Itau BBA International plc

Annual Report 2016

Itau BBA International
at a glance

Our mission

To be the bank of choice for the most significant Northern Hemisphere corporations and financial investors with respect to their Latin American cross-border transactions, as well as the preferred global investment advisor for our Private Banking clients.

Who we are

Itau BBA International plc (“IBBAInt”) is a wholly owned UK subsidiary of Itaú Unibanco Holding S.A. (“Itaú Unibanco”) – Brazil’s largest bank with a market cap of USD 67.3 billion, total assets of USD 437 billion (BRL 1.4 trillion), recurring net income of USD 6.8 billion (BRL 22.2 billion) (year-end 2016) and operations in Europe, North America, South America, the Middle East and Asia.

Our core business comprises Corporate and Investment Banking (“CIB”) and International Private Banking (“IPB”) to support the Itaú Group’s franchise domestically and internationally.

The CIB operations are concentrated in IBBAInt (London) while the IPB business is developed through our overseas subsidiaries strategically based in the United States and Switzerland.

We have operated in Europe for over 20 years and are committed to working with and for our clients, developing long-term relationships with large corporates, financial investors and high net-worth individuals with respect to their Latin American cross-border transactions.

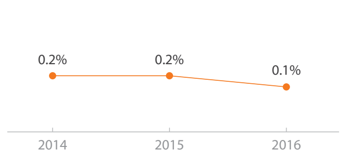
IBBAInt’s current long term deposit and issuer ratings by Moody’s are A3 (negative outlook), reflecting the Bank’s low level of asset risk, strong capital and leverage metrics and high liquidity.

2016 Consolidated Highlights

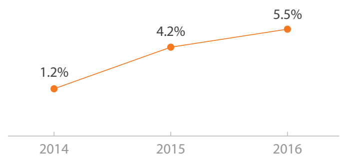
Balance Sheet	**Total assets** USD 7.7 billion	**Assets under management** USD 14.8 billion
Profitability	**Revenues** USD 228 million	**Net income** USD 60.1 million
Capital	**Total capital** USD 1.0 billion	**Total capital ratio** 18.2%
Liquidity	**Liquidity pool** USD 1.6 billion	**LCR** 289%

Historical Performance

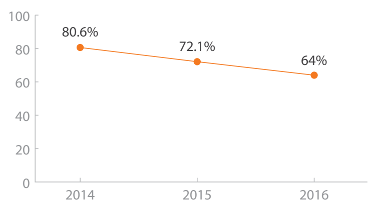
NPL ratio (%)



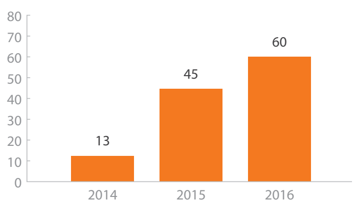
ROE (%)



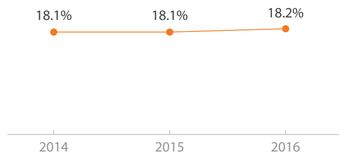
Cost-to-income ratio (%)



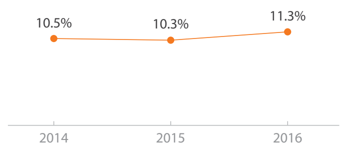
Net income (USD m)



Total capital ratio (%)



Leverage ratio (%)



Foreword

Overview

Itau BBA International plc ("IBBAInt" or the "Bank") is the London-based subsidiary of Itaú Unibanco Holding S.A. ("Itaú Unibanco"), the largest Brazilian bank with more than 90,000 employees and operations in 19 countries throughout the Americas, Asia and Europe. Itaú Unibanco and its subsidiaries are collectively referred to as the "Itaú Group".

Our vision and mission

We have operated for over 20 years in Europe with a clearly defined and successful vision and mission: to be the bank of choice with respect to Latin America for the most important corporations and financial investors in the Northern Hemisphere, and to be the European bank of choice for our Latin American clients.

Our strategy

Our strategy is to capture the business flow between Latin America and developed markets (primarily Europe and the United States), taking advantage of the Itaú Group's market leadership in Brazil and its growing presence in other Latin American countries.

Our core business comprises Corporate and Investment Banking ("CIB") and International Private Banking ("IPB"). While the CIB operations are concentrated in the Bank, the IPB business is developed through overseas subsidiaries strategically based in the United States and Switzerland.

As the Northern Hemisphere platform of the Itaú Group, we continuously aim to provide increased competitiveness, increased customer exposure and increased visibility for our products in both the CIB and IPB segments.

Review of the business

We have delivered strong financial performance in 2016, despite a challenging macroeconomic environment, especially in Brazil and Europe. Our consolidated net income reached USD 60.1 m, a 34.4% increase compared to 2015. Our strong financial performance was underpinned by our continued focus on cost discipline, with total operating expenses reduced by 10.8% in the year, and the absence of significant provisions and impairment charges. Consequently, our efficiency ratio improved from 72.1% to 64% in 2016 and our return on equity reached 5.5% (2015: 4.2%). Our capital and liquidity positions remain strong, with a total capital ratio of 18.2% and a liquidity coverage ratio ("LCR") of 289%, while the Bank's credit portfolio is sound.

On 5 August 2016, Moody's assigned IBBAInt an A3 credit rating, highlighting the quality of our portfolios, our strong capital position and high liquidity levels. It is also further recognition of our consistent strategy over the years, and it will bring additional benefits for the Bank, both on the assets and liabilities side.

Our corporate culture

When setting our goals, year after year, we aim to act sustainably and responsibly and in line with our corporate culture. We believe that serving all of our stakeholders – clients, employees, shareholders and the community in general – is paramount to our long-term success. In terms of engaging with the wider community the Bank has launched, in 2016, many different initiatives under its corporate social responsibility project, which we strongly believe will have a great impact for all the parties involved.

Governance

We consider that effective governance is a living process that requires regular review and scrutiny. To that end, the Board of Directors carries out annual self-assessments of its size, structure, composition and performance. In 2016, our focus was on improving succession planning for key roles at management level. We have also streamlined our corporate structure and improved the governance processes across the group by eliminating non-operational legal entities and minority interests.

Outlook

Looking forward to 2017, we will continue to focus on growing the profitability of our business, further improving our efficiency and continuously developing a proactive approach to risk management. We will continue to build on our strong governance and risk culture, conservative approach to risk selection, and strong liquidity and capital ratios as the key foundations to make further contributions to the overall Itaú Group's positive performance and diversification.

With Brazil's improving macro outlook, and despite the heightened policy uncertainty in major economies such as the United States, the United Kingdom and the Euro Zone, we are confident that the Bank is well positioned to continue to capture the trade and capital movements between Latin America and the developed markets.

Acknowledgements

On behalf of the Board of Directors and management team, we would like to thank Candido Bracher for his inspiring leadership and the support he has given the Bank during his term as Chairman of the Board of Directors. Candido resigned from his office as Chairman of the Bank in December 2016 following the announcement of his forthcoming appointment as the Itaú Group Chief Executive Officer. We would also like to thank all our colleagues across the Bank for their hard work and commitment in delivering continued strong performance for the benefit of all our stakeholders.

Eduardo Vassimon
Chairman

Renato Lulia Jacob
Chief Executive Officer

16 March 2017

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Introduction

The directors present their Strategic Report and the Directors' Report, followed by the audited financial statements of IBBAInt on a solo (i.e. the Bank) and on a consolidated (i.e. the Bank and its subsidiaries, together the "Group") basis, and related notes for the year ended 31 December 2016.

The Group presents additional disclosures concerning regulatory capital information and risk management in a separate document ("Pillar 3 Disclosures"). The Pillar 3 Disclosures are published on www.itaubba.co.uk.

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the Group to publish additional information in respect of the year ended 31 December 2016. This information is available on www.itaubba.co.uk.

Basis of presentation

The abbreviations "USD'000", "USD m" and "USD bn" represent thousands, millions and billions of US dollars, respectively.

Forward-looking Statements

This document contains forward-looking statements with respect to the business, strategy and plans of the Group, and its current goals and expectations relating to its future financial condition and performance.

Statements that are not historical facts are forward-looking statements. These statements are based on the Group's current plans, estimates, assumptions and projections. These expectations and projections are subject to significant risks and uncertainties and might not prove accurate. Therefore, no undue reliance should be placed on them. Forward-looking statements speak only as of the date they are made, and the Group undertakes no obligation to update any of them in light of new information or future events.

Forward-looking statements involve inherent risks. Many factors could affect the future performance of the Group's business. These factors include, but are not limited to:

- adverse external factors, such as cessation of usage of the Euro as legal tender in the Eurozone, changes in capital or liquidity requirements applicable to banks, fluctuation in interest rates, a prolonged recession, low or unstable economic growth, a decline in demand for investment services or products, and increased regulation of investment products;
- adverse domestic factors or in countries where the Group has risk exposure, such as increases in inflation, unexpected loan losses, increased costs, high interest rates and currency exchange rate volatility, and changes in laws and regulations;
- other adverse factors, such as political events, the outcome of the discussions between the United Kingdom ("UK") and the European Union ("EU") on their post-Brexit relationship, international or domestic hostilities and political uncertainty; and
- changes to laws, regulation, accounting standards or taxation, the effects of competition and the actions of competitors, and other factors.

Strategic Report

Overview

The Bank is a public limited company incorporated under the Laws of England and Wales, authorised by the Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority (the "FCA") and by the PRA.

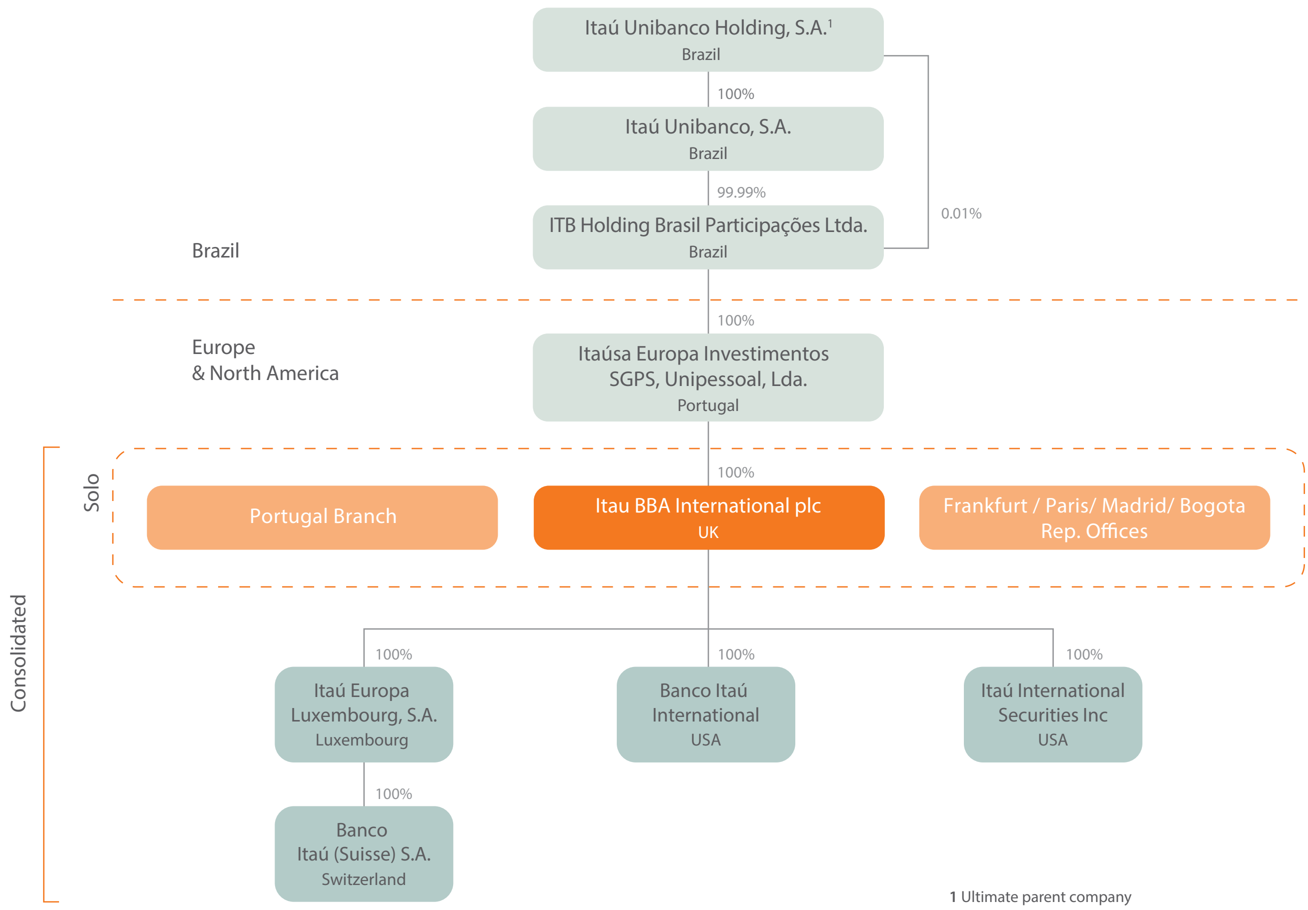
The Bank's ultimate parent company, Itaú Unibanco Holding S.A. ("Itaú Unibanco") is a publicly listed joint stock company with its head office in Brazil which owns, *inter alia*, Itaú Unibanco S.A. (its commercial banking arm) and Banco Itaú BBA S.A. (its investment banking arm). Itaú Unibanco and its subsidiaries are collectively referred to as the "Itaú Group". The Itaú Group's financial statements are available at www.itau.com.br.

IBBAInt has overseas banking subsidiaries in the United States of America ("USA") (Miami) and Switzerland (Zurich) and a non-banking subsidiary in Luxembourg – these all collectively form the Group, as shown in the chart below.

As the Bank is a parent company and the directors prepare group accounts, the directors have prepared this strategic report as a consolidated report relating to the undertakings included in the consolidation.

Corporate
Structure

Set out below is the Group corporate structure and its link to Itaú Unibanco as of the date of this report.



1 Ultimate parent company

Business Model and Strategy

IBBAInt, based in the United Kingdom ("UK"), with a branch in Portugal, operates in the corporate and investment banking ("CIB") segment, where the strategic focus is on large corporates and cross-border business between developed markets and Latin America. IBBAInt is also the entity that owns and controls the Miami and Zurich private banking subsidiaries, which are the primary delivery channel for international private banking ("IPB") activities for the Itaú Group.

In both the CIB and IPB segments, the focus is on cross-border business between Latin America and the Northern Hemisphere (primarily Europe and the USA), in order to take advantage of the Itaú Group's market leadership in Brazil and its increasing penetration in Latin America.

Corporate & Investment Banking

The Itaú Group CIB strategy is based on building close and long-lasting relationships with clients by obtaining a comprehensive understanding of their needs and offering customised solutions.

The business model for IBBAInt is designed to provide European geographical coverage for CIB clients, with resources based in London, Lisbon, Madrid, Frankfurt and Paris, enabling the Itaú Group to achieve the most effective global commercial coverage for large corporates, financial investors and institutional clients.

The CIB segment focuses on wholesale banking products and services, offered both to Latin American companies undertaking business in the Northern Hemisphere and large economic groups investing into Latin America. These products and services include the following:

- General credit products, guarantees, and related products, delivered in a bilateral format or via syndication with other institutions;
- Financial derivatives, with an emphasis on hedging instruments for foreign exchange ("FX") and interest rate risks of client subsidiaries in Latin America;
- Advisory services related to investment/disinvestment processes primarily in Latin America and in Europe for Latin American investors;
- Advisory services in relation to project finance in Latin America;
- Advisory services, in connection with the broader Itaú Group, to support local financing needs for subsidiaries of European clients doing business in Latin America;
- Deposit taking from wholesale clients, mainly large European corporates; and
- Assistance to European clients seeking to access other products and services (e.g. cash management, FX, etc.) for their Latin America-based subsidiaries.

International Private Banking

The international private banking ("IPB") operations are delivered by the Bank's subsidiaries in the United States of America and in Switzerland: Banco Itaú International (an Edge Corporation[1]), Itaú International Securities Inc. (an introducing broker dealer), both based in Miami, Florida, and Banco Itaú (Suisse) S.A. (a bank based in Zurich, Switzerland). These operations are a key component of the wider Itaú Group's strategy of providing a global platform of wealth management services to affluent, high-net-worth and ultra-high-net-worth individuals and families mostly from Latin America.

The IPB clients have access to unique investment opportunities in the North-American and European financial markets, and to customised products and services that allow for global diversification of their investments.

The main products offered include:

- Trading of securities;
- Structured products;
- Mutual and hedge funds;
- Loans;
- Cash management solutions; and
- Wealth planning consulting.

Advisory services are provided by experienced teams of relationship managers, supported by investment specialists who strive to provide the most appropriate solutions according to each client's risk profile.

The majority of the IPB business is conducted with Brazilian clients, taking advantage of the dominant market share of Itaú in Brazil. As a result of the Itaú Group expansion in Latin America, the IPB subsidiaries are expected to grow the client base from the Latin American countries where the Itaú Group has a relevant presence, such as Argentina, Chile, Colombia, Paraguay and Uruguay.

In December 2016, IBBAInt's consolidated assets under management totalled USD 14.8 bn.

1 An Edge Corporation is chartered by the Federal Reserve to engage in international banking operations.

Performance **Highlights**

Consolidated Key Performance Indicators

	USD m	31.12.16	31.12.15
Balance Sheet	Total assets	7 654	8 642
	Credit portfolio	5 046	5 303
	Assets under management (AuM)	14 834	13 727
	Leverage ratio	11.3%	10.3%
Asset Quality	Non performing loans (NPL)	6	8
	NPL ratio	0.1%	0.2%
	Coverage ratio	175.2%	157.4%
Capital	CET 1 ratio	18.0%	17.9%
	CET1+2 ratio	18.2%	18.1%
	Total capital	1 000	955
	Risk-weighted assets (RWA)	5 506	5 280
Liquidity	Liquidity pool	1 622	2 068
	Liquidity coverage ratio (LCR)	289%	307%
Funding	Client deposits	2 903	2 930
	Wholesale funding	3 098	3 882
Profitability	Profit for the year	60	45
	Cost-to-income ratio	64.0%	72.1%
	Return on average equity	5.5%	4.2%

Performance Review

Details of the consolidated results and profitability indicators are presented below:

Consolidated Income Statement

USD'000	31.12.16	31.12.15	% Change
Net interest income	96 873	90 362	7.2%
Net fee and commission income	99 188	107 989	(8.1%)
Net income on financial operations	20 229	17 134	18.1%
Other operating income	11 720	11 130	5.3%
Total operating income	**228 010**	**226 615**	**0.6%**
Provisions and impairment charges	(651)	(2 531)	(74.3%)
Total operating expenses	(145 858)	(163 502)	(10.8%)
Share of profit in associates	212	59	259.3%
Taxation	(21 647)	(15 942)	35.8%
Non-controlling interests	-	(1)	(100.0%)
Net profit	**60 066**	**44 698**	**34.4%**

Consolidated Profitability indicators

	31.12.16	31.12.15
Cost-to-income ratio	64.0%	72.1%
Return on average equity	5.5%	4.2%
Return on average assets	0.7%	0.6%

The Bank reported its highest net income in 2016 reaching USD 60.1 m, 34.4% higher than in 2015. This evolution demonstrates the resilience of our revenue generation capabilities under challenging macro-economic and political environment in our core markets. Relevant cost reductions and absence of significant impairments were key drivers for this positive performance.
The decrease in our total operating expenses surpassed 10%, a result of our multi-year efficiency programme that focusses on process redesign and automation, not only to improve our efficiency levels, but also to upgrade our operating environment. Therefore, our cost-to-income ratio improved significantly from 72.1% in 2015 to 64% in 2016. Our return on equity has also improved reaching 5.5%, although we continued to operate with a tier I capital ratio of 18%. Our ample liquidity also reflects our conservative approach: LCR topped 289% in December 2016.

Business Segment Review

Balance Sheet Highlights

	CIB			IPB		
USD m	31.12.16	31.12.15	% Change	31.12.16	31.12.15	% Change
Total Assets	4 531	5 330	(15.0%)	3 285	3 789	(13.3%)
Assets under management (AuM)	-	-	-	14 834	13 727	8.1%
Guarantees and commitments	483	503	(4.0%)	87	118	(26.3%)
Credit Portfolio	3 265	3 682	(11.3%)	1 781	1 621	9.9%
Loans and advances to customers	2 782	3 179	(12.5%)	1 694	1 503	12.7%
Customer accounts	453	173	161.8%	2 465	2 811	(12.3%)

Income Statement

	CIB			IPB		
USD'000	31.12.16	31.12.15	% Change	31.12.16	31.12.15	% Change
Total operating income	75 204	78 166	(3.8%)	153 107	149 003	2.8%
Net interest income	57 590	59 360	(3.0%)	39 283	31 002	26.7%
Net fee and commission income	(2 216)	399	(655.4%)	101 404	107 590	(5.7%)
Net income on financial operations	13 896	12 046	15.4%	6 333	5 088	24.5%
Other operating income	5 934	6 361	(6.7%)	6 087	5 323	14.4%
Credit impairment charges and other provisions	(651)	(2 531)	(74.3%)	-	-	-
Total operating expenses	(44 814)	(54 166)	(17.3%)	(101 123)	(109 879)	(8.0%)
Income Tax	(6 615)	(4 811)	37.5%	(15 032)	(11 131)	35.0%
Net profit / (loss)	**23 124**	**16 658**	**38.8%**	**36 952**	**27 992**	**32.0%**
Cost-to-income ratio	59.6%	69.3%		66.0%	73.7%	
Return on average equity	4.6%	3.5%		6.5%	5.1%	

Corporate & Investment Banking

In 2016 we have witnessed a drop in our corporate credit portfolio by 11% and on our interest margin by 3% due to a more cautious risk approach and strict compliance with our targeted return policies. Net fee and commission income also reduced due to increase in guarantees received as collateral, which further improved the quality of our credit portfolio. Despite the overall fee decrease, the Bank has been able to generate more fee-based business, namely on advisory – a line of business that generated record high fees in 2016. Overall CIB revenues decreased by 3.8% in 2016 to USD 75.2 m, a level that showcases the Bank's business model resilience in challenging market conditions. Provisions and impairment charges were marginal in 2016, with no new non-performing loans. Our continued focus on cost discipline and efficiency has led to a reduction of operating expenses by 17.3% to USD 44.8 m. As a consequence, net income reached USD 23.1 m (USD 16.7 m in 2015) – almost 40% above last year – and cost-to-income ratio improved to 59.6% in 2016 (69.3% in 2015).

International Private Banking

IPB revenues reached a record level of USD 153 m in 2016, 2.8% higher than in 2015. Despite the 5.7% decrease in net fee and commission income, due to lower trading-related revenues, total revenues were positively impacted by the 26.7% growth of the net interest margin, boosted by the increase in Fed Funds Rate. IPB operating expenses decreased 8% due to a relentless focus on efficiency. Net income was USD 37.0 m (USD 28.0 m in 2015) and cost-to-income ratio improved to 66.0% (73.7% in 2015).

Capital

The Group actively manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements. On a consolidated basis, IBBAInt's regulatory capital requirements are determined by the PRA under CRD IV requirements. The Group's overall minimum capital requirements under Pillar 1 are calculated by reference to the regulatory models ("Standardised Approach" for credit risk; "Mark-to-market Method" for counterparty credit risk; "Basic Indicator Approach" for operational risk; and "Maturity-based calculation of general risk" for market risk, and "Standardised Method" for credit valuation adjustment risk).

As at 31 December 2016, the capital ratios remained robust, with a consolidated total capital ratio of 18.2% (31.12.15: 18.1%). These strong capital levels demonstrate the soundness of the Bank and our commitment to maintain the financial health of the Group and to manage the Bank to a prudent strategy and risk appetite.

Further disclosures on the Group's capital are available on **Note 42** to the Financial Statements.

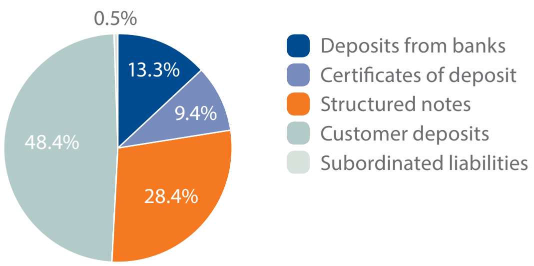
Funding

Regarding funding composition, the Group has a high volume of customer deposits, representing 48.4% of total funding at the end of 2016 (31.12.15: 43%), mainly from IPB activities, and wholesale funding from products offered to private banking customers as well as wholesale market counterparties.

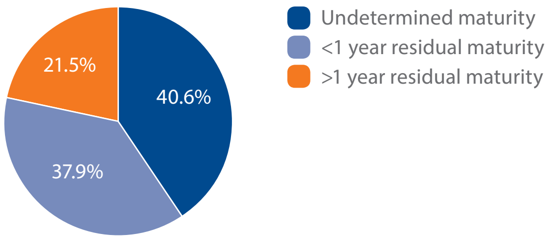
Structured notes issued by the Bank represented 28.3% of total funding at the end of 2016 (31.12.15: 29.2%). The structured notes portfolio is a stable, medium/long-term funding, diversified through different types of structures, underlyings and investors.

The charts below illustrate the Group's funding composition and maturity profile as of 31 December 2016:

Funding composition



Funding maturity profile



Risk Management

Risk is an inherent part of the banking business. The Itaú Group regards risk management as an essential instrument for optimising the use of its resources and for selecting the best business opportunities to maximise the value creation to shareholders over the long term. The Bank manages risk within the context of the Itaú Group-wide risk management framework but the Board of Directors ("Board") reviews the overall Itaú Group strategy to ensure it is appropriate for IBBAInt.

Our risk culture encourages open and constructive discussion about the risks facing the Bank, emphasising the individual and collective responsibility of all employees for keeping a long term perspective, with a focus on business sustainability.

The Bank's risk management framework is designed to ensure appropriate identification, assessment, monitoring and management of each of the various types of risks underlying its activities on a consolidated basis, thereby allowing sustained growth of the business.

The Board-approved Risk Appetite Statement includes a balanced mix of both qualitative and quantitative measures covering capital, liquidity, earnings, and franchise indicators, and is communicated to all employees throughout the Bank, helping to better align decision-making and risk.

Credit risk

Credit risk refers to the possibility of losses associated with:

- the failure by the borrower, issuer, or counterparty to fulfil their respective financial obligations under agreed terms;
- the depreciation of the credit agreement arising from the deterioration of the borrower's rating;
- the reduction of gains or remuneration;
- the benefits granted upon renegotiation; and
- debt recovery costs.

Credit risk management is the primary responsibility of all business units and is aimed at maintaining the quality of the credit portfolio at levels that are consistent with the Bank's risk appetite. To that end, each business unit is required to:

- Follow up and closely monitor the portfolios under its responsibility;
- Grant credit in accordance with the authority levels, market conditions, macroeconomic prospects, changes in markets and products and the effects of sector and geographic concentrations; and
- Manage credit risk by adopting actions that provide sustainability to its business.

The Bank's credit policy is based on internal factors, such as: client rating criteria, performance and evolution of the portfolio, default levels, return rates, and the allocated economic capital; and on external factors, related to the economic environment, interest rates, market default indicators, inflation and changes in consumption.

The concentrations on economic sectors, largest debtors, and geographic region are continuously monitored, hence allowing preventive measures to be taken to avoid the breach of the relevant limits.

The credit risk control is carried out by an independent and specialised function, duly segregated from the commercial areas. The main responsibilities of the credit risk control function are to:

- Identify, measure, report, monitor and control the Bank's credit portfolio key risks;
- Coordinate the process of preparation, regular review and approval of credit risk policies;
- Ensure that all clients and counterparties to which credit limits are assigned have their risk levels assessed; and
- Monitor Credit Risk Appetite compliance.

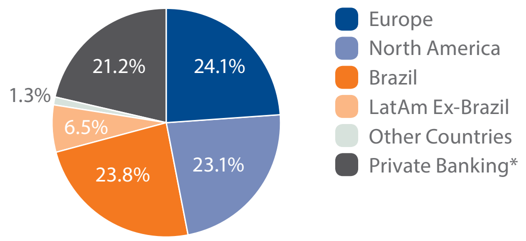
In assessing the credit rating of wholesale transactions, the key factors taken into account are the economic and financial condition of the counterparty, its cash-generating capabilities, the economic group to which it belongs and the current and prospective situation of the economic sector in which it operates. Each credit proposal is analysed individually through the approval governance in place at the Bank and the wider Itaú Group.

For the Private Banking segment, credit exposures are collateralised by deposits, highly liquid investments or a combination of both.

The following charts present the Group's credit risk concentration (net exposure) as of 31 December 2016. Credit risk by geography is presented in terms of country of domicile of the credit risk counterparty[2] and Credit risk by sector is presented in terms of the industry in which the immediate debtor is engaged.

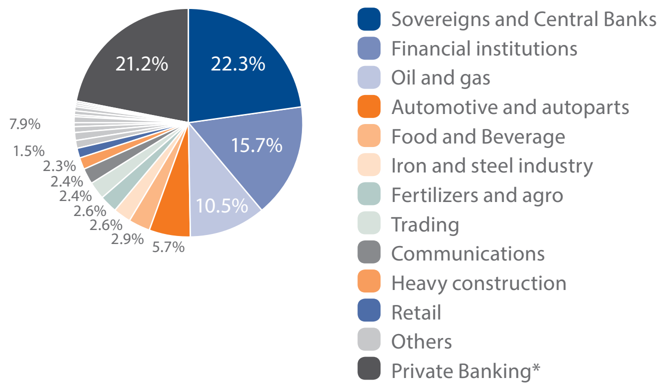
2 The allocation to the country is based on the country of incorporation of the relevant client, except for off-shore jurisdictions, where the exposure is allocated to the country of the relevant client's ultimate parent.

Credit Risk by Geography



(*) Exposure to Private Banking customers is collateralised by highly liquid investments

Credit Risk by Sector



Market risk

Market risk refers to the possibility of losses resulting from fluctuations in the market values of positions held by the Bank, most typically caused by variations in foreign exchange rates, interest rates, equity prices, index prices and commodity prices.

The Bank's Market Risk framework captures all relevant risk dimensions using a comprehensive set of risk metrics, limits and controls. This framework comprises both aggregate and granular levels of metrics, limits and controls. Historic Simulation of Value at Risk (one-day holding period and 99% confidence level) and stress-scenarios are the main metrics on an aggregate level, and sensitivity and market value/notional by currency are the main metrics on a granular level.

The main risk factors are interest rate and foreign exchange rate risk arising from non-trading activity, since the Bank does not undertake positions with trading intent. This limit framework fosters a continuous monitoring of market risks across the Bank that are regularly monitored and reported to the senior management and risk committees.

The Bank's market risk profile reflects a consistent and conservative approach to the market risk management in line with the Board-approved risk appetite.

Further disclosures on market risk are available on **Note 41** to the Financial Statements.

Liquidity risk

Liquidity risk is the risk of not having sufficient financial resources to meet obligations as they fall due, or only being able to secure resources at excessive cost. It occurs as a result of imbalances between tradable assets and falling due liabilities, tenor and/or currency mismatches.

The Group has a comprehensive liquidity risk management framework for managing its liquidity and funding risk in compliance with Board-approved Risk Appetite and regulatory liquidity requirements. This liquidity risk framework is prudently managed, primarily through stressed net contractual and contingent outflows under a variety of stress scenarios, measured against the available liquidity resources (liquidity pool). These scenarios cover a range of idiosyncratic, market-wide and combined stresses. The Group maintains its liquidity surplus under these stress scenarios at an efficient level.

The Group has been also managing its liquidity risk profile under the CRD IV regulatory regime implemented by the PRA. Under the CRD IV Interim liquidity coverage ratio ("LCR") regime, the PRA requires a phased-in compliance with the LCR, starting at 80% on 1 October 2015 and increasing to 100% by 1 January 2018.

The LCR is designed to promote the short-term resilience of the liquidity profile of banks to survive a significant stress over a period of 30 calendar days. The Group maintains a surplus under the minimum regulatory and internal requirements, monitoring a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk.

At the end of 2016, the Group's eligible high quality liquid assets ("HQLA") amounted to USD 815 m (31.12.15: USD 1,277 m) and the LCR very robust level of 289% (31.12.15: 307%) reflects the ample available liquidity.

The Group also monitors its liquidity positions against the net stable funding ratio ("NSFR") that is designed to promote a sustainable medium to long-term liquidity profile by ensuring sufficiently stable sources of funding to mitigate future funding stress. The NSFR is due to become a minimum standard for UK-regulated banks from January 2018.

The Group's liquidity pool as at 31 December 2016 was USD 1,622 m (31.12.15: USD 2,068m). The liquidity pool represents the unencumbered resources, in amount and quality, immediately available to meet the outflows in an event of liquidity stress.

The Risk, Assets and Liability Committee ("RALCO") monitors and discusses liquidity positions, respective controls and contingency plans through monthly meetings. The Bank maintains a Contingency Funding Plan ("CFP"), proportionate to the complexity, nature, size and business profile, to provide an effective framework to manage a liquidity crisis. The CFP complements the Recovery Plan and the Bank's overall liquidity risk management framework. The CFP provides for actions to address a short-term or prolonged liquidity stress period. The Bank's Recovery Plan sets out further credible actions that would allow the Bank to increase its liquidity resources in the event of severe stress.

Operational risk

Operational Risk is the risk arising from people, systems and processes through which a company operates. It also includes other classes of risk, such as fraud, legal risks, physical or environmental risks (e.g. terrorism; natural disasters) and reputation risks (e.g. conduct risks).

The operational risk management framework is composed of three sequential steps:

- Risk Assessment
  - process mapping performed by the first and second lines of defence where the Bank's key processes and operational risks are identified and mapped;
  - classification of the risks identified based on the inherent impact (financial, operational, legal/regulatory and reputational) were these risks to materialise;
- Risk Control
  - based on the risk classification, the first line of defence sets out an adequate response, which may include: implementing improvements to the process, running periodical tests on the key controls that mitigate the risk, establishing additional indicators to be monitored, or take no action;
- Risk Review
  - development of risk indicators ensures that the operational risks identified and assessed are monitored and controlled within the limits tolerated; and
  - regular operational risk analysis is disseminated across the Bank through reports discussed with the relevant areas and within the relevant risk committees.

The operational risk control is carried out by an independent and specialised function, duly segregated from the commercial areas. The ongoing monitoring performed by the Operational Risk function covers: issues identified by internal and external audit, daily events and weaknesses identified by the business areas, action plans defined when performing the risk response, operational losses and key risk and performance indicators.
An independent and objective review of the Operational Risk function is performed by the Internal Audit function in order to provide assurance to the Board that the Bank's activities are aligned with its Risk Appetite, regulatory and legal requirements.

Going Concern

The key risks facing the Group, including those that could threaten its business model, future performance, solvency or liquidity, as described on pages 12 to 14, are being actively monitored and managed by the directors. In particular, based on internal assessments and three-year forecasts, the Bank's capital and liquidity positions are deemed adequate under both a normal and a stressed market environment. Additionally, the directors have identified a suite of credible actions to restore the Bank's capital and solvency positions in the event of a severe stress, which include both support from the parent and market-related recovery options.

Having considered these matters, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the foreseeable future.

Governance

IBBAInt has a single-tier Board structure with dedicated committees focused on audit, risk, remuneration and nomination issues. The Board has also established an Executive Committee ("ExCo") vested with management powers.

The Board exercises oversight of the Bank's subsidiaries, while respecting the independent legal, regulatory and governance responsibilities which apply to their respective local boards of directors. Given its regulatory responsibilities for the consolidated financial health of the Group, the Board is kept informed of and monitors all material risks and issues that might affect the Group through regular reporting by the top management, including from the risk, compliance and internal audit functions.

The overall governance framework established ensures effective communication flow and alignment across and within the Group, and with the wider universe of Itaú Group entities. This is largely achieved through cross- and joint-memberships on key governance forums. At board level, the CEO of IBBAInt is a non-executive director of the IPB subsidiaries, and the Itau Group executive in charge of the Wealth Management Services Division (which includes International Private Banking) is a non-executive member of the Board who regularly reports on the IPB segment to the Bank's Board.

This governance framework is aligned with the recommended standards applicable in the UK having regard to the nature, scale and complexity of the Bank's business.

Below is the organisational chart showing the board level governance framework, including the composition of the Board, its specialised committees and the ExCo as of 31 December 2016:

Board of Directors

Chairman

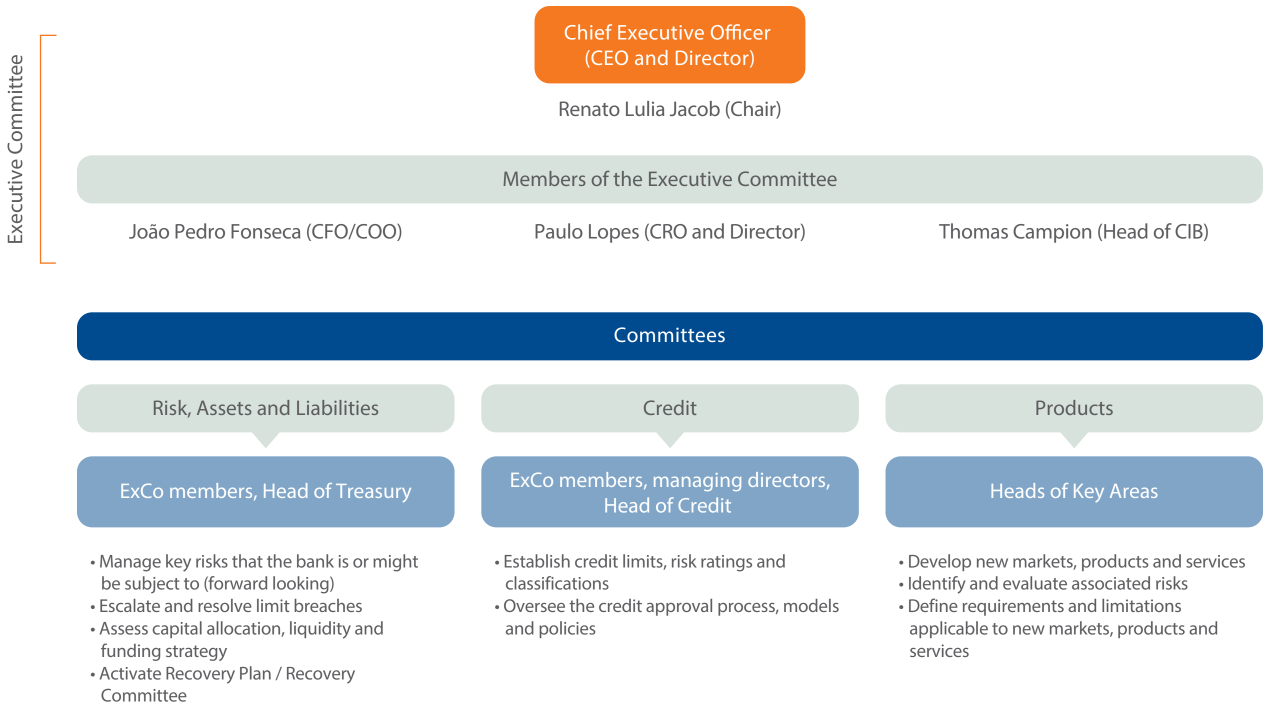
Eduardo Vassimon

Independent Non-Executive Directors	Non-Executive Directors	Executive Directors
Gay Huey Evans Robert Pickering	Alberto Fernandes Flávio Aguiar de Souza Jean-Marc Etlin Ricardo Marino	Renato Lulia Jacob (CEO) Paulo Lopes (CRO)

Board Committees

Risk and Capital (RCC)	Audit (AC)	Remuneration & Nomination (R&N)
Chair: Eduardo Vassimon (*)	Chair: Gay Huey Evans	Chair: Alberto Fernandes
• Risk culture and strategy • Risk appetite and governance framework • Capital and liquidity planning	• Quality and integrity of the accounts • Effectiveness of internal controls and risk management systems • Internal and external audit activities	• Remuneration policies and compensation of senior executives and control functions • Board composition and process for new appointments
Members: Gay Huey Evans, Robert Pickering, Alberto Fernandes	Members: Gay Huey Evans, Robert Pickering, Eduardo Vassimon*	Members: Gay Huey Evans, Robert Pickering, Alberto Fernandes, Eduardo Vassimon(*), Flávio Souza

* Caio Ibrahim David (Itaú Group CFO/CRO) has been appointed as director subject to regulatory approval. Once his appointment is approved, Caio David will replace Eduardo Vassimon in the Board committees, including as Chair of the RCC.



It is the Board's prime responsibility to maintain the safety and soundness of the Bank by setting a sustainable business model, managing the Bank to a clear and prudent strategy and risk appetite, overseeing the effectiveness of the risk control framework, and ensuring that the Bank continues to meet its regulatory and legal obligations.

As a subsidiary, the overall strategy of IBBAInt is driven by its role within the wider Itaú Group. Nevertheless, the Board is responsible for reviewing the strategy to ensure it is appropriate for IBBAInt and consistent with the UK Board-approved risk appetite.

To that end, the Board has reserved powers (i.e. powers that it cannot delegate) including, *inter alia*, the approval of the business strategy, major transactions, and key strategic documents and policies, such as:

- the Risk Appetite Statement and its associated framework;
- the Internal Liquidity Adequacy Assessment Process – ILAAP report;
- the Internal Capital Adequacy Assessment Process – ICAAP report;
- the Recovery Plan and Resolution Pack;
- the Pillar III Disclosures; and
- the Remuneration Policy.

The Board Committees support the Board in discharging these duties, but do not relieve the Board from any of its responsibilities.

Moreover, the Board is responsible for disseminating a culture of ethical behaviour across the Bank, setting the tone from the top in line with the following seven standards of the Itaú Group's culture ("Our Way"):

- It is only good for us if it is good for the client
- We are passionate about performance
- People mean everything to us
- The best argument is the one that matters
- Simple. Always
- We think and act like owners
- Ethics are non-negotiable

Board committees

Set out below is a brief description of the role and responsibilities of each of the Board committees.

a) Audit Committee ("AC")

The Audit Committee is accountable to the Board for the oversight of:

- the quality and integrity of the accounts;
- the controls and processes supporting regulatory certifications and the Bank´s Recovery Plan and Resolution Pack;
- the effectiveness of the compliance and internal controls (including financial crime prevention) and risk management systems;
- internal audit activities; and
- external audit activities.

The members of the Committee are appointed by the Board from among the non-executive directors, with at least one of the members of this Committee being required to have financial expertise. The Audit Committee is required to include at least two independent non-executive directors ("INEDs"). The CFO/COO, the CEO and the Head of Internal Audit are mandatory attendees of the Committee meetings. Itaú Group Audit Committee members and representatives of the Itaú Group Internal Audit function regularly attend the Audit Committee meetings.

The Audit Committee is chaired by Gay Huey Evans, who is an independent director.

The Committee meets at least four times a year, with additional ad hoc meetings as and when required.

b) Risk and Capital Committee ("RCC")

The RCC is in charge of providing focused support and advice to the Board on risk and capital adequacy matters.

The main duties of the RCC include:

- providing advice and critical review in relation to the ICAAP, the ILAAP, the Recovery Plan and the Resolution Pack documents;
- reviewing relevant policy statements and recommending any changes it considers necessary to the Board for approval;
- the development of proposals for consideration by the Board in respect of overall risk appetite and tolerance, target capital ratios as well as ensuring both qualitative and quantitative metrics are used to monitor the Bank's risk management performance;
- the oversight and the challenge of the day-to-day risk management and oversight arrangements of the executives;
- reviewing whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy;
- reviewing the Bank's capability to identify and manage new risk types;
- considering and approving the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
- providing the advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Bank.

The CEO, the CFO/COO and the CRO are mandatory attendees of the RCC. The CRO and the Head of Compliance/MLRO present Risk and Compliance reports at every regular RCC meeting, allowing active board level oversight of risk and control issues.

The RCC reviews and monitors actual risk exposures versus approved risk limits on the basis of management information linked to the various dimensions of the Bank's risk appetite statement.

The Committee meets at least four times a year, with additional ad hoc meetings as and when required.

c) Remuneration and Nomination Committee ("R&N")

The R&N has duties in relation to both remuneration and nomination issues. The R&N is comprised of at least three members, two of which are INEDs. The chairman of the RCC is also a member of the R&N, which helps to ensure that there is an appropriate alignment between the incentives (and disincentives) awarded and prudent risk-taking behaviours.

This Committee is required to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity pursuant to its terms of reference. The Committee is responsible for directly overseeing the remuneration of executive directors, ExCo members and senior officers in the risk management, compliance and audit functions of the Bank, and of the CEOs and heads of risk and compliance functions of the Bank's IPB subsidiaries. In discharging its responsibilities, the Committee must take into account the long-term interests of shareholders, investors and other stakeholders in the Bank.

This Committee is also responsible for leading the process for new appointments to IBBAInt's Board and making recommendations regarding appointments to the Board taking into account the challenges and opportunities facing the Bank, and what skills and expertise are therefore needed on the Board.

The Committee meets at least twice every year, with additional ad hoc meetings as and when required.

Executive Committee ("ExCo")

The Board has established the ExCo, led by the CEO, to which the Board delegates general management powers allowing the ExCo to manage the Bank's business on a day-to-day basis.

The appointment of the ExCo members is a matter reserved to the Board. In appointing ExCo members, the Board is expected to ensure that there is an appropriate mix and balance of skills, experience, and knowledge to enable the ExCo to discharge their management responsibilities effectively, with regard to the key activities and risks in the Bank's business model.

Under the authority of the Board, the ExCo must manage the business in line with the Board-approved strategy and risk appetite.

Through the approval of risk policies and procedures and the establishment of governance structures (e.g. management committees), the ExCo ensures that the Board-approved risk appetite is translated into risk limits and embedded into the strategic, financial planning, and overall decision-making processes.

The ExCo is accountable to the Board and must report and escalate matters of particular significance (even matters within the delegated mandate).

Perspectives for **2017**

The Bank reported its highest profit in 2016 due mainly to the strong quality of the Credit portfolio and risk management, a continued emphasis on efficiency and cost discipline across the Group and the capacity to offer to our broad and diversified client base access to unique investment opportunities, customised products and services delivered by specialists.

Looking ahead, we anticipate a particularly challenging yet successful year in 2017. Our strategic goals will continue to be further growing the profitability of our business, expanding our efficiency and enhancing a proactive approach to risk management.

Our main areas of focus will be:

- Developing cross-selling and maximizing cross-segment business opportunities;
- Further strengthening and diversifying our funding sources by building on our international capabilities as the European platform of the Itaú Group;
- Assessing and planning possible adjustments to our structure in order to ensure that we retain full access to our client base regardless of the eventual model for the UK's post-Brexit relationship with the European Union;
- Continuously streamlining our processes by reducing excessive complexity or unnecessary activities, looking to provide outstanding customer experience while achieving higher efficiency levels;
- Relentlessly communicating and enhancing our risk culture, by emphasising the individual and collective responsibility of all employees for maintaining a long-term perspective, with a focus on business sustainability and high ethical standards;
- Leveraging on our distinctive expertise in the Latin American market to connect international investors and the region, helping our clients to be uniquely placed to benefit from the current challenging trends in that market;
- Maintaining absolute vigilance with respect to systems, controls and risk so as to improve our existing base business, protect and enhance our global franchise.

As we address the opportunities and challenges ahead, we will keep our commitment to and focus on our long-standing strategy, aiming at becoming the financial partner of choice for the most significant Northern Hemisphere corporations and financial investors with respect to their Latin American cross-border transactions, as well as the preferred global investment advisor for our Private Banking clients.

On behalf of the Board of Directors:

Renato Lulia Jacob
Director and CEO

Date: 16 March 2017

Directors' Report

Directors

The following directors held office throughout the year and to the date of approval of this report, except where otherwise indicated[3]:

Director	Role	Appointment	Resignation
Candido Botelho Bracher	Chairman Non-Executive	September 2012	December 2016
Alberto Fernandes	Non-Executive	September 2012	
Eduardo Mazzilli de Vassimon	Non-Executive Chairman	May 2013 December 2016	
Flávio Augusto Aguiar de Sousa	Non-Executive	December 2015	
Gay Huey Evans	Non-Executive*	September 2012	
Jean-Marc Etlin	Non-Executive	May 2016	
Paulo Jorge dos Santos Lopes	Executive	September 2012	
Renato Lulia Jacob	Executive CEO	September 2012 January 2016	
Ricardo Villela Marino	Non-Executive	September 2012	
Robert Mark Pickering	Non-Executive*	September 2012	

* Gay Huey Evans and Robert Mark Pickering are independent non-executive directors.

Directors' insurance and indemnity

Directors' and Officers' Liability Insurance is taken out by Itaú Unibanco Holding S.A., the Group's ultimate parent undertaking, for the benefit of the management members of Itaú Unibanco Holding S.A and its subsidiaries, hence including the directors of the Bank and its subsidiaries.

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006), contained in the Articles of Association of the Bank, were in force during the course of the financial year ended 31 December 2016 and up to and including the date of this report for the benefit of the directors of the Bank.

Share capital

Information about share capital is shown in **Note 25** to the Financial Statements and is incorporated in this report by reference.

Results and dividends

The income statement shows a profit for the year ended 31 December 2016 of USD 60,066 thousand for the Group (2015: USD 44,698 thousand) and of USD 25,279 thousand for the Bank (2015: USD 16,660 thousand).

During the year of 2016, the Bank paid no dividends to the sole shareholder (2015: nil). No dividend in respect of 2016 is proposed to be paid.

Risk management, branches and future developments

Information regarding risk management, branches and future developments has been included in the Strategic report.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Bank's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the

3 Caio Ibrahim David (Itaú Group CFO/CRO) was appointed as director in December 2016 subject to regulatory approval.

Group and the Bank's financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and as endorsed by the EU. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

Going Concern assumption

The directors consider that the going concern basis of accounting is appropriate because there are no material uncertainties related to events that may cast significant doubt on the ability of the Bank to continue as a going concern.

In making this assessment of the Bank's ability to continue to adopt the going concern basis of accounting and of material uncertainties, the directors have considered whether the Bank, and the Group as a whole, have access to adequate resources to enable continuing operation for the foreseeable future. In this regard, the directors have considered the adequacy of the regulatory capital held and the ability to continue to access the required level of funding, including access to the liquidity and capital of the parent as required. In particular, this assessment has taken into consideration three-year forecasts for the Bank's capital and funding positions under both normal and stress environments. Additionally, the Bank actively monitors and manages threats to its business model, future performance, solvency and liquidity, and the directors believe that the Bank is well placed to manage these risks successfully.

Having considered these matters, the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board of Directors:

Renato Lulia Jacob
Director and CEO

Date: 16 March 2017

Financial Statements 2016

Balance Sheet

USD'000	Note	Group As at 31.12.16	Group As at 31.12.15	Bank As at 31.12.16	Bank As at 31.12.15
ASSETS					
Cash and balances at central banks	5	844 188	1 560 576	16 750	817
Trading assets	6	163 278	105 991	163 278	105 991
Financial assets designated at fair value	7	444 390	204 368	444 390	204 368
Derivative financial instruments	8	237 269	542 667	231 558	542 604
Loans and advances to banks	9	977 793	936 324	573 263	927 460
Loans and advances to customers	10	4 476 170	4 682 474	2 782 210	3 179 457
Financial assets available for sale	11	355 969	416 466	302 717	342 258
Property. plant and equipment	12	15 504	17 833	7 384	9 048
Goodwill and Intangible assets	13	90 044	92 754	348	658
Investments in associates and subsidiaries	14	-	25 585	512 112	538 943
Current tax assets		11 285	9 973	333	356
Deferred tax assets	15	7 527	7 945	2 549	2 882
Other assets	16	30 586	38 976	6 114	13 756
Total Assets		**7 654 003**	**8 641 932**	**5 043 006**	**5 868 598**
LIABILITIES					
Trading liabilities	17	159 266	105 497	159 266	105 497
Derivative financial instruments	8	243 470	546 840	241 506	544 015
Deposits from banks	18	801 212	1 349 810	804 465	1 454 042
Customer accounts	19	2 903 027	2 929 676	453 090	176 000
Debt securities in issue	20	2 266 682	2 502 404	2 266 682	2 502 404
Provisions	31	1 330	183	1 330	183
Current tax liabilities		18 738	10 778	3 354	883
Deferred tax liabilities	22	16 013	14 416	144	260
Subordinated liabilities	21	30 128	30 071	30 128	30 071
Other liabilities	23	87 151	83 441	36 832	31 502
Total Liabilities		**6 527 017**	**7 573 116**	**3 996 797**	**4 844 857**
EQUITY					
Share capital	25	600 000	600 000	600 000	600 000
Revaluation reserves	26	(7 713)	(5 817)	(3 902)	(1 091)
Other reserves	27	480 816	489 350	324 856	324 856
Retained gains / (Accumulated losses)		53 883	(14 717)	125 255	99 976
Total Equity attributable to owners of the parent		**1 126 986**	**1 068 816**	**1 046 209**	**1 023 741**
Total Equity		**1 126 986**	**1 068 816**	**1 046 209**	**1 023 741**
Total Liabilities and Equity		**7 654 003**	**8 641 932**	**5 043 006**	**5 868 598**

The financial statements on pages 24 to 103 were approved by the Board of Directors on 16 March 2017 and were signed on its behalf by:

Renato Lulia Jacob
Director and CEO

Income Statement

USD'000	Note	Group Year ended 31.12.16	Group Year ended 31.12.15	Bank Year ended 31.12.16	Bank Year ended 31.12.15
Interest income		190 829	163 472	150 124	133 084
Interest expense		(93 956)	(73 110)	(92 584)	(73 742)
Net interest income	**32**	**96 873**	**90 362**	**57 540**	**59 342**
Fee and commission income		118 824	124 083	11 576	9 859
Fee and commission expense		(19 636)	(16 094)	(13 792)	(9 460)
Net fee and commission income	**33**	**99 188**	**107 989**	**(2 216)**	**399**
Net income on financial assets and liabilities at fair value through profit or loss		16 183	12 210	9 854	7 041
Net income on financial assets available for sale		1 720	1 778	1 716	1 857
Net income on other financial operations		2 326	3 146	2 326	3 147
Net income on financial operations	**34**	**20 229**	**17 134**	**13 896**	**12 045**
Other operating income	**35**	**11 720**	**11 130**	**8 162**	**6 361**
Total operating income		**228 010**	**226 615**	**77 382**	**78 147**
Credit impairment charges and other provisions	**31**	(651)	(2 531)	(651)	(2 531)
Net operating income		**227 359**	**224 084**	**76 731**	**75 616**
Staff costs	**36**	(86 886)	(97 970)	(30 945)	(36 441)
General and administrative expenses	**37**	(44 532)	(51 855)	(10 531)	(14 065)
Depreciation and impairment of property, plant and equipment	**12**	(3 061)	(3 396)	(1 748)	(1 725)
Amortisation and impairment of intangible assets	**13**	(5 373)	(5 358)	(387)	(477)
Other operating expenses	**38**	(6 006)	(4 923)	(1 225)	(1 437)
Total operating expenses		**(145 858)**	**(163 502)**	**(44 836)**	**(54 145)**
Share of profit in associates	**14**	**212**	**59**	**-**	**-**
Profit before tax		**81 713**	**60 641**	**31 895**	**21 471**
Income tax	**39**	(21 647)	(15 942)	(6 616)	(4 811)
Profit attributable to owners of the parent		**60 066**	**44 699**	**25 279**	**16 660**
Non-controlling interests	**28**	-	(1)	-	-
Profit for the year		**60 066**	**44 698**	**25 279**	**16 660**

Statement of Comprehensive Income

	Group		Bank	
USD'000	Year ended 31.12.16	Year ended 31.12.15	Year ended 31.12.16	Year ended 31.12.15
Profit for the year	**60 066**	**44 698**	**25 279**	**16 660**
Other comprehensive (expense)/income				
Items that will not subsequently be reclassified to profit or loss:				
Remeasurements of post employment defined benefit obligations	1 198	(2 450)	-	-
Items that may subsequently be reclassified to profit or loss:				
Available for sale financial assets:				
Fair value gains/(losses)	(3 592)	(3 897)	(3 659)	(3 525)
Tax effect	820	859	848	728
Net investment hedge	456	(212)	-	-
Currency translation differences	(778)	(510)	-	-
Total other comprehensive (expense)/income	**(1 896)**	**(6 210)**	**(2 811)**	**(2 797)**
Total comprehensive income for the year	**58 170**	**38 488**	**22 468**	**13 863**
Attributable to:				
Owners of the parent	58 170	38 489	22 468	13 863
Non-controlling interests	-	(1)	-	-
Total comprehensive income for the year	**58 170**	**38 488**	**22 468**	**13 863**

Statement of Changes in Equity

Group							
USD'000	Share Capital	Revaluation reserves	Other reserves	Retained gains / (Accumulated losses)	Total Equity attributable to owners of the parent	Non-controlling interests	Total Equity
Balances on 01.01.16	**600 000**	**(5 817)**	**489 350**	**(14 717)**	**1 068 816**	**-**	**1 068 816**
Profit for the year	-	-	-	60 066	60 066	-	60 066
Other comprehensive expense for the year	-	(1 896)	-	-	(1 896)	-	(1 896)
Distribution of 2015 net income to reserves	-	-	(8 534)	8 534	-	-	-
Balances on 31.12.16	**600 000**	**(7 713)**	**480 816**	**53 883**	**1 126 986**	**-**	**1 126 986**

USD'000	Share Capital	Revaluation reserves	Other reserves	Retained gains / (Accumulated losses)	Total Equity attributable to owners of the parent	Non-controlling interests	Total Equity
Balances on 01.01.15	**600 000**	**393**	**493 845**	**(63 909)**	**1 030 329**	**22**	**1 030 351**
Profit for the year	-	-	-	44 698	44 698	-	44 698
Other comprehensive income for the year	-	(6 210)	-	-	(6 210)	-	(6 210)
Distribution of 2014 net income to reserves	-	-	(4 495)	4 495	-	-	-
Other movements	-	-	-	(1)	(1)	(22)	(23)
Balances on 31.12.15	**600 000**	**(5 817)**	**489 350**	**(14 717)**	**1 068 816**	**-**	**1 068 816**

Bank					
USD'000	Share Capital	Revaluation reserves	Other reserves	Retained earnings	Total Equity
Balances on 01.01.16	**600 000**	**(1 091)**	**324 856**	**99 976**	**1 023 741**
Profit for the year	-	-	-	25 279	25 279
Total other comprehensive expense for the year	-	(2 811)	-	-	(2 811)
Balances on 31.12.16	**600 000**	**(3 902)**	**324 856**	**125 255**	**1 046 209**

USD'000	Share Capital	Revaluation reserves	Other reserves	Retained earnings	Total Equity
Balances on 01.01.15	**600 000**	**1 706**	**324 856**	**83 316**	**1 009 878**
Profit for the year	-	-	-	16 660	16 660
Total other comprehensive expense for the year	-	(2 797)	-	-	(2 797)
Balances on 31.12.15	**600 000**	**(1 091)**	**324 856**	**99 976**	**1 023 741**

Statement of Cash Flows

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Continuing operations				
Reconciliation of profit before tax to net cash flow from operating activities:				
Profit before tax	**81 713**	**60 641**	**31 895**	**21 471**
Adjustment for non-cash items:				
Credit impairment charges and other provisions	651	2 531	651	2 531
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	8 434	8 754	2 135	2 203
Other non-cash movements	411	(59)	(1 429)	-
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets				
Trading assets, Financial assets available for sale and designated at fair value	64 793	43 789	49 417	60 768
Loans and advances to banks	(44 416)	(319 264)	361 529	(508 984)
Balances at central banks	716 380	(530 375)	(15 940)	498
Loans and advances to customers	206 799	(147 339)	397 743	(323 835)
Derivatives designated as hedging instruments	201	428	201	428
Other operating assets	7 739	(5 758)	6 007	(2 662)
Increase/(decrease) in operating liabilities				
Trading liabilities	(247 657)	11 415	(246 796)	12 109
Deposits from banks	(548 598)	535 545	(649 576)	571 546
Customer accounts	(26 649)	155 105	277 090	(28 392)
Debt securities in issue	(235 722)	242 503	(235 722)	242 504
Derivatives designated as hedging instruments	(1 944)	(1 047)	(1 944)	(1 047)
Other operating liabilities	5 082	(142 051)	6 970	(117 103)
Net cash flow from operating activities				
before payment of income tax	**(12 783)**	**(85 182)**	**(17 769)**	**(67 965)**
Income Tax	(12 195)	(10 236)	(3 063)	(1 066)
Net cash flow from operating activities	**(24 978)**	**(95 418)**	**(20 832)**	**(69 031)**
Cash flow from investing activities				
(Purchases) / Sales of fixed assets	28 975	-	28 975	-
Dividends received	-	-	-	-
(Purchases) / Sales of intangible assets	(2 140)	-	(77)	-
(Purchases) / Sales of fixed assets	(1 255)	(3 500)	(84)	(1 307)
Net cash flow from investing activities	**(25 580)**	**(3 500)**	**(28 814)**	**(1 307)**
Cash flow from financing activities				
Interest from financing activities	57	16	57	16
Net cash flow from financing activities	**57**	**16**	**57**	**16**
Effects of exchange rate change on cash and cash equivalents	(3 615)	(1 003)	(715)	(707)
Increase/(decrease) in cash and cash equivalents	**(2 956)**	**(99 905)**	**7 324**	**(71 029)**
Cash and cash equivalents at beginning of the year	207 308	307 213	134 322	205 351
Cash and cash equivalents at end of the year	204 352	207 308	141 646	134 322
Increase/(decrease) in cash and cash equivalents	**(2 956)**	**(99 905)**	**7 324**	**(71 029)**
Cash and cash equivalents comprise:				
Cash	115	124	29	36
Loans and advances to banks repayable on demand	204 237	207 184	141 617	134 286
	204 352	207 308	141 646	134 322

Notes to the Financial **Statements**

Note 1 - Basis of Preparation

Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and the Interpretations issued by the IFRS Interpretations Committee ("IFRS IC").

Standards and interpretations recently issued

a) The following standards, amendments and interpretations became effective as of 1 January 2016. None of these has had a material impact and were already incorporated (if applicable) on the Bank or Group's financial statements:

IAS 1 (amendment), 'Disclosure initiative'. This amendment provides guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, the disclosure of accounting policies and OCI items presentation when arising from investments measured at equity method.

IAS 16 and IAS 38 (amendment), 'Acceptable methods of depreciation and amortisation calculation'. This amendment clarifies that the use of revenue-based methods to calculate the depreciation / amortisation of an asset is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset. It shall be applied prospectively.

IAS 27 (amendment), 'Equity method in separate financial statements'. This amendment allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in separate financial statements. This amendment applies retrospectively.

Amendment to IFRS 10, 12 and IAS 28, 'Investment entities: applying consolidation exception'. This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate parent which is a subsidiary of an investment entity. The policy choice to apply the equity method, under IAS 28, is extended to an entity which is not an investment entity, but has an interest in an associate, or joint venture, which is an investment entity.

IFRS 11 (amendment), 'Accounting for the acquisition of interests in joint operations'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, through the application of IFRS 3's principles.

Annual Improvements 2012 - 2014. The 2012-2014 annual improvements affect: IFRS 5, IFRS 7, IAS 19 and IAS 34.

IAS 19 (amendment), 'Defined benefit plans – Employee contributions'. This amendment applies to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are not associated to the number of years of service.

Annual Improvements 2010 – 2012. The 2010-2012 annual improvements affect: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38, and IAS 24.

b) The following standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2017, and were already endorsed by the EU, but neither the Bank nor Group has early adopted:

IFRS 9 (new), 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition. Although the Group is assessing the future impacts of IFRS9 in the future, the Group is not able at this stage to disclose the future impact of the adoption of this standard in the financial statements.

IFRS 15 (new), 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). This new standard, applies only to contracts with customers to provide goods or services, and requires an entity to recognise revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five step approach. Material estimated impact are not expected as a result of the the future adoption of this standard in the financial statements.

c) The following standards and interpretations have not been endorsed by the European Union and so were not adopted by the Bank/Group in the year ended 31 December 2016. No material impacts are expected as a result of the adoption of these standards:

IAS 7 (amendment), 'Cashflow statement – Disclosure initiative' (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about the changes in liabilities arising from financing activities, disaggregated between cash changes and non-cash changes and how it reconciles with the reported cash flows from financing activities, in the Cash Flow Statement.

IAS 12 (amendment),'Income taxes – Recognition of deferred tax assets for unrealised losses' (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when temporary deductible differences exist and how to assess recoverability of deferred tax assets when restrictions exist in the tax law.

IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Amendments to IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). These amendments are still subject to endorsement by European Union. These amendments refer to additional guidance for determining the performance obligations in a contract, the timing of revenue recognition from a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition.

Annual Improvement 2014 - 2016, (generally effective for annual periods beginning on or after 1 January 2017). These improvements are still subject to endorsement by European Union. The 2014-2016 annual improvements impacts: IFRS 1, IFRS 12 and IAS 28.

IFRIC 22 (new), 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by European Union. An Interpretation to IAS 21 'The effects of changes in foreign exchange rates' it refers to the determination of the "date of transaction" when an entity either pays or receives consideration in advance for foreign currency denominated contracts". The date of transaction determines the exchange rate used to translate the foreign currency transactions.

Basis of measurement

These financial statements have been prepared on a going concern basis (as detailed in the Strategic Report and the Directors' Report) and under the historical cost convention, as modified by the revaluation of financial assets available for sale and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Use of estimates and sources of uncertainty

The preparation of the financial statements requires the Group to use certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in **Note 2.12**.

Scope of consolidation

For the purpose of these financial statements, the term "Group" refers to Itau BBA International plc together with its subsidiaries. Details of the Group's subsidiaries are set out below.

- **Banco Itaú International**, headquartered in Miami, was acquired in May 2007 through an agreement with Bank of America Corporation. Its main activity is to perform operations in the Private Banking segment. Its share capital of USD 42 m is represented by 420,000 shares of USD 100 each, fully subscribed and paid by the Bank.

- **Itaú International Securities Inc.** is headquartered in Miami and was incorporated in September 2008. The company is licensed to perform brokerage services. Its share capital of USD 1,000 is represented by 100,000 shares of USD 0.01 each, fully subscribed and paid by the Bank.

- **Banco Itaú (Suisse) SA**, based in Zurich, Switzerland, operates in the Private Banking segment. It was established on September 15, 2010. Its share capital of CHF 177 m is represented by 17,700 shares of CHF 10,000 each, fully subscribed and paid by Itaú Europa Luxembourg, S.A..

- **Itaú Europa Luxembourg, S. A.** ("IE Luxembourg") has its registered office in Luxembourg. IE Luxembourg share capital is USD 97.67 m, represented by 9,767 ordinary shares of USD 10,000 each, fully subscribed and paid by the Bank. IE Luxembourg surrendered its banking licence in May 2014.

Note 2 - Main Accounting Policies

The following accounting policies are applicable to these financial statements. The policies are consistent with those applied by the Group in its 2015 Annual Report, unless otherwise stated.

2.1. Consolidation basis

a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In the separate financial statements of the Bank, the investments in subsidiaries are accounted for at historical cost. In the case of objective evidence of impairment, the impairment loss is recognised in the income statement. Dividends from subsidiaries are recognised in the separate financial statements of the Bank on the date they are granted or received.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. When preparing consolidated financial statements, the Group uses uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions are eliminated. The value of the capital, reserves and net results corresponding to the shares of third parties, if any, in these companies is presented under the item Non-controlling Interests.

b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Even when the voting rights are less than 20%, the Group may exercise significant influence through participation in the management or in the composition of the Boards of Directors with executive powers.

In the separate financial statements of the Bank, the investments in associates are accounted for at historical cost. In the case of objective evidence of impairment, the impairment loss is recognised in the income statement.

Investments in associates are consolidated using the equity method. Under the equity method, the investment, initially recognised at cost, is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

c) Consolidation and revaluation differences - Goodwill

The Group accounts for the acquisitions of subsidiaries by the purchase method. The cost of acquisition is the sum of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition. The acquired identifiable assets, liabilities, and contingent liabilities are measured initially by the acquirer at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess cost of acquisition over the Group's share of the net fair values of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Under the acquisition method, the initial recognition of a subsidiary can be determined at the end of the year when the acquisition occurred. The Group has up to twelve months after the date of acquisition to recognise the final treatment for those preliminary values, as determined by IFRS 3 - *Business Combinations*.

For associates, goodwill is included in the book value of the investment, determined by the equity method.

Goodwill is recognised as an asset and reviewed annually for impairment under the terms of IAS 36 – *Impairment of assets*, IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 8 – *Operating Segments*. According to IFRS 3 – *Business Combinations*, goodwill is not amortised.

For subsidiaries and associates, positive consolidation differences – negative goodwill are immediately recognised in the consolidated income statement.

2.2. Financial Assets and Liabilities

Financial assets and liabilities are initially recognised at fair value plus directly attributable transaction costs, except for assets and liabilities measured at fair value through profit or loss, in which case transaction costs are immediately recognised in profit and loss.

Fair value means the amount for which a particular asset or liability can be transferred or settled between equally knowledgeable counterparties interested in performing that transaction. On the contract date or operation start date, the fair value is generally the transaction value.

The fair value is determined on the basis of:

- active market prices; or
- evaluation methods and techniques (when there is no active market), considering:
  - mathematical calculations based on recognised financial theories; or,
  - prices calculated on the basis of similar assets or liabilities traded on active markets or on the basis of statistical estimates or other quantitative methods.

A market is considered active, and therefore liquid, if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In general, there are market prices for securities and derivatives (futures and options) traded on stock markets.

In particular circumstances, the fair value of a financial instrument at inception may differ from the transaction price, mainly due to the existence of a built-in fee, originating a day one profit.

The Group recognises in the income statement the gains arising from the built-in fee (day one profit), generated on the trading of financial products. The fair value of these instruments and therefore the built-in fee is determined at inception, based on valuation techniques whose variables are based only on market observations.

All purchases and sales of financial assets classified as fair value through profit and loss, held-to-maturity and available-for-sale that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the Group receives or delivers the asset. Debt securities in issue are recognised and derecognised on settlement date.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when, even retaining the contractual rights to receive the cash flows, it transfers the financial asset and substantially all the risks and rewards of ownership of the asset. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

a) Financial assets held for trading and at fair value through profit or loss and Financial liabilities held for trading and at fair value through profit or loss

Financial assets held for trading and at fair value through profit or loss include essentially:

- fixed income securities and variable income securities classified as held for trading, acquired with the purpose of being sold in the near future;
- fixed income securities and variable income securities traded on active markets and which the Group chooses, in the initial recognition, to record and evaluate at fair value through profit or loss (fair value option);
- trading derivatives; and
- embedded derivatives.

Financial liabilities held for trading and at fair value through profit or loss include essentially:

- financial liabilities supported with the purpose of repurchase in the near future;
- financial liabilities which the Group choose, in the initial recognition, to record and evaluate at fair value through profit or loss;
- trading derivatives; and
- embedded derivatives.

The use of the fair value option is limited to those financial instruments that meet one or more of the following conditions:

- the fair value option designation eliminates or significantly reduces an accounting mismatch;
- a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel; or
- the financial assets or liabilities contain embedded derivatives that significantly change the cash flows of the host contracts.

Derivatives that are embedded in other financial instruments are treated separately whenever the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract and that contract is not measured at fair value through profit or loss. These embedded derivatives are recognised at fair value (with changes in fair value recognised in the income statement) and presented as trading derivatives.

The valuation of these assets and liabilities is performed daily, based on the fair value. In the case of bonds and other fixed income securities, the book value includes the amount of interest incurred and not collected.

The gains and losses resulting from the change in fair value are recognised in profit and loss, as well as any interest and dividend revenues.

b) Financial assets available for sale

The financial assets available for sale are those non-derivative financial assets that:

- the Group has the intention to keep for an undetermined period of time;
- are designated as available for sale at the initial recognition; and
- are not classified as: held for trading, loans and other receivables, held to maturity investments or financial assets at fair value through profit or loss.

The assets classified as available for sale are carried at fair value. The gains and losses resulting from changes in fair value are recognised directly in equity in the revaluation reserve, except in the case of losses by impairment and of exchange gains and losses of monetary assets, which are recognised directly in profit and loss. When the asset is sold, the gains and losses still recorded in equity are removed and recorded in profit and loss.

The interest earned from bonds and other fixed income securities and the differences between acquisition cost and nominal value (premium or discount) are recorded in profit and loss, using the effective interest rate method.

c) Loans and other receivables

This item covers the loans granted by the Group to Customers and Credit Institutions, participations in syndicated loans and loans represented by securities (commercial paper and bonds issued by companies) that are not traded on an active market and for which there is no intention to sell.

Initially, loans and receivables are recorded at fair value. In general, the initial fair value corresponds to the value of the transaction and includes commissions, fees or other costs and income associated with the loans. Subsequently, they are stated at amortised cost, using the effective interest rate method and subject to impairment tests.

The interest, commissions and other costs and income associated with loans are stated at amortised cost, using the effective interest rate method, and accrued over the expected life of operations. The Group classifies as overdue, credit instalments of capital and interest immediately after they fall due.

d) Other financial liabilities

This item includes deposits from Banks, customer accounts, debt securities in issue and subordinated liabilities. These financial liabilities are initially recognised at fair value, including transaction expenses and commissions, and subsequently carried at amortised cost.

Any difference between the amount received net of transaction costs and the amount to pay at maturity, is recognised in the income statement during the life of the liability through the effective interest rate method.

If the Group repurchases issued debt, the amount is derecognised from the balance sheet and the difference between the book value of the liability and its cost of acquisition is recognised in profit or loss.

e) Securities under repurchase and resale agreements

Securities sold with repurchase agreements ("repos") are maintained in their original securities portfolio. Funds received are recorded at the settlement date, in the corresponding liability caption, while interest is accrued.

Securities purchased with resale agreements ("reverse repos") are not recognised in the securities portfolio. Funds paid are recorded at the settlement date, as loans, while interest is accrued.

2.3. Guarantees given and irrevocable commitments

Responsibilities for guarantees given and irrevocable commitments are recorded in off-balance sheet accounts for the value at risk. Commissions and other related revenue are recorded in profit and loss over the life of the operations.

2.4. Impairment

A financial asset (or group of financial assets) is impaired whenever there is objective evidence that the estimated future cash flows of the financial asset (or group of financial assets) will not be recovered, as a result of past events occurring after the date of the financial assets (or group of financial assets) initial recognition, and can be estimated reliably.

The Group regularly evaluates whether there is objective evidence that a financial asset (or group of financial assets) is impaired. In the case where financial assets present signs of impairment, the respective recoverable value is determined, while impairment losses (difference between the financial asset's recoverable amount and the balance sheet value) is recorded as a charge in the income statement.

In the identification of impairment situations, various indicators are used, such as:

i) analysis of default;

ii) rating downgrade;

iii) issuer's/debtor's financial difficulties;

iv) probability of the issuer's/debtor's default; or

v) for an investment in an equity instrument:

a) the existence of information concerning significant alterations having an adverse impact, which have taken place in the technological, market, economic or legal environment in which the issuer operates; and

b) a significant or prolonged decline in the fair value to below its cost of acquisition and which indicates that the cost of the investment in the equity instrument may not be recovered.

In analysing the existence of impairment in a group of financial assets, the Group estimates the probability of an operation or customer in an irregular situation defaulting during the emerging period (estimated period between the occurrence of the loss and its identification). In general, the emerging period used by the Group is approximately 12 months.

a) Loan portfolio

The Group's loan portfolio is reviewed on a regular basis, with each operation being analysed individually to identify whether impairment may exist.

In the cases in which there is objective evidence of impairment, as a result of one or more events occurred after the initial recognition of the asset, an impairment calculation is performed to determine the amount of the impairment loss, which is measured by the difference between the amount the asset is recorded in the books and the present value of its recoverable future cash flows, discounted at the original effective rate of interest.

In the cases where there is no objective evidence of impairment, a portfolio analysis is performed, to recognise any losses not yet identified in terms of individual operations, as follows: the Group considers homogenous segments (operations with similar credit-risk characteristics) which are based on the internal rating, to obtain the Expected Loss ("EL"). Due to a paucity of data in the Group regarding losses incurred, stemming from the insignificant historical level of overdue loans and defaults recorded, the internal ratings information is provided by the Itaú Group. The EL is calculated using the Balance Sheet amount excluding accrued interest and including embedded derivatives associated to loans ("BS"), the Probability of Default ("PD") associated with the internal rating and the Loss Given Default ("LGD") associated with the legal structure of each country, history of defaults and their recoveries, by applying the following formula: EL = BS x PD x LGD.

If, in a subsequent period, the amount of the impairment loss decreases and such decrease can be objectively related to an event occurring after recognition of the impairment, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is considered uncollectible (no reasonable expectation of recovery), it is written off through utilisation of the loan impairment allowance. This write-off only takes place after all the necessary steps have been taken and the amount of the loss has been determined.

b) Financial assets available for sale

A periodic analysis of financial assets available for sale is performed with a view to identifying potential impairment situations. For equity instruments, the Group considers a significant decline to be when the fair value is less than 60% of the cost of acquisition, and a prolonged decline when this lasts for more than 12 months, indicating that the cost of the investment in the equity instrument may not be recovered. Where evidence of impairment exists, the accumulated unrealised loss in the revaluation reserve is removed from equity and recognised in the income statement for the period. If, in a subsequent period, the amount of the impairment loss decreases, the impairment loss previously recognised is reversed in the income statement of the period up until the reinstatement of the acquisition cost if the increase was objectively related to an event which occurred after the recognition of the impairment loss, except with respect to shares or other equity instruments, in which case the amount recovered is recognised in the revaluation reserve.

c) Investments in associates

The decline in the value of investments in associates is verified by comparing their recoverable amount with their carrying amount, provided there is evidence that the investment may have been impaired.

In order to determine evidence of impairment, a test is carried out to determine its value in use, which includes market appraisals and those carried out internally or by independent appraisers, based on:

i) The corresponding portion of the present value of the cash flows expected to be generated by the associate, which include the estimated future cash flows from operating activities and the amounts resulting from the final sale or disposal by any other means of the investment; or

ii) The present value of the estimated future cash flows expected to be received as dividends from the investment and as amounts of the final sale or disposal by any other means of the investment.

The impairment losses on this type of asset are reversed if there are changes in the estimates used to determine the recoverable amount. Both the impairment loss and the reversal of an impairment loss are recognised in the income statement. In this respect, an impairment loss is reversed only to the extent that the carrying amount of the asset after the reversal does not exceed the amount that would appear in the accounting records if the aforementioned impairment loss had not been previously recognised.

2.5. Debt securities issued by the Group

The bonds issued by the Group are recorded in the items subordinated liabilities, debt securities in issue and trading liabilities (in the case of some structured notes).

The trading liabilities correspond to structured notes issued by the Group under a Structured Medium Term Note Programme, where the Group passes to the client all the income and risks regarding the underlying asset.

The Structured financial instruments recorded as debt securities in issue correspond to bonds with embedded derivatives issued by the Group. The embedded derivatives are separated from the respective instrument, since those are not closely related to the host contract, and the derivatives' terms qualify for a stand-alone instrument.

The bonds issued are valued, on issue date, at fair value (value of the issue), including expenses and transaction commissions and, with the exception of the trading liabilities, are subsequently valued at amortised cost, using the effective interest rate method.

2.6. Hedge accounting

According to IAS 39 – *Financial Instruments: Recognition and Measurement*, a hedge relationship exists when:

- at the beginning of the relationship the hedge is formally documented;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is highly effective throughout the financial reporting period.

There are three categories of hedge:

- **fair value hedge** – in a fair value hedge operation, the carrying amount of the hedged asset or liability, determined by the respective accounting policy, is adjusted to reflect its fair value change attributable to the hedged risk. Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the derivative is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. If the hedged asset or liability is a fixed income instrument, the revaluation adjustment is amortised until maturity by the effective interest rate method.

- **cash flow hedge** – in a cash flow hedge operation, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity and recycled in the income statement in the periods when the hedged item affects profit or loss. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement and the hedging instrument is transferred to the trading portfolio.

- **hedge of a net investment in a foreign operational unit** – hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Effectiveness tests are appropriately documented on a regular basis, assuring the existence of evidence during the life of the hedged operations. If the hedge no longer meets the hedge accounting criteria, it must be discontinued prospectively.

2.7. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in USD, which is the Bank's functional and presentation currency.

(b) Transactions and balances expressed in foreign currency

Financial assets and liabilities in foreign currencies are recorded in accordance with the principles of the multicurrency system, that is, in their currencies.

Income and costs calculated in the different currencies are converted to USD at the exchange rate for the day on which they are recognised.

The accounting procedures differ depending on the effect of the operations on the foreign exchange position:

- Spot Position

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

- Forward Position

The forward foreign exchange position in each currency is given by the net balance of the forward operations awaiting settlement, excluding those due within the next two working days. All the contracts concerning these operations are revalued at the market forward exchange rates or, in their absence, through calculation based on interest rate differentials applicable to the residual maturity of each operation. Unrealised gains and losses are recorded in a foreign exchange position revaluation account, in the balance sheet, against profit and loss.

(c) Subsidiaries

The results and financial position of all the Group entities (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the balance sheet date closing rate;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

2.8. Tangible assets

The tangible assets used by the Group to conduct its activities are valued in the financial statements at cost (including directly attributable costs) less accumulated depreciation and impairment losses.

The depreciation of tangible assets is recorded on a straight line basis over their estimated useful life, corresponding to the period in which the asset is expected to be available for use:

	Useful life (years)
Buildings (*)	5-50
Furniture and Fixtures	4-9
Machinery and tools	7
Computer Equipment	3-5
Furnishings	5-10
Safety Equipment	4
Other Equipment	3-12

(*) Includes Leasehold improvements

2.9. Intangible assets

The Group records in this item essentially software and "Intangible IPB" - a core deposit premium and client relationships identified as intangible following the acquisition of Private Banking portfolios.

Software is amortised on an annual straight line basis, over the estimated useful life of the asset which, in general, corresponds to a period of three to five years. Intangible IPB was initially recorded at fair value and is amortised on a straight line basis over its estimated useful life of 12 years.

2.10. Cash and cash equivalents

Cash and cash equivalents include the amounts recorded in the balance sheet with maturity of less than three months from the balance sheet date, including cash and available funds in other Credit Institutions.

2.11. Income taxes

Current tax is recognised as an expense in the period in which the profits arise, and is calculated based on the tax rate in place, in the countries where the Group is present.

Deferred tax assets and liabilities correspond to the value of the tax recoverable and payable in future periods, resulting from temporary differences between the value of an asset or liability on the balance sheet and its tax base. Tax losses to be carried forward and tax credits are also recorded as deferred tax assets.

Deferred tax assets are recognised up to the amount for which it is likely that there will be future taxable profit to accommodate deductible temporary differences.

Deferred tax assets and liabilities are calculated based on tax rates set for the period in which the corresponding asset or liability is expected to be realised, and are recognised in profit and loss except those related to amounts registered directly in equity (in particular financial assets available for sale).

Changes in tax legislation and rates are recognised in the statement of income under Income tax in the period in which they are enacted.

2.12. Main estimates and uncertainties associated with the application of accounting policies

In the preparation of the Group's financial statements, expected future estimates and amounts are used, particularly in the following areas:

a) Loan impairment:

The amount of loan impairment is determined on the basis of estimates of the amount to be recovered (see **Note 2.4**). These estimates are made based on certain assumptions. Any differences between these assumptions and the future performance of the loans have an impact on the estimates made.

b) Fair value of derivatives and other financial instruments:

In the absence of quoted prices in active markets, the fair value of derivatives and other financial instruments is estimated using valuation methods and financial models, the results of which depend on the assumptions used (see **Note 3.2**).

c) Deferred taxes:

Recognition of deferred taxes pre-assumes the existence of profits and future taxable income. Deferred tax assets and liabilities are determined based on current tax legislation for the Group, or on legislation already published for future application. Changes in tax legislation may influence the value of deferred taxes (see **Note 2.11**).

2.13. Provisions for other risks and charges

This item includes provisions to cover other specific risks, namely tax contingencies, legal processes and other losses arising from the Group's activity.

2.14. Responsibilities for post-employment plans

The group operates post-employment schemes, including both defined contribution and defined benefit pension plans.

The Bank operates a defined contribution plan for permanent employees resident in the UK, only during the employment period with the Bank. The subsidiary Banco Itaú International (Miami) operates a defined contribution plan covering substantially all of its employees. The subsidiary Banco Itaú (Suisse) SA operates a post-employment plan considered to be a defined benefit plan because of the inherent minimum benefits guaranteed by Swiss law.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan, and generally creates an obligation to provide agreed benefits to employees, placing actuarial risk on the Group.

For defined contribution plans, the Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

2.15. Share-based remuneration plan

Executive Directors and other senior managers of the Bank, under certain conditions, have up to 50% of the variable remuneration deferred for three years. This variable remuneration payment plan falls within the scope of IFRS 2 – *Share-based Payment* and corresponds to a cash payment based on shares (cash-settled share-based payment).

Since the Bank does not have shares listed on the stock market and its activity is fully aligned to the strategy and objectives of Itaú Unibanco, its ultimate shareholder, the payment of variable remuneration is made using an instrument linked to preference shares of Itaú Unibanco (the "Instrument"). This Instrument represents a promise of a cash payment made by the Bank to the beneficiaries, the value of which is determined by reference to the price fluctuation of Itaú Unibanco preference shares plus dividends.

The Instrument consists of three tranches, each representing one third of the deferred amount of variable remuneration. The first tranche shall vest on the first anniversary of the date on which the non-deferred cash portion of the variable remuneration was paid (the "Bonus date"). The second and third tranches shall vest on the second and third anniversaries of the Bonus date respectively.

Notwithstanding the above, the amount which would have become payable pursuant to the Instrument or any tranche thereof, is subject to certain conditions set out in the Bank's remuneration policy, and may be reduced, including to nil, in the circumstances set out in that policy. This amount shall be calculated at the absolute discretion of the Bank and paid to the beneficiaries in the currency in which the respective variable remuneration was approved.

The fair value of this benefit, determined on the date of its assignment, is charged to the income statement as staff costs, linearly from the start of the year of the program until the respective vesting date. The resulting liability is revalued at each balance sheet date, with the changes in fair value recognised in net income.

The private banking subsidiaries – Banco Itaú International and Banco Itaú (Suisse) SA – also operate a share-based remuneration plan, aligned with that of the Bank.

Note 3 - Strategy in the use of financial instruments

3.1. Assets and liabilities by the categories of IAS 39

By nature, the activities of the Group are mainly concerned with the use of financial instruments, including derivatives.

The Group accepts deposits from financial institutions and customers, at fixed and floating interest rates and for various tenors, and it seeks to obtain above average margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and offering loans for longer periods at higher interest rates, as it ensures sufficient liquidity to meet its obligations.

The Group also seeks to increase its margins by lending to customers. These exposures also involve guarantees and other commitments.

The Group trades financial instruments including derivatives, to benefit from short-term exchange rate movements, as well as interest rate and price variations. Included in this strategy, the Group manages a risk-free portfolio of back-to-back derivatives with corporate and private customers on one side, and with institutional clients on the other, seeking profit on the bid/ask spread. The Board of Directors sets limits on the level of overnight and intraday exposure to the market.

The Group also manages a buffer of high quality liquid financial assets available for sale, which the Bank is required to hold to ensure that it meets the regulator's tolerance for liquidity risk.

In the context of the Group's strategy in the use of financial instruments, the following tables show the assets and liabilities as of 31 December 2016 and 2015, by the different categories of financial instruments.

Assets and liabilities by the categories of IAS 39

	Group							
USD'000	Recognised at fair value through P&L			Loans and receivables	Financial assets available for sale	Other financial liabilities	Non-Financial Assets/ Liabilities	Total
31.12.16	Trading	Fair value option	Hedging					
Cash and balances at central banks	-	-	-	844 188	-	-	-	844 188
Trading assets	163 278	-	-	-	-	-	-	163 278
Financial assets designated at fair value	-	444 390	-	-	-	-	-	444 390
Derivative financial instruments	237 161	-	108	-	-	-	-	237 269
Financial assets available for sale	-	-	-	-	355 969	-	-	355 969
Loans and advances to banks	-	-	-	977 793	-	-	-	977 793
Loans and advances to customers	-	-	-	4 476 170	-	-	-	4 476 170
Other assets	-	-	-	-	-	-	154 946	154 946
Total Assets	**400 439**	**444 390**	**108**	**6 298 151**	**355 969**	**-**	**154 946**	**7 654 003**
Trading liabilities	159 266	-	-	-	-	-	-	159 266
Derivative financial instruments	240 261	-	3 209	-	-	-	-	243 470
Deposits from banks	-	-	-	-	-	801 212	-	801 212
Customer accounts	-	-	-	-	-	2 903 027	-	2 903 027
Debt securities in issue	-	-	-	-	-	2 266 682	-	2 266 682
Subordinated liabilities	-	-	-	-	-	30 128	-	30 128
Other liabilities	-	-	-	-	-	-	123 232	123 232
Total Liabilities	**399 527**	**-**	**3 209**	**-**	**-**	**6 001 049**	**123 232**	**6 527 017**

Assets and liabilities by the categories of IAS 39

Group								
USD'000	Recognised at fair value through P&L			Loans and receivables	Financial assets available for sale	Other financial liabilities	Non-Financial Assets/ Liabilities	Total
31.12.15	Trading	Fair value option	Hedging					
Cash and balances at central banks	-	-	-	1 560 576	-	-	-	1 560 576
Trading assets	105 991	-	-	-	-	-	-	105 991
Financial assets designated at fair value	-	204 368	-	-	-	-	-	204 368
Derivative financial instruments	542 358	-	309	-	-	-	-	542 667
Financial assets available for sale	-	-	-	-	416 466	-	-	416 466
Loans and advances to banks	-	-	-	936 324	-	-	-	936 324
Loans and advances to customers	-	-	-	4 682 474	-	-	-	4 682 474
Other assets	-	-	-	-	-	-	193 066	193 066
Total Assets	**648 349**	**204 368**	**309**	**7 179 374**	**416 466**	**-**	**193 066**	**8 641 932**
Trading liabilities	105 497	-	-	-	-	-	-	105 497
Derivative financial instruments	541 687	-	5 153	-	-	-	-	546 840
Deposits from banks	-	-	-	-	-	1 349 810	-	1 349 810
Customer accounts	-	-	-	-	-	2 929 676	-	2 929 676
Debt securities in issue	-	-	-	-	-	2 502 404	-	2 502 404
Subordinated liabilities	-	-	-	-	-	30 071	-	30 071
Other liabilities	-	-	-	-	-	-	108 818	108 818
Total Liabilities	**647 184**	**-**	**5 153**	**-**	**-**	**6 811 961**	**108 818**	**7 573 116**

Assets and liabilities by the categories of IAS 39

USD'000 31.12.16	Bank: Recognised at fair value through P&L: Trading	Fair value option	Hedging	Loans and receivables	Financial assets available for sale	Other financial liabilities	Non-Financial Assets/ Liabilities	Total
Cash and balances at central banks	-	-	-	16 750	-	-	-	16 750
Trading assets	163 278	-	-	-	-	-	-	163 278
Financial assets designated at fair value	-	444 390	-	-	-	-	-	444 390
Derivative financial instruments	231 450	-	108	-	-	-	-	231 558
Financial assets available for sale	-	-	-	-	302 717	-	-	302 717
Loans and advances to banks	-	-	-	573 263	-	-	-	573 263
Loans and advances to customers	-	-	-	2 782 210	-	-	-	2 782 210
Investments in subsidiaries and associates	-	-	-	-	-	-	512 112	512 112
Other assets	-	-	-	-	-	-	16 728	16 728
Total Assets	**394 728**	**444 390**	**108**	**3 372 223**	**302 717**	**-**	**528 840**	**5 043 006**
Trading liabilities	159 266	-	-	-	-	-	-	159 266
Derivative financial instruments	238 297	-	3 209	-	-	-	-	241 506
Deposits from banks	-	-	-	-	-	804 465	-	804 465
Customer accounts	-	-	-	-	-	453 090	-	453 090
Debt securities in issue	-	-	-	-	-	2 266 682	-	2 266 682
Subordinated liabilities	-	-	-	-	-	30 128	-	30 128
Other liabilities	-	-	-	-	-	-	41 660	41 660
Total Liabilities	**397 563**	**-**	**3 209**	**-**	**-**	**3 554 365**	**41 660**	**3 996 797**

Assets and liabilities by the categories of IAS 39

Bank								
USD'000	Recognised at fair value through P&L			Loans and receivables	Financial assets available for sale	Other financial liabilities	Non-Financial Assets/ Liabilities	Total
31.12.15	Trading	Fair value option	Hedging					
Cash and balances at central banks	-	-	-	817	-	-	-	817
Trading assets	105 991	-	-	-	-	-	-	105 991
Financial assets designated at fair value	-	204 368	-	-	-	-	-	204 368
Derivative financial instruments	542 295	-	309	-	-	-	-	542 604
Financial assets available for sale	-	-	-	-	342 258	-	-	342 258
Loans and advances to banks	-	-	-	927 460	-	-	-	927 460
Loans and advances to customers	-	-	-	3 179 457	-	-	-	3 179 457
Investments in subsidiaries and associates	-	-	-	-	-	-	538 943	538 943
Other assets	-	-	-	-	-	-	26 700	26 700
Total Assets	**648 286**	**204 368**	**309**	**4 107 734**	**342 258**	**-**	**565 643**	**5 868 598**
Trading liabilities	105 497	-	-	-	-	-	-	105 497
Derivative financial instruments	538 862	-	5 153	-	-	-	-	544 015
Deposits from banks	-	-	-	-	-	1 454 042	-	1 454 042
Customer accounts	-	-	-	-	-	176 000	-	176 000
Debt securities in issue	-	-	-	-	-	2 502 404	-	2 502 404
Subordinated liabilities	-	-	-	-	-	30 071	-	30 071
Other liabilities	-	-	-	-	-	-	32 828	32 828
Total Liabilities	**644 359**	**-**	**5 153**	**-**	**-**	**4 162 517**	**32 828**	**4 844 857**

3.2. Fair value of financial assets and liabilities

In determining the fair value of a financial asset or liability, if an active market exists, the market price is applied. In the absence of an active market, generally accepted valuation techniques are used, based on market assumptions.

For some of the Group's financial assets and liabilities, especially derivatives, quoted market prices are not available, and valuation models are used to estimate fair value. The most common valuation models are the discounted cash flows model and option price calculation models which incorporate interest rate curves and market volatilities.

3.2.1. Financial assets and liabilities not measured at fair value

The fair value of financial assets and liabilities not measured at fair value in the financial statements is presented below, with the respective differences to its book value:

Financial Assets and Liabilities not measured at Fair Value

	Group					
	31.12.16			31.12.15		
USD'000	Fair Value	Accounting Value	Difference	Fair Value	Accounting Value	Difference
Financial Assets						
Cash and balances at central banks	844 188	844 188	-	1 560 576	1 560 576	-
Loans and advances to banks	981 162	977 793	3 369	936 355	936 324	31
Loans and advances to customers	4 658 072	4 476 170	181 902	4 687 317	4 682 474	4 843
Financial Liabilities						
Deposits from banks	811 076	801 212	9 864	1 350 013	1 349 810	203
Customer accounts	2 905 165	2 903 027	2 138	2 929 764	2 929 676	88
Debt securities in issue	2 318 784	2 266 682	52 102	2 505 179	2 502 404	2 775
Subordinated liabilities	30 341	30 128	213	30 230	30 071	159

Financial Assets and Liabilities not measured at Fair Value

	Bank					
	31.12.16			31.12.15		
USD'000	Fair Value	Accounting Value	Difference	Fair Value	Accounting Value	Difference
Financial Assets						
Cash and balances at central banks	16 750	16 750	-	817	817	-
Loans and advances to banks	573 531	573 263	268	927 557	927 460	97
Loans and advances to customers	2 946 589	2 782 210	164 379	3 180 602	3 179 457	1 145
Financial Liabilities						
Deposits from banks	814 332	804 465	9 867	1 454 272	1 454 042	230
Customer accounts	455 235	453 090	2 145	176 093	176 000	93
Debt securities in issue	2 318 784	2 266 682	52 102	2 505 179	2 502 404	2 775
Subordinated liabilities	30 341	30 128	213	30 230	30 071	159

a) Loans and advances to banks

The book value of loans and advances to banks repayable on demand and overnight deposits is considered a reasonable estimate of its fair value. For term loans, the expected cash flows are discounted at current market rates, plus the initial spread, to determine its fair value.

b) Loans and advances to customers

Loans and advances to customers are presented net of impairment. The expected cash flows are discounted at current market rates, plus the initial spread, to determine its fair value.

c) Deposits from banks and Customer accounts

The book value of deposits without defined maturity (including demand deposits) is considered a reasonable estimate of its fair value. For time deposits, the expected cash flows are discounted at current market rates, plus the initial spread, to determine its fair value.

d) Debts securities in issue and Subordinated liabilities

The expected cash flows are discounted at current market rates, plus the initial spread, to determine the fair value of issued debt securities and subordinated liabilities.

3.2.2. Financial assets and liabilities measured at fair value

The following table classifies the measurement of fair value, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.
- Level 2: Assets and liabilities classified as Level 2 are valued using models whose inputs are observable in an active market, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

Financial Assets and Liabilities measured at Fair Value

	Group							
	31.12.16				31.12.15			
USD'000	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading assets								
- Debt Securities	100 869	47 641	-	148 510	55 298	38 633	-	93 931
- Equity instruments	13 598	1 170	-	14 768	12 060	-	-	12 060
Financial assets designated at fair value								
- Debt Securities	444 390	-	-	444 390	204 368	-	-	204 368
Financial assets available for sale								
- Debt securities	355 969	-	-	355 969	416 466	-	-	416 466
Derivative financial instruments	595	236 674	-	237 269	419	542 248	-	542 667
Total assets at fair value	915 421	285 485	-	1 200 906	688 611	580 881	-	1 269 492
Trading liabilities	-	159 266	-	159 266	-	105 497	-	105 497
Derivative financial instruments	7 481	235 989	-	243 470	8 688	538 152	-	546 840
Total liabilities at fair value	7 481	395 255	-	402 736	8 688	643 649	-	652 337

Financial Assets and Liabilities measured at Fair Value

	Bank							
	31.12.16				31.12.15			
USD'000	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading assets								
- Debt Securities	100 869	47 641	-	148 510	55 298	38 633	-	93 931
- Equity instruments	13 598	1 170	-	14 768	12 060	-	-	12 060
Financial assets designated at fair value								
- Debt Securities	444 390	-	-	444 390	204 368	-	-	204 368
Financial assets available for sale								
- Debt securities	302 717	-	-	302 717	342 258	-	-	342 258
Derivative financial instruments	-	231 558	-	231 558	419	542 185	-	542 604
Total assets at fair value	861 574	280 369	-	1 141 943	614 403	580 818	-	1 195 221
Trading liabilities	-	159 266	-	159 266	-	105 497	-	105 497
Derivative financial instruments	7 481	234 025	-	241 506	8 688	535 327	-	544 015
Total liabilities at fair value	7 481	393 291	-	400 772	8 688	640 824	-	649 512

Level 2 includes OTC derivatives, trading assets quoted in a non-liquid market and trading liabilities whose valuation is linked to its underlying price. These trading liabilities correspond to Structured Notes issued by the Bank and hedged by Brazilian companies' bonds and Brazilian companies' shares booked as trading assets.

The following table summarises the movements in the Level 3 balance during the year:

Movements in level 3 financial assets

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
As at 1 January	-	3 116	-	3 116
Total gains and losses recognised in the income statement	-	(3 116)	-	(3 116)
As at 31 December	-	-	-	-

The valuation techniques used for the material products within Levels 2 and 3 are described as follows:

Interest rate derivatives:

Description: These are derivatives linked to interest rates. This category includes interest rate swaps, caps, floors and options (interest rate futures are categorized under Level 1 financial assets and liabilities).

Valuation: Interest rate derivative cash flows are valued using interest rate yield curves whereby observable market data is used to construct the term structure of forward rates. This is then used to project and discount future cash flows based on the parameters of the trade. Instruments with optionality are valued using volatilities implied from market observable inputs. Exotic interest rate derivatives are valued using industry standard and bespoke models based on observable and unobservable market parameter inputs. Input parameters include interest rates, volatilities, correlations and others as appropriate. Where unobservable, a parameter will be set with reference to an observable proxy. Inflation forward curves and interest rate yield curves are extrapolated beyond observable tenors.

Foreign exchange derivatives:

Description: These are derivatives linked to the foreign exchange (FX) market. This category includes FX forward contracts, FX and Cross-currency swaps, FX options traded as OTC derivatives and FX futures (BM&F ("*Bolsa de Mercadorias e Futuros*") USD/BRL futures). Due to the lack of liquidity, longer term BM&F futures are included in level 2, with the remaining FX futures being classified as level 1 financial assets and liabilities.

Valuation: Foreign exchange derivatives are valued using industry standard and modified models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate.

Credit derivatives:

Description: These are derivatives linked to the credit spread of a referenced entity, index or basket of referenced entities. This category currently includes single name Credit Default Swaps (CDS).

Valuation: CDS are valued using a market standard model that incorporates the credit curve as its principal input. All credit spreads are observed directly from broker data.

Equity derivatives:

Description: These are derivatives linked to equity indices, baskets and single names. This category includes equity swaps and OTC equity options.

Valuation: The valuations of OTC equity derivatives are determined using industry standard models. Input parameters include stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations.

Note 4 - Segment Reporting

Business segments are the basis of the main segmentation of consolidated financial statements, coincident with the first level of breakdown of the Group's management information.

A business segment is an identifiable component of the Group that is designated to deliver a particular product or service or a set of related products or services, and is subject to risks and benefits that can be differentiated from those of other business segments.

The Group is divided into two major business segments, Corporate & Investment Banking ("CIB") and International Private Banking ("IPB"), defined in the Business Model and Strategy section of the Strategic Report.

As of 31 December 2016 and 2015, there is a residual segment ("Others") that mainly corresponds to the impact of the investment in the associate Itaúsa Portugal Investimentos – SGPS, Lda. ("IPI"), in the consolidated financial statements (see **Note 14** and **Note 35**).

The business segment reporting of the Group is detailed as follows:

Business Segments

	Group				
	31.12.16				
USD'000	CIB	IPB	Others	Eliminations	Total
Interest external income	150 074	41 834	-	-	191 908
Interest intra-segment income	50	3	-	(1 132)	(1 079)
Total interest income	150 124	41 837	-	(1 132)	190 829
Interest segment expense	(92 534)	(2 554)	-	1 132	(93 956)
Net interest income	57 590	39 283	-	-	96 873
Total fee and commission income	11 576	107 248	-	-	118 824
Fee and commission segment expense	(13 792)	(5 844)	-	-	(19 636)
Net fee and commission income	(2 216)	101 404	-	-	99 188
Other operating income	5 934	6 087	186	(487)	11 720
Net income on financial operations	13 896	6 333	-	-	20 229
Total Operating Income	75 204	153 107	186	(487)	228 010
Credit impairment charges and other provisions	(651)	-	-	-	(651)
Operating expenses	(44 814)	(101 123)	(408)	487	(145 858)
Share of profit in associates	-	-	212	-	212
Profit/(loss) before tax	29 739	51 984	(10)	-	81 713
Income tax	(6 615)	(15 032)	-	-	(21 647)
Profit/(loss) attributable to owners of the parent	23 124	36 952	(10)	-	60 066
Non-controlling interests	-	-	-	-	-
Profit/(loss) for the year	23 124	36 952	(10)	-	60 066
Assets by segment	4 530 894	3 284 996	-	(161 887)	7 654 003
Liabilities by segment	3 996 797	2 692 107	-	(161 887)	6 527 017

Business Segments

	Group				
	31.12.15				
USD'000	**CIB**	**IPB**	**Others**	**Eliminations**	**Total**
Interest external income	133 066	32 622	-	-	165 688
Interest intra-segment income	18	87	-	(2 321)	(2 216)
Total interest income	133 084	32 709	-	(2 321)	163 472
Interest segment expense	(73 724)	(1 707)	-	2 321	(73 110)
Net interest income	59 360	31 002	-	-	90 362
Total fee and commission income	9 859	114 224	-	-	124 083
Fee and commission segment expense	(9 460)	(6 634)	-	-	(16 094)
Net fee and commission income	399	107 590	-	-	107 989
Other operating income	6 361	5 323	-	(554)	11 130
Net income on financial operations	12 046	5 088	-	-	17 134
Total Operating Income	78 166	149 003	-	(554)	226 615
Credit impairment charges and other provisions	(2 531)	-	-	-	(2 531)
Operating expenses	(54 166)	(109 879)	-	543	(163 502)
Share of profit in associates	-	-	59	-	59
Profit/(loss) before tax	21 469	39 124	59	(11)	60 641
Income tax	(4 811)	(11 131)	-	-	(15 942)
Profit/(loss) attributable to owners of the parent	16 658	27 993	59	(11)	44 699
Non-controlling interests	-	(1)	-	-	(1)
Profit/(loss) for the year	16 658	27 992	59	(11)	44 698
Assets by segment	5 329 654	3 789 356	25 585	(502 663)	8 641 932
Liabilities by segment	4 841 716	3 234 063	-	(502 663)	7 573 116

The report of geographical information of the Group, based on the customer/asset location and disregarding the effects of any credit risk mitigation, is as follows:

Geographical information

USD'000	Group				
31.12.16	**Total assets**	**Total liabilities**	**Off-Balance Sheet**	**Income**	**Capital expenditure**
Europe	1 650 963	969 686	384 474	51 939	1 625
North America	1 530 612	231 978	126 000	24 331	1 790
Central America and Caribbean	1 973 274	1 645 329	34 606	11 069	-
South America	2 125 211	998 750	25 362	216 176	-
Other countries	62 572	31 693	-	6 138	-
Unallocated assets / liabilities	311 371	2 649 581(*)			
Total	7 654 003	6 527 017	570 442	309 653	3 415

(*) This balance includes mainly structured notes and certificates of deposit issued by the Bank.

USD'000	Group				
31.12.15	**Total assets**	**Total liabilities**	**Off-Balance Sheet**	**Income**	**Capital expenditure**
Europe	2 401 726	1 356 577	375 451	53 378	1 998
North America	2 065 433	206 749	156 000	15 636	1 503
Central America and Caribbean	1 593 142	1 980 934	62 075	8 147	-
South America	1 997 119	1 112 046	26 273	206 331	-
Other countries	77 464	102 453	1 000	4 063	-
Investments in associates	25 585				
Unallocated assets / liabilities	481 463	2 814 357(*)			
Total	8 641 932	7 573 116	620 799	287 555	3 501

(*) This balance includes mainly structured notes and certificates of deposit issued by the Bank.

Disclosures on the Group's exposure in terms of country of domicile of the credit risk counterparty are available on the Credit Risk Concentrations section of **Note 41**.

Note 5 - Cash and balances at central banks

This item is analysed as follows:

Cash and balances at central banks

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Cash	115	124	29	36
Demand deposits at European Central Bank	16 721	781	16 721	781
Demand deposits at Other Central Banks				
Federal Reserve Bank	625 535	1 067 770	-	-
Swiss National Bank	201 817	491 901	-	-
	844 188	1 560 576	16 750	817

Note 6 - Trading assets

This item is analysed as follows:

Trading assets

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Debt instruments				
Government bonds	100 869	55 298	100 869	55 298
Other issuers' bonds	47 641	38 633	47 641	38 633
Equity instruments				
Shares	14 768	12 060	14 768	12 060
	163 278	105 991	163 278	105 991

The trading assets correspond to Brazilian Government bonds and Corporate shares used to hedge the Pass-Through and P-Notes. Both Pass-Through and P-Notes are structured notes issued by the Bank under a Structured Medium Term Note programme, recorded as trading liabilities (see **Note 17**). The detail of trading assets as of 31 December 2016 and 2015 is as follows:

Trading assets at 31.12.16

USD'000

Type of Securities	Original Currency	Book Value
Debt instruments		
Government bonds		
TESOURO NACIONAL BRASILEIRO	BRL	100 869
Other issuers' bonds		
KLABIN SA	BRL	47 641
Equity instruments		
Listed in BOVESPA [1]	BRL	14 768
		163 278

1 Corresponds to multiple corporate shares issued by Brazilian companies and listed in *Bolsa de Mercadorias e Futuros* Bovespa ("BM&F") - São Paulo. Brazil.

Trading assets at 31.12.15

USD'000

Type of Securities	Original Currency	Book Value
Debt instruments		
Government bonds		
TESOURO NACIONAL BRASILEIRO	BRL	55 298
Other issuers' bonds		
KLABIN SA	BRL	38 633
Equity instruments		
HERTZ GLOBAL HOLDINGS INC	USD	1
Listed in BOVESPA [1]	BRL	12 059
		105 991

Note 7 - Financial assets designated at fair value

This item is analysed as follows:

Financial assets designated at fair value

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Debt instruments				
Government bonds	444 390	204 368	444 390	204 368
	444 390	**204 368**	**444 390**	**204 368**

By designating these assets at fair value through profit or loss, the Group aims to eliminate or substantially reduce the inconsistency in measurement or recognition ("accounting mismatch").

As of 31 December 2016 and 2015, these debt instruments designated at fair value corresponded to government bonds, as follows:

Financial assets designated at fair value at 31.12.16

Type of securities	Original currency	Book value/ fair value USD'000	Relevant organised market
Debt instruments			
Government Bonds			
FEDERATIVE REPUBLIC OF BRAZIL 1-7-2017	BRL	287 907	SAO PAULO
FEDERATIVE REPUBLIC OF BRAZIL 1-4-2017	BRL	156 483	SAO PAULO
		444 390	

Financial assets designated at fair value at 31.12.15

Type of securities	Original currency	Book value/ fair value USD'000	Relevant organised market
Debt instruments			
Government Bonds			
KINGDOM OF BELGIUM 28-6-2017	EUR	35 032	EURONEXT
FEDERATIVE REPUBLIC OF BRAZIL 1-7-2016	BRL	70 680	SAO PAULO
FEDERATIVE REPUBLIC OF BRAZIL 1-1-2018	BRL	75 744	SAO PAULO
FEDERATIVE REPUBLIC OF BRAZIL 1-1-2017	BRL	22 912	SAO PAULO
		204 368	

Note 8 – Derivative financial instruments

The Group holds financial derivatives while carrying out its activities, managing its own positions based on market development expectations, meeting the needs of its customers or hedging positions.

The Group trades financial derivatives over exchange rates, interest rates, stock or stock indices, over inflation or over a combination of all of these. These transactions are carried out either over-the-counter ("OTC") or in organised markets.

Derivatives traded in organised markets follow the standards and rules of those markets. OTC derivatives are normally based on a standard bilateral contract between the parties, usually following International Swaps and Derivatives Association ("ISDA") agreements.

All derivatives are recorded at fair value. Movements in the fair value of derivatives are recognised in the relevant balance sheet accounts with changes through profit and loss. The notional amount is the reference value for the purpose of calculating the cash flows of the transaction and is recorded in off-balance sheet accounts.

Derivatives

	Group				Bank			
	31.12.16		31.12.15		31.12.16		31.12.15	
	Fair value		Fair value		Fair value		Fair value	
USD'000	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivatives	137 586	(131 357)	223 780	(428 595)	131 875	(129 393)	223 717	(425 770)
Embedded derivatives	99 575	(108 904)	318 578	(113 092)	99 575	(108 904)	318 578	(113 092)
Hedging derivatives	108	(3 209)	309	(5 153)	108	(3 209)	309	(5 153)
	237 269	**(243 470)**	**542 667**	**(546 840)**	**231 558**	**(241 506)**	**542 604**	**(544 015)**

The Trading derivatives item is analysed as follows:

Trading derivatives

	Group					
	31.12.16			31.12.15		
	Notional value	Fair value		Notional value	Fair value	
USD'000		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Swaps	1 569 691	8 241	(5 783)	1 708 993	13 502	(4 259)
Caps & Floors	10 300	1 050	(272)	13 100	1 654	(282)
Futures						
Purchase	4 500			13 500		
		595	(7 481)		419	(8 688)
Sale	(535 221)			(263 250)		
Exchange rate contracts						
Options - Over-the-counter market						
Call options						
Purchase	67 405			597 043		
		454	(454)		59 501	(59 501)
Sale	(67 405)			(597 043)		
Put options						
Purchase	57 950			49 330		
		2 964	(3 001)		1 441	(1 465)
Sale	(62 424)			(50 586)		
Forwards						
Purchase	474 812			491 547		
		11 626	(11 059)		11 100	(15 854)
Sale	(472 955)			(493 827)		
Swaps						
Purchase	326 903			715 083		
		855	(2 015)		5 526	(4 861)
Sale	(328 678)			(714 230)		
Futures						
Purchase	438 250			158 500		
		-	-		-	-
Sale	-			-		
Cross Currency Swaps	(4 369)	9 726	(882)	-	28 740	(11 752)
Stock index contracts						
Options - Over-the-Counter Market						
Call options						
Purchase	769 739			773 743		
		61 762	(14 130)		57 695	(19 315)
Sale	(582 625)			(619 740)		
Put options						
Purchase	494 428			528 752		
		25 652	(77 931)		31 428	(220 458)
Sale	(1 153 718)			(1 336 086)		
Equity Swaps	3 587	20	(118)	6 405	-	(2 893)
Other contracts						
Credit Default Swaps	(740 891)	14 641	(8 231)	(934 874)	12 774	(79 267)
		137 586	**(131 357)**		**223 780**	**(428 595)**

Trading derivatives

	Bank					
	31.12.16			31.12.15		
	Notional value	Fair value		Notional value	Fair value	
USD'000		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Swaps	1 578 491	8 383	(5 784)	1 717 793	13 650	(4 259)
Caps & Floors	10 300	1 050	(272)	13 100	1 654	(282)
Futures						
Purchase	4 500			13 500		
		595	(7 481)		419	(8 688)
Sale	(535 221)			(263 250)		
Exchange rate contracts						
Options - Over-the-counter market						
Call options						
Purchase	55 705			564 698		
		260	(260)		58 932	(58 932)
Sale	(55 705)			(564 698)		
Put options						
Purchase	46 250			44 830		
		2 481	(2 517)		1 293	(1 317)
Sale	(50 724)			(46 086)		
Forwards						
Purchase	218 117			310 572		
		6 450	(6 670)		7 400	(12 457)
Sale	(217 090)			(313 164)		
Swaps						
Purchase	548 796			1 051 688		
		855	(5 117)		9 732	(6 150)
Sale	(553 875)			(1 047 991)		
Futures						
Purchase	438 250			158 500		
		-	-		-	-
Sale	-			-		
Cross Currency Swaps	(4 369)	9 726	(882)	-	28 740	(11 752)
Stock index contracts						
Options - Over-the-Counter Market						
Call options						
Purchase	769 739			773 743		
		61 762	(14 130)		57 695	(19 315)
Sale	(582 625)			(619 740)		
Put options						
Purchase	494 428			528 752		
		25 652	(77 931)		31 428	(220 458)
Sale	(1 153 718)			(1 336 086)		
Equity Swaps	3 587	20	(118)	6 405	-	(2 893)
Other contracts						
Credit Default Swaps	(740 891)	14 641	(8 231)	(934 874)	12 774	(79 267)
		131 875	**(129 393)**		**223 717**	**(425 770)**

The Embedded derivatives item corresponds to embedded derivatives separated from structured financial instruments, since the economic risks and characteristics of the first are not closely related to those of the host contracts. The amounts for both the Group and the Bank are as follows:

Embedded derivatives

	31.12.16		31.12.15	
	Fair value		Fair value	
USD'000	Assets	Liabilities	Assets	Liabilities
Cross Currency Swaps	1 666	(9 732)	2 944	(16 541)
Credit Default Swaps	5 812	(11 757)	75 840	(7 416)
Stock index options	92 097	(87 415)	239 794	(89 135)
	99 575	**(108 904)**	**318 578**	**(113 092)**

The Hedging derivatives item for both the Group and the Bank is analysed as follows:

Hedging derivatives

		31.12.16			31.12.15		
		Notional value	Book value		Notional value	Book value	
USD'000			Assets	Liabilities		Assets	Liabilities
Currency Swaps	Purchase	-	-	-	23 839	162	-
	Sale	-			(23 670)		
Interest Rate Swaps		237 737	108	(3 209)	721 330	147	(5 153)
			108	(3 209)		309	(5 153)

Note 9 - Loans and advances to banks

This item is analysed as follows:

Loans and advances to banks

	Group		Bank	
USD'000	31.12.16	31.12.15	31.12.16	31.12.15
Repayable on demand	204 237	207 184	141 617	134 286
Interbank Money Market / Term deposits	544 613	518 659	206 611	584 383
Collateral deposits	15 957	208 709	16 957	208 689
Securities purchased with resale agreements	208 032	-	208 032	-
Interest receivable	4 954	1 772	46	102
	977 793	**936 324**	**573 263**	**927 460**

Loans and advances to banks pledged as collateral are analysed in **Note 30**.

Note 10 - Loans and advances to customers

This item is analysed as follows:

Loans and advances to customers

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Customer loans				
Overdrafts	6 232	33 429	-	-
Trade Finance	614 062	773 413	614 062	773 413
Other Term loans	3 834 026	3 816 320	2 150 130	2 352 488
Factoring	4 135	22 471	4 135	22 471
Loans to employees	6 242	8 111	6 242	8 111
Interest receivable	29 105	34 021	25 448	29 833
	4 493 802	4 687 765	2 800 017	3 186 316
Overdue loans and interest	200	1 593	-	-
Impaired loans	6 443	7 583	6 443	7 583
Cash collateral loans	-	12 900	-	12 900
Commissions related to amortised cost (net)	(12 984)	(15 429)	(12 984)	(15 429)
Gross amount of loans and advances to customers	**4 487 461**	**4 694 412**	**2 793 476**	**3 191 370**
Loan impairment	(11 291)	(11 938)	(11 266)	(11 913)
Net amount of loans and advances to customers	**4 476 170**	**4 682 474**	**2 782 210**	**3 179 457**

The amount of loans to customers considered to be individually impaired on 31 December 2016 and 2015 corresponds to a loan granted to an insolvent subsidiary of a Spanish-based multinational company.

In 2014, this transaction was 100% impaired. Such coverage assessment was based on the information available regarding the stages of each of the ongoing insolvency proceedings that involved different jurisdictions and assets. In February 2016, the Bank received around USD 1 m in connection with one of these proceedings, thus recognizing in the 2016 income statement a credit impairment reversal regarding this loan in the amount recovered. The loan continues to be fully impaired and there are insolvency proceedings still undergoing in two jurisdictions.

Further analysis on the Group's loans and advances to customers is included in **Note 41**.

Note 11 - Financial assets available for sale

This item is analysed as follows:

Financial assets available for sale

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Debt instruments				
Government bonds	355 969	416 466	302 717	342 258
Bonds of other issuers				
Subordinated debt	3 165	3 258	3 165	3 258
Impairment	(3 165)	(3 258)	(3 165)	(3 258)
Net amount of financial assets available for sale	**355 969**	**416 466**	**302 717**	**342 258**

As of 31 December 2016 and 2015, the detail of financial assets available for sale is presented below:

Financial assets available for sale at 31.12.16

USD'000				Group		Bank		
Type of securities	Original currency	Purchase value	Impairment	Book value/ fair value	Gain/Loss (+/-)	Book value/ fair value	Gain/Loss (+/-)	Relevant organised market
Debt instruments								
Government Bonds								
NETHERLANDS 24-2-2017	USD	31 010	-	31 113	(7)	31 113	(7)	EURONEXT-AMSTER
UNITED STATES OF AMERICA 31-7-2021	USD	120 095	-	116 495	(4 173)	116 495	(4 173)	BERLIN
UNITED STATES OF AMERICA 31-7-2018	USD	75 007	-	74 837	(408)	74 837	(408)	BERLIN
UNITED STATES OF AMERICA 15-1-2019	USD	80 282	-	80 272	(435)	80 272	(435)	BERLIN
SWITZERLAND GOVERNMENT 5-6-2017	CHF	2 380	-	2 060	(367)			SIX
UNITED STATES OF AMERICA 31-10-2017	USD	23 991	-	24 059	41			NYSE
UNITED STATES OF AMERICA 30-9-2017	USD	24 970	-	25 005	(5)			BERLIN
FEDERATIVE REPUBLIC OF BRAZIL 22-1-2021	USD	2 064	-	2 128	21			NYSE
		359 799	**-**	**355 969**	**(5 333)**	**302 717**	**(5 023)**	
Other Issuers								
Subordinated debt								
BANIF-BANCO INTERNACIONAL DO FUN 30-12-2015	EUR	3 165	(3 165)	-	-	-	-	LUXEMBOURG
		362 964	**(3 165)**	**355 969**	**(5 333)**	**302 717**	**(5 023)**	

Financial assets available for sale at 31.12.15

USD'000				Group		Bank		
Type of securities	Original currency	Purchase value	Impairment	Book value/ fair value	Gain/Loss (+/-)	Book value/ fair value	Gain/Loss (+/-)	Relevant organised market
Debt instruments								
Government Bonds								
NETHERLANDS 24-2-2017	USD	31 075	-	31 139	(49)	31 139	(49)	EURONEXT-AMSTER
SWITZERLAND GOVERNMENT 5-6-2017	CHF	2 414	-	2 190	(272)			SIX
UNITED STATES OF AMERICA 31-12-2017	USD	49 848	-	49 680	(172)	49 680	(172)	BERLIN
UNITED STATES OF AMERICA 31-3-2017	USD	25 140	-	25 109	(97)	25 109	(97)	BERLIN
UNITED STATES OF AMERICA 15-6-2016	USD	65 008	-	65 021	(2)	65 021	(2)	BERLIN
UNITED STATES OF AMERICA 15-10-2016	USD	40 005	-	40 025	(33)	40 025	(33)	EUROTLX
UNITED STATES OF AMERICA 30-11-2018	USD	80 145	-	79 985	(245)	79 985	(245)	BERLIN
UNITED STATES OF AMERICA 30-9-2020	USD	51 884	-	51 299	(766)	51 299	(766)	BERLIN
UNITED STATES OF AMERICA 30-9-2017	USD	24 930	-	24 871	(98)			BERLIN
UNITED STATES OF AMERICA 31-8-2016	USD	25 064	-	25 137	(12)			BERLIN
UNITED STATES OF AMERICA 31-1-2016	USD	17 996	-	18 008	4			NYSE
UNITED STATES OF AMERICA 31-1-2016	USD	4 000	-	4 002	1			NYSE
		417 509	**-**	**416 466**	**(1 741)**	**342 258**	**(1 364)**	
Other Issuers								
Subordinated debt								
BANIF-BANCO INTERNACIONAL DO FUN 30-12-2015	EUR	3 258	(3 258)	-	-	-	-	LUXEMBOURG
		420 767	**(3 258)**	**416 466**	**(1 741)**	**342 258**	**(1 364)**	

Note 12 - Property, plant and equipment

The movement in property, plant and equipment was as follows:

	Group													
	Gross value						Accumulated depreciation						Net value	
USD'000	Balance on 31.12.15	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Depreciation for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Balance on 31.12.16
Other tangible assets														
Buildings	19 068	40	-	(28)	-	19 080	(8 854)	(2 018)	-	32	-	(10 840)	10 214	8 240
Furniture and fixtures	3 399	-	-	(12)	(40)	3 347	(2 296)	(420)	-	13	50	(2 653)	1 103	694
Machinery and tools	293	-	-	-	(4)	289	(242)	(20)	-	-	2	(260)	51	29
Computer equipment	5 973	42	100	(14)	(2 057)	4 044	(5 278)	(382)	-	15	2 057	(3 588)	695	456
Furnishings	2 546	-	-	-	-	2 546	(1 496)	(217)	-	-	-	(1 713)	1 050	833
Safety equipment	196	-	-	-	-	196	(187)	(4)	-	-	-	(191)	9	5
Art Objects	4 437	-	-	(29)	-	4 408	-	-	-	-	-	-	4 437	4 408
Other equipment	17	-	-	-	-	17	(15)	-	-	-	-	(15)	2	2
In course														
Buildings	-	13	-	-	-	13	-	-	-	-	-	-	-	13
Equipment	-	24	5	-	-	29	-	-	-	-	-	-	-	29
Advances on tangible assets	5	-	(5)	-	-	-	-	-	-	-	-	-	5	-
Other tangible assets	267	1 151	(623)	-	-	795	-	-	-	-	-	-	267	795
Total	36 201	1 270	(523)	(83)	(2 101)	34 764	(18 368)	(3 061)	-	60	2 109	(19 260)	17 833	15 504

	Group													
	Gross value						Accumulated depreciation						Net value	
USD'000	Balance on 31.12.14	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Depreciation for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Balance on 31.12.15
Other tangible assets														
Buildings	18 853	734	588	(15)	(1 092)	19 068	(7 898)	(1 913)	-	23	934	(8 854)	10 955	10 214
Furniture and fixtures	5 141	34	26	(13)	(1 789)	3 399	(3 613)	(508)	1	20	1 804	(2 296)	1 528	1 103
Machinery and tools	325	-	-	-	(32)	293	(253)	(21)	-	-	32	(242)	72	51
Computer equipment	7 203	626	9	(11)	(1 854)	5 973	(6 420)	(726)	(1)	21	1 848	(5 278)	783	695
Furnishings	2 498	48	-	-	-	2 546	(1 272)	(224)	-	-	-	(1 496)	1 226	1 050
Safety equipment	196	-	-	-	-	196	(183)	(4)	-	-	-	(187)	13	9
Art Objects	4 453	-	-	(16)	-	4 437	-	-	-	-	-	-	4 453	4 437
Other equipment	17	-	-	-	-	17	(15)	-	-	-	-	(15)	2	2
In course														
Advances on tangible assets	616	5	(614)	(2)	-	5	-	-	-	-	-	-	616	5
Other tangible assets	8	268	(9)	-	-	267	-	-	-	-	-	-	8	267
Total	39 310	1 715	-	(57)	(4 767)	36 201	(19 654)	(3 396)	-	64	4 618	(18 368)	19 656	17 833

	Bank													
	Gross value						Accumulated depreciation						Net value	
USD'000	Balance on 31.12.15	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Depreciation for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Balance on 31.12.16
Other tangible assets														
Buildings	11 014	40	-	-	-	11 054	(4 175)	(1 132)	-	-	-	(5 307)	6 839	5 747
Furniture and fixtures	1 441	-	-	-	(22)	1 419	(698)	(153)	-	-	12	(839)	743	580
Machinery and tools	294	-	-	-	(4)	290	(242)	(20)	-	-	2	(260)	52	30
Computer equipment	3 585	32	-	-	(1 174)	2 443	(3 035)	(284)	-	-	1 174	(2 145)	550	298
Furnishings	2 008	-	-	-	-	2 008	(1 158)	(155)	-	-	-	(1 313)	850	695
Safety equipment	75	-	-	-	-	75	(67)	(4)	-	-	-	(71)	8	4
Other equipment	16	-	-	-	-	16	(15)	-	-	-	-	(15)	1	1
In course														
Equipment	-	24	5	-	-	29	-	-	-	-	-	-	-	29
Advances on tangible assets	5	-	(5)	-	-	-	-	-	-	-	-	-	5	-
Total	18 438	96	-	-	(1 200)	17 334	(9 390)	(1 748)	-	-	1 188	(9 950)	9 048	7 384

	Bank													
	Gross value						**Accumulated depreciation**						**Net value**	
USD’000	**Balance on 31.12.14**	**Acquisitions**	**Transfers**	**Exchange rate fluctuation**	**Disposals**	**Balance on 31.12.15**	**Balance on 31.12.14**	**Depreciation for the year**	**Transfers**	**Exchange rate fluctuation**	**Disposals**	**Balance on 31.12.15**	**Balance on 31.12.14**	**Balance on 31.12.15**
Other tangible assets														
Buildings	10 676	433	588	-	(683)	11 014	(3 646)	(1 054)	-	-	525	(4 175)	7 030	6 839
Furniture and fixtures	1 381	34	26	-	-	1 441	(541)	(157)	-	-	-	(698)	840	743
Machinery and tools	294	-	-	-	-	294	(221)	(21)	-	-	-	(242)	73	52
Computer equipment	3 438	513	-	-	(366)	3 585	(3 051)	(344)	-	-	360	(3 035)	387	550
Furnishings	1 960	48	-	-	-	2 008	(1 013)	(145)	-	-	-	(1 158)	947	850
Safety equipment	75	-	-	-	-	75	(63)	(4)	-	-	-	(67)	12	8
Other equipment	16	-	-	-	-	16	(15)	-	-	-	-	(15)	1	1
In course														
Advances on tangible assets	616	5	(614)	(2)	-	5	-	-	-	-	-	-	616	5
Total	18 456	1 033	-	(2)	(1 049)	18 438	(8 550)	(1 725)	-	-	885	(9 390)	9 906	9 048

Note 13 - Goodwill and intangible assets

This item is analysed as follows:

Goodwill and Intangible Assets

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Intangible assets				
- Gross value	68 481	65 977	4 362	4 404
- Accumulated amortization	(52 460)	(47 246)	(4 014)	(3 746)
	16 021	18 731	348	658
Goodwill				
- Gross value	74 023	74 023	-	-
	74 023	74 023	-	-
	90 044	**92 754**	**348**	**658**

The amount of goodwill in the Group results from the acquisition of Private Banking units, businesses and portfolios since May 2007, and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the IPB assets acquired and contingent liabilities assumed on the date of the acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the future expected free cash flows, discounted at a rate that reflects the time value of money and the riskiness of the cash flow stream.

Testing goodwill involves a significant degree of estimation. Cash flow projections necessarily take into account changes in the market in which the business operates including the level of growth, competitive activity and the impacts of regulatory change. Determining both the expected cash flows and the appropriate risk adjusted interest rate requires the exercise of judgement.

When testing goodwill for impairment in 2016, five-year balance sheet and income statement projections approved by management were used, as well as a growth rate of 4% (representative of the long-term growth prospects of the business and industry) and a discount rate of 16%. Based on these assumptions and as a result of the test, there was no indication of goodwill impairment as of the valuation date.

The movement in intangible assets was as follows:

USD'000	Group													
	Gross value						Accumulated amortization						Net value	
	Balance on 31.12.15	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Amortization for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Balance on 31.12.16
Intangible assets														
Software	15 091	110	885	(27)	(133)	15 926	(12 226)	(1 293)	-	26	133	(13 360)	2 865	2 566
Intangible IPB[1]	49 000	-	-	-	-	49 000	(35 020)	(4 080)	-	-	-	(39 100)	13 980	9 900
Other intangible	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In course														
Advances on intangible assets	210	1 453	(362)	(4)	-	1 297	-	-	-	-	-	-	210	1 297
Software [2]	1 676	582	-	-	-	2 258	-	-	-	-	-	-	1 676	2 258
Total	65 977	2 145	523	(31)	(133)	68 481	(47 246)	(5 373)	-	26	133	(52 460)	18 731	16 021

1 The balance of Intangible IPB corresponds to a core deposit premium and client relationships identified as intangible following the acquisition of Private Banking portfolios.
2 The balance of In course intangible assets - Software corresponds to software development in progress and advances for purchase of software pending implementation.

USD'000	Group													
	Gross value						Accumulated amortization						Net value	
	Balance on 31.12.14	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Amortization for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Balance on 31.12.15
Intangible assets														
Software	14 202	757	188	(14)	(42)	15 091	(11 007)	(1 278)	-	17	42	(12 226)	3 195	2 865
Intangible IPB[1]	49 000	-	-	-	-	49 000	(30 940)	(4 080)	-	-	-	(35 020)	18 060	13 980
Other intangible	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In course														
Advances on intangible assets	-	210	-	-	-	210	-	-	-	-	-	-	-	210
Software [2]	1 045	819	(188)	-	-	1 676	-	-	-	-	-	-	1 045	1 676
Total	64 247	1 786	-	(14)	(42)	65 977	(41 947)	(5 358)	-	17	42	(47 246)	22 300	18 731

1 The balance of Intangible IPB corresponds to a core deposit premium and client relationships identified as intangible following the acquisition of Private Banking portfolios.
2 The balance of In course intangible assets - Software corresponds to software development in progress and advances for purchase of software pending implementation.

	Bank													
	Gross value						Accumulated amortization						Net value	
USD'000	Balance on 31.12.15	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Amortization for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.16	Balance on 31.12.15	Balance on 31.12.16
Intangible assets														
Software	4 404	77	-	-	(119)	4 362	(3 746)	(387)	-	-	119	(4 014)	658	348
Total	4 404	77	-	-	(119)	4 362	(3 746)	(387)	-	-	119	(4 014)	658	348

	Bank													
	Gross value						Accumulated amortization						Net value	
USD'000	Balance on 31.12.14	Acquisitions	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Amortization for the year	Transfers	Exchange rate fluctuation	Disposals	Balance on 31.12.15	Balance on 31.12.14	Balance on 31.12.15
Intangible assets														
Software	4 000	216	188	-	-	4 404	(3 269)	(477)	-	-	-	(3 746)	731	658
In course														
Software	129	59	(188)	-	-	-	-	-	-	-	-	-	129	-
Total	4 129	275	-	-	-	4 404	(3 269)	(477)	-	-	-	(3 746)	860	658

Note 14 - Investments in subsidiaries and associates

As at 31 December 2016, the subsidiaries financial information is as follows. Details of the activity of the subsidiaries can be found in **Note 1**.

Subsidiaries

USD'000	Participation (%) Direct	Participation (%) Effective	Total assets	Total equity	Profit/(loss) for the year
			a)	a)	a)
Banco Itaú (Suisse) SA	-	100.00%	1 127 909	195 877	16 286
Banco Itaú International	100.00%	100.00%	2 045 318	296 135	11 803
Itaú International Securities Inc.	100.00%	100.00%	39 519	33 321	5 065
Itaú Europa Luxembourg, SA	100.00%	100.00%	238 746	232 097	3 798

a) All amounts are as at 31 December 2016 (accounting balances, before consolidation adjustments)

In the separate financial statements of the Bank, investments in subsidiaries and associates are stated at cost less impairment, as follows:

Investments in subsidiaries and associates

USD'000	Bank					
	31.12.16			31.12.15		
	Cost	Impairment	Cost less Impairment	Cost	Impairment	Cost less Impairment
Subsidiaries						
Banco Itaú International	297 004	-	297 004	297 004	-	297 004
Itaú International Securities Inc.	17 620	-	17 620	17 620	-	17 620
Itaú Europa Luxembourg, SA	197 488	-	197 488	197 488	-	197 488
Itau BBA International (Cayman) Ltd.	-	-	-	3 162	-	3 162
Associates						
IPI - Itaúsa Portugal Investimentos, SGPS, Lda.	-	-	-	180 443	(156 774)	23 669
	512 112	**-**	**512 112**	**695 717**	**(156 774)**	**538 943**

On 14 December 2016, the Bank sold its investment in the fully-owned subsidiary Itau BBA International (Cayman) Ltd., represented by 2,000,000 shares of USD 1 each, to another Itaú Group entity. As consideration for the shares, the purchaser paid to the Bank the amount of USD 3,130 thousand, resulting in a loss on disposal of USD 32 thousand, recognised in the Bank's financial statements (see **Note 38**).

In the consolidated financial statements, investments in associates are recognised using the equity method, which means that the value of the investment initially recognised at cost is adjusted by the post-acquisition change in value of the net assets of the associate, in the proportion owned by the Group. The Group's profit and loss include the profits of the associate, in the proportion held, as follows:

Associates

USD'000	Effective Participation (%)		Book Value		Share of profit in associates (equity method)	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
IPI - Itaúsa Portugal Investimentos, SGPS, Lda.	-	49.00%	-	25 585	212	59
			-	25 585	212	59

The associate IPI was incorporated in Portugal on 22 February 2000 with the purpose of managing participations and financial investments.

On 31 December 2015, its subscribed and paid up share capital amounted to €29,844 thousand, with 49% held by IBBAInt and 51% by Afinco Américas Madeira – SGPS, Sociedade Unipessoal, Lda, a subsidiary of Itaú Unibanco Holding, S.A.

On 29 November 2016, IPI's share capital was reduced to €1 million, of which 49% continued to be held by IBBAInt and 51% by Afinco Américas Madeira – SGPS, Sociedade Unipessoal, Lda. On 29 December 2016, in order to simplify the Group structure, the Bank sold its investment in IPI to another Itaú Group entity, resulting in a gain on disposal of USD 2,175 thousand, recognised in the Bank's financial statements (see **Note 35**).

Note 15 - Deferred tax assets

Deferred tax assets comprise:

Deferred tax assets

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Due to temporary differences:				
Pensions and other post-retirement benefits	214	80	-	-
Financial assets available for sale	1 045	100	967	-
Provisions	1 037	928	1 037	928
Depreciation and amortization of tangibles and intangibles	3 919	3 489	-	-
Derivatives	-	19	-	-
Other	767	1 375	-	-
	6 982	5 991	2 004	928
Due to tax losses carried forward	545	1 954	545	1 954
	7 527	**7 945**	**2 549**	**2 882**

	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Deferred tax assets to be recovered after more than 12 months	5 406	5 324	847	1 252
Deferred tax assets to be recovered within 12 months	2 121	2 621	1 702	1 630
	7 527	**7 945**	**2 549**	**2 882**

Recognition of deferred tax assets is based on profit forecasts which indicate that it is probable that the Bank and its subsidiaries will have future taxable profits against which the losses and temporary differences can be utilised.

Net deferred taxes comprise:

Net Deferred taxes

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Deferred tax assets	7 527	7 945	2 549	2 882
Deferred tax liabilities (Note 22)	(16 013)	(14 416)	(144)	(260)
	(8 486)	**(6 471)**	**2 405**	**2 622**

The movement in the net deferred tax balance is as follows:

Movement in the deferred income tax

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
At 1 January	(6 471)	(1 736)	2 622	4 737
Income statement charge	(2 803)	(5 454)	(1 059)	(2 710)
Exchange and other adjustments	(32)	(140)	(6)	(133)
Amount charged to equity	820	859	848	728
At 31 December	**(8 486)**	**(6 471)**	**2 405**	**2 622**

For the composition of the deferred tax liabilities see **Note 22**.

Note 16 - Other assets

This item is analysed as follows:

Other assets

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Debtors and other aplications				
Public sector	515	113	7	94
Other Debtors	1 890	2 480	1 134	1 783
	2 405	2 593	1 141	1 877
Accrued income				
For irrevocable commitments assumed	180	109	180	109
For bank services provided	9 832	15 979	1 516	727
For operations rendered to third parties	10 921	3 055	-	-
Other accrued income				
Commissions on guarantees given	19	39	19	39
	20 952	19 182	1 715	875
Deferred expenses				
Rents and leases	315	384	315	357
Insurances	486	433	311	250
Systems and equipments maintenance	1 246	937	376	474
Information services	288	148	246	147
Advertisement and sponsorship	10	2 402	10	15
Pension Plan	1 742	1 824	-	-
Other deferred expenses	1 442	1 335	413	128
	5 529	7 463	1 671	1 371
Other adjustment accounts				
Other operations pending settlement				
Charged amounts	302	-	293	-
Securities pending settlement	348	1 478	348	1 478
Other	1 050	8 260	946	8 155
	1 700	9 738	1 587	9 633
	30 586	**38 976**	**6 114**	**13 756**

The balance of other operations pending settlement on 31 December 2015 corresponds mainly to margin call on futures transactions.

Note 17 - Trading liabilities

This item is analysed as follows:

Trading liabilities

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Notes issued in USD				
Equity Participation Notes	14 729	12 001	14 729	12 001
Credit-Linked Notes	96 899	54 866	96 899	54 866
Convertible Debenture Participation Notes	47 638	38 630	47 638	38 630
	159 266	**105 497**	**159 266**	**105 497**

The trading liabilities correspond to Structured Notes issued by the Bank under a Structured Medium Term Note Programme. The Bank issues two types of Structured Notes classified as trading liabilities, where it passes to the client all the income and risks regarding the underlying asset:

i) "Pass-through" - Credit-Linked Notes hedged by Brazilian government bonds and Convertible Debenture Participation Notes hedged by Brazilian companies' bonds;

ii) "P-Notes" - Equity Participation Notes hedged mostly by Brazilian companies' shares.

The underlying bonds and shares hedging the trading liabilities are recorded as trading assets (see **Note 6**).

Note 18 - Deposits from banks

This item is analysed as follows:

Deposits from banks

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Demand deposits	561	59	5	5
Interbank Money Market / Term deposits	481 684	1 021 149	485 497	1 125 137
Fiduciary deposits	-	-	-	210
Syndicated loans	316 470	325 770	316 470	325 770
Other amounts due	60	100	60	-
Interest payable	3 075	4 083	3 071	4 270
Commissions related to amortised cost (net)	(638)	(1 351)	(638)	(1 350)
	801 212	**1 349 810**	**804 465**	**1 454 042**

Note 19 - Customer accounts

This item is analysed as follows:

Customer accounts

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Demand deposits	2 439 814	2 760 609	3 437	1 826
Time deposits	461 536	167 943	449 186	173 985
Other amounts due to customers	1 216	964	-	-
Interest payable	461	160	467	189
	2 903 027	**2 929 676**	**453 090**	**176 000**

Note 20 - Debt securities in issue

All debt securities in issue as of 31 December 2016 and 2015 are issued by the Bank. This item is analysed as follows:

Debt securities in issue

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Floating Rate Notes	5 900	5 000	5 900	5 000
Certificates of deposit	565 495	510 746	565 495	510 746
Structured financial instruments	1 675 576	1 971 693	1 675 576	1 971 693
Net interest payable	19 711	14 965	19 711	14 965
	2 266 682	**2 502 404**	**2 266 682**	**2 502 404**

The portfolio of floating rate notes issued by the Bank is detailed as follows:

Floating Rate Notes at 31.12.16

				Interest Rate			
Issue date	**Currency**	**Issue amount USD'000**	**Balance at 31.12.16 USD'000**	**Reference Rate**	**Current rate**	**Frequency of interest payments**	**Maturity**
Oct/13	USD	3 000	3 000	Fixed	4.13%	Annual	Oct/23
Oct/14	USD	2 000	2 000	Fixed	2.10%	Annual	Oct/17
Apr/16	USD	600	600	Fixed	2.50%	Half-Year	Apr/17
Apr/16	USD	300	300	Fixed	1.50%	Half-Year	Apr/17
			5 900				

Floating Rate Notes at 31.12.15

				Interest Rate			
Issue date	**Currency**	**Issue amount USD'000**	**Balance at 31.12.15 USD'000**	**Reference Rate**	**Current rate**	**Frequency of interest payments**	**Maturity**
Oct/13	USD	3 000	3 000	Fixed	5.25%	Annual	Oct/23
Oct/14	USD	2 000	2 000	Fixed	1.70%	Annual	Oct/17
			5 000				

The portfolio of certificates of deposit issued by the Bank is detailed as follows:

Certificates of deposit at 31.12.16

Currency	Issued amount USD'000	Buy-backs USD'000	Balance at 31.12.16 USD'000	Average Effective Interest Rate	Average Initial Term (days)
EUR	814	-	814	0.00%	225
USD	568 912	(7 278)	561 634	0.02%	409
GBP	3 047	-	3 047	0.02%	285
			565 495		

Certificates of deposit at 31.12.15

Currency	Issued amount USD'000	Buy-backs USD'000	Balance at 31.12.15 USD'000	Average Effective Interest Rate	Average Initial Term (days)
EUR	1 138	-	1 138	0.35%	113
USD	507 511	-	507 511	1.21%	166
GBP	2 097	-	2 097	1.52%	361
			510 746		

The portfolio of structured financial instruments issued by the Bank is well-diversified, comprised of 14 strategies at the end of 2016, denominated in USD, EUR and CAD (2015: 14 strategies denominated in USD, EUR and GBP).

As of 31 December 2016 and 2015, there were no debts represented by listed securities.

Note 21 - Subordinated liabilities

This item is analysed as follows:

Subordinated liabilities

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Subordinated debt issues	30 000	30 000	30 000	30 000
Interest payable	128	71	128	71
	30 128	30 071	30 128	30 071

In 2016 and 2015, there were no issuances, repurchases or repayments of subordinated debt.

Note 22 - Deferred tax liabilities

Deferred tax liabilities comprise:

Deferred tax liabilities

	Group		Bank	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Due to temporary differences:				
Financial assets available for sale	8	-	-	-
Depreciation and amortization of tangibles and intangibles	144	260	144	260
Goodwill	15 794	14 141	-	-
Other	67	15	-	-
	16 013	**14 416**	**144**	**260**

	31.12.16	31.12.15	31.12.16	31.12.15
Deferred tax liabilities to be paid after more than 12 months	15 946	14 401	144	260
Deferred tax liabilities to be paid within 12 months	67	15	-	-
	16 013	**14 416**	**144**	**260**

For the movement in the net deferred tax balance see **Note 15**.

Note 23 - Other liabilities

This item is analysed as follows:

Other liabilities

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Creditors and other resources				
Public Sector	3 924	4 675	1 079	577
Other creditors	1 673	1 533	1 201	999
	5 597	6 208	2 280	1 576
Expenses payable				
Staff costs				
Share-based payments	6 205	6 846	4 143	5 943
Other staff costs	24 035	19 814	11 607	8 899
General and administrative expenses				
Audit	478	259	315	243
Consulting	33	272	10	5
Structuring and technical support	18	37	18	37
Other services provided by third parties	487	363	114	363
Other General and Administrative expenses	51	132	49	42
For guarantees received	2 911	5 990	2 911	5 990
Rents	1 187	1 570	1 187	1 570
Service level agreements	2 881	3 886	-	-
Other expenses payable	6 806	13 936	797	645
	45 092	53 105	21 151	23 737
Deferred income				
Irrevocable commitments assumed	848	1 186	848	1 186
Guarantees given and other contingent liabilities	22	17	22	17
Rents	779	921	-	-
Other deferred income	173	2 562	-	-
	1 822	4 686	870	1 203
Other adjustment accounts				
Responsibilities with pension plans				
Net defined benefit (Note 24)	3 751	4 318	-	-
Foreign exchange transactions pending settlement	4	-	4	-
Other operations pending settlement				
Charged amounts	10 404	10 408	-	270
Secutities pending settlement	15 697	1 217	7 743	1 217
Other	4 784	3 499	4 784	3 499
	34 640	19 442	12 531	4 986
	87 151	**83 441**	**36 832**	**31 502**

As of 31 December 2016 and 2015, the balance of Charged amounts recognised in Other adjustment accounts was mainly comprised of securities and structured notes pending settlement.

Note 24 - Defined benefit pension plans

The subsidiary Banco Itaú (Suisse) SA operates a post-employment plan considered a defined benefit plan because of the inherent minimum benefits guaranteed by Swiss law. The related pension fund has entered into a contract of insurance to cover all investment and underwriting risks (disability, death and old age). The risk for Banco Itaú (Suisse) SA as an employer lies in the possibility of the pension fund changing its financing system (contributions and future benefits) at any time. The pension fund can also terminate the existing contract within the contractual notice period in line with Swiss law. Also, the pension fund is allowed to ask for higher risk and cost premiums from the employer and employees.

The following table provides information on the Group's liabilities with respect to post-employment defined benefit plans:

Net defined benefit liability

USD'000	31.12.16	31.12.15
Defined benefit obligation	16 194	15 865
Fair value of plan assets	(12 443)	(11 547)
Net defined benefit liability	3 751	4 318

The amounts recognised in the income statement regarding defined benefit plans are as follows:

Defined benefit cost recognised in the income statement

USD'000	31.12.16	31.12.15
Service cost and Administration Cost		
Current service cost	2 066	1 804
Past service cost	-	-
Administration cost	8	6
	2 074	1 810
Net interest on the net defined benefit liability		
Interest expense on defined benefit obligation	136	234
Interest income on plan assets	(98)	(203)
	38	31
	2 112	1 841

The movement in the defined benefit obligation over 2016 and 2015 was as follows:

Movement in the defined benefit obligation

USD'000	Defined obligation	Fair value assets	Net defined liability
As at 01.01.16	15 865	(11 547)	4 318
Currency translation differences	(231)	164	(67)
Interest expense / (income)	136	(98)	38
Current service cost (employer)	2 066	-	2 066
Contributions:			
- Employer	-	(1 414)	(1 414)
- Plan participants	942	(942)	-
Benefits (paid) / deposited	(1 322)	1 322	-
Administration cost (excl. cost for managing plan assets)	8	-	8
Actuarial (gain) / loss on defined benefit obligation			
- arising from changes in financial assumptions	2	-	2
- arising from changes in demographic assumptions	(930)	-	(930)
- arising from experience adjustments	(342)	-	(342)
Return on plan assets excl. interest income	-	72	72
As at 31.12.16	16 194	(12 443)	3 751

Movement in the defined benefit obligation

USD'000	Defined obligation	Fair value assets	Net defined liability
As at 01.01.15	11 487	(9 996)	1 491
Currency translation differences	(158)	87	(71)
Interest expense / (income)	234	(203)	31
Current service cost (employer)	1 804	-	1 804
Contributions:			
- Employer	-	(1 393)	(1 393)
- Plan participants	929	(929)	-
Benefits (paid) / deposited	(417)	417	-
Administration cost (excl. cost for managing plan assets)	6	-	6
Actuarial (gain) / loss on defined benefit obligation			
- arising from changes in financial assumptions	2 324	-	2 324
- arising from experience adjustments	(344)	-	(344)
Return on plan assets excl. interest income	-	470	470
As at 31.12.15	15 865	(11 547)	4 318

As at the last valuation date, the present value of the defined benefit obligation solely related to active employees. The significant actuarial assumptions in 2016 and 2015 were as follows:

Actuarial assumptions

	31.12.16	31.12.15
Discount rate (DR)	0.70%	0.80%
Long-term salary increases (SI)	0.50%	0.50%
Long-term pension increases	0.00%	0.00%
Long-term inflation	0.50%	0.50%
Mortality tables	BVG 2015 GT	BVG 2010 GT
Retirement probability*	100%	100%

(*) in the normal retirement age

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

Impact on defined benefit obligation

	New defined benefit obligation USD'000	% Change
Defined Benefit Obligation with DR -0.25%	16 936	5%
Defined Benefit Obligation with DR +0.25%	15 513	-4%
Defined Benefit Obligation at 31.12. with SI -0.25%	16 038	-1%
Defined Benefit Obligation at 31.12. with SI +0.25%	16 366	1%
Defined Benefit Obligation at 31.12. with life expectancy +1 year	16 379	1%
Defined Benefit Obligation at 31.12. with life expectancy -1 year	16 009	-1%

The discount rate (DR) and the assumption for salary growth (SI) were lowered or raised by a fixed percentage. The sensitivity of mortality was obtained by reducing or increasing the mortality rate by a standard factor, and as a result the life expectancy for most age categories has been increased or reduced by approximately one year.

Contributions are levied as a percentage of the pensionable salary of workers and employers to fund the benefits. Expected contributions to the defined benefit plan for the year ending 31 December 2017 are as follows:

Best Estimate of contributions for next year

USD'000	
Contributions by the employer	1 435
Contributions by plan participants	957

The weighted average duration of the defined benefit obligation is 17.3 years.

Note 25 - Share capital

The share capital of the Bank as of 31 December 2016 was USD 600 million, represented by 60,000,045 ordinary shares with a nominal value of USD 10 each, fully owned by Itaúsa Europa Investimentos SGPS, Lda. ("IEI")[4].

As of 31 December 2015, the Bank's sole shareholder was Itaúsa Portugal SGPS, S.A. ("Itaúsa Portugal"), which on 17 October 2016 merged by incorporation with IEI. As a result of this merger, all the assets (namely the investment in IBBAInt) and liabilities of Itaúsa Portugal were transferred to IEI, and Itaúsa Portugal ceased to exist as a separate legal entity.

Note 26 - Revaluation reserves

This item is analysed as follows:

Revaluation reserves

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Reserves due to fair value adjustments of financial assets available for sale				
Debt instruments	(5 333)	(1 741)	(5 023)	(1 364)
Deferred tax liabilities	1 193	373	1 121	273
Foreign currency translation reserve	(903)	(125)	-	-
Hedge of Net Investment reserve	-	(456)	-	-
Other revaluation reserves				
Remeasurements of post employment defined benefit obligations	(2 670)	(3 868)	-	-
	(7 713)	(5 817)	(3 902)	(1 091)

4 IEI was re-registered as Itaúsa Europa Investmentos, SGPS, Unipessoal, Lda. in February 2017.

Note 27 - Other reserves

This item is analysed as follows:

Other reserves

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Legal reserve	6 885	6 257	-	-
Merger Reserve	448 740	448 740	324 856	324 856
Special Reserve	16 372	25 533	-	-
Other Reserves	8 819	8 820	-	-
	480 816	489 350	324 856	324 856

The legal reserve is related to local requirements of the subsidiaries IE Luxembourg and Banco Itau Suisse.

The merger reserve was constituted at the effective date of the merger between the Bank and Banco Itaú BBA International S.A. ("Itaú BBA Portugal") on 1 February 2013 and corresponds to the excess capital of the Bank after the issue of new shares, the reserves and retained earnings of Itaú BBA Portugal and other adjustments at the effective date of the merger.

The special reserve is related to tax requirements of the subsidiary IE Luxembourg. This subsidiary allocates under non-distributable reserves an amount that corresponds to five times the amount of reduction of the Net Wealth Tax in accordance with Luxembourg Tax Law. This reserve is non-distributable for a period of five years from the year following that in which the Net Wealth Tax was reduced.

Note 28 - Non-controlling interests

This item is analysed as follows:

Non-controlling interests

	Group			
	Balance sheet		Income statement	
USD'000	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Minority shareholders of: Itaú Europa Luxembourg, SA	-	-	-	(1)
	-	-	-	(1)

Note 29 - Contingent assets and liabilities

a) Contingent assets

In 2016, the private banking subsidiaries Banco Itau International ("BII") and Itaú International Securities Inc. ("IIS") sold non-target customer relationships to a third party financial institution. The purchase price structure contemplates payment in three instalments and the first one was received by the BII and IIS in December 2016. The second and third instalments are due in June 2017 and December 2017, but their quantum and certainty are contingent on future and uncertain events, namely the attrition rate of the relevant clients. Consequently, no contingent asset has been recognised as a receivable on 31 December 2016.

b) Contingent liabilities

As of 31 December 2016, the private banking subsidiary BII is a defendant in two lawsuits in relation to which there is at least a reasonable possibility that a loss will be incurred by BII. In the opinion of BII management, the outcome of these proceedings will not have a significant effect on BII's financial position or results. These lawsuits were filed against several financial institutions and the total amount sought for BII is not certain. BII has retained independent outside counsel to defend it in both lawsuits and has not recorded a provision for the related losses as there is no one outcome more likely than the other nor, in the event of a finding against BII, is it possible to estimate an eventual loss.

Note 30 - Guarantees and commitments

This item is analysed as follows:

Guarantees and commitments

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Guarantees given				
Institutional guarantees				
Guarantees	47 680	67 393	47 680	67 393
Stand-by letters of credit	55 399	117 226	-	-
Other institutional guarantees given	30 102	-	-	-
	133 181	**184 619**	**47 680**	**67 393**
Financial assets pledged as collateral				
Securities	78 986	30 459	78 986	30 459
Other assets	3 810	8 857	3 810	8 857
	82 796	**39 316**	**82 796**	**39 316**
	215 977	**223 935**	**130 476**	**106 709**
Commitments to third parties				
Irrevocable credit facilities	436 155	435 072	436 155	435 072
Commitment deposit insurance	1 106	1 108	-	-
	437 261	**436 180**	**436 155**	**435 072**

The detail of financial assets pledged as collateral is as follows:

Financial assets pledged as collateral

USD'000	31.12.16		31.12.15	
	Asset	**Related liability**	**Asset**	**Related liability**
Financial assets designated at fair value	78 986	4 784	30 459	3 497
Loans and advances to banks	3 810	7 481	8 857	8 688
	82 796	12 265	39 316	12 185

On 31 December 2016 and 2015, the financial assets designated at fair value pledged as collateral were securities deposited in *Bolsa de Mercadorias e Futuros* ("BM&F") – São Paulo, Brazil – as margin for BMF_USD futures transactions.

On 31 December 2016 and 2015, the pledged loans and advances to banks were collateral deposits for CME_USD futures transactions.

Note 31 - Credit impairment charges and other provisions

The movement in impairment and provisions was as follows:

Impairment and other provisions

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Opening balance	15 379	13 850	15 354	13 825
Charge to the income statement				
- Loans and advances to customers	(496)	540	(496)	540
- Financial assets available for sale	-	2 116	-	2 116
- Guarantees and commitments	1 147	(125)	1 147	(125)
	651	2 531	651	2 531
Exchange rate and other movements	(244)	(1 002)	(244)	(1 002)
Balance at end of year	15 786	15 379	15 761	15 354
In respect of:				
- Loans and advances to customers	11 291	11 938	11 266	11 913
- Financial assets available for sale	3 165	3 258	3 165	3 258
- Guarantees and commitments	1 330	183	1 330	183
Balance at end of year	15 786	15 379	15 761	15 354

In February 2016, the Bank received USD 1 m in connection with an insolvency proceeding on a fully impaired loan. Hence, a credit impairment reversal regarding this loan was recognised in the income statement in 2016, in the amount received.

In 2016, an impairment loss of around USD 1 m was recognised in the income statement, regarding a guarantee related to the performance of a nearly completed project in Latin America, undertaken by the subsidiary of a European group for which a debt-restructuring plan has recently been approved.

In 2015, an impairment loss of USD 2.1 m was recognised in the income statement, regarding a subordinated debt instrument issued by a Portuguese bank, booked in the portfolio of financial assets available for sale.

Note 32 - Net interest income

This item is analysed as follows:

Net interest income

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Interest income				
Interest from balances at central banks	4 770	2 033	-	-
Interest on loans and advances to banks	15 500	4 192	5 616	1 847
Interest on loans and advances to customers	158 347	144 274	132 802	118 839
Interest on overdue loans	17	178	17	178
Interest on financial assets designated at fair value	8 530	9 605	8 530	9 605
Interest on financial assets available for sale	3 665	3 190	3 159	2 615
	190 829	163 472	150 124	133 084
Interest expense				
Interest on amounts due to central banks	(1 730)	(1 363)	(29)	-
Interest on deposits from banks	(16 420)	(11 755)	(16 484)	(13 741)
Interest on deposits from customers	(1 826)	(888)	(2 092)	(897)
Interest on issued bonds	(177)	(147)	(177)	(147)
Interest on issued certificates of deposit	(13 472)	(3 324)	(13 472)	(3 324)
Interest on issued structured financial instruments	(49 126)	(42 907)	(49 126)	(42 906)
Interest on financial liabilities designated at fair value	(10 565)	(12 480)	(10 565)	(12 480)
Interest on subordinated debt	(391)	(241)	(391)	(241)
Other interest and similar expenses	(249)	(5)	(248)	(6)
	(93 956)	(73 110)	(92 584)	(73 742)
	96 873	**90 362**	**57 540**	**59 342**

Note 33 - Net fee and commission income

This item is analysed as follows:

Net fee and commission income

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Fee and commission income				
For guarantees given	928	1 684	508	1 134
For irrevocable commitments	1 651	2 953	1 651	2 953
For operations on financial instruments	-	-	-	-
For banking services	116 238	119 413	9 417	5 750
For operations undertaken for third parties	7	33	-	22
	118 824	124 083	11 576	9 859
Fee and commission expense				
For guarantees received	(12 682)	(8 607)	(12 682)	(8 606)
For irrevocable commitments	-	-	-	-
For operations on financial instruments	(703)	(452)	(703)	(452)
For banking services	(3 455)	(3 973)	(315)	(348)
For operations undertaken by third parties	(1 109)	(1 217)	(92)	(46)
Other	(1 687)	(1 845)	-	(8)
	(19 636)	(16 094)	(13 792)	(9 460)
	99 188	**107 989**	**(2 216)**	**399**

Note 34 - Net income on financial operations

This item is analysed as follows:

Net income on financial operations

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Net income on financial assets and liabilities at fair value through profit or loss				
Net income on trading assets	16 298	11 306	16 298	11 306
Net income on trading liabilities	(41 386)	39 208	(41 386)	39 208
Net income on financial assets designated at fair value	12 936	15 431	12 936	15 431
Net income on derivative financial instruments	(83 519)	47 981	(83 420)	47 787
Net income on currency revaluation	111 854	(101 716)	105 426	(106 691)
	16 183	**12 210**	**9 854**	**7 041**
Net income on financial assets available for sale				
Debt securities	1 260	1 780	1 256	1 859
Equity instruments	460	(2)	460	(2)
	1 720	**1 778**	**1 716**	**1 857**
Net income on other financial operations				
Net income on purchase/disposal of loans	342	387	342	388
Net income on purchase/disposal of other financial assets	-	(166)	-	(166)
Net income on structured financial instruments	1 776	3 261	1 776	3 261
Net income on hedging relationships:				
- on hedging derivatives	(702)	688	(702)	688
- on hedged assets	105	(956)	105	(956)
- on hedged liabilities	805	(68)	805	(68)
	2 326	**3 146**	**2 326**	**3 147**
	20 229	**17 134**	**13 896**	**12 045**

Note 35 - Other operating income

This item is analysed as follows:

Other operating income

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Expenses reimbursement	30	110	30	110
Income from service level agreements	6 946	7 404	5 750	6 088
Taxes reimbursement	475	90	-	-
Gains in tangible assets	-	1	-	1
Gains in associates	-	-	2 175	-
Gains in subsidiaries	186	-	-	-
Other operating income	4 083	3 525	207	162
	11 720	**11 130**	**8 162**	**6 361**

On 29 November 2016, the share capital of the associate IPI was reduced to €1 million, of which 49% held by IBBAInt and 51% by Afinco Américas Madeira – SGPS, Sociedade Unipessoal, Lda. On 29 December 2016, in order to simplify the Group structure, the Bank sold its investment in IPI to another Itaú Group entity. In connection with the process of capital reduction and sale of the shareholding in IPI, the Bank recognized a gain on its individual financial statements of USD 2,175 thousands (see **Note 14**).

The amount of other operating income for the Group on 31 December 2016 includes a gain of USD 3,175 thousands recognised in the subsidiaries BII and IIS, regarding the sale of non-target customer relationships in 2016 (see **Note 29**).

Note 36 - Staff costs

This item is analysed as follows:

Staff costs

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Wages and salaries	42 291	49 367	13 330	15 834
Bonus	24 717	26 992	11 703	13 798
of which: Share-based	4 816	5 191	2 951	4 481
Social security costs	5 393	7 424	3 346	4 037
Pension costs				
- Defined contribution plans	1 339	1 311	911	1 311
- Defined benefit plans	2 112	1 841	-	-
Other staff costs				
- Severances	2 561	3 272	526	430
- Other	8 473	7 763	1 129	1 031
	86 886	**97 970**	**30 945**	**36 441**

The average number of employees of the Group is analysed as follows:

Number of employees

	Average number of employees					
	31.12.16			31.12.15		
	CIB	**IPB**	**Total**	**CIB**	**IPB**	**Total**
Management	2	14	16	3	15	18
Business areas	39	65	104	50	78	128
Support areas	94	135	229	97	134	231
Total	**135**	**214**	**349**	**150**	**227**	**377**

The remuneration of the Bank's directors was as follows:

Directors' remuneration

USD'000	**31.12.16**	**31.12.15**
Aggregate remuneration	3 409	2 665
Of which: Long-term incentive schemes	2 206	1 382

The amounts above consist of remuneration awarded for the year, including fixed remuneration and the upfront and deferred components of variable remuneration awarded for the year.

In 2016, post-employment benefits were accruing for two directors of the Bank (2015: three) under a pension scheme, and two directors of the Bank were accruing benefits under a long-term incentive scheme (2015: three).

The Bank's highest paid director's emoluments were as follows:

Highest paid director's emoluments

USD'000	**31.12.16**	**31.12.15**
Total emoluments and amounts		
under long-term incentive schemes	1 831	1 590
Of which: Aggregate value paid to a pension scheme	30	-

Note 37 - General and administrative expenses

This item is analysed as follows:

General and administrative expenses

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Supplies	1 132	2 079	468	665
Services				
Rentals and leasing	5 673	5 734	1 851	2 450
Communications	2 258	2 789	996	1 322
Travel. lodging and representation	3 832	3 936	1 448	2 285
Advertising and sponsorship	92	281	8	24
Maintenance and repairs	605	671	451	507
Transportation	-	-	-	-
Training expenses	638	1 070	176	382
Insurance	623	557	58	94
Specialized services	21 588	19 571	4 588	5 607
Service level agreements	7 878	9 427	357	587
Other services	213	5 740	130	142
	43 400	49 776	10 063	13 400
	44 532	**51 855**	**10 531**	**14 065**

Note 38 - Other operating expenses

This item is analysed as follows:

Other operating expenses

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Subscriptions and donations	202	218	165	166
Losses on disposal of tangible assets	2	148	2	148
Losses in subsidiaries	-	-	32	-
Losses in associates	408	-	-	-
Indirect taxes	2 004	1 940	811	1036
Direct taxes	436	768	153	60
Other operating expenses	2 954	1 849	62	27
	6 006	**4 923**	**1 225**	**1 437**

Note 39 - Income tax

This item is analysed as follows:

Income tax

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Current taxes on income for the reporting year	(19 355)	(10 038)	(5 254)	(1 651)
Current taxes referring to previous years	511	(450)	(303)	(450)
Total current tax	**(18 844)**	**(10 488)**	**(5 557)**	**(2 101)**
Origination and reversal of temporary differences regarding:				
Pensions and other post-retirement benefits	139	83	-	-
Provisions	156	384	156	384
Derivatives	29	73	-	-
Goodwill amortization	(1 652)	(1 958)	-	-
Depreciation and amortization of tangibles and intangibles	492	324	68	(191)
Financial assets available for sale	119	(814)	119	(814)
Other	(684)	394	-	-
Tax losses carried forward	(1 402)	(3 940)	(1 402)	(2 089)
Total deferred tax	**(2 803)**	**(5 454)**	**(1 059)**	**(2 710)**
	(21 647)	**(15 942)**	**(6 616)**	**(4 811)**

For the movement in the net deferred tax balance see **Note 15**.

The table below shows the reconciliation between the actual tax charge and the tax charge that would result from applying the standard corporation tax rate to the profit before tax, on a consolidated and on a solo level:

Income tax reconciliation

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Profit before tax	**81 713**	**60 641**	**31 895**	**21 471**
Tax calculated at the weighted average applicable tax rate	(21 756)	(14 866)	(6 658)	(4 375)
Effect of :				
- Expenses not deductible for tax purposes	(357)	(162)	(118)	(106)
- Changes in tax rates	(48)	(210)	(48)	-
- Adjustment for prior years	(93)	(117)	(371)	(29)
- Income not subject to tax	488	-	518	-
- Write down or reversal of deferred tax assets	134	30	134	(172)
- Unrecognised deferred tax	58	17	-	-
- Minimum corporate income tax	-	(23)	-	-
- Tax losses not recovered	-	(482)	-	-
- Double taxation	(73)	(129)	(73)	(129)
Income tax	**(21 647)**	**(15 942)**	**(6 616)**	**(4 811)**

The income tax rate applicable to the majority of the Bank's 2016 income is 20% (2015: 20.25%). The weighted average applicable tax rate was 20.87% (2015: 20.38%).

On a consolidated level, the income tax rate applicable to the majority of income generated by the Bank and its subsidiaries ranges from 20% to 38.6% (2015: 20.4% to 38.6%). The weighted average applicable tax rate was 26.62% (2015: 24.51%).

Note 40 - Related Party Transactions

a) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the members of the Board of Directors and certain top executives of the Bank and its subsidiaries.

The total compensation below represents all benefits in the form of consideration paid, payable or provided by the Group/Bank to key management personnel, in exchange for services rendered to the Group/Bank, and do not reconcile with the costs recognised in the income statement, as these reflect only the accounting charge for the year.

Key management personnel compensation

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Short-term employee benefits	17 331	19 684	6 947	7 978
Post-employment benefits	180	230	175	139
Other long-term benefits	1 428	443	490	65
Termination benefits	2 728	949	290	-
Share-based payment	3 023	7 119	2 643	6 401
	24 690	**28 425**	**10 545**	**14 583**

In 2016 and 2015, no loans or advances were granted by the Group to its key management personnel.

b) Other Related Parties – Group:

Parent and other entities of the Itaú Group:

Related Parties - Group

USD'000	31.12.16 Itaúsa Europa Investimentos, SGPS	31.12.16 Itaú Unibanco Group (Brazil) [1]	31.12.16 Total	31.12.15 Itaúsa Europa Investimentos, SGPS	31.12.15 Itaúsa Portugal, SGPS	31.12.15 IPI	31.12.15 Itaú Unibanco Group (Brazil) [1]	31.12.15 Total
Assets								
Derivative financial instruments	-	23 005	23 005	-	-	-	54 798	54 798
Loans and advances to banks	-	585 123	585 123	-	-	-	224 675	224 675
Investments in associates and subsidiaries	-	-	-	-	-	25 585	-	25 585
Other assets	-	2 511	2 511	-	2	-	2 432	2 434
	-	610 639	610 639	-	2	25 585	281 905	307 492
Liabilities								
Derivative financial instruments	-	7 901	7 901	-	-	-	14 541	14 541
Deposits from banks	-	212 944	212 944	-	-	-	380 594	380 594
Customer accounts	388	40 105	40 493	368	6 881	52 249	52 574	112 072
Subordinated liabilities	-	30 128	30 128	-	-	-	30 071	30 071
Other liabilities	-	4 914	4 914	-	-	-	9 859	9 859
	388	295 992	296 380	368	6 881	52 249	487 639	547 137
Income and Expenses								
Interest income	-	10 477	10 477	-	-	-	-	-
Interest expense	-	(7 138)	(7 138)	-	(16)	(202)	(4 605)	(4 823)
Net income in financial operations	-	(59 836)	(59 836)	-	(4)	-	49 794	49 790
Commission income	-	-	-	-	-	-	504	504
Commission expense	-	(13 759)	(13 759)	-	-	-	(11 029)	(11 029)
Other income	-	6 757	6 757	-	-	-	8 347	8 347
Other expenses	-	(6 802)	(6 802)	-	-	-	(9 274)	(9 274)
	-	(70 301)	(70 301)	-	(20)	(202)	33 737	33 515
Off-balance sheet								
Guarantees received	-	1 239 382	1 239 382	-	-	-	663 898	663 898
Guarantees given	-	1 940	1 940	-	-	-	3 251	3 251
Exchange operations and derivative instruments								
Purchase	-	888 786	888 786	-	-	-	1 333 772	1 333 772
Sale	-	854 098	854 098	-	-	-	1 199 201	1 199 201
	-	2 984 206	2 984 206	-	-	-	3 200 122	3 200 122

1 Includes Itaú Unibanco Nassau Branch, Itau Unibanco S.A., Itau Unibanco Cayman Branch, Itaú Unibanco New York Branch, Itaubank Ltd. (Cayman), Itaú USA Securities, Banco Itaú Uruguay, Banco Itaú Paraguay, Banco Itaú Argentina, Afinco Americas (Madeira), Banco Itaú Chile, Itaú Bank&Trust (Cayman) Ltd., Itaú Bank&Trust (Bahamas) Ltd., Itau UK Asset Management, Itau USA Asset Management, Itau Asia Securities Limited, IPI - Itaúsa Portugal Investimentos and Itau BBA International Cayman Ltd.

c) Other Related Parties – Bank:

Subsidiaries, parent and other entities of the Itaú Group:

Related Parties - Bank

USD'000	31.12.16						
	Subsidiaries				Other related parties		
	IE Luxembourg	Banco Itaú International	Banco Itaú (Suisse)	Itaú International Securities Inc	Itaúsa Europa Investimentos, SGPS	Itaú Unibanco Group (Brazil) [1]	Total
Assets							
Derivative financial instruments	-	598	786	-	-	22 979	24 363
Loans and advances to banks	-	132 003	1 001	-	-	208 097	341 101
Investments in associates and subsidiaries	197 488	297 004	-	17 620	-	-	512 112
Other assets	-	-	64	-	30	2 218	2 312
	197 488	429 605	1 851	17 620	30	233 294	879 888
Liabilities							
Derivative financial instruments	487	1 376	4 617	-	-	7 867	14 347
Deposits from banks	-	1 010	4 945	-	-	212 727	218 682
Customer accounts	15 007	-	-	-	388	32 449	47 844
Subordinated liabilities	-	-	-	-	-	30 128	30 128
Other liabilities	-	-	-	-	-	2 911	2 911
	15 494	2 386	9 562	-	388	286 082	313 912
Income and Expenses							
Interest income	-	545	(57)	-	-	2 907	3 395
Interest expense	(460)	(60)	(72)	-	(28)	(7 138)	(7 758)
Net income in financial operations	(3 730)	12 729	8 912	-	-	(59 720)	(41 809)
Commission expense	-	-	-	-	-	(12 671)	(12 671)
Other income	-	-	159	-	-	5 354	5 513
Other expenses	-	(172)	(157)	-	-	-	(329)
	(4 190)	13 042	8 785	-	(28)	(71 268)	(53 659)
Off-balance sheet							
Guarantees received	-	-	-	-	-	1 002 643	1 002 643
Guarantees given	-	-	-	-	-	1 940	1 940
Exchange operations and derivative instruments							
Purchase	174 422	57 408	79 527	-	-	887 930	1 199 287
Sale	175 038	59 259	94 643	-	-	853 259	1 182 199
	349 460	116 667	174 170	-	-	2 745 772	3 386 069

1 Includes Itaú Unibanco Nassau Branch, Itau Unibanco S.A., Itau Unibanco Cayman Branch, Itaú Unibanco New York Branch, Itaubank Ltd. (Cayman), Itaú USA Securities, Banco Itaú Uruguay, Banco Itaú Paraguay, Banco Itaú Argentina, Afinco Americas (Madeira), Banco Itaú Chile, Itaú Bank&Trust (Cayman) Ltd., Itaú Bank&Trust (Bahamas) Ltd., Itau UK Asset Management, Itau USA Asset Management, Itau Asia Securities Limited, IPI - Itaúsa Portugal Investimentos and Itau BBA International Cayman Ltd.

Related Parties - Bank

USD'000	31.12.15									
	Subsidiaries					Other related parties				
	Itaú BBA Int (Cayman)	IE Luxembourg	Banco Itaú International	Banco Itaú (Suisse)	Itaú International Securities Inc	Itaúsa Europa Investimentos, SGPS	Itaúsa Portugal, SGPS	IPI	Itaú Unibanco Group (Brazil) [1]	Total
Assets										
Derivative financial instruments	-	3 243	1 938	2 361	-	-	-	-	54 700	62 242
Loans and advances to banks	-	-	181 000	149 688	-	-	-	-	8 245	338 933
Investments in associates and subsidiaries	3 162	197 488	297 004	-	17 620	-	-	23 669	-	538 943
Other assets	-	-	-	117	-	-	2	-	1 893	2 012
	3 162	200 731	479 942	152 166	17 620	-	2	23 669	64 838	942 130
Liabilities										
Derivative financial instruments	-	-	294	3 945	-	-	-	-	14 534	18 773
Deposits from banks	-	-	100 185	5 900	-	-	-	-	380 540	486 625
Customer accounts	3 142	54 024	-	-	-	368	6 881	52 249	46 913	163 577
Subordinated liabilities	-	-	-	-	-	-	-	-	30 071	30 071
Other liabilities	-	-	46	42	-	-	-	-	5 985	6 073
	3 142	54 024	100 525	9 887	-	368	6 881	52 249	478 043	705 119
Income and Expenses										
Interest income	-	-	77	20	-	-	-	-	-	97
Interest expense	(18)	(216)	(1 900)	(112)	-	-	(16)	(202)	(4 605)	(7 069)
Net income in financial operations	-	6 505	2 548	(7 659)	-	-	(4)	-	49 552	50 942
Commission income	-	-	-	-	-	-	-	-	504	504
Commission expense	-	-	-	-	-	-	-	-	(8 591)	(8 591)
Dividend income	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	117	-	-	-	-	7 054	7 171
Other expenses	-	-	(288)	(266)	-	-	-	-	-	(554)
	(18)	6 289	437	(7 900)	-	-	(20)	(202)	43 914	42 500
Off-balance sheet										
Guarantees received	-	-	-	-	-	-	-	-	663 898	663 898
Guarantees given	-	-	-	-	-	-	-	-	3 251	3 251
Exchange operations and derivative instruments										
Purchase	-	176 899	32 510	245 075	-	-	-	-	1 332 381	1 786 865
Sale	-	173 695	38 648	255 564	-	-	-	-	1 197 902	1 665 809
	-	350 594	71 158	500 639	-	-	-	-	3 197 432	4 119 823

1 Includes Itaú Unibanco Nassau Branch, Itau Unibanco S.A., Itau Unibanco Cayman Branch, Itaú Unibanco New York Branch, Itaubank Ltd. (Cayman), Itaú USA Securities, Banco Itaú Uruguay, Banco Itaú Paraguay, Banco Itaú Argentina, Afinco Americas (Madeira), Banco Itaú Chile, Itaú Bank&Trust (Cayman) Ltd., Itaú Bank&Trust (Bahamas) Ltd., Itau UK Asset Management, Itau USA Asset Management, Itau Asia Securities Limited, IPI - Itaúsa Portugal Investimentos and Itau BBA International Cayman Ltd.

Note 41 - Financial Risks

The following disclosures relating to financial risks are unaudited unless otherwise stated, and should be read in conjunction with the Risk Management section of the Strategic Report on pages 12 to 14.

a) Credit risk

i) Maximum exposure to credit risk and effects of collateral and other credit enhancements

The following table presents reconciliation between the Group's maximum exposure and its net exposure to credit risk, reflecting the financial effect of cash collateral and netting agreements. For on-balance sheet assets, the maximum exposure set out below is based on net carrying amounts as reported in the balance sheet. This analysis of credit risk includes only financial assets subject to credit risk, and therefore excludes investments in associated companies, goodwill, tangible and intangible assets, tax and other assets, as well as trading securities because their risk is transferred to investors (see **Note 6** to the Financial Statements).

Maximum exposure and effects of cash collateral and other credit enhancements (audited)

	Group							
	31.12.16				31.12.15			
USD m	Maximum exposure	Netting	Cash collateral	Net exposure [1]	Maximum exposure	Netting	Cash collateral	Net exposure [1]
On-balance sheet:								
Balances at Central Banks	844	-	-	844	1 561	-	-	1 561
Financial assets designated at fair value	444	-	-	444	204	-	-	204
Derivative financial instruments	237	-	-	237	543	-	-	543
Loans and advances to banks	978	(16)	-	962	936	(209)	-	727
Loans and advances to customers								
- CIB	2 782	-	(188)	2 594	3 179	(13)	(321)	2 845
- IPB [2]	1 694	-	(293)	1 401	1 503	-	(314)	1 189
Financial assets available for sale	356	-	-	356	416	-	-	416
Total on-balance sheet	7 335	(16)	(481)	6 838	8 342	(222)	(635)	7 485
Off-balance sheet:								
Guarantees and Commitments								
- CIB	483	-	-	483	503	-	-	503
- IPB [2]	87	-	(22)	65	118	-	(54)	64
Total off-balance sheet	570	-	(22)	548	621	-	(54)	567
Total	7 905	(16)	(503)	7 386	8 963	(222)	(689)	8 052

1 The amount of Net exposure corresponds to the maximum exposure after taking into account the effects of netting and cash collateral.
2 Net exposure to Private Banking customers is collateralised by highly liquid investments.

Maximum exposure and effects of cash collateral and other credit enhancements (audited)

	Bank							
	31.12.16				31.12.15			
USD m	Maximum exposure	Netting	Cash collateral	Net exposure [1]	Maximum exposure	Netting	Cash collateral	Net exposure [1]
On-balance sheet:								
Balances at Central Banks	17	-	-	17	1	-	-	1
Financial assets designated at fair value	444	-	-	444	204	-	-	204
Derivative financial instruments	232	-	-	232	543	-	-	543
Loans and advances to banks	573	(17)	-	556	927	(209)	-	718
Loans and advances to customers	2 782	-	(188)	2 594	3 179	(13)	(321)	2 845
Financial assets available for sale	303	-	-	303	342	-	-	342
Total on-balance sheet	4 351	(17)	(188)	4 146	5 196	(222)	(321)	4 653
Off-balance sheet:								
Institutional guarantees	48	-	-	48	67	-	-	67
Commitments	436	-	-	436	435	-	-	435
Total off-balance sheet	484	-	-	484	502	-	-	502
Total	4 835	(17)	(188)	4 630	5 698	(222)	(321)	5 155

1 The amount of Net exposure corresponds to the maximum exposure after taking into account the effects of netting and cash collateral.

ii) Quality of the portfolio of Loans and advances to customers

The portfolio of loans and advances to customers is analysed as follows:

Quality of the portfolio of Loans and advances to customers (audited)

	Group		Bank	
USD m	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Loans and advances to customers				
- Neither past due nor impaired	4 494	4 700	2 800	3 198
- Past due but not impaired	-	1	-	-
- Impaired	6	8	6	8
Commissions related to amortised cost (net)	(13)	(15)	(13)	(15)
Gross amount of loans and advances to customers	**4 487**	**4 694**	**2 793**	**3 191**
Loan impairment	(11)	(12)	(11)	(12)
Net amount of loans and advances to customers	**4 476**	**4 682**	**2 782**	**3 179**

The past due but not impaired loans of USD 1 m on 31 December 2015 were fully collateralised by cash or securities at fair value and were outstanding for less than 90 days. The amount of loans to customers considered individually impaired was USD 6 m on 31 December 2016 (2015: USD 8 m). At the end of 2016, these loans had a 100% coverage (2015: 100% coverage).

On 31 December 2016 and 2015, the breakdown by internal rating classification of the loans and advances to customers that were neither past due nor impaired is shown in the table below. The Group implemented this internal rating system which is established through probabilities of default and compatible with the nature, scale and complexity of the activities developed by the Group.

Quality of the portfolio of loans and advances to customers neither past due nor impaired (audited)

	Group				Bank			
USD m	**31.12.16**	%	**31.12.15**	%	**31.12.16**	%	**31.12.15**	%
Internal rating [1]								
A1 to A4	85	1.9%	63	1.3%	85	3.0%	63	2.0%
Baa1 to Baa4	1 125	25.0%	1 856	39.6%	1 125	40.2%	1 856	58.0%
Ba1 to Ba6	1 327	29.6%	1 182	25.2%	1 327	47.4%	1 182	37.0%
B1 to B4	148	3.3%	77	1.6%	148	5.3%	76	2.4%
Below B4	109	2.4%	-	-	109	3.9%	-	-
Unrated	6	0.1%	21	0.4%	6	0.2%	21	0.6%
Private Banking [2]	1 694	37.7%	1 501	31.9%	-	-	-	-
Total	4 494	100.0%	4 700	100.0%	2 800	100.0%	3 198	100.0%

1 The monitoring and measurement of credit risk methodologies used for the Group limits are established in coordination with an internal rating system, under which the higher the risk, the lower the permitted exposure. All entities to which a credit limit is attributed are rated in terms of their risk level.

2 Corresponds to Loans with Private Banking customers, which are substantially collateralised by deposits, highly liquid investments or a combination of both.

iii) Quality of the portfolio of securities

The table below presents an analysis of the available for sale and at fair value through profit or loss securities portfolios:

Quality of the portfolio of Securities (Rating Moody's) (audited)

	Group				Bank			
	Financial assets available for sale		Financial assets designated at fair value		Financial assets available for sale		Financial assets designated at fair value	
USD m	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Aaa								
- USA	321	383	-	-	272	311	-	-
- Netherlands	31	31	-	-	31	31	-	-
- Switzerland	2	2	-	-	-	-	-	-
Aa1 to Aa3								
- Belgium	-	-	-	35	-	-	-	35
Baa1 to Baa3								
- Brazil	-	-	-	169	-	-	-	169
Below Baa3								
- Brazil	2	-	444	-	-	-	444	-
Total	356	416	444	204	303	342	444	204

iv) Credit risk concentrations

The tables below present the Group's and the Bank's credit risk concentration (net exposure) in terms of the industry in which the immediate debtor is engaged.

Credit risk concentrations by industry - Group (audited)

USD m	Loans to Banks and Central Banks	Loans to Customers	Guarantees and Commitments	Securities and Derivatives	Net Exposure [1]			
					31.12.16	%	31.12.15	%
Sovereigns and Central Banks	844	-	-	800	1 644	22.3%	2 181	27.1%
Financial institutions	962	68	-	131	1 161	15.7%	1 015	12.6%
Oil and gas	-	774	-	-	774	10.5%	902	11.2%
Automotive and autoparts	-	323	99	-	422	5.7%	516	6.4%
Food and Beverage	-	211	-	-	211	2.9%	140	1.7%
Iron and steel industry	-	166	27	-	193	2.6%	238	3.0%
Fertilizers and agro	-	102	91	-	193	2.6%	142	1.8%
Trading	-	149	30	-	179	2.4%	86	1.1%
Communications	-	104	73	-	177	2.4%	137	1.7%
Heavy construction	-	165	2	1	168	2.3%	194	2.4%
Retail	-	75	37	-	112	1.5%	120	1.5%
Home appliances	-	79	-	-	79	1.1%	108	1.3%
Construction materials	-	73	-	-	73	1.0%	104	1.3%
Services - Others	-	44	22	-	66	0.9%	104	1.3%
Petrochemicals and Chemicals	-	48	-	-	48	0.6%	40	0.5%
Real estate	-	-	41	-	41	0.6%	41	0.5%
Electronics	-	37	-	-	37	0.5%	77	1.0%
Sugar and ethanol	-	35	-	-	35	0.5%	61	0.8%
Machinery and heavy equipment	-	7	25	1	33	0.4%	50	0.6%
Pharmaceutical / Cosmetics	-	24	-	-	24	0.3%	27	0.3%
Energy	-	15	-	-	15	0.2%	26	0.3%
Logistics	-	15	-	-	15	0.2%	49	0.6%
Mining	-	12	-	-	12	0.2%	41	0.5%
Others	-	68	36	2	106	1.4%	77	1.0%
Private Banking [2]	-	1 401	65	102	1 568	21.2%	1 576	19.6%
	1 806	3 995	548	1 037	7 386	100.0%	8 052	100.0%

1 Group's net exposure in terms of risk of the immediate debtor classified by industry sector, after taking into account netting and cash collateral.
2 Net exposure to Private Banking customers is collateralised by highly liquid investments.

Credit risk concentrations by industry - Bank (audited)

USD m	Loans to Banks and Central Banks	Loans to Customers	Guarantees and Commitments	Securities and Derivatives	Net Exposure [1] 31.12.16	%	31.12.15	%
Oil and gas	-	774	-	-	774	16.7%	904	17.5%
Sovereigns and Central Banks	17	-	-	747	764	16.5%	547	10.6%
Financial institutions	556	68	-	129	753	16.3%	1 010	19.6%
Automotive and autoparts	-	323	99	-	422	9.1%	515	10.0%
Food and Beverage	-	211	-	-	211	4.6%	140	2.7%
Fertilizers and agro	-	102	91	-	193	4.2%	142	2.7%
Iron and steel industry	-	166	27	-	193	4.2%	238	4.6%
Trading	-	149	30	-	179	3.9%	86	1.7%
Communications	-	104	73	-	177	3.8%	137	2.6%
Heavy construction	-	165	2	1	168	3.6%	194	3.8%
Retail	-	75	37	-	112	2.4%	120	2.3%
Home appliances	-	79	-	-	79	1.7%	108	2.1%
Construction materials	-	73	-	-	73	1.6%	104	2.0%
Services - Others	-	44	22	-	66	1.4%	104	2.0%
Petrochemicals and Chemicals	-	48	-	-	48	1.0%	40	0.8%
Real estate	-	-	41	-	41	0.9%	41	0.8%
Electronics	-	37	-	-	37	0.8%	77	1.5%
Sugar and ethanol	-	35	-	-	35	0.8%	61	1.2%
Machinery and heavy equipment	-	7	25	1	33	0.7%	50	1.0%
Pharmaceutical / Cosmetics	-	24	-	-	24	0.5%	27	0.5%
Logistics	-	15	-	-	15	0.3%	49	1.0%
Energy	-	15	-	-	15	0.3%	26	0.5%
Mining	-	12	-	-	12	0.3%	41	0.8%
Private Banking [2]	-	-	-	99	99	2.1%	319	6.2%
Others	-	68	37	2	107	2.3%	75	1.5%
	573	2 594	484	979	4 630	100.0%	5 155	100.0%

1 Bank's net exposure in terms of risk of the immediate debtor classified by industry sector, after taking into account netting and cash collateral.
2 Corresponds to Embedded Derivatives in Structured Notes sold to Private Banking customers. These derivatives are covered with mirror transactions closed with market counterparties.

The following tables present the Group's and the Bank's credit risk concentration (net exposure) in terms of country of domicile of the credit risk counterparty[5].

Credit risk concentrations by geography - Group (audited)

USD m	Central Banks	Loans to Banks	Loans to Customers	Securities	Derivatives	Guarantees and Commitments	Net Exposure [1] 31.12.16	%	31.12.15	%
Eurozone Countries										
Netherlands	-	35	282	31	9	-	357	4.8%	494	6.1%
France	-	2	85	-	43	154	284	3.8%	261	3.2%
Spain	-	50	189	-	3	7	249	3.4%	111	1.4%
Luxembourg	-	33	104	-	-	38	175	2.4%	170	2.1%
Germany	-	-	115	-	2	3	120	1.6%	392	4.9%
Portugal	17	1	40	-	-	-	58	0.8%	70	0.9%
Italy	-	-	32	-	-	-	32	0.4%	35	0.5%
Belgium	-	-	-	-	1	-	1	0.0%	35	0.5%
	17	121	847	31	58	202	1 276	17.2%	1 568	19.6%
Other European Countries										
Switzerland	202	2	-	2	15	72	293	4.0%	525	6.5%
United Kingdom	-	37	20	-	29	35	121	1.6%	268	3.3%
Norway	-	-	29	-	-	20	49	0.7%	55	0.7%
Sweden	-	-	-	-	-	26	26	0.4%	33	0.4%
Hungary	-	-	15	-	-	-	15	0.2%	18	0.2%
Denmark	-	-	-	-	-	-	-	-	4	0.0%
	202	39	64	2	44	153	504	6.9%	903	11.1%
North America										
USA	625	151	444	321	10	55	1 606	21.8%	1 929	24.0%
Mexico	-	-	27	-	-	71	98	1.3%	134	1.7%
	625	151	471	321	10	126	1 704	23.1%	2 063	25.7%
South America, Latin America & Caribbean										
Brazil	-	610	676	446	23	-	1 755	23.8%	1 433	17.8%
Argentina	-	-	258	-	-	-	258	3.5%	167	2.1%
Ecuador	-	-	73	-	-	-	73	1.0%	85	1.1%
Honduras	-	-	50	-	-	-	50	0.7%	50	0.6%
Panama	-	-	38	-	-	-	38	0.5%	42	0.5%
Peru	-	-	30	-	-	-	30	0.4%	52	0.6%
Colombia	-	-	24	-	-	-	24	0.3%	27	0.3%
Costa Rica	-	-	5	-	-	-	5	0.1%	5	0.1%
Chile	-	-	-	-	-	2	2	0.0%	11	0.1%
	-	610	1 154	446	23	2	2 235	30.3%	1 872	23.2%
Other Countries										
Singapore	-	-	58	-	-	-	58	0.8%	67	0.8%
United Arab Emirates	-	40	-	-	-	-	40	0.5%	-	-
Australia	-	1	-	-	-	-	1	0.0%	2	0.0%
Japan	-	-	-	-	-	-	-	-	1	0.0%
	-	41	58	-	-	-	99	1.3%	70	0.8%
Private Banking[2]	-	-	1 401	-	102	65	1 568	21.2%	1 576	19.6%
	844	962	3 995	800	237	548	7 386	100.0%	8 052	100.0%

1 Group's net exposure in terms of country of domicile of the final credit risk counterparty, after taking into account netting and cash collateral.
2 Net exposure to Private Banking customers is collateralised by highly liquid investments.

5 The allocation to the country is based on the country of incorporation of the relevant client, except for off-shore jurisdictions, where the exposure is allocated to the country of the relevant client's ultimate parent.

Credit risk concentrations by geography - Bank (audited)

USD m	Central Banks	Loans to Banks	Loans to Customers	Securities	Derivatives	Guarantees and Commitments	Net Exposure [1] 31.12.16	%	Net Exposure [1] 31.12.15	%
Eurozone Countries										
Netherlands	-	35	282	31	9	-	357	7.7%	494	9.6%
France	-	-	85	-	43	155	283	6.1%	252	4.9%
Spain	-	-	189	-	3	7	199	4.3%	111	2.2%
Luxembourg	-	21	104	-	-	38	163	3.5%	166	3.2%
Germany	-	-	115	-	2	4	121	2.6%	391	7.6%
Portugal	17	1	40	-	-	-	58	1.3%	70	1.4%
Italy	-	-	32	-	-	-	32	0.7%	35	0.7%
Belgium	-	-	-	-	1	-	1	0.0%	35	0.7%
	17	57	847	31	58	204	1 214	26.2%	1 554	30.3%
Other European Countries										
United Kingdom	-	16	20	-	25	35	96	2.1%	233	4.5%
Switzerland	-	-	-	-	16	71	87	1.9%	175	3.4%
Norway	-	-	29	-	-	20	49	1.1%	55	1.1%
Sweden	-	-	-	-	-	26	26	0.6%	33	0.6%
Hungary	-	-	15	-	-	-	15	0.3%	18	0.3%
Denmark	-	-	-	-	-	-	-	0.0%	4	0.1%
	-	16	64	-	41	152	273	6.0%	518	10.0%
North America										
USA	-	233	444	272	11	55	1 015	21.9%	958	18.6%
Mexico	-	-	27	-	-	71	98	2.1%	133	2.6%
	-	233	471	272	11	126	1 113	24.0%	1 091	21.2%
South America, Latin America & Caribbean										
Brazil	-	210	676	444	23	-	1 353	29.2%	1 167	22.6%
Argentina	-	-	258	-	-	-	258	5.6%	167	3.2%
Ecuador	-	-	73	-	-	-	73	1.6%	85	1.6%
Honduras	-	-	50	-	-	-	50	1.1%	50	1.0%
Panama	-	-	38	-	-	-	38	0.8%	42	0.8%
Peru	-	-	30	-	-	-	30	0.6%	52	1.0%
Colombia	-	-	24	-	-	-	24	0.5%	27	0.5%
Costa Rica	-	-	5	-	-	-	5	0.1%	5	0.1%
Chile	-	-	-	-	-	2	2	0.0%	11	0.2%
	-	210	1 154	444	23	2	1 833	39.5%	1 606	31.0%
Other Countries										
Singapore	-	-	58	-	-	-	58	1.3%	67	1.3%
United Arab Emirates	-	40	-	-	-	-	40	0.9%	-	-
	-	40	58	-	-	-	98	2.2%	67	1.3%
Private Banking[2]	-	-	-	-	99	-	99	2.1%	319	6.2%
	17	556	2 594	747	232	484	4 630	100.0%	5 155	100.0%

1 Bank's net exposure in terms of country of domicile of the final credit risk counterparty, after taking into account netting and cash collateral.
2 Corresponds to Embedded Derivatives in Structured Notes sold to Private Banking customers. These derivatives are covered with mirror transactions closed with market counterparties.

b) Market risk

The table below shows the average amounts of Value at Risk ("VaR") for the Group and for the Bank in 2016 and 2015.

Market Risk - VaR

	Group				Bank			
USD'000	1st Half	2nd Half	2016	2015	1st Half	2nd Half	2016	2015
average amounts								
Interest rate risk	547	403	475	665	552	448	500	724
Foreign exchange risk	134	129	131	278	109	116	113	112
Equity price risk	52	-	26	4	52	-	26	4
Total VaR	557	439	498	935	567	472	519	757

The following tables summarise the exposure to interest rate risk, on 31 December 2016 and 2015, and include the financial assets and liabilities at book value, by repricing or maturity date.

Interest rate risk - Group (audited)

2016 USD m	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**31.12.16 Total**
Non-trading Financial Assets							
Cash and balances at central banks	844	-	-	-	-	-	844
Financial assets designated at fair value	-	-	444	-	-	-	444
Loans and advances to banks	539	111	308	20	-	-	978
Loans and advances to customers	1 413	1 321	1 102	621	37	(18)	4 476
Financial assets available for sale	-	55	27	274	-	-	356
Total	2 796	1 487	1 881	915	37	(18)	7 098
Non-trading Financial Liabilities							
Deposits from banks	190	210	401	-	-	-	801
Customer accounts	2 564	40	299	-	-	-	2 903
Debt securities in issue	208	775	616	647	25	(4)	2 267
Subordinated liabilities	-	30	-	-	-	-	30
Total	2 962	1 055	1 316	647	25	(4)	6 001
Interest rate gap by period	(166)	432	565	268	12		
Cumulative interest rate gap	(166)	266	831	1 099	1 111		

2015 USD m	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**31.12.15 Total**
Non-trading Financial Assets	3 280	1 541	1 847	1 127	24	(20)	7 799
Non-trading Financial Liabilities	3 449	1 258	1 399	706	3	(3)	6 812
Interest rate gap by period	(169)	283	448	421	21		
Cumulative interest rate gap	(169)	114	562	983	1 004		

Interest rate risk - Bank (audited)

2016 USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	31.12.16 Total
Non-trading Financial Assets							
Cash and balances at central banks	17	-	-	-	-	-	17
Financial assets designated at fair value	-	-	444	-	-	-	444
Loans and advances to banks	573	-	-	-	-	-	573
Loans and advances to customers	654	722	935	482	6	(17)	2 782
Financial assets available for sale	-	31	-	272	-	-	303
Total	1 244	753	1 379	754	6	(17)	4 119
Non-trading Financial Liabilities							
Deposits from banks	193	210	401	-	-	-	804
Customer accounts	125	28	300	-	-	-	453
Debt securities in issue	208	775	616	647	25	(4)	2 267
Subordinated liabilities	-	30	-	-	-	-	30
Total	526	1 043	1 317	647	25	(4)	3 554
Interest rate gap by period	718	(290)	62	107	(19)		
Cumulative interest rate gap	718	428	490	597	578		

2015 USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	31.12.15 Total
Non-trading Financial Assets	1 402	778	1 468	1 001	24	(20)	4 653
Non-trading Financial Liabilities	745	1 314	1 397	706	3	(3)	4 162
Interest rate gap by period	657	(536)	71	295	21		
Cumulative interest rate gap	657	121	192	487	508		

The portfolio sensitivity analysis presented below considers a 100 basis points shock in interest rates based on a static assessment of the portfolio (it does not take into account management actions to mitigate potential losses).

Interest Rate Risk - DV +100bp

	Group		Bank	
USD'000	**2016**	**2015**	**2016**	**2015**
USD	774	5 010	5 118	5 570
EUR	2 143	559	4 275	725
BRL	(1 210)	-	(1 210)	-
Other currencies	57	61	10	2
Total	1 764	5 630	8 193	6 297

The exchange rate risk of the Bank's portfolio is monitored on a daily basis.

As of 31 December 2016 and 2015, the net positions in foreign currencies with currency-risk exposure, as well as the impact on net income before taxation of a 10% depreciation of the USD against these currencies, are shown in the following table (it does not take into account management actions to mitigate potential losses):

Exchange Rate Risk

	Group						Bank					
	2016			2015			2016			2015		
USD'000	Long Position	Short Position	Impact	Long Position	Short Position	Impact	Long Position	Short Position	Impact	Long Position	Short Position	Impact
Euros	-	(72 147)	(7 215)	-	(2 926)	(293)	-	(19)	(2)	-	(2 380)	(238)
Brazilian Reais	2 206	-	221	-	(6 454)	(645)	2 134	-	213	-	(6 563)	(656)
Sterling Pounds	-	(6 223)	(622)	-	(2 958)	(296)	-	(6 030)	(603)	-	(3 562)	(356)
Swiss Francs	23 385	-	2 339	-	(871)	(87)	10	-	1	-	-	-
Other currencies	-	(1)	-	373	-	37	4	-	-	-	(552)	(55)
Total	25 591	(78 371)	(5 277)	373	(13 209)	(1 284)	2 148	(6 049)	(391)	-	(13 057)	(1 305)

c) Liquidity risk

The liquidity pool represents the unencumbered resources, in amount and quality, immediately available to meet the outflows in an event of liquidity stress, as follows:

Liquidity pool

	Group					Bank				
USD m	31.12.16 Liquidity pool [1]	%	Of which: HQLA[2] elegible	31.12.15 Liquidity pool [1]	%	31.12.16 Liquidity pool [1]	%	Of which: HQLA[2] elegible	31.12.15 Liquidity pool [1]	%
Cash and balances at central banks	576	36%	463	1 280	62%	16	2%	16	1	0%
Financial assets										
Government bonds										
AAA rated	352	22%	352	414	20%	303	30%	303	342	38%
AA+ to AA- rated	-	-	-	35	2%	-	-	-	35	4%
Other government bonds	593	36%	-	139	7%	591	58%	-	139	15%
Overnight placements with Banks	101	6%	-	200	10%	101	10%	-	381	42%
	1 046	64%	352	788	38%	995	98%	303	897	100%
Total	1 622	100%	815	2 068	100%	1 011	100%	319	898	100%

1 Considers only unencumbered assets.
2 High quality liquid assets, disregarding liquid assets with transfer restrictions

The following tables present the cash flows related to financial assets and liabilities (including derivatives) receivable and payable by remaining contractual maturities at the balance sheet date. The amounts disclosed are the contractual undiscounted cash flows, except for financial assets and liabilities recognised in the balance sheet at fair value, in which case the amounts correspond to the book value. Except for these, the balances in the table do not agree directly to the amounts in the balance sheet as the tables incorporate all cash flows, on an undiscounted basis.

Liquidity risk at 31.12.16 - Group

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.16 Total
Financial assets						
Cash and balances at central banks	844	-	-	-	-	844
Trading assets	17	-	18	82	42	159
Financial assets designated at fair value	-	-	444	-	-	444
Loans and advances to banks	500	112	347	21	-	980
Loans and advances to customers [1]	949	923	1 078	1 698	66	4 714
Financial assets available for sale	-	31	51	274	-	356
	2 310	1 066	1 938	2 075	108	7 497
Financial liabilities						
Trading liabilities	(17)	-	(20)	(94)	(28)	(159)
Deposits from banks	(81)	(89)	(497)	(108)	-	(775)
Customer accounts	(2 563)	(40)	(301)	-	-	(2 904)
Debt securities in issue[1]	(141)	(200)	(759)	(1 163)	(35)	(2 298)
Subordinated liabilities	-	-	(30)	-	-	(30)
	(2 802)	(329)	(1 607)	(1 365)	(63)	(6 166)
Derivatives[2]						
Positive flow	1	2	3	3	9	18
Negative flow	(11)	(1)	(4)	(4)	(10)	(30)
	(10)	1	(1)	(1)	(1)	(12)
Liquidity gap by period	(502)	738	330	709	44	1 319

1 Embedded derivatives were included together with the host contracts (IFRS 7 par B11A).
2 Derivatives under CSA agreements were considered MTM net of collateral (net basis by counterparty) under the "Up to 1 month" bucket.

Liquidity risk at 31.12.15 - Group

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.15 Total
Financial assets						
Cash and balances at central banks	1 561	-	-	-	-	1 561
Trading assets	-	-	10	76	19	105
Financial assets designated at fair value	-	-	71	134	-	205
Loans and advances to banks	452	25	243	-	-	720
Loans and advances to customers[1]	645	941	1 203	2 075	50	4 914
Financial assets available for sale	-	22	130	264	-	416
	2 658	988	1 657	2 549	69	7 921
Financial liabilities						
Trading liabilities	-	-	(12)	(86)	(7)	(105)
Deposits from banks	(120)	(74)	(686)	(442)	-	(1 322)
Customer accounts	(2 799)	-	(100)	-	-	(2 899)
Debt securities in issue[1]	(126)	(327)	(488)	(1 356)	(3)	(2 300)
Subordinated liabilities	-	-	-	(31)	-	(31)
	(3 045)	(401)	(1 286)	(1 915)	(10)	(6 657)
Derivatives[2]						
Positive flow	1	2	6	1	-	10
Negative flow	(20)	(3)	(3)	(3)	-	(29)
	(19)	(1)	3	(2)	-	(19)
Liquidity gap by period	(406)	586	374	632	59	1 245

1 Embedded derivatives were included together with the host contracts (IFRS 7 par B11A).
2 Derivatives under CSA agreements were considered net of collateral (net basis by counterparty) under the "Up to 1 month" bucket.

Liquidity risk at 31.12.16 - Bank

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.16 Total
Financial assets						
Cash and balances at central banks	17	-	-	-	-	17
Trading assets	17	-	18	82	42	159
Financial assets designated at fair value	-	-	444	-	-	444
Loans and advances to banks	530	-	35	-	-	565
Loans and advances to customers[1]	232	310	864	1 548	35	2 989
Financial assets available for sale	-	31	-	272	-	303
	796	341	1 361	1 902	77	4 477
Financial liabilities						
Trading liabilities	(17)	-	(20)	(94)	(28)	(159)
Deposits from banks	(85)	(89)	(497)	(108)	-	(779)
Customer accounts	(125)	(28)	(301)	-	-	(454)
Debt securities in issue[1]	(141)	(200)	(759)	(1 163)	(35)	(2 298)
Subordinated liabilities	-	-	(30)	-	-	(30)
	(368)	(317)	(1 607)	(1 365)	(63)	(3 720)
Derivatives[2]						
Positive flow	-	1	2	1	-	4
Negative flow	(17)	-	-	(2)	-	(19)
	(17)	1	2	(1)	-	(15)
Liquidity gap by period	411	25	(244)	536	14	742

1 Embedded derivatives were included together with the host contracts (IFRS 7 par B11A).
2 Derivatives under CSA agreements were considered MTM net of collateral (net basis by counterparty) under the "Up to 1 month" bucket.

Liquidity risk at 31.12.15 - Bank

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.15 Total
Financial assets						
Cash and balances at central banks	1	-	-	-	-	1
Trading assets	-	-	10	76	19	105
Financial assets designated at fair value	-	-	71	134	-	205
Loans and advances to banks	661	-	49	-	-	710
Loans and advances to customers[1]	126	232	1 048	1 961	50	3 417
Financial assets available for sale	-	-	105	237	-	342
	788	232	1 283	2 408	69	4 780
Financial liabilities						
Trading liabilities	-	-	(12)	(86)	(7)	(105)
Deposits from banks	(171)	(130)	(687)	(442)	-	(1 430)
Customer accounts	(71)	(7)	(98)	-	-	(176)
Debt securities in issue[1]	(126)	(327)	(488)	(1 356)	(3)	(2 300)
Subordinated liabilities	-	-	-	(31)	-	(31)
	(368)	(464)	(1 285)	(1 915)	(10)	(4 042)
Derivatives[2]						
Positive flow	1	1	3	1	-	6
Negative flow	(19)	(1)	(1)	(3)	-	(24)
	(18)	-	2	(2)	-	(18)
Liquidity gap by period	402	(232)	-	491	59	720

1 Embedded derivatives were included together with the host contracts (IFRS 7 par B11A).
2 Derivatives under CSA agreements were considered net of collateral (net basis by counterparty) under the "Up to 1 month" bucket.

d) Funding

The tables below illustrate the funding composition and the main funding highlights as of 31 December 2016 and 2015:

Funding composition (audited)

	Group				Bank			
USD m	**31.12.16**	%	**31.12.15**	%	**31.12.16**	%	**31.12.15**	%
Wholesale funding								
Deposits from banks	801	13.3%	1 350	19.8%	804	22.6%	1 454	34.9%
Debt securities in issue								
Floating Rate Notes	6	0.1%	5	0.1%	6	0.2%	5	0.1%
Certificates of deposit	562	9.4%	508	7.5%	562	15.8%	508	12.2%
Structured notes	1 699	28.3%	1 989	29.2%	1 699	47.7%	1 990	47.9%
Subordinated liabilities	30	0.5%	30	0.4%	30	0.8%	30	0.7%
	3 098	51.6%	3 882	57.0%	3 101	87.3%	3 987	95.8%
Customer deposits	2 903	48.4%	2 930	43.0%	453	12.7%	176	4.2%
Total funding	6 001	100.0%	6 812	100.0%	3 554	100.0%	4 163	100.0%

Funding Highlights (audited)

	Group		Bank	
USD m	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
Total Funding	6 001	6 812	3 554	4 163
Wholesale Funding	3 098	3 882	3 101	3 987
of which:				
<1 year residual maturity	1 810	1 911	1 813	2 015
>1 year residual maturity	1 288	1 971	1 288	1 972
Customer deposits	2 903	2 930	453	176
Loan-to-Deposit ratio	154.2%	159.8%	614.1%	1806.5%
Loan-to-Wholesale funding ratio	144.5%	120.6%	89.7%	79.7%

Note 42 - Capital Management

The following disclosures relating to capital management are unaudited unless otherwise stated, and should be read in conjunction with the Capital section of the Strategic Report on page 11.

The Group's objectives when managing capital are: (i) to safeguard the Group's ability to continue as a going concern so that it can continue to provide the returns for shareholders and benefits for other stakeholders; (ii) to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate; and (iii) to maintain a strong capital base to support the development of its business. These objectives are achieved through well-embedded capital management practices.

The Group annually prepares an Internal Capital Adequacy Assessment Process ("ICAAP") document in order to ensure that it remains adequately capitalised. All of the Group's key risks are captured by the ICAAP so as to calculate the internal capital adequacy under normal and stressed times over a three-year planning horizon.

IBBAInt also has a Recovery Plan, where a set of credible actions that would allow the Bank to increase its capital level, if required, are identified.

The capital managed by the Group broadly includes share capital, reserves and subordinated debt. These are all part of the Group's regulatory capital composition, as follows:

Regulatory Capital composition

	Group			Bank		
USD m	**31.12.16**	**31.12.15**	**% Change**	**31.12.16**	**31.12.15**	**% Change**
Common equity tier 1 capital	992	945	5.0%	610	594	2.7%
Permanent share capital	600	600	-	600	600	0.0%
Profit and loss account and other reserves	467	424	10.1%	421	408	3.2%
Intangible assets	(74)	(78)	(5.1%)	-	(1)	(100.0%)
Prudent valuation adjustments	(1)	(1)	-	(1)	(1)	-
Significant investments	-	-	-	(410)	(412)	(0.5%)
Tier 2 capital	8	10	(20.0%)	8	11	(27.3%)
Total regulatory capital	**1 000**	**955**	**4.7%**	**618**	**605**	**2.1%**
Total capital requirements	**440**	**422**	**4.3%**	**285**	**312**	**(8.7%)**
Risk-weighted assets (RWA)[1]	**5 506**	**5 280**	**4.3%**	**3 568**	**3 896**	**(8.4%)**
Common equity tier 1 ratio	18.0%	17.9%		17.1%	15.2%	
Total capital ratio	18.2%	18.1%		17.3%	15.5%	

1 Total capital requirements x 12.5

Capital requirements

	Group		Bank	
USD m	**31.12.16**	**31.12.15**	**31.12.16**	**31.12.15**
By Risk Type				
Credit Risk [1]	397	384	272	298
Credit Valuation Adjustment [2]	1	2	1	2
Market Risk [3]	8	3	2	3
Operational Risk [4]	34	33	10	9
Total	**440**	**422**	**285**	**312**

1 "Standardised Approach" for credit risk; "Mark-to-market Method" for counterparty credit risk
2 "Standardised Method" for credit valuation adjustment risk
3 "Maturity-based calculation of general risk" for market risk
4 Basic Indicator Approach" for operational risk

Risk-weighted assets - Credit Risk - Group

	Group					
USD m	**31.12.16**			**31.12.15**		
Assets	**Balance sheet amount**	**Average weight**	**Risk weighted assets (RWA)**	**Balance sheet amount**	**Average weight**	**Risk weighted assets (RWA)**
Cash and balances at central banks and other banks	1 822	30.1%	549	2 497	9.3%	233
Loans and advances to customers	4 476	89.4%	4 000	4 682	87.2%	4 082
Securities non-trading book [1]	799	0.3%	2	620	-	-
Trading assets	401	15.7%	63	649	13.4%	87
Property. plant and equipment	16	100.0%	16	18	100.0%	18
Goodwill and intangible assets [2]	90	-	-	93	-	-
Investment in associates	-	-	-	26	100.0%	26
Tax assets	19	78.9%	15	18	100.0%	18
Other assets	31	100.0%	31	39	100.0%	39
Total Assets	**7 654**	**61.1%**	**4 676**	**8 642**	**52.1%**	**4 503**
Guarantees	133	68.4%	91	185	60.5%	112
Commitments	437	45.8%	200	436	42.9%	187
Total Off-Balance Sheet	**570**	**51.1%**	**291**	**621**	**48.1%**	**299**
Total RWA for Credit Risk	**8 224**	**60.4%**	**4 967**	**9 263**	**51.8%**	**4 802**
Credit Risk capital requirement			**397**			**384**

1 Subject to market risk requirements.
2 Deducted from own funds.

Risk-weighted assets - Credit Risk - Bank

	Bank					
USD m	31.12.16			31.12.15		
Assets	**Balance sheet amount**	**Average weight**	**Risk weighted assets (RWA)**	**Balance sheet amount**	**Average weight**	**Risk weighted assets (RWA)**
Cash and balances at central banks and other banks	590	31.2%	184	928	17.0%	158
Loans and advances to customers	2 782	95.2%	2 649	3 179	91.7%	2 915
Securities non-trading book [1]	748	-	-	547	-	-
Trading assets	395	13.4%	53	649	13.1%	85
Property. plant and equipment	7	100.0%	7	9	100.0%	9
Goodwill and intangible assets [2]	-	-	-	1	-	-
Investment in associates	512	49.8%	255	539	51.6%	278
Tax assets	3	100.0%	3	3	200.0%	6
Other assets	6	100.0%	6	14	100.0%	14
Total Assets	**5 043**	**62.6%**	**3 157**	**5 869**	**59.0%**	**3 465**
Guarantees	48	102.1%	49	67	100.0%	67
Commitments	436	45.9%	200	435	43.0%	187
Total Off-Balance Sheet	**484**	**51.4%**	**249**	**502**	**50.6%**	**254**
Total RWA for Credit Risk	**5 527**	**61.6%**	**3 406**	**6 371**	**58.4%**	**3 719**
Credit Risk capital requirement			**272**			**298**

1 Subject to market risk requirements.
2 Deducted from own funds.

Note 43 - Parent undertakings

The Bank's ultimate parent undertaking and controlling entity and the largest group of which the Bank is a member and for which group financial statements are prepared is Itaú Unibanco Holding S.A. ("Itaú Unibanco), a publicly listed joint stock company with its head office in Brazil. Copies of its consolidated financial statements can be obtained from www.itauri.com.br.

The Bank's immediate parent undertaking is Itaúsa Europa Investimentos SGPS, Lda. ("IEI")[6]. IEI is a holding company incorporated in Portugal, indirectly owned by Itaú Unibanco, and is the parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Bank is a member. IEI prepares consolidated financial statements available at www.itausaeuropa.eu.

Note 44 - Other disclosures

The fees charged by the Statutory Auditors, in the years 2016 and 2015, were as follows

Statutory Auditors Fees

USD'000	Group		Bank	
	31.12.16	**31.12.15**	**31.12.16**	**31.12.15**
Statutory auditing				
- rendered to the Bank	211	231	211	231
- rendered to the Subsidiaries	594	528		
Other assurance and reliability services				
- rendered to the Bank	85	85	85	85
- rendered to the Subsidiaries	251	226		
	1 141	**1 070**	**296**	**316**

6 IEI was re-registered as Itaúsa Europa Investmentos, SGPS, Unipessoal, Lda. in February 2017.

Independent auditors’ report to the members of Itau BBA International plc

Report on the financial statements

Our opinion

In our opinion, Itau BBA International plc’s Group financial statements and parent company (“Bank”) financial statements (the “financial statements”):

- give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2016 and of the group’s and the parent company’s profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Group and Bank Balance Sheet as at 31 December 2016;
- the Group and Bank Income Statement and Statement of Comprehensive Income for the year then ended;
- the Group and Bank Statement of Cash Flows for the year then ended;
- the Group and Bank Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors’ Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 21 and 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Michael Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
17 March 2017

Glossary

Assets under Management ("AuM") – Client assets managed or administered by International Private Banking subsidiaries.

The Bank – Itau BBA International plc.

Basel III – The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV, from 1 January 2014 onward.

Capital requirements – Amount to be held by the Group to cover the risk of losses to a certain confidence level.

Common equity tier 1 capital – The highest quality form of regulatory capital under CRD IV that comprises share capital and related share premium, retained earnings and other reserves, less specified regulatory adjustments.

Common equity tier 1 ratio – Common equity tier 1 capital as a percentage of risk-weighted assets.

Corporate & Investment Banking ("CIB") – Business segment mainly focused on international financial operations associated with trade and investment relationships between Latin America and Europe.

Coverage ratio – Impairment allowance as a percentage of impaired loans.

CRD IV – The Fourth Capital Requirements Directive refers to an EU Directive and an accompanying Regulation (CRR) that together prescribe EU capital adequacy and liquidity requirements and implements Basel III in the European Union. CRD IV/CRR came into effect on 1 January 2014.

Credit impairment charges – Impairment charges on loans and advances to customers.

Credit Portfolio – Portfolio composed of Loans and advances to customers, Guarantees given (excluding assets given as guarantee) and Commitments.

Credit risk – The risk of the Group suffering financial loss if a counterparty fails to fulfil its contractual obligations under a loan agreement or similar. In the context of risk-weighted assets by risk type, it is the component of risk-weighted assets that represents the risk of loss in loans and advances and similar transactions resulting from the default of the counterparty.

Credit Valuation Adjustment ("CVA") – The difference between the risk-free value of a portfolio of trades and the market value which takes into account the counterparty's risk of default. The CVA therefore represents an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk of the counterparty due to any failure to perform on contractual agreements.

Cost-to-income ratio – Total operating expenses divided by Total operating income.

Financial Conduct Authority ("FCA") – The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the PRA's scope.

Foreign Exchange ("FX") – Foreign exchange rates related transactions.

Foreign exchange risk – The impact of changes in foreign exchange rates and volatilities.

The Group – Itau BBA International plc together with its subsidiaries.

Impaired loans – Impaired loans are loans where the bank does not expect to collect all the contractual cash flows or to collect them when they are contractually due, due to observed evidence of deterioration. These may include loans that are still performing.

Impairment allowance – Impairment allowance for loans and advances to customers is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary. Changes to the impairment allowances are reported in the consolidated income statement as part of the credit impairment charge.

Interest rate risk – The risk of interest rate volatility adversely impacting the Group's net interest income. It measures the impact of changes in interest (swap) rates and volatilities on cash instruments and derivatives.

International Private Banking ("IPB") – Business segment that comprises the wealth management services provided by the International Private Banking subsidiaries.

Leverage ratio – Tier 1 capital divided by the exposure measure. A non-risk based ratio introduced as part of Basel III that acts as a supplementary buffer to the risk based capital requirements.

Liquidity pool – The liquidity pool comprises cash at central banks and highly liquid collateral specifically held by the bank as a contingency to enable it to meet cash outflows in the event of stressed market conditions.

Loan-to-Deposit ratio – The ratio of loans and advances to customers net of loan impairment divided by customer accounts.

Loan-to-Wholesale funding ratio – The ratio of loans and advances to customers net of loan impairment divided by the amount of wholesale funding.

Market risk – The risk of suffering financial loss due to changes in market prices. In the context of risk-weighted assets by risk type, it is the component of risk-weighted assets that represents the risk of loss resulting from fluctuations in the market value of positions held in equities, commodities, currencies, derivatives and interest rates.

Non-Performing Loans ("NPL") – More than 90 days overdue loans.

Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In the context of risk-weighted assets, it is the component of risk-weighted assets that represents the risk of loss resulting from the above.

Overdue loans – Loans are overdue when a counterparty has failed to make a payment when contractually due.

Prudential Regulation Authority ("PRA") – The statutory body responsible for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms in the UK from 1 April 2013. The PRA is a subsidiary of the Bank of England.

Regulatory Capital – The amount of capital that a bank holds to satisfy regulatory requirements.

Repurchase agreement ("repo") / reverse repurchase agreement ("reverse repo") – Arrangements that allow counterparties to use financial securities as collateral for an interest bearing cash loan. The borrower agrees to sell a security to the lender subject to a commitment to repurchase the asset at a specified price on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repurchase agreement or repo; for the counterparty to the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Return on average assets ("ROA") – Calculated as profit after tax and non-controlling interests for the period, divided by average assets for the period.

Return on average equity ("ROE") – Calculated as profit after tax and non-controlling interests for the period, divided by average equity for the period.

Risk-Weighted Assets ("RWA") – A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.

Tier 1 capital – A measure of a bank's financial strength defined by the PRA. It captures Core Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.

Tier 2 capital – In the context of CRD IV, a measure of a bank's financial strength, including qualifying subordinated debt and other Tier 2 securities as defined in the Capital Requirements Regulation.

Tangible net worth – Shareholders' equity excluding non-controlling interests adjusted for the deduction of intangible assets and goodwill.

Total capital ratio – Total regulatory capital as a percentage of risk-weighted assets.

Total Exposure – Group's exposure in terms of country of domicile of the final credit risk counterparty (sum of assets, guarantees and commitments by country-risk, net of risk mitigation, and excluding investments in associates, tangible, intangible and other assets, goodwill, revocable commitments, commitment letters and trading securities whose risk is transferred to investors).

Wholesale funding – Funding from banks, debt securities in issue and subordinated liabilities.

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