.8
Total assets (BRLm)	108,923.3	99,267.7
Net equity(BRLm)	6,275.3	5,885.7
Net income (BRLm)	684.9	920.0
ROA (%)	1.3	1.2
ROE (%)	22.5	16.4
Equity/assets (%)	5.8	5.9

Analysts

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Related Research

- [Credit Analysis on Banco Itau Holding Financeira S.A., 30 July 2008](#)
- [Credit Update on Banco Itau S.A., 30 July 2008](#)

Rating Rationale

- Banco Itaú BBA S.A.'s (IBBA) ratings are the same as those of its parent, Banco Itaú Holding Financeira S.A. (BIHF), and its sister bank Banco Itaú S.A. (Itaú), and reflect the strategic importance of IBBA to BIHF's franchise. They also consider the strong centralised risk management supervision at BIHF, where group-wide financial positions are consolidated and managed. Regulatory supervision and capital adequacy indicators are applied and monitored, also on a consolidated BIHF basis. The group's ratings reflect BIHF's broad and diversified franchise, its deposit stability, proven market access, conservative management, track record of solid performance and its ability to react promptly to volatilities in the Brazilian economy.
- IBBA generates its returns mainly through loans, services, structured products (mainly derivatives), investment banking and proprietary treasury activities. The bank has benefited from the expansion of the Brazilian economy, which has generated higher demand for its services in the last few years, despite the worldwide market turmoil, which has slowed its activities since 2007.
- IBBA's performance remains consistent and operational results have already recovered after the 30% drop in 2007, due to the significant decline of treasury gains, and increased high 75% yoy in June 2008. The latter have benefited from the increased number of structured operations to attend clients, in view of the higher volatility in the forex market. They have further benefited from corporate credit expansion and better results generated by proprietary treasury in the local and international markets, which have mitigated the impact of a lower volume of operations in capital markets and mergers and acquisitions. Credit quality is very good, and the bank has incorporated clients from Itaú's middle market companies and carried out adjustments to portfolio ratings.
- IBBA has expanded its client funding, although a significant part of this funding (BRL3bn, on average) has been provided by Itaú, where BIHF's structural gaps are managed. For additional information on the group, please refer to BIHF's credit analysis (see *Related Research* left).

Support

- As a multiple bank, BIHF is regulated by the Central Bank of Brazil. Given its importance in the Brazilian banking system, official action taken towards any legal entity of the group is likely to be equally applied to all. There is a high probability that support, if needed, would be provided by official sources, in an attempt to maintain confidence in the system.

Key Rating Drivers

- The Stable Outlooks on IBBA's ratings are directly tied to those of BIHF. BIHF's ratings, driven by the bank's performance, have risen significantly over the last several years as Brazil's Country Ceiling has improved, and further upward movement should be more moderate. A reversal in Brazil's operating environment could exert downward pressure on the ratings.

Profile

IBBA consolidates BIHF's wholesale and investment banking activities; it is 95.75% controlled by BIHF and 4.25% controlled by IBBA's executive partners.

Balance Sheet Analysis

BANCO ITAU BBA S.A.

	30 Jun 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	6 Months - Interim	6 Months - Interim	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm Original	BRLm Original	Assets Original	BRLm Original	BRLm Original	Assets Original	BRLm Original	Assets Original	BRLm Original	Assets Original
A. LOANS										
1. Loans & Advances - Short-Term	10,115.9	16,255.2	14.92	15,612.1	14,968.9	15.08	10,404.7	18.97	8,735.2	21.61
2. Loans & Advances - Long-Term	5,907.3	9,492.4	8.71	8,512.3	7,532.1	7.59	6,715.8	12.25	6,258.1	15.48
3. Leasing Loans	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
4. Other Credits	1,186.7	1,906.9	1.75	1,616.5	1,326.0	1.34	516.6	0.94	761.4	1.88
Rated Credit Exposure (AA-H) - memo	16,023.0	25,747.3	23.64	24,124.2	22,501.1	22.67	17,120.4	31.22	14,993.2	37.09
Impaired Loans (D-H) - memo	63.5	102.0	0.09	91.8	81.5	0.08	274.2	0.50	173.3	0.43
5. (Loan Loss Reserve)	201.9	324.5	0.30	298.3	272.1	0.27	278.9	0.51	240.2	0.59
TOTAL A	17,007.9	27,330.0	25.09	25,442.5	23,554.9	23.73	17,358.2	31.65	15,514.5	38.38
B. OTHER EARNING ASSETS										
1. Deposits with Banks	21,138.3	33,967.1	31.18	35,029.1	36,091.1	36.36	10,063.2	18.35	8,585.7	21.24
2. Monetary Authorities	9.1	14.7	0.01	8.6	2.5	0.00	3.8	0.01	122.6	0.30
3. Open Market Investments	11,188.2	17,978.3	16.51	15,928.9	13,879.5	13.98	10,122.6	18.46	4,828.8	11.94
4. Securities	9,585.7	15,403.3	14.14	14,337.7	13,272.0	13.37	12,004.7	21.89	6,834.4	16.91
5. Derivative Instruments	2,281.7	3,666.5	3.37	3,264.2	2,861.8	2.88	2,308.5	4.21	2,827.0	6.99
6. Equity Investments	76.0	122.2	0.11	119.0	115.7	0.12	980.6	1.79	125.7	0.31
TOTAL B	44,279.1	71,152.1	65.32	68,687.4	66,222.6	66.71	35,483.4	64.71	23,324.2	57.69
C. TOTAL EARNING ASSETS (A+B)	61,287.0	98,482.1	90.41	94,129.8	89,777.5	90.44	52,841.6	96.36	38,838.7	96.07
D. FIXED ASSETS	343.6	552.2	0.51	584.7	617.1	0.62	30.9	0.06	31.9	0.08
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	186.3	299.3	0.27	262.6	225.8	0.23	90.0	0.16	116.5	0.29
2. Other	5,967.8	9,589.7	8.80	9,118.5	8,647.3	8.71	1,874.4	3.42	1,441.0	3.56
F. TOTAL ASSETS	67,784.7	108,923.3	100.00	104,095.5	99,267.7	100.00	54,836.9	100.00	40,428.1	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Sight Deposits	171.4	275.5	0.25	298.4	321.2	0.32	118.1	0.22	80.3	0.20
2. Savings Deposits	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
3. Time Deposits	3,985.1	6,403.6	5.88	5,470.7	4,537.7	4.57	4,848.9	8.84	4,984.6	12.33
4. Interbank Deposits	30,318.8	48,719.3	44.73	49,518.1	50,316.9	50.69	21,820.0	39.79	13,496.1	33.38
5. Open Market Funding	10,758.3	17,287.5	15.87	14,642.2	11,996.8	12.09	9,835.1	17.94	4,028.9	9.97
6. Derivative Instruments	2,477.8	3,981.6	3.66	3,565.7	3,149.8	3.17	2,185.0	3.98	2,559.8	6.33
7. ST Local Currency Funding	1,263.0	2,029.5	1.86	1,574.4	1,119.2	1.13	997.1	1.82	918.2	2.27
8. ST Foreign Currency Funding	3,606.0	5,794.5	5.32	5,995.8	6,197.0	6.24	2,579.5	4.70	2,490.0	6.16
TOTAL G	52,580.4	84,491.5	77.57	81,065.1	77,638.6	78.21	42,383.7	77.29	28,557.9	70.64
H. OTHER FUNDING										
1. LT Local Currency Funding	1,938.5	3,114.9	2.86	2,833.7	2,552.4	2.57	1,996.5	3.64	2,243.2	5.55
2. LT Foreign Currency Funding	1,010.8	1,624.2	1.49	1,751.2	1,878.2	1.89	1,338.5	2.44	1,557.2	3.85
3. Subordinated Debt	0.0	0.0	0.00	0.0	0.0	0.00	106.8	0.19	116.9	0.29
4. Hybrid Capital	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
TOTAL H	2,949.2	4,739.1	4.35	4,584.9	4,430.6	4.46	3,441.8	6.28	3,917.3	9.69
I. OTHER NON-INTEREST BEARING	8,349.9	13,417.4	12.32	12,365.1	11,312.8	11.40	3,693.3	6.74	3,412.8	8.44
K. OTHER RESERVES	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
L. EQUITY										
1. Preference Shares	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
2. Common Equity	3,905.2	6,275.3	5.76	6,080.5	5,885.7	5.93	5,318.1	9.70	4,540.1	11.23
TOTAL L	3,905.2	6,275.3	5.76	6,080.5	5,885.7	5.93	5,318.1	9.70	4,540.1	11.23
M. TOTAL LIABILITIES & EQUITY	67,784.7	108,923.3	100.00	104,095.5	99,267.7	100.00	54,836.9	100.00	40,428.1	100.00
Exchange Rate		USD1 = BRL 1.6069			USD1 = BRL 1.7710		USD1 = BRL 2.1372		USD1 = BRL 2.3399	

Income Statement Analysis

BANCO ITAU BBA S.A.

	30 Jun 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	BRLm	Earning Assts	BRLm	Earning Assts	BRLm	Earning Assts	BRLm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	
1. Interest Received	4,368.6	9.28	5,616.7	7.88	4,758.7	10.38	4,827.6	13.67
2. Interest Paid	3,030.8	6.44	4,030.6	5.65	2,963.5	6.46	2,866.2	8.12
3. NET INTEREST REVENUE	1,337.8	2.84	1,586.1	2.22	1,795.2	3.92	1,961.4	5.56
4. Other Operating Income	210.7	0.45	404.8	0.57	394.6	0.86	172.1	0.49
5. Share of Earnings of Associates	6.4	0.01	5.3	0.01	29.7	0.06	52.3	0.15
6. Loan Loss Provisions	46.2	0.10	29.4	0.04	6.9	0.02	-194.3	-0.55
7. Personnel Expenses	232.2	0.49	380.5	0.53	353.5	0.77	284.5	0.81
8. Other Non-Interest Expenses	275.1	0.58	499.0	0.70	294.7	0.64	305.0	0.86
9. OPERATING PROFIT	1,001.4	2.13	1,087.3	1.52	1,564.4	3.41	1,790.6	5.07
10. Non-Operating Income (Net)	21.5	0.05	220.2	0.31	-34.3	-0.07	-5.6	-0.02
11. PRE-TAX PROFIT	1,022.9	2.17	1,307.5	1.83	1,530.1	3.34	1,785.0	5.06
12. Taxes	338.0	0.72	387.5	0.54	424.5	0.93	498.6	1.41
13. NET INCOME	684.9	1.46	920.0	1.29	1,105.6	2.41	1,286.4	3.64

Ratio Analysis

BANCO ITAU BBA S.A.

		30 Jun 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		Original	Original	Original	Original
I. PROFITABILITY LEVEL					
1. Net Income/Equity (av)	%	22.53	16.42	22.43	31.10
2. Net Income/Total Assets (av)	%	1.32	1.19	2.32	3.55
3. Net Interest Rev/Total Earning Assets (av)	%	2.84	2.22	3.92	5.56
4. Net Interest Rev/Total Assets (av)	%	2.57	2.06	3.77	5.41
5. Operating Profit/Total Assets (av)	%	1.92	1.41	3.28	4.94
6. Cost/Income	%	32.63	44.06	29.20	26.97
7. Non-Int Expenses/Total Assets (av)	%	0.97	1.14	1.36	1.62
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	14.17	10.69	15.31	19.75
2. Equity/Total Assets	%	5.76	5.93	9.70	11.23
3. Intangibles/Equity	%	6.61	3.94	4.27	5.49
4. Free Capital/Banking Assets	%	5.17	5.23	8.00	10.88
5. Loans/Equity	%	435.52	400.21	326.40	341.72
6. Central Bank Capital Ratio	%	16.40	17.90	17.20	16.90
III. LIQUIDITY					
1. Liquid Assets/Deposits & Money Mkt Funding	%	21.63	18.17	24.10	17.32
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	84.42	85.44	81.62	81.64
3. Loans/Assets	%	25.09	23.73	31.65	38.38
IV. ASSET QUALITY					
1. Loan Provisions/ Gross Loans (av)	%	0.36	0.14	0.04	-1.24
2. Charge-Offs/ Gross Loans (av)	%	0.05	0.18	0.01	0.10
3. Loan Provisions/Profit before Provision&Taxes	%	4.32	2.20	0.45	-12.21
4. Loan Loss Reserves/Impaired Loans	%	318.14	333.87	101.71	138.60
5. Loan Loss Reserves/Minimum Required	%	234.47	249.86	226.38	179.52
6. Loan Loss Reserves/Gross Loans	%	1.17	1.14	1.58	1.52
7. Impaired Loans/Gross Loans	%	0.37	0.34	1.55	1.10
8. Impaired Loans/Rated Credit Exposure	%	0.40	0.36	1.60	1.16