Consolidated Annual Report 2013

Itau BBA International plc

Itaú BBA

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Consolidated Annual Report

Introduction

The directors present their Strategic Report and the Directors' Report, followed by the audited consolidated financial statements of Itau BBA International plc ("IBBAInt", "Itau BBA UK" or the "Bank") and its subsidiaries (together the "Group"), and related notes for the year ended 31 December 2013.

The Group presents in a separate document (Pillar 3 Report) additional disclosures concerning regulatory capital information and risk management. The Pillar 3 Report is published at 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. Unless otherwise stated, the income statement analyses compare the 12 months to 31 December 2013 to the corresponding 12 months of 2012 and balance sheet comparisons relate to the corresponding positions at 31 December 2012.

Forward-looking Statements

This document contains forward-looking statements with respect to the business, strategy and plans of the Group, 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 Bank'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 Bank 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 a decline in value of, or cessation of usage of, the euro, 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 factors domestically 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, 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

Background of the Bank

The Bank is a public limited company incorporated under the Laws of England and Wales, registered with company number 7425398, authorised by the Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority (the "FCA") and by the PRA.

Itau BBA UK was originally purchased on 26 January 2012 by Itaúsa Portugal, SGPS, S.A. ("Itaúsa Portugal"), a Portuguese holding company. Itaúsa Portugal is the sole shareholder of the Bank. Itaúsa Portugal is indirectly owned by Itaú Unibanco Holding S.A., a publically listed joint stock company with its head office in Brazil (collectively, the "Itaú Group"). The Itaú Group is the largest Latin American financial conglomerate with nearly 96 thousand employees and operations in 20 countries throughout the Americas, Asia and Europe.

Itaúsa Portugal acquired Itau BBA UK with a view to it carrying on wholesale banking business in the United Kingdom ("UK") and elsewhere in Europe, thereby enabling it to effect a cross-border merger by absorption (the "Merger") with Banco Itaú BBA International, S.A. ("Itaú BBA Portugal"), a Portuguese bank wholly-owned by Itaúsa Portugal. To this end, in February 2012, Itau BBA UK applied for the relevant permissions and authorisation to enable it to carry on wholesale banking activities and effect the Merger. Itau BBA UK obtained authorisation from the UK authorities on 17 December 2012 to operate as a wholesale bank under Part IV of the Financial Services and Markets Act 2000 (the "FSMA"). Pending the completion of the Merger, the regulated activities of Itau BBA UK were restricted to the activities necessary for it to succeed Itaú BBA Portugal under the Merger.

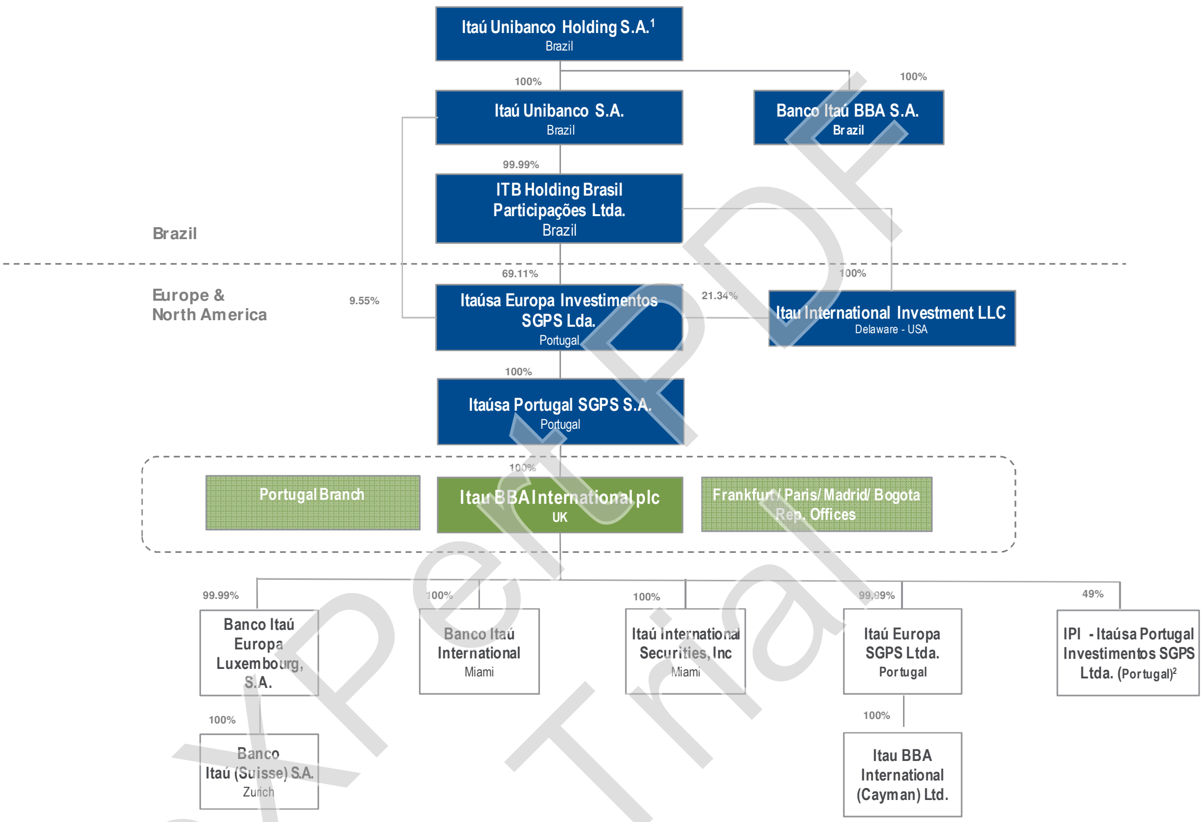
The Merger took effect on 1 February 2013 (the "Effective Date"), at which point the Bank commenced its operations as an authorised wholesale UK bank. Up until the Effective Date Itau BBA UK had not conducted any business and its activities were limited to the activities necessary to effect the Merger and thereby succeed Itaú BBA Portugal.

As a result of the Merger (i) Itau BBA UK's regulatory permissions set out in the PRA / FCA Register (FRN575225) became active; (ii) all the assets and liabilities of Itaú BBA Portugal were automatically transferred, by operation of law, to Itau BBA UK; (iii) Itaúsa Portugal, as sole shareholder of both Itaú BBA Portugal and Itau BBA UK, was allotted new ordinary shares in Itau BBA UK as consideration; (iv) an authorised branch of Itau BBA UK was established in Portugal; and (v) Itaú BBA Portugal ceased to exist as a separate legal entity.

The Merger was carried out with the purpose of consolidating and expanding the Itaú Group's operations in Europe through the creation of a centralised banking operation in London while maintaining an ongoing presence in Portugal. Prior to the Merger taking effect, Itaúsa Portugal increased the capital of Itau BBA UK by an amount of 200 USD m, in view of the development of the Bank's business following the Merger. It is expected that as a London based bank, Itau BBA UK (as successor of Itaú BBA Portugal) will improve its performance, expand its customer base, strengthen its position as an international platform for the Itaú Group, achieve greater diversification of risk and funding sources and increase profitability indicators.

On 17 May 2013 the Bank applied to re-register as a public company and on that same day the Registrar of Companies for England and Wales issued a certificate of re-registration certifying that the Bank, formerly a private company limited by shares, had been re-registered under the Companies Act 2006 as a public limited company and was from then on incorporated under the name of **Itau BBA International plc**.

Organisational chart



[1] Ultimate parent company
[2] The remaining 51% of IPI belong to another Itaú Unibanco group entity.

Business Model and Strategy

From its creation in 1994, the Bank (then known as Banco Itaú Europa, S.A.) has been a key element in the internationalisation strategy of the Itaú Group. In coordination with the other units – mainly in Brazil and, more recently in Argentina, Chile, Paraguay, Uruguay and USA – IBBAInt has served as the Group's international platform, offering regulated banking operations on a competitive basis with other international banks.

IBBAInt operates in the corporate and investment banking segment, where the strategic focus is on large economic groups and cross-border business between developed markets, in particular between Europe and Latin America. In addition, IBBAInt centralises, via its subsidiaries, the International Private Banking activity of the Itaú Group, a segment where it has rapidly conquered a place amongst the leaders in the Latin American market.

The significant expansion in business volume and geographical coverage has consolidated IBBAInt's position as the international platform of the Itaú Group and bears testimony to the Bank's strategic importance in terms of articulation and growth of business areas geared towards internationalisation, in particular i) Private Banking; ii) investment banking products and concession of structured financing to corporate clients.

IBBAInt positions itself as capable of supplying a comprehensive range of products, developed especially with a view to the needs of its customers and of the Itaú Group.

The Group's business model is based in two segments of business activity, viewed as target business areas, each supplying a set of related products or services that imply similar risks and benefits: Corporate & Investment Banking (CIB) and International Private Banking (IPB). Below follows a summary of the business model and underlying strategy for these segments.

Corporate & Investment Banking (CIB)

The Itaú Group segments all Corporate and Investment Banking and Institutional Treasury Management activity in its subsidiary, Banco Itaú BBA S.A. (Itaú BBA) – the largest and leading wholesale bank in Brazil according to various specialist journals. Itaú BBA's clients are about 3,000 large corporate groups which are amongst the largest economic groups in Brazil, Argentina, Chile, Colombia and Peru. Itaú BBA's strategy is to acquire in-depth knowledge of the companies with which it works, in order to provide them with a comprehensive and differentiated service, offering a wide array of financial products, with aggregate value, ranging from the simplest products to more structured alternatives.

The business model which guides IBBAInt's transactions in the Corporate & Investment Banking segment conforms with Itaú BBA's business model. Indeed, in an increasingly globalised world, where management of financial activities – especially of the inherent risks thereof – is achieved in an increasingly centralised manner it is strategically decisive to achieve global commercial coverage.

More specifically, this business model is structured via geographical coverage that encompasses – in the European area – business platforms located in London, Lisbon, Madrid, Frankfurt and Paris.

The products and services offered to Latin American companies seeking to implement viable business activities in developed markets or multinational companies aiming to pursue transactions in Latin America, include the following:

• Credit products in general, guarantees, commitments etc., in a bilateral format or via a syndication regime with other institutions;

• Financial derivatives, in particular hedging instruments for the exchange rate and interest rate risks of subsidiaries in Latin America;

• Advisory services in investment/disinvestment processes in Latin America;

• Advisory services, via units of the Itaú Group, in contracting local financing for subsidiaries of its European clients in Latin America;

• Assistance in relation to the products and services offered to subsidiaries of its European clients in Latin America (e.g. cash management, FX, etc.).

IBBAInt offers structures that allow clients to operate with several products available in the Brazilian market, such as NDF's, Swaps and FX Swaps, and provides a wide array of products specially developed to meet the needs of investors interested in this market. Origination activity directly benefits from synergies and cross-selling with IBBAInt's Client desk. There has been growing demand for derivatives from institutional investors and by private banking clients seeking structures that enable them to hedge market risks.

International Private Banking (IPB)

The International Private Banking area of the Itaú Group – Itaú Private Bank – is dedicated to providing financial advice and asset management services to Latin American clients, through a comprehensive, diversified and specialised array of banking products and services. Currently, Itaú Private Bank has clients from Argentina, Brazil, Chile, Mexico, Uruguay, Venezuela and other countries.

The advisory service is provided by experienced teams of relationship managers, backed up by investment specialists who provide the most appropriate solution according to each client's risk profile.

Private banking activity is pursued by Banco Itaú International located in Miami, which operates in conjunction with Itaú International Securities Inc., Banco Itaú Europa Luxembourg S.A. (Itaú Europa Luxembourg or BIEL), and Banco Itaú (Suisse) S.A., with its registered office in Zurich, Switzerland.

As part of the reorganisation of the Group activities in Europe, the international private banking European activities are being concentrated in Banco Itaú (Suisse), and BIEL is being progressively deactivated.

The Group's Private Banking strategy is based upon careful segmentation of its clients and portfolio, in order to make it possible to develop products and services that are specifically targeted at each segment. The Group has been continually seeking to develop new sources of business and greater diversification of its revenue sources, enlarging the spectrum of products and services rendered. A major contribution to this goal has been the synergies created by the product development areas based in London and São Paulo. The improved balance in the composition of the business results has also delivered greater security in terms of continuity, performance and the capacity to face possible adversities arising from any specific business area.

With open business architecture, the Group offers clients investment management and advisory services, encompassing the Group's own products and services and those provided by leading international managers and a wide array of service providers operating in the Private Banking industry.

Credit has been another business alternative that has enabled better use of the expanding client base, mainly through leverage of business activity and negotiation of spreads on loans. Provision of guarantees to support these clients' business dealings is also one of the main products offered.

In December 2013, IBBAInt's consolidated assets under management reached 15 USD bn.

Performance Highlights

Performance Highlights

Key Performance Indicators

USD'000	31.12.13	31.12.12	% Change
Net income	23,524	22,434	4.9%
Net operating income	210,015	183,423	14.5%
Efficiency ratio [1]	81.9%	94.2%	
Return on average equity	2.3%	2.3%	
Credit Portfolio [2]	5,396,609	5,103,806	5.7%
Non Performing Loans (NPL) [3]	9,622	11,897	(19.1%)
NPL / Loans and advances to customers	0.3%	0.3%	
Liquidity pool [4]	1,384,121	986,027	40.4%
Risk-weighted assets	5,042	4,746	6.2%
Core tier 1 ratio	17.7%	18.2%	
Total capital ratio	18.1%	18.8%	

Other Performance Indicators

USD'000	31.12.13	31.12.12	% Change
Total Assets	6,799,982	6,519,248	4.3%
Assets under management (AuM)	14,976,779	14,744,790	1.6%
Guarantees and commitments [5]	1,612,332	1,228,551	31.2%
Loans and advances to customers	3,784,277	3,875,255	(2.3%)
Loan impairment	7,194	15,693	(54.2%)
NPL impairment	2,887	11,897	(75.7%)
Customer accounts	2,304,088	2,076,858	10.9%
Equity attributable to shareholders	1,013,759	975,191	4.0%
Core tier 1 capital	891	864	3.1%
Total regulatory capital	913	893	2.2%
Return on average assets	0.4%	0.3%	
Loan impairment / NPL	74.8%	131.9%	
NPL impairment / NPL	30.0%	100.0%	
Loan-to-Deposit ratio	164.2%	186.6%	
Loan-to-Wholesale funding ratio	133.5%	139.9%	
Loans and advances to customers / Total assets	55.7%	59.4%	
Equity attributable to shareholders / Total assets	14.9%	15.0%	

[1] Total operating expenses / Total operating income

[2] Portfolio of Loans and advances to customers, Guarantees and commitments.

[3] More than 90 days overdue loans. The amount as of 31.12.12 corresponds to a fully impaired loan which was meanwhile written-off from the balance sheet, justifying a decrease in the same amount of the Loan impairment.

[4] Details on the Liquidity pool can be found in section Funding & Liquidity of the Strategic Report.

[5] Assets given as guarantee are not included.

Performance Review

Results

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

Results

USD'000	31.12.13	31.12.12	% Change
Net interest income	66,513	60,173	10.5%
Net fee and commission income	116,092	107,794	7.7%
Net income on financial operations	23,689	7,681	208.4%
Other operating income	8,467	7,255	16.7%
Total operating income	214,761	182,903	17.4%
Provisions and impairment charges	(4,746)	520	(1012.7%)
Net operating income	210,015	183,423	14.5%
Total operating expenses	(175,851)	(172,377)	2.0%
Share of profit in associates	50	2,998	
Profit before tax	34,214	14,044	143.6%
Taxation	(10,689)	8,390	
Profit attributable to Shareholders	23,525	22,434	4.9%
Non-controlling interests	(1)	-	
Net income	23,524	22,434	4.9%

Profitability indicators

	31.12.13	31.12.12
Efficiency ratio [1]	81.9%	94.2%
Return on average equity	2.3%	2.3%
Return on average assets	0.4%	0.3%

[1] Total operating expenses / Total operating income

The consolidated net income for 2013 was 23.5 USD m, an amount 4.9% higher than the one for 2012. The net operating income for the Group grew by 14.5% when comparing these two periods.

Net interest income increased by 10.5% mainly from IPB activities, due to an increase in the average private banking credit portfolio in 2013.

Net fee and commission income increased by 7.7%, mainly from the asset management activities of the IPB segment. Nevertheless, the CIB segment also registered a relevant increase in commissions due to an increase in the intermediation activity in Debt Capital Markets as well as other financial services provided to our corporate customers.

Capital Markets and Treasury activities had a positive evolution in 2013, supporting the strong increase of the Net income on financial operations, which grew by 208%. This increase is mostly derived from the CIB segment and is essentially comprised by gains in the issuance of structured notes, derivatives products and foreign exchange gains.

The amount of provisions and impairment charges, representing a loss of 4.7 USD m in 2013, is mainly justified by the impairment of a corporate loan (2.8 USD m) and of a financial asset available for sale (1.4 USD m) from the CIB segment.

The increase of operating income gave rise to an improvement of the efficiency ratio from 94.2% to 81.9%.

Capital

The balance sheet herein presented for 31 December 2012 is a *proforma*. The permanent share capital as of that date was restated and corresponds to the share capital of Itaú BBA Portugal, converted to USD and adjusted to reflect the capital of Itau BBA UK (USD 200 m).

Regulatory Capital composition

USD m	31.12.13	31.12.12	% Change
Core tier 1 capital	891	864	3.1%
Permanent share capital	600	926	(35.2%)
Profit and loss account and other reserves	392	46	752.2%
Intangible assets	(101)	(108)	(6.5%)
Tier 2 capital	22	29	(24.1%)
Total regulatory capital	**913**	**893**	**2.2%**
Total capital requirements	**403**	**380**	**6.1%**
Risk-weighted assets (RWA) [1]	**5,042**	**4,746**	**6.2%**
Core tier 1 ratio	**17.7%**	**18.2%**	
Total capital ratio	**18.1%**	**18.8%**	

[1] Total capital requirements x 12.5

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As of 31 December 2012 (prior to the Merger), Itaú BBA Portugal had a share capital of €535,624 thousand (USD 725,771 thousand at the foreign exchange rate at the Merger), represented by 107,124,869 ordinary shares with a nominal value of €5 each, fully subscribed and paid by the sole shareholder – Itaúsa Portugal. As of that date, Itau BBA UK had a share capital of 200 USD m, represented by 20,000,015 ordinary shares with a nominal value of USD 10 each, fully subscribed and paid by the same sole shareholder – Itaúsa Portugal.

On the Effective Date, Itaú BBA Portugal ceased to exist and all of its assets and liabilities were transferred to Itau BBA UK. The shares held by Itaúsa Portugal in Itaú BBA Portugal were cancelled, and in exchange for this cancellation, Itau BBA UK issued and allotted 40,000,030 new ordinary shares with a nominal value of USD 10 each to Itaúsa Portugal, as a consideration for the assets and liabilities transferred.

As a result of this share issue, the share capital of Itau BBA UK upon completion of the merger and as of 31 December 2013 is of 600 USD m, represented by 60,000,045 ordinary shares with a nominal value of USD 10 each, fully owned by Itaúsa Portugal.

The Group's regulatory capital composition at 31 December 2013 is very similar to the one at 31 December 2012. Capital ratios remain strong, with a total capital ratio of 18.1% at the end of the 2013.

Although it is forecasted an increase of the risk-weighted assets due to the projected business growth, the solvency of the Group is expected to remain at very comfortable levels in the foreseeable future.

Risk-weighted assets - Credit Risk

USD m	31.12.13			31.12.12		
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	1,792	11.6%	207	1,488	11.6%	173
Loans and advances to customers	3,784	90.5%	3,425	3,875	84.2%	3,263
Securities non-trading book	591	2.9%	17	309	3.6%	11
Trading assets	412	16.3%	67	584	17.1%	100
Property, plant and equipment	22	100.0%	22	20	100.0%	20
Goodwill and intangible assets	101	0.0%	-	108	0.0%	-
Investment in associates	32	100.0%	32	31	100.0%	31
Tax assets	31	0.0%	-	40	0.0%	-
Other assets	35	100.0%	35	64	96.9%	62
Total Assets	**6,800**	**56.0%**	**3,805**	**6,519**	**56.1%**	**3,660**
Guarantees	292	82.2%	240	348	63.2%	220
Commitments	1,321	34.8%	460	881	40.3%	355
Total Off-Balance Sheet	**1,613**	**43.4%**	**700**	**1,229**	**46.8%**	**575**
Total RWA for Credit Risk	**8,413**	53.5%	**4,505**	**7,748**	54.7%	**4,235**
Credit Risk capital requirement			**360**			**339**

Capital requirements

USD m	31.12.13	31.12.12
By Risk Type		
Credit Risk	360	339
Market Risk	13	13
Interest rate risk	6	11
Foreign exchange risk	7	2
Operational Risk	30	28
Total	**403**	**380**

Funding & Liquidity

In the corporate and investment banking segment, the Group focuses in raising wholesale funding using products that are driven by demand from private banking customers and wholesale market counterparties. The Bank does not seek to actively market its paper or its name to raise funding liabilities.

There has been a significant trend towards the issuance of structured notes over the recent years, which represented around 34% of total funding at the end of period (31.12.12: 27.9%).This has enabled the Group to respond to Private Banking clients' needs, and also diversify the Group's funding sources. The structured notes portfolio is a stable, medium/long-term funding, diversified through different types of structures (credit, FX, equity, index and interest rate linked) and underlyings.

The Group presents a high volume of customer deposits, representing 44.8% of total funding (31.12.12: 42.9%) mainly from Private Banking activities.

The relocation from Portugal to the UK is expected to enhance the Group's funding strategy and help increase and diversify funding sources even further, by type, region and client base.

Funding composition

USD m	31.12.13	%	31.12.12	%
Wholesale funding				
Deposits from banks	900	17.5%	609	12.6%
Debt securities in issue				
Floating Rate Notes	6	0.1%	148	3.1%
Certificates of deposit	151	2.9%	631	13.0%
Structured notes	1,747	34.0%	1,352	27.9%
Subordinated liabilities	30	0.6%	30	0.6%
	2,834	55.2%	2,770	57.1%
Customer deposits	2,304	44.8%	2,077	42.9%
Total funding	5,138	100.0%	4,847	100.0%

Funding Highlights

USD m	31.12.13	31.12.12	% Change
Total Funding	5,138	4,847	6.0%
Wholesale Funding	2,834	2,770	2.3%
of which:			
<1 year residual maturity	1,155	2,062	
>1 residual year maturity	1,679	708	
Customer deposits	2,304	2,077	10.9%
Loan-to-Deposit ratio	164.2%	186.6%	
Loan-to-Wholesale funding ratio	133.5%	139.9%	

The Group's liquidity pool as at 31 December 2013 was USD 1,384 m (31.12.12: USD 986 m). The increase in size of the liquidity pool is due to the new liquidity framework in line with the PRA's standards.

Liquidity pool

USD m	31.12.13 Liquidity pool	%	Liquidity pool of which: PRA eligible [1]	Liquidity pool of which: PRA LAB included [2]	31.12.12 Liquidity pool	%
Cash and balances at central banks	570	41%	350	1	682	69%
Government bonds						
Financial assets designated at fair value						
AA+ to AA- rated	45	3%	45	45	-	-
Other government bonds	113	8%	-	-	107	11%
Financial assets available for sale						
AAA rated	304	22%	304	201	103	10%
AA+ to AA- rated	59	4%	59	59	62	6%
Other government bonds	40	3%	-	-	-	-
Reverse repurchase agreements						
AA+ to AA- rated	228	16%	228	228	-	-
	789	57%	636	533	272	28%
Credit institution bonds						
Financial assets available for sale						
AA+ to AA- rated	5	0%	-	-	5	1%
Other Credit institution bonds	20	1%	-	-	27	3%
	25	2%	-	-	32	3%
Total	1,384	100%	986	534	986	100%

[1] PRA eligible assets as per BIPRU 12.7.

[2] PRA LAB (Liquidity Asset Buffer) included, correspond to liquid assets booked in the Bank (solo basis).

Business Segment Review

Results

USD'000	CIB [2] 31.12.13	CIB 31.12.12	CIB % Change	IPB [3] 31.12.13	IPB 31.12.12	IPB % Change
Net income	4,841	2,355	105.6%	18,633	17,081	9.1%
Net operating income	64,254	52,747	21.8%	146,405	131,415	11.4%
Net interest income	34,596	36,145	(4.3%)	31,917	24,028	32.8%
Net fee and commission income	9,627	6,944	38.6%	106,465	100,850	5.6%
Net income on financial operations	22,805	5,788	294.0%	884	1,893	(53.3%)
Other operating income	1,997	3,350	(40.4%)	7,114	4,644	53.2%
Total operating income	69,025	52,227	32.2%	146,380	131,415	11.4%
Total operating expenses	(56,620)	(51,315)	10.3%	(119,875)	(121,801)	(1.6%)
Efficiency ratio [1]	82.0%	98.3%		81.9%	92.7%	
Return on average equity	1.0%	0.5%		3.8%	3.5%	

[1] Total operating expenses / Total operating income

[2] Corporate & Investment Banking

[3] International Private Banking

Balance Sheet

USD m	CIB 31.12.13	CIB 31.12.12	CIB % Change	IPB 31.12.13	IPB 31.12.12	IPB % Change
Total Assets	4,321	4,203	2.8%	2,704	2,834	(4.6%)
Assets under management (AuM)	-	-	-	14,977	14,745	1.6%
Guarantees and commitments [1]	1,139	893	27.5%	476	338	40.8%
Loans and advances to customers	2,335	2,417	(3.4%)	1,449	1,458	(0.6%)
Credit Portfolio [2]	3,474	3,310	5.0%	1,925	1,796	7.2%
Non Performing Loans (NPL) [3]	10	12	(16.7%)	-	-	-
Loan impairment	7	16	(56.3%)	-	-	-
NPL impairment	3	12	(75.0%)	-	-	-
Customer accounts	201	165	21.8%	2,095	1,819	15.2%
Loan-to-Deposit ratio	1161.7%	1464.8%		69.2%	80.2%	
Loan-to-Wholesale funding ratio	76.8%	82.0%		3150.0%	321.9%	
Loans and advances to customers / Total assets	54.0%	57.5%		53.6%	51.4%	
Loan impairment / NPL	70.0%	133.3%		-	-	
NPL impairment / NPL	30.0%	100.0%		-	-	
NPL / Loans and advances to Customers	0.4%	0.5%		-	-	

[1] Securities given as guarantee are not included.

[2] Portfolio of Loans and advances to customers, Guarantees and commitments.

[3] More than 90 days overdue loans. The amount as of 31.12.12 corresponds to a fully impaired loan which was meanwhile written-off from the balance sheet, justifying a decrease in the same amount of the Loan impairment.

Corporate & Investment (CIB)

The CIB net operating income for 2013 was 64.3 USD m, an amount 21.8% higher than the one for 2012.

Results are improving but the strategic decision to reduce risk appetite to new credit exposures in 2012, due to the European crisis, still impacts the activity. This, together with the decrease in interest rate levels, explains the Net interest income decrease of 4.3%.

Net fee and commission income increased by 38.6%, due to an increase in the intermediation activity in Debt Capital Markets as well as other financial services provided to our corporate customers.

Capital Markets and Treasury activities had a positive evolution in 2013, supporting the 294% increase of the Net income on financial operations. This increase is essentially comprised by gains in the issuance of structured notes, derivatives products and foreign exchange gains.

The redomiciliation of the Bank to the UK gave rise to increased staff and administrative costs, which essentially explains the 10.3% increase in Operating Expenses.

Despite the higher cost level, the increase of operating income allowed for an improvement of the efficiency ratio from 98.3% to 82%.

International Private Banking (IPB)

The IPB net operating income for 2013 was 146.4 USD m, an amount 11.4% higher than the one for 2012.

Net interest income increased by 32.8%, due to an increase in the average private banking credit portfolio in 2013.

Net fee and commission income increased 5.6%, derived from asset and fund management, investment advisory, fiduciary deposits and custody services.

The increase of operating income gave rise to an improvement of the efficiency ratio from 92.7% to 81.9%.

Risk Management

Risk is an inherent part of the banking business. The Itaú Group regards risk management as an essential instrument to optimize the use of its resources and to select the best business opportunities in order to maximize the value creation to the shareholders over the long run. The Bank manages risk within the context of the Itaú Group-wide risk management framework.

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 permitting sustained growth of the business. The risk appetite approved by the Board of Directors (the "Board") is rolled out throughout the Bank, including by the definition of risk limits for business lines, legal entities, specific risk categories, concentrations and other levels, and is aligned with the business strategy.

The Board has overall responsibility for ensuring that the Bank maintains an effective risk management framework. The Board has reserved powers to approve: (i) the Bank's strategy and review of its delivery; (ii) the Risk Appetite; (iii) the Capital Plan; and (iv) the appointment and removal of the Chief Risk Officer (the "CRO").

The Board Risk and Capital Committee ("RCC") is responsible for monitoring the Risk Appetite and overseeing the establishment of appropriate systems and controls (including policies, procedures, and governance structures) to ensure key risks are effectively managed.

Under the authority of the Board, the Executive Committee is responsible for day-to-day management of risks in compliance with the Board-approved Risk Appetite.

Through the approval of risk policies, procedures and governance structures (such as Risk, Assets and Liabilities Committee, Products Committee and Credit Committee), the Executive Committee seeks to ensure that the Board-approved Risk Appetite is translated into risk limits and embedded into the strategic and financial planning, decision-making processes and compensation decisions. The Board retains ultimate responsibility for risk management.

Credit risk

Credit risk refers to the possibility of losses associated with: (i) the failure by the borrower or counterparty to fulfill their respective financial obligations under agreed terms, (ii) the depreciation of the credit agreement arising from the deterioration of the borrower's rating, (iii) the reduction of gains or remuneration, (iv) the benefits granted upon renegotiation or (v) the recovery costs.

The Group structures the levels of credit risk that it assumes by placing limits on risk accepted from a client or group of clients or a business segment. These risks are monitored on an ongoing basis and subject to periodical review. Limits are set taking into consideration credit risk, country risk and industry risk. Credit risk exposure is managed through a regular analysis of the ability of clients to meet their obligations regarding the payback of interest and capital, the change of financing limits whenever necessary, and by obtaining collaterals and guarantees.

In relation to the Private Banking segment, the level of credit risk is residual, given that the majority of transactions undertaken in this field are guaranteed by cash deposits or liquid securities held at the creditor institution itself.

a) Maximum exposure to credit risk

The following table presents the worst scenario in terms of the Group's exposure to credit risk as at 31 December 2013 and 2012, without taking into consideration any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. Investments in associated companies, goodwill, tangible and intangible assets, tax and other assets, are excluded from the table, since they are considered to be assets without credit risk. Trading securities are also excluded once that their risk is transferred to investors (see Note 6 to the Financial Statements). In addition to the credit-risk exposure in the balance sheet, the Group assumes exposure to credit risk in relation to items classified in off-balance sheet accounts, i.e. institutional guarantees and irrevocable loan-concession commitments.

Maximum exposure to Credit Risk

USD m	31.12.13	%	31.12.13	%
Balances at Central Banks	571	8.9%	682	11.5%
Financial assets designated at fair value	158	2.5%	107	1.8%
Derivative financial instruments	253	3.9%	269	4.5%
Loans and advances to banks	1,221	19.0%	806	13.6%
Loans and advances to customers	3,785	59.0%	3,875	65.2%
Financial assets available for sale	432	6.7%	202	3.4%
	6,420	100.0%	5,941	100.0%
Off-balance sheet exposures:				
Institutional guarantees	292		348	
Irrevocable Commitments	1,017		742	

b) Internal rating system

The Group implemented an internal rating scale which allows for equivalence between the internal ratings and external ratings. This equivalence is established through probabilities of default, being the internal rating model calibrated to be equivalent to the external rating.

On 31 December 2013, the breakdown of the credit portfolio by internal rating classification is as follows. It is important to mention that the Private Banking business exposures represent about 35.6% of this portfolio (31.12.12: 35.1%) and do not have internal ratings, as they are mostly collateralized by deposits or securities at fair value.

Credit portfolio by Internal rating

USD m	31.12.13	%	31.12.12	%
Internal rating [1]				
Aaa to Aa4	240	4.4%	85	1.7%
A1 to A4	373	6.9%	466	9.1%
Baa1 to Baa4	2,053	38.1%	2,044	40.1%
Ba1 to Ba6	722	13.4%	558	10.9%
B1 to B4	-	-	69	1.4%
Below B4	72	1.3%	73	1.4%
Unrated	14	0.3%	15	0.3%
Private Banking [2]	1,923	35.6%	1,794	35.1%
Total Credit Portfolio	5,397	100.0%	5,104	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 the Loans, Guarantees and Commitments closed with Private Banking customers, which are collateralized by deposits or securities at fair value.

c) 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

USD m	31.12.13	31.12.12
Loans and advances to customers		
- Neither past due nor impaired	3,788	3,883
- Past due but not impaired	-	-
- Impaired	10	12
Commissions related to amortised cost (net)	(7)	(4)
Gross amount of loans and advances to customers	3,791	3,891
Loan impairment	(7)	(16)
Net amount of loans and advances to customers	3,784	3,875

The amount of loans to customers considered to be individually impaired is 10 USD m (31.12.12: 12 USD m). On 31 December 2013, this amount corresponds to a credit operation with a subsidiary of a Spanish company. Due to the nature of this operation, there were insolvency proceeding processes undergoing in different jurisdictions which were relevant to the Bank. It was therefore decided to constitute coverage of 30% of the total risk incurred in this transaction. This coverage assessment was based on the information available at the time (relative to the different stages of each ongoing process), and on internal credit policies. On 31 December 2012, this amount corresponds to a credit operation to a Spanish company declared to be insolvent as homologated by the competent Court in Spain. This loan was considered uncollectible (no reasonable expectation of recovery), and was written off in 2013 through utilisation of the loan impairment provision.

Loans and advances to customers which have been restructured, cease to be considered as overdue but are treated as new loans. The restructuring procedures include: extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. On 31 December 2013, the renegotiated amount of the restructured credits, which otherwise would be past due or impaired, totals 90.6 USD m (31.12.12: 77.2 USD m).

d) 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, based on Standard & Poor's ratings or their equivalent:

Quality of the portfolio of Securities

	Financial assets available for sale		Financial assets designated at fair value	
USD m	31.12.13	31.12.12	31.12.13	31.12.12
AAA	305	132	-	-
AA+ to AA-	59	35	46	-
A+ to A-	5	5	-	-
BBB+ to BBB-	60	25	112	107
Below BBB-	3	5	-	-
Unrated	-	-	-	-
Total	432	202	158	107

e) Country risk exposure

IBBAInt's credit-concession policy is also reflected in the rigorous selection of exposure to country risk. IBBAInt's exposure to emerging markets is essentially concentrated in Brazil (10.4%), benefiting from the vast knowledge and extensive market penetration of the Itaú Group.

Country Risk Exposure

							Total Exposure [1]			
USD m	Central Banks	Loans to Banks	Loans to Customers	Securities	Derivatives	Guarantees and Commitments	31.12.13	%	31.12.12	%
Selected Eurozone Countries										
Portugal	1	-	300	3	-	71	375	5.0%	524	7.5%
Spain	-	6	266	-	-	44	316	4.2%	267	3.8%
Italy	-	-	42	40	-	-	82	1.1%	70	1.0%
	1	6	608	43	-	115	773	10.2%	861	12.3%
Other Eurozone Countries										
Germany	-	245	229	5	3	24	506	6.7%	567	8.1%
France	-	41	139	38	14	179	411	5.4%	321	4.6%
Netherlands	-	-	258	54	-	78	390	5.2%	303	4.3%
Luxembourg	-	152	40	3	-	-	195	2.6%	178	2.6%
Belgium	-	-	-	68	-	-	68	0.9%	101	1.4%
Austria	-	-	-	-	-	-	-	0.0%	81	1.2%
	-	438	666	168	17	281	1,570	20.8%	1,551	22.2%
Other Countries										
USA	456	190	166	247	15	444	1,518	20.1%	1,185	17.0%
Brazil	-	165	450	132	37	-	784	10.4%	812	11.6%
United Kingdom	-	298	-	-	56	100	454	6.0%	227	3.3%
Switzerland	114	19	35	-	8	50	226	3.0%	321	4.6%
Chile	-	-	88	-	-	70	158	2.1%	106	1.5%
Singapore	-	-	68	-	-	11	79	1.0%	1	0.0%
Norway	-	43	-	-	-	25	68	0.9%	18	0.3%
Denmark	-	50	-	-	-	-	50	0.7%	-	0.0%
Argentina	-	-	43	-	-	-	43	0.6%	45	0.6%
Sweden	-	-	-	-	-	41	41	0.5%	40	0.6%
Mexico	-	-	32	-	-	-	32	0.4%	-	0.0%
Bahamas	-	10	-	-	-	-	10	0.1%	16	0.2%
Canada	-	1	-	-	1	-	2	0.0%	4	0.1%
Colombia	-	-	-	-	-	1	1	0.0%	-	0.0%
Cayman	-	1	-	-	-	-	1	0.0%	-	0.0%
	570	777	882	379	117	742	3,467	45.9%	2,775	39.8%
Private Banking [2]	-	-	1,449	-	119	170	1,738	23.0%	1,786	25.6%
	571	1,221	3,605	590	253	1,308	7,548	100.0%	6,973	100.0%

[1] 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 mitigators, and excluding investments in associates, tangible, intangible and other assets, goodwill, revocable commitments, commitment letters and trading securities whose risk is transferred to investors).
[2] Corresponds to the Loans, Guarantees and Commitments and Derivatives closed with Private Banking customers, which are collateralized by deposits or securities at fair value.

f) Industry risk exposure

The concentration level per business sector reveals fairly diversified values, with no major concentrations.

USD m	Loans to Banks and Central Banks	Loans to Customers	Guarantees and Commitments	Securities and Derivatives	Total Exposure [1] 31.12.13	%	31.12.12	%
Financial institutions	1,221	73	-	153	1,447	19.2%	1,035	14.8%
Sovereigns	571	-	-	562	1,133	15.0%	956	13.7%
Oil and gas	-	395	189	7	591	7.8%	522	7.5%
Automotive and autoparts	-	281	255	-	536	7.1%	423	6.1%
Communications	-	299	-	-	299	4.0%	329	4.7%
Food and Beverage	-	154	131	-	285	3.8%	136	2.0%
Heavy construction	-	227	-	-	227	3.0%	194	2.8%
Iron and steel industry	-	154	57	-	211	2.8%	243	3.5%
Energy	-	86	95	1	182	2.4%	199	2.9%
Electronics	-	51	70	-	121	1.6%	81	1.2%
Construction materials	-	116	-	-	116	1.5%	187	2.7%
Trading	-	35	73	-	108	1.4%	83	1.2%
Services - Others	-	31	51	1	83	1.1%	65	0.9%
Fertilizers and agro	-	-	75	-	75	1.0%	50	0.7%
Paper and pulp	-	66	-	-	66	0.9%	98	1.4%
Petrochemicals and Chemicals	-	4	50	-	54	0.7%	120	1.7%
Machinery and heavy equipment	-	-	50	-	50	0.7%	46	0.7%
Sugar and ethanol	-	44	-	-	44	0.6%	153	2.2%
Logistics	-	39	-	-	39	0.5%	39	0.6%
Retail	-	30	-	-	30	0.4%	76	1.1%
Real estate	-	-	2	-	2	0.0%	85	1.2%
Others	-	71	40	-	111	1.5%	67	1.0%
Private Banking [2]	-	1,449	170	119	1,738	23.0%	1,786	25.6%
	1,792	3,605	1,308	843	7,548	100.0%	6,973	100.0%

[1] Group's exposure in terms of risk of the immediate debtor classified by industry sector (sum of assets, guarantees and commitments, net of risk mitigators, and excluding investments in associates, tangible, intangible and other assets, goodwill, revocable commitments, commitment letters and trading securities whose risk is transferred to investors).
[2] Corresponds to the Loans, Guarantees and Commitments and Derivatives closed with Private Banking customers, which are collateralized by deposits or securities at fair value.

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, price indexes and commodity prices, along with various indexes on these risk factors.

During the first quarter of 2013, IBBAInt implemented a new Market Risk Framework which aims to capture all relevant risk dimensions using a comprehensive set of risk metrics such as:

- Parametric VaR (99% confidence level, 1 day holding period);
- Stress-VaR based on three different scenarios;
- Sensitivities;
- Market Value / Notional.

IBBAInt operates under defined limits for exposure to Market Risk both on an aggregated level (parametric VaR limits, stress-VaR alerts) and granular level (sensitivity limits by currency, market value/notional limit by currency) producing daily Market Risk reports and limit excess reports. In case of a limit or policy breach there is an escalation process to report such breach to the relevant committees and bring the exposure within the limits in a timely manner. The Bank also has stop-loss controls which constitute an additional mechanism for ensuring discipline in the use of exposure limits.

The tables below identified the average amounts of the main market risk metrics in both Trading and Banking books.

Market Risk - Banking Book

average amounts

USD'000	1st Half	2nd Half	2013	2012
Interest rate risk	500	342	420	351
Foreign exchange risk	738	557	646	224
Equity price risk	35	2	18	25
Total VaR	**1,273**	**901**	**1,084**	**600**

Market Risk - Trading Book

average amounts

USD'000	1st Half	2nd Half	2013	2012
Interest rate risk	36	51	44	111
Foreign exchange risk	1	1	1	153
Total VaR	**37**	**52**	**45**	**264**

IBBAInt's Trading Book exposure to market risk decrease during 2013 was driven by a lower activity on the Trading desk, whereas the increase in the Banking Book was mainly due to the change of IBBAInt's functional currency from Euro to USD.

Interest rate risk

The following table summarises the Group's exposure to interest rate risk, on 31 December 2013 and 2012. It includes the Group's financial assets and liabilities (excluding those held for trading), at book value, categorized by the most recent of the interest repricing rate and maturity dates.

Interest rate risk

USD m	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	31.12.13 Total
Non-trading Financial Assets							
Cash and balances at central banks	571	-	-	-	-	-	571
Financial assets designated at fair value	63	-	36	59	-	-	158
Loans and advances to banks	969	157	75	20	-	-	1,221
Loans and advances to customers	1,004	1,222	868	638	60	(8)	3,784
Financial assets available for sale	-	8	120	276	28	-	432
Total	2,607	1,387	1,099	993	88	(8)	6,166
Non-trading Financial Liabilities							
Deposits from banks	115	203	307	275	-	-	900
Customer accounts	2,077	79	144	4	-	-	2,304
Debt securities in issue	192	481	490	702	39	-	1,904
Subordinated liabilities	-	-	-	30	-	-	30
Total	2,384	763	941	1,011	39	-	5,138
Interest rate gap by period	223	624	158	(18)	49		
Cumulative interest rate gap	223	847	1,005	987	1,036		

USD m	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	31.12.12 Total
Non-trading Financial Assets	2,567	1,144	1,587	319	60	(4)	5,673
Non-trading Financial Liabilities	2,401	1,270	853	322	-	-	4,846
Interest rate gap by period	166	(126)	734	(3)	60		
Cumulative interest rate gap	166	40	774	771	831		

The Group uses the sensitivity analysis technique which measures the estimated changes in net income and shareholders' equity of an immediate 1% increase (100 basis points) in market interest rates. This analysis is only for illustrative purposes, bearing in mind that in practice market rates rarely change in isolation. The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the fair value of derivative financial instruments and other financial assets and liabilities;

- Changes in the fair value of derivative financial instruments and other financial assets and liabilities are estimated by discounting the future cash flows of net present values, utilising market rates ruling at the end of the year.

Under these assumptions, an increase of 1% in market interest rates for all the currencies in which the Group has financial instruments as at 31 December 2013 would result in a decrease in net income before taxation of approximately USD 1.423 thousand and in shareholders' equity of USD 12.971 thousand.

Time differences between maturities or interest rate redefinition periods between asset-based and liability-based positions (rate repricing risk) are monitored daily through reports which demonstrate the Basis Point Value (DV+01).

Interest Rate Risk - Non-trading Portfolio DV + 1 bp

USD'000	2013	2012
USD	37	39
EUR	(44)	(45)
Other currencies	(1)	(6)
Total	(8)	(12)

Exchange rate risk

The exchange rate risk of the Bank's portfolio is monitored on a daily basis. In terms of currency-conversion risk, the Group's conservative policy is particularly evident, considering the management and mitigation of the risks stemming from its activity.

As of 31 December 2013, 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 functional currency against these currencies, is shown in the following table:

Exchange Rate Risk

	Position		2013	Position		2012
USD'000	Long	Short	Impact	Long	Short	Impact
Euros	-	(4,921)	(492)	-	(2,044)	(204)
Brazilian Reais	-	(2,939)	(294)	987	-	99
Sterling Pounds	-	(4,140)	(414)	-	(2,436)	(244)
Other currencies	-	(35,994)	(3,599)	19,506	-	1,951
Total	**-**	**(47,994)**	**(4,799)**	**20,493**	**(4,480)**	**1,602**

Liquidity risk

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

The Group's liquidity risk is managed by a combination of policies, monitoring, stress testing, limit setting and governance. At the Bank level, liquidity risk is monitored and managed in a manner that is consistent with its overall Liquidity Risk Appetite and in compliance with the PRA's standards.

Stress testing is accomplished through projections of contractual and behavioural cash flows, in order to measure the Group's liquidity survival horizon. The liquidity stress scenarios run are under Liquidity Risk Appetite and aligned to the PRA's recommended stresses:

- 90 day idiosyncratic stress scenario
- 90 day market-wide stress scenario
- Combined 90 day market-wide and idiosyncratic scenario
- 90 day firm specific stress scenarios

The RALCO (Risks, Assets and Liabilities Committee) monitors and discusses (at least monthly) liquidity positions, respective controls and contingency plans. The Bank maintains a Contingency Funding Plan (CFP) to ensure that it has enough liquidity resources to meet its liabilities in case any stressed liquidity scenario materialises. The CFP fits in the Bank's liquidity risk management framework designed to meet the PRA requirements and is in line with the Liquidity Risk Management Policy. The CFP provides solutions and escalation processes to address a short term or prolonged liquidity stress period. The CFP also defines the liquidity resources to meet the Bank's liabilities while maintaining its franchise, protecting its reputation and restoring the business to its normal operation.

The following table analyses the Group's assets and liabilities operations by relevant maturity groups, based on the scheduled date of payment, acceptance or maturity of the operations. The derivatives take into consideration all the existing future cash-flows. Customer demand deposits were included in the "Up to 1 month" column.

Liquidity risk

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.13 Total
Liabilities						
Trading liabilities	2	6	28	100	22	158
Deposits from banks	62	252	259	344	-	917
Customer accounts	2,062	78	139	4	-	2,283
Debt securities in issue	76	90	426	1,309	39	1,940
Subordinated liabilities	-	-	-	30	-	30
Other liabilities	58	23	-	11	-	92
Total financial liabilities	2,260	449	852	1,798	61	5,420
Total financial assets	2,190	1,027	652	2,234	308	6,411
Liquidity gap by period	(70)	578	(200)	436	247	991
Cumulative liquidity gap	(70)	508	308	744	991	
Trading Derivatives						
Positive Flow	261	474	57	100	11	903
Negative Flow	(267)	(486)	(53)	(101)	(11)	(918)
Total	(6)	(12)	4	(1)	-	(15)

USD m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	31.12.12 Total
Total financial liabilities	1,974	954	1,265	982	56	5,231
Total financial assets	2,215	710	693	1,946	559	6,123
Liquidity gap by period	241	(244)	(572)	964	503	892
Cumulative liquidity gap	241	(3)	(575)	389	892	
Trading Derivatives - Total Flow	(1)	3	22	26	(11)	39

Operational risk

Operational risk is the possibility of loss resulting from inadequate or failed internal processes, people and systems, external events, internal and external fraud. Operational risk focuses on the risks arising from the people, the systems and the processes through which the Bank operates. It also includes other classes of risk, such as legal risks (risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations; and exposure to litigation), physical or environmental risks (e.g. terrorism; natural disasters), reputational risk and strategic risk.

The Bank has developed a robust operational risk management framework supported by policies and procedures, as described below:

• Operational Risk Management Framework – The ORM Framework considers the activities for identification, measuring, monitoring, reporting and mitigation with the purpose of keeping losses within the acceptable level defined at the Risk Appetite approved by the Board. Those activities are supported by governance, system & infrastructure and documentation.

• Policies and procedures – The following policies and procedures are in place for the CIB segment:

- Operational Risk Management Policy;
- Risk and Control Self-Assessment procedure;
- Risk Event Management and Operational Losses data collection; and
- Risk Indicator Procedure.

In line with the three lines of defence model, the heads of business and support areas are responsible for managing operational risks and implementing first line controls. All the Bank's employees are required to attend training sessions by the operational risk manager with a view to further increase their awareness around operational risk matters.

Acknowledgements

Our mission at IBBAInt is to be the bank of choice with respect to Latin America for the most important corporations and investors in Europe and Asia. In 2013, the Bank has made tangible progress towards that goal by consolidating the new European headquarters in London, strengthening its systems and controls, growing revenues and diversifying funding sources.

These accomplishments and investments demonstrate yet again the competence and commitment of our teams and the reiterated trust of our shareholders in the further evolution and growth of our business as the European wholesale banking platform of the Itaú Group.

Finally, a word of thanks to our customers, whose satisfaction with the service and products we provide confers sustainability to our results and motivates us to serve them even better.

On behalf of the Board of Directors:

Charles Stewart - Director and CEO

Date: 3 April 2014

Directors' Report

Directors

The following directors held office throughout the year and to the date of approval of this report (except where otherwise shown):

Director	Role	Appointment	Resignation
Candido Botelho Bracher	Chairman Non-Executive	24 September 2012	
Alberto Fernandes	Non-Executive	24 September 2012	
Alfredo Egydio Setubal	Non-Executive	24 September 2012	
Almir Vignoto	Executive – CEO*	26 January 2012	15 August 2013
Charles Fyfe Stewart	Executive – CEO*	16 July 2013	
Eduardo Vassimon	Non-Executive	22 May 2013	
Gay Huey-Evans	Non-Executive**	24 September 2012	
José Francisco Claro	Executive	26 January 2012	26 November 2013
Paulo Jorge dos Santos Lopes	Executive	24 September 2012	
Renato Lulia Jacob	Executive	24 September 2012	
Ricardo Villela Marino	Non-Executive	24 September 2012	
Robert Mark Pickering	Non-Executive**	24 September 2012	
Sergio Werlang	Non-Executive	24 September 2012	1 February 2013

*Charles Fyfe Stewart succeeded Almir Vignoto as CEO from 6 August 2013.

** Gay Huey-Evans and Robert Mark Pickering are independent non-executive directors in light of the independence criteria set out by the UK Governance Code.

The directors have expressed their willingness to continue in office and a resolution to re-appoint each of them will be proposed at the forthcoming annual general meeting.

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.

The directors also have the benefit of the indemnity provision contained in the Bank's articles of association, in force throughout 2013 and currently in force.

Share capital

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

Results and dividends

The consolidated income statement of the Group shows a profit for the year ended 31 December 2013 of USD 23,524 thousand (31.12.12: USD 22,434 thousand).

During the year of 2013, the Bank paid no dividends to the sole shareholder. No dividend with respect of 2013 is proposed to be paid (2012: nil).

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 elected to prepare the financial statements in accordance with the 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;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

On behalf of the Board of Directors:

Charles Stewart - Director and CEO

Date: 3 April 2014

Financial Statements 2013

Itau BBA International plc

Consolidated Balance Sheet

USD'000	Note	As at 31.12.13	*Proforma* [1] As at 31.12.12
ASSETS			
Cash and balances at central banks	5	571,094	682,191
Trading assets	6	158,774	314,626
Financial assets designated at fair value	7	158,276	107,496
Derivative financial instruments	8	253,465	269,312
Loans and advances to banks	9	1,221,044	806,394
Loans and advances to customers	10	3,784,277	3,875,255
Financial assets available for sale	11	432,369	201,541
Property, plant and equipment	12	21,699	20,242
Goodwill and Intangible assets	13	100,754	107,535
Investments in associates and subsidiaries	14	32,346	30,923
Current tax assets		13,858	9,509
Deferred tax assets	15	17,140	30,405
Other assets	16	34,886	63,819
Total Assets		**6,799,982**	**6,519,248**
LIABILITIES			
Trading liabilities	17	158,541	314,322
Derivative financial instruments	8	288,438	261,184
Deposits from banks	18	899,818	608,672
Customer accounts	19	2,304,088	2,076,858
Debt securities in issue	20	1,904,488	2,130,561
Provisions	30	163	1,500
Current tax liabilities		16,231	13,834
Deferred tax liabilities	22	10,615	15,339
Subordinated liabilities	21	30,059	30,089
Other liabilities	23	173,765	91,674
Total Liabilities		**5,786,206**	**5,544,033**
SHAREHOLDERS' EQUITY			
Share capital	25	600,000	925,771
Revaluation reserves	26	(4,829)	(787)
Other reserves	27	493,269	126,845
Retained earnings		(74,681)	(76,638)
Total Equity attributable to Shareholders		**1,013,759**	**975,191**
Non-controlling interests	28	17	24
Total Equity		**1,013,776**	**975,215**
Total Liabilities and Equity		**6,799,982**	**6,519,248**

[1] Corresponds to Itau BBA Portugal consolidated audited balance sheet as of 31 December 2012, converted to USD and adjusted to reflect the capital of the legal acquirer - Itau BBA UK (USD 200 million).

These financial statements were approved by the Board of Directors on 3 April 2014 and were signed on its behalf by:

Charles Stewart - Director and CEO

Consolidated Income Statement

USD'000	Note	Year ended 31.12.13	Year ended 31.12.12
Interest income		120,340	127,872
Interest expense		(53,827)	(67,699)
Net interest income	31	**66,513**	**60,173**
Fee and commission income		126,491	119,010
Fee and commission expense		(10,399)	(11,216)
Net fee and commission income	32	**116,092**	**107,794**
Net income on financial assets at fair value through profit or loss		20,433	1,390
Net income on financial assets available for sale		(98)	(12)
Dividend income		-	54
Net income on other financial operations		3,354	6,249
Net income on financial operations	33	**23,689**	**7,681**
Other operating income	34	**8,467**	**7,255**
Total operating income		**214,761**	**182,903**
Credit impairment charges and other provisions	30	(4,746)	520
Net operating income		**210,015**	**183,423**
Staff costs	35	(94,887)	(86,609)
General and administrative expenses	36	(61,081)	(59,923)
Depreciation and impairment of property, plant and equipment	12	(4,639)	(3,788)
Amortization and impairment of intangible assets	13	(8,528)	(13,688)
Other operating expenses	37	(6,716)	(8,369)
Total operating expenses		**(175,851)**	**(172,377)**
Share of profit in associates	14	**50**	**2,998**
Profit before tax		**34,214**	**14,044**
Income tax	38	(10,689)	8,390
Profit attributable to Shareholders		**23,525**	**22,434**
Non-controlling interests	28	(1)	-
Net income		**23,524**	**22,434**

Consolidated Statement of Changes in Equity

USD'000	Share Capital	Revaluation reserves	Other reserves	Retained earnings	Non-controlling interests	Total
Balances on 01.01.13	**925,771**	**(787)**	**126,845**	**(76,638)**	**24**	**975,215**
Comprehensive income for the year	-	(4,042)	-	23,524	-	**19,482**
Post-merger capital reallocation	(325,771)	-	325,771	-	-	**-**
Distribution of 2012 net income to reserves	-	-	22,554	(22,554)	-	**-**
Currency translation differences	-	-	18,099	-	-	**18,099**
Dividends	-	-	-	-	(7)	**(7)**
Other movements	-	-	-	987	-	**987**
Balances on 31.12.13	**600,000**	**(4,829)**	**493,269**	**(74,681)**	**17**	**1,013,776**

USD'000	Share Capital	Revaluation reserves	Other reserves	Retained earnings	Non-controlling interests	Total
Balances on 01.01.12	**725,771**	**(256)**	**175,722**	**(162,749)**	**24**	**738,512**
Share capital increase	200,000	-	-	-	-	**200,000**
Comprehensive income for the year	-	(531)	-	22,434	-	**21,903**
Distribution of 2011 net income to reserves	-	-	(65,658)	65,658	-	**-**
Currency translation differences	-	-	16,781	-	-	**16,781**
Other movements	-	-	-	(1,981)	-	**(1,981)**
Balances on 31.12.12	**925,771**	**(787)**	**126,845**	**(76,638)**	**24**	**975,215**

Consolidated Statement of Comprehensive Income

USD'000	Year ended 31.12.13	Year ended 31.12.12
Net income for the year	23,524	22,434
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Remeasurements of post employment defined benefit obligations	(1,397)	-
Items that may subsequently be reclassified to profit or loss:		
Available for sale financial assets :		
Fair value (losses)/gains	(1,689)	1,596
Tax effect	118	(424)
Net investment hedge	15	-
Currency translation differences	(1,089)	(1,703)
Total comprehensive income for the year	**19,482**	**21,903**
Attributable to:		
Equity shareholders	19,483	21,903
Non-controlling interests	(1)	-
Total comprehensive income for the year	**19,482**	**21,903**

Consolidated Statement of Cash Flows

USD'000	31.12.13	31.12.12
Cash flow from operating activities		
Interest and commissions received	247,006	240,491
Interest and commissions paid	(82,083)	(45,163)
Payments to employees and suppliers	(154,958)	(160,703)
Operating income before changes in operating assets and liabilities	9,965	34,625
(Increase)/decrease in operating assets		
Trading assets and Financial assets available for sale	(103,347)	61,078
Loans and advances to banks	(343,630)	87,900
Balances at central banks	111,096	37,256
Loans and advances to customers	89,761	137,951
Other operating assets	39,655	15,543
Increase/(decrease) in operating liabilities		
Trading liabilities	(117,897)	(135,364)
Deposits from banks	290,669	(463,834)
Customer accounts	227,616	130,998
Debt securities in issue	(207,875)	(44,270)
Other operating liabilities	88,613	(14,243)
Changes in operating assets and liabilities	74,661	(186,985)
Income tax	(3,618)	(13,487)
Net cash flow from operating activities	**81,008**	**(165,847)**
Cash flow from investing activities		
Dividends received	-	55
Purchase of fixed assets	(9,716)	(9,964)
Net cash flow from investing activities	**(9,716)**	**(9,909)**
Cash flow from financing activities		
(Purchases) / Sales of subordinated debt	-	(79,124)
Interest paid from financing activities	(280)	(1,590)
Share capital increase	-	200,000
Net cash flow from financing activities	**(280)**	**119,286**
Effects of exchange rate change on cash and cash equivalents	(991)	3,169
Increase/(decrease) on cash and cash equivalents	**70,021**	**(53,301)**
Cash and equivalents at beginning of the year	162,458	215,759
Cash and equivalents at end of the year	232,479	162,458
Cash	148	149
Loans and advances to banks repayable on demand	232,331	162,309
	70,021	**(53,301)**

Notes to the Consolidated Financial Statements

(amounts expressed in thousand US dollars 'USD')

Note 1 - Basis of Preparation

The consolidated financial statements of the Group have been prepared on a going concern basis in accordance with the Companies Act 2006, and in compliance with the International Financial reporting Standards (IFRS) as adopted by the European Union.

The term "Group" refers to Itau BBA International plc together with its subsidiaries. Further analysis on the Group's subsidiaries is included on **Note 14**.

Standards and interpretations recently issued

a) The following standards, amendments and interpretations became effective as of 1 January 2013. None of these has had a material impact on the Group's consolidated financial statements:

IAS 1 (amendment), 'Presentation of financial statements'. This amendment changes the disclosure of items presented in other comprehensive income (OCI), requiring entities to separate items in OCI on whether or not they may be recycled to profit and loss in the future and the related tax amount if OCI items presented before tax.

IAS 12 (amendment), 'Income taxes'. This amendment requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale, except for the investment properties measured at fair value model. The amendments also incorporate into IAS 12 the guidance previously contained in SIC 21, which is accordingly withdrawn.

IAS 19 (amendment), 'Employee benefits'. This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses are recognised immediately, and only, in OCI (no corridor approach allowed). Finance cost for funded benefit plans are calculated on a net funding basis. Termination benefits qualify for recognition only when the employee has no future-service obligation.

IFRS 7 (amendment) 'Disclosures - Offsetting Financial Assets and Financial Liabilities'. This amendment is part of the IASB offsetting project which introduces new disclosure requirements about entity's right to offset (assets and liabilities), the amounts offset, and the effects of these in the credit exposure.

IFRS 13 (new), 'Fair value measurement and disclosure'. IFRS 13 aims to improve consistency by providing a precise definition of fair value and a single source of fair value measurement, and disclosure requirements for use across IFRSs.

b) The following standards, amendments and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods, and the Group has not early adopted them. Their adoption is not expected to have a material impact on the Group's consolidated financial statements:

IFRS 10 (new), 'Consolidated financial statements' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). IFRS 10 replaces all the guidance on control and consolidation in IAS 27 and SIC 12, changing the definition of control and the criteria applied to determine control. The core principal that a consolidated entity presents a parent and its subsidiaries as a single entity remain unchanged.

IFRS 12 (new), 'Disclosure of interest in other entities' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). This standard sets out the required disclosures for all types of interests in other entities, such as: subsidiaries, joint arrangements, associates and structured entities, to allow the evaluation of the nature, risks and financial effects associated with entity's interests.

Amendment to IFRS 10, 11 and 12, 'Transition guidance' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). This amendment clarifies that, when from the adoption of IFRS 10 results a different accounting treatment from IAS 27/SIC12 application, the comparatives must be adjusted to only the preceding comparative period, being the differences calculated recognised as at the beginning of the comparative period, in equity. The IFRS 11 amendment refers to the obligation of impairment testing over the financial investment, which results from the proportional consolidation elimination. Specific disclosures requirements are included in IFRS 12.

IAS 27 (revised 2011), 'Separate financial statements' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). IAS 27 was revised after the issuance of IFRS 10 and contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements.

IAS 28 (revised 2011),'Investments in associates and joint ventures' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). IAS 28 was revised after the issuance of IFRS 11 and prescribes the accounting for investments in associates and joint ventures, and sets out the requirements for the application of equity method.

IAS 32 (amendment) 'Offsetting Financial Assets and Financial Liabilities' (effective for annual periods beginning on or after 1 January 2014). This amendment is part of the IASB offsetting project which clarifies the meaning of "currently has a legally enforceable right to set-off", and clarifies that some gross settlement systems (clearing houses) may be equivalent to net settlement.

IAS 36 (amendment) 'Recoverable amount disclosure for Non-financial assets' (effective for annual periods beginning on or after 1 January 2014). This standard addresses the disclosure of information about the recoverable amount of impaired assets when based on fair value less cost to sell model.

IAS 39 (amendment) 'Novation of derivatives and continuation of hedge accounting' (effective for annual periods beginning on or after 1 January 2014). This amendment allow hedge accounting to continue in a situation where a derivative designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulation.

Amendment to IFRS 10, 11 and IAS 27,'Investment entities' (effective for annual periods beginning on or after 1 January 2014). This amendment defines an investment entity and introduces an exception from consolidation under IFRS 10, for the investment entities that qualify, for which all investments in subsidiaries are required to be measured at fair value through profit and loss under IAS 39. Specific disclosures requirements are included in IFRS 12.

IAS 19 (amendment), 'Defined benefit plans – Employee contributions' (effective for annual periods beginning on or after 1 July 2014). This standard is still subject to endorsement by European Union. This amendment apply to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are independent of the number of years of service.

Annual Improvement 2012, (generally effective for annual periods beginning on or after 1 July 2014). These improvements are still subject to endorsement by European Union. The 2010-2012 annual improvements affects: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

Annual Improvement 2013, (generally effective for annual periods beginning on or after 1 July 2014). These improvements are still subject to endorsement by European Union. The 2011-2013 annual improvements affects: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

IFRS 9 (new), 'Financial instruments - classification and measurement' (effective date not yet defined). This standard is still subject to endorsement by European Union. IFRS 9 refers to the first part of financial instruments new standard and comprises two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. Financial instrument are measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise financial instruments are measured at fair value through profit and loss.

IFRS 9 (amendment), 'Financial instruments – hedge accounting" (effective date not determined). This amendment is still subject to endorsement by European Union. This amendment is the third phase of IFRS 9 and reflects a substantial overhaul of the hedge accounting rules of IAS 39, removing the quantitative assessment of hedge effectiveness, allowing more items to be eligible as hedged items and permitting the deferral of certain impacts of hedging instruments in Other comprehensive Income. This amendment objective is to better reflect the risk management practices.

Note 2 - Main Accounting Policies

The following accounting policies are applicable to the financial statements of the Group. The policies are consistent with those applied by the Group in its 2012 Consolidated Annual Report, unless otherwise stated.

2.1. Consolidation basis

a) Subsidiaries

Subsidiaries are all entities (including structured 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. 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 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. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount 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 registers 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 to 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 amortized.

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

2.2. Financial Assets and Liabilities

Financial assets and liabilities are recognised on the balance sheet at their trade or settlement date, unless it is expressly stipulated in the contract or applicable law or regulations that the rights and obligations associated with the values transacted are transferred at a different date, in which case this will be the relevant date.

Initially, financial assets and liabilities are 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 it has regular transactions. 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.

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 certain conditions. Those conditions are:

- the fair value option designation eliminates or significantly reduces an accounting mismatch, or

- 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

- if a contract contains one or more embedded derivatives, which according to IAS 39 – *Financial Instruments: Recognition and Measurement* have to be separated.

Derivatives which 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 intention to keep for an undetermined period of time;

- are designated as available for sale at the initial recognition; or

- are not classified as: 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 credit operations. 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 credit operations are accrued over the life of operations, irrespective of the moment when they are collected or paid.

The Group classifies as overdue, credit instalments of capital and interest immediately after they fall due.

d) Other financial liabilities

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

Any difference between the amount received net of transaction costs and the amount to pay at maturity, is recognized 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 derecognized from the balance sheet and the difference between the book value of the liability and its cost of acquisition is recognized 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;

(v) for an investment in an equity instrument: (i) 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 (ii) 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 roughly 12 months.

a) Loan portfolio

Calculation method

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

In the cases in which there is objective evidence of impairment, the impairment is determined through the objective analysis of the effective loss amount.

In those cases where there is no objective evidence of impairment, an analysis is carried out based on the portfolio, so as to recognise any losses not yet identified in terms of individual operations, as described as follows.

In order to carry out a collective analysis, the Group constitutes homogenous segments (operations with similar credit-risk characteristics) which are based on internal ratings, to obtain the EL (Expected Loss). As the Group has an insufficient level of experience on losses incurred, which is borne out of 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 (BS), Probability of Default (PD) and Loss Given Default (LGD) associated to the internal rating, and by applying the following formula: EL = BS x PD x LGD. The recovery rate corresponds to the capital at risk that is still possible to recover whenever there is a default on the part of the company. This estimate is calculated based on the value of the company's assets and liabilities associated with the type of credit, the debt's age and the collateral received. For the guaranteed operations, the probability of default (PD) of the respective guarantor is used.

Accounting record

The amount of the impairment loss 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. The book value of the asset is reduced through a provision account and the amount of the loss 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 provision. This write-off only takes place after all the necessary steps have been taken and the amount of the loss has been determined.

If in a subsequent period the amount of the impairment loss decreases and such decrease is objectively related to an event taking place after the recognition of the impairment, the amount of the impairment loss previously recorded is reversed by way of an adjustment to the provision account. The amount of the reversal is recognised in the income statement.

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 when the fair value is less than 60% of the cost of acquisition, and a prolonged decline is one that runs for more than 12 months, which indicates that the cost of the investment in the equity instrument may not be recovered. Where there exists evidence of impairment, the accumulated unrealised loss in the revaluation reserve, is removed from equity and recognized 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) Restructured loans

Loans and advances to customers whose terms have been renegotiated or restructured, are no longer considered to be past due but are treated as new loans.

The restructuring procedures include: extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

d) Investments in associates

The decline in the value of investments in associates is verified by comparing their recoverable amount with their carrying amount, provided that 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 assets are reversed if there were 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 which 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. The Structured notes classified as trading liabilities are of pass-through type, 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 according to IAS 39 - *Financial Instruments: Recognition and Measurement.*

With the exception of the trading liabilities, the bonds issued are valued, on issue date, at fair value (value of the issue), including expenses and transaction commissions, being 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.

The categories of hedge are of 3 types:

- 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 amortized 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 that was 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. Unrealized 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 closing rate at the date of that balance sheet;

- 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 systematically over their estimated useful life, corresponding to the period in which the asset is expected to be available for use:

	Useful life (years)
Buildings for own use / Leasehold improvements	5-50
Furniture and fixtures	4-9
Computer equipment	3-5
Furnishings	5-10
Other equipment	3-12

2.9. Intangible assets

The Group records in this item essentially software and goodwill identified as intangible following the acquisition of Private Banking units, businesses and 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 years. Goodwill identified as intangible was initially recorded at fair value and is amortised on a straight line basis over its estimated useful life which corresponds to a period from 6 to 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

The Group applies IAS12 – *Income Taxes* in accounting for taxes on income.

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 futures 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 for there to 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.

Deferred taxes 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 recognized 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. These estimates are made on the basis of the use of 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 unlisted financial assets:

The fair value of derivatives and unlisted financial assets is estimated on the basis of evaluation methods and financial models, the results of which depend on the assumptions used.

c) Deferred taxes:

Recognition of deferred taxes pre-assumes the existence of profits and future taxable income. Deferred tax assets and liabilities were 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.

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2.13. Provisions for other risks and charges

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

2.14. Responsibilities with 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 operates a post-employment plan considered to be of defined benefit 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.

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 50% of the variable remuneration deferred for 3 years, and paid in shares or equivalent financial instruments.

Considering that the Bank does not have shares listed on the stock market and that its activity is developed in full alignment to the strategy and objectives of Itaú Unibanco Holding S.A., its ultimate shareholder (Holding), the payment of variable remuneration made in financial instruments equivalent to shares shall be made using instruments linked to the preferred shares of the Holding (the Instrument). This instrument consists in a promise of a cash payment made by the Bank to the beneficiaries to be delivered to the beneficiaries on the same date on which the variable remuneration component corresponding to the portion in cash not subject to deferral is paid.

Subject to the satisfaction of certain conditions set out in the Bank's remuneration policy, the beneficiaries receive an amount in cash until the second business day after 1, 2 and 3 years from the date of the delivery of the Instrument (anniversaries), corresponding such an amount in each of the three time periods to one third of the base value stated in the Instrument, in the currency in which the respective variable remuneration was approved, adjusted by the fluctuation of the price index of a Holding preferred share during the period of deferment of the remuneration portion in question, calculated at the Bank's sole discretion.

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 payments). The fair value of this benefit, determined on the date of its assignment, affects net income as staff costs, linearly from the start of the year of the program until the respective date of availability (the second business day after 1, 2 and 3 years). The resulting liability is revalued at each balance sheet date, with the changes in fair value recognized in net income.

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 investing these funds in high quality assets. The Group seeks to increase these margins 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, 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 institutionals on the other, seeking profit on the bid/ask spread. The Board of Directors sets limits on the level of exposure to the market that can be assumed overnight and intraday.

The Group also manages a buffer of high quality liquid financial assets available for sale, that 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 table shows the Group's assets and liabilities as of 31 December 2013, by the different categories of IAS 39 – *Financial Instruments: Recognition and Measurement.*

Assets and liabilities by the categories of IAS 39

31.12.13	Recognized at fair value through P&L: Trading	Recognized at fair value through P&L: Fair value option	Recognized at fair value through P&L: Hedging	Loans and receivables	Financial assets available for sale	Other financial liabilities	Non-Financial Assets/ Liabilities	Total
Cash and balances at central banks	-	-	-	571,094	-	-	-	571,094
Trading assets	158,774	-	-	-	-	-	-	158,774
Financial assets designated at fair value	-	158,276	-	-	-	-	-	158,276
Derivative financial instruments	253,465	-	-	-	-	-	-	253,465
Financial assets available for sale	-	-	-	-	432,369	-	-	432,369
Loans and advances to banks	-	-	-	1,221,044	-	-	-	1,221,044
Loans and advances to customers	-	-	-	3,784,277	-	-	-	3,784,277
Other assets	-	-	-	-	-	-	220,683	220,683
Total Assets	**412,239**	**158,276**	**-**	**5,576,415**	**432,369**	**-**	**220,683**	**6,799,982**
Trading liabilities	158,541	-	-	-	-	-	-	158,541
Derivative financial instruments	285,061	-	3,377	-	-	-	-	288,438
Deposits from banks	-	-	-	-	-	899,818	-	899,818
Customer accounts	-	-	-	-	-	2,304,088	-	2,304,088
Debt securities in issue	-	-	-	-	-	1,904,488	-	1,904,488
Subordinated liabilities	-	-	-	-	-	30,059	-	30,059
Other liabilities	-	-	-	-	-	-	200,774	200,774
Total Liabilities	**443,602**	**-**	**3,377**	**-**	**-**	**5,138,453**	**200,774**	**5,786,206**
31.12.12								
Total Assets	**582,877**	**107,496**	**1,061**	**5,363,840**	**201,541**	**-**	**262,433**	**6,519,248**
Total Liabilities	**575,506**	**-**	**-**	**-**	**-**	**4,846,180**	**122,347**	**5,544,033**

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.

The Group applies valuation techniques for unlisted financial assets, namely for derivatives, other financial instruments at fair value through profit or loss and available for sale financial assets. 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 which are not measured at fair value in the financial statements is presented below, with the respective differences for its book value:

Financial Assets and Liabilities not measured at Fair Value	31.12.2013			31.12.2012		
	Fair Value	Accounting Value	Diference	Fair Value	Accounting Value	Diference
Financial Assets						
Cash and balances at central banks	571,094	571,094	-	682,191	682,191	-
Loans and advances to banks	1,221,945	1,221,044	901	806,901	806,394	507
Loans and advances to customers	3,803,216	3,784,277	18,939	3,893,707	3,875,255	18,452
Financial Liabilities						
Deposits from banks	907,499	899,818	7,681	613,771	608,672	5,099
Customer accounts	2,304,607	2,304,088	519	2,080,099	2,076,858	3,241
Debt securities in issue	1,906,718	1,904,488	2,230	2,132,420	2,130,561	1,859
Subordinated liabilities	30,076	30,059	17	30,179	30,089	90

a) Loans and advances to banks

The book value of loans and advances to banks repayable on demand and overnight deposits is considered to be 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 to be 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: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial Assets and Liabilities measured at Fair Value	31.12.13 Level 1	Level 2	Level 3	Total	31.12.12 Level 1	Level 2	Level 3	Total
Trading assets								
- Debt Securities	95,611	-	-	95,611	168,666	-	-	168,666
- Equity instruments	63,163	-	-	63,163	145,960	-	-	145,960
Financial assets designated at fair value								
- Debt Securities	158,276	-	-	158,276	107,496	-	-	107,496
Financial assets available for sale								
- Debt securities	409,603	20,122	2,644	432,369	173,852	27,689	-	201,541
Derivative financial instruments	549	252,916	-	253,465	417	268,895	-	269,312
Total assets at fair value	727,202	273,038	2,644	1,002,884	596,391	296,584	-	892,975
Trading liabilities	-	158,541	-	158,541	-	314,322	-	314,322
Derivative financial instruments	18,370	270,068	-	288,438	33,240	227,944	-	261,184
Total liabilities at fair value	18,370	428,609	-	446,979	33,240	542,266	-	575,506

Transfers from Level 2 to Level 3 are comprised by a credit institution subordinated bond, booked in the portfolio of financial assets available for sale (see **Note 11**).

The following table shows Level 3 financial assets disaggregated by balance sheet classification and product type:

Level 3 financial assets	31.12.13	31.12.12
Financial assets available for sale		
- Credit institution subordinated bonds	2,644	-
Total assets	2,644	-

The following table summarises the movements in the Level 3 balance during the year and includes amounts transferred to Level 3 during the year:

Movements in level 3 financial assets	31.12.13	31.12.12
As at 1 January	-	-
Transfers	2,412	-
Total gains and losses in the period recognised in the income statement	(1,369)	-
Total gains or losses recognised in other comprehensive income	1,601	-
As at 31 December	2,644	-

Note 4 - Segment Reporting

The following segment reporting follows IFRS 8 – *Operating Segments*, in respect of business segments.

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 the following business segments:

- Corporate & Investment Banking - This segment focuses on Wholesale banking with Itaú Group's European multinational corporate clients and Cross-border businesses with Itaú Group's Latin American corporate clients. The various services provided include the origination of structured financing, risk hedge transactions (exchange rate and interest rate derivatives), financing of exports and advisory services to European companies investing in Latin America, and also to Latin American companies in their internationalisation process.

- International Private Banking – Business segment operated through the private banking subsidiaries BIE Luxembourg, Banco Itaú International (encompassing the operations of Itaú International Securities) and Banco Itaú Suisse, focused on the provision of financial advice and asset management services to high net-worth individuals from several countries in Latin America, where the Itaú Group is present.

- Others - This is a residual segment that corresponds to the financial stake in IPI.

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

Business Segments	CIB	IPB	Others	Eliminations	Total
	31.12.13				
Interest external income	83,436	36,904	-	-	120,340
Interest inter-segment income	5,777	1,806	-	(7,583)	-
Total interest income	89,213	38,710	-	(7,583)	120,340
Interest segment costs	(54,617)	(6,793)	-	7,583	(53,827)
Net interest income	34,596	31,917	-	-	66,513
Fee and commission external income	14,245	112,246	-	-	126,491
Fee and commission intra-segment income	-	-	-	-	-
Total fee and commission income	14,245	112,246	-	-	126,491
Fee and commission segment costs	(4,618)	(5,781)	-	-	(10,399)
Net fee and commission income	9,627	106,465	-	-	116,092
Other operating income	1,997	7,114	-	(644)	8,467
Net income on financial operations	22,805	884	-	-	23,689
Total Operating Income	69,025	146,380	-	(644)	214,761
Credit impairment charges and other provisions	(4,771)	25	-	-	(4,746)
Operating expenses	(56,620)	(119,875)	-	644	(175,851)
Share of profit in associates	-	-	50	-	50
Profit before tax	7,634	26,530	50	-	34,214
Income tax	(2,793)	(7,896)	-	-	(10,689)
Profit attributable to Shareholders	4,841	18,634	50	-	23,525
Non-controlling interests	-	(1)	-	-	(1)
Net income	4,841	18,633	50	-	23,524

Business Segments	CIB	IPB	Others	Eliminations	Total
	31.12.13				
Assets by segment	4,321,159	2,703,575	32,346	(257,098)	6,799,982
Liabilities by segment	3,772,327	2,270,977	-	(257,098)	5,786,206

	31.12.12				
Business Segments	**CIB**	**IPB**	**Others**	**Eliminations**	**Total**
Interest external income	97,811	30,061	-	-	127,872
Interest inter-segment income	9,110	8,653	-	(17,763)	-
Total interest income	106,921	38,714	-	(17,763)	127,872
Interest segment costs	(70,776)	(14,686)	-	17,763	(67,699)
Net interest income	36,145	24,028	-	-	60,173
Fee and commission external income	13,074	105,936	-	-	119,010
Fee and commission intra-segment income	-	-	-	-	-
Total fee and commission income	13,074	105,936	-	-	119,010
Fee and commission segment costs	(6,130)	(5,086)	-	-	(11,216)
Net fee and commission income	6,944	100,850	-	-	107,794
Other operating income	3,350	4,644	-	(739)	7,255
Net income on financial operations	5,788	1,893	-	-	7,681
Total Operating Income	52,227	131,415	-	(739)	182,903
Credit impairment charges and other provisions	520	-	-	-	520
Operating expenses	(51,315)	(121,801)	-	739	(172,377)
Share of profit in associates	-	-	2,998	-	2,998
Profit before tax	1,432	9,614	2,998	-	14,044
Income tax	923	7,467	-	-	8,390
Profit attributable to Shareholders	2,355	17,081	2,998	-	22,434
Non-controlling interests	-	-	-	-	-
Net income	2,355	17,081	2,998	-	22,434

	31.12.12				
Business Segments	**CIB**	**IPB**	**Others**	**Eliminations**	**Total**
Assets by segment	4,203,457	2,834,024	30,923	(549,156)	6,519,248
Liabilities by segment	3,748,083	2,345,106	-	(549,156)	5,544,033

The report of geographical information of the Group, on the basis of the customer/asset location, is as follows:

Geographical information

31.12.13	Total assets	Total liabilities	Off-Balance Sheet	Income	Capital expenditure
Europe	2,963,583	1,128,459	645,763	61,923	6,758
North America	1,344,232	85,595	452,085	13,797	2,958
Central America and Caribbean	592,760	1,005,535	52,677	1,589	-
South America	1,729,457	1,288,542	448,378	164,728	-
Other countries	71,720	2,075,417 (*)	13,429	4,794	-
Investments in associates	32,346				
Unallocated assets / liabilities	65,884	202,658			
Total	6,799,982	5,786,206	1,612,332	246,831	9,716

(*) This balance corresponds to securites placed in multiple countries.

Geographical information

31.12.12	Total assets	Total liabilities	Off-Balance Sheet	Income	Capital expenditure
Europe	2,488,838	554,925	494,588	74,300	9,072
North America	1,051,392	97,939	280,029	14,458	901
Central America and Caribbean	188,109	620,374	14,292	1,675	33
South America	2,432,363	1,637,753	427,407	153,002	-
Other countries	18,133	2,479,825 (*)	12,235	3,447	-
Investments in associates	30,923				
Unallocated assets / liabilities	309,490	153,217			
Total	6,519,248	5,544,033	1,228,551	246,882	10,006

(*) This balance corresponds to securites placed in multiple countries.

Note 5 - Cash and balances at central banks

This item is analysed as follows:

Cash and balances at central banks	31.12.13	31.12.12
Cash	148	149
Demand deposits at European Central Bank	1,358	1,881
Demand deposits at Other Central Banks	569,588	680,161
	571,094	**682,191**

Note 6 - Trading assets

This item is analysed as follows:

Trading assets	31.12.13	31.12.12
Debt instruments		
Government bonds	95,611	168,666
Equity instruments		
Shares	63,163	145,960
	158,774	**314,626**

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 Group under a Structured Medium Term Note programme, recorded as trading liabilities (see **Note 17**). The detail of trading assets as of 31 December 2013 is as follows:

Type of Securities	Original Currency	Quantity	Book Value
Debt instruments			
Public Issuers			
TESOURO NACIONAL BRASILEIRO	BRL	190,303	95,611
			95,611
Equity instruments			
Registered in BOVESPA	BRL	23,138,545	63,163
			63,163
			158,774

Note 7 - Financial assets designated at fair value

This item is analysed as follows:

Financial assets designated at fair value	31.12.13	31.12.12
Debt instruments		
Government bonds	158,276	107,496
	158,276	**107,496**

The Group's option to designate these assets at fair value through profit and loss aims to eliminate or substantially reduce the inconsistency in measurement or recognition ("accounting mismatch") and is justified with the fact that the underlying contracts contain one or more embedded derivatives which should be separated according to IAS 39 - *Financial Instruments: Recognition and Measurement.*

As of 31 December 2013, these debt instruments designated at fair value correspond to government bonds, as follows:

Type of securities	Original currency	Quantity	Unit values: Nominal	Unit values: Price	Book value/ fair value	Relevant organised market
Debt instruments						
Government Bonds						
REPUBLICA FEDERATIVA DO BRASIL 1-7-2014	BRL	88,000	404	95.34%	35,518	SAO PAULO
REPUBLICA FEDERATIVA DO BRASIL 2-1-2014	BRL	151,000	423	99.96%	63,902	SAO PAULO
REPUBLICA FEDERATIVA DO BRASIL 2-1-2015	BRL	34,000	382	90.33%	13,002	SAO PAULO
KINGDOM OF BELGIUM 28-6-2017	EUR	30,000,000	2	109.13%	45,854	EURONEXT-BRUSS
					158,276	
					158,276	

Note 8 - Derivatives

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

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

Derivatives traded in organised markets follow the standards and rules of those markets. Derivatives traded on the over-the-counter (OTC) markets are normally based on a standard bilateral contract that covers the set of operations on derivatives between the parties, usually following ISDA agreements.

All derivatives are recorded at fair value. The evolution of the fair value of derivatives is recognised in the relevant balance sheet accounts with changes through profit and loss. 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	**31.12.13**		**31.12.12**	
	Fair value		**Fair value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	139,116	(204,157)	140,044	(232,649)
Embedded derivatives	114,349	(80,904)	128,207	(28,535)
Hedging derivatives	-	(3,377)	1,061	-
	253,465	**(288,438)**	**269,312**	**(261,184)**

The Embedded derivatives item corresponds to embedded derivatives separated from structured financial instruments. The amounts are as follows:

Embedded derivatives	**31.12.13**		**31.12.12**	
	Fair value		**Fair value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cross Currency Swaps	1,849	(26)	2,052	(207)
Credit Default Swaps	5,631	(7,772)	2,802	(3,127)
Stock index options	106,869	(73,085)	123,325	(25,176)
Exchange rate options	-	(21)	28	(25)
	114,349	**(80,904)**	**128,207**	**(28,535)**

The Trading derivatives item is analysed as follows:

Trading derivatives	31.12.13			31.12.12		
	Notional value	Fair value Assets	Fair value Liabilities	Notional value	Fair value Assets	Fair value Liabilities
Interest rate contracts						
Swaps	1,604,017	20,188	(5,572)	5,396,369	82,579	(43,888)
Caps & Floors	48,745	381	(46)	77,784	739	(15)
Options - Over-the-counter market						
Call options						
Purchase	-	-	-	4,450	-	-
Sale	-			(100)		
Futures						
Purchase	13,500	549	(18,370)	126,749	417	(33,240)
Sale	(769,300)			(1,287,959)		
Exchange rate contracts						
Options - Over-the-counter market						
Call options						
Purchase	107,805	5,542	(5,507)	33,662	682	(647)
Sale	(107,754)			(26,211)		
Put options						
Purchase	46,447	320	(320)	35,988	369	(343)
Sale	(46,462)			(37,212)		
Forwards						
Purchase	1,062,640	19,354	(17,486)	1,144,657	25,652	(21,031)
Sale	(1,059,840)			(1,138,480)		
Swaps						
Purchase	1,126,956	508	(25,697)	912,800	588	(7,269)
Sale	(1,152,204)			(919,317)		
Futures						
Purchase	113,750	-	-	-	-	-
Sale	-			-		
Cross Currency Swaps	(920)	10,471	(11,237)	(497)	322	-
Stock index contracts						
Options - Over-the-Counter Market						
Call options						
Purchase	511,984	51,660	(22,263)	352,120	12,627	(4,498)
Sale	(461,659)			(294,476)		
Put options						
Purchase	331,196	21,895	(85,077)	213,986	12,639	(118,916)
Sale	(1,067,567)			(964,107)		
Equity Swaps	5,438	96	(480)	1,699	311	-
Other contracts						
Credit Default Swaps	(817,439)	8,152	(12,102)	(490,557)	3,119	(2,802)
		139,116	**(204,157)**		**140,044**	**(232,649)**

The Hedging derivatives item is analysed as follows:

Hedging derivatives		31.12.13			31.12.12		
		Notional value	Book value Assets	Book value Liabilities	Notional value	Book value Assets	Book value Liabilities
Derivatives designated as hedging instruments of net investment in foreign operations							
Currency Swaps	Purchase	29,578	-	(454)	406,101	1,061	-
	Sale	(30,035)			(405,076)		
Derivatives designated as hedging instruments of fair value							
Interest Rate Swaps		234,252	-	(2,923)	-	-	-
			-	(3,377)		1,061	-

Note 9 - Loans and advances to banks

This item is analysed as follows:

Loans and advances to banks	31.12.13	31.12.12
Repayable on demand	232,331	162,309
Interbank Money Market / Term deposits	755,353	643,811
Assets in respect of securities purchased under agreements to resell	232,088	-
Interest receivable	1,272	274
	1,221,044	**806,394**

Loans and advances to banks pledged as collateral are analysed in **Note 29**.

Under reverse repurchase agreements, the Group is allowed to resell or re-pledge the collateral held. The fair value at the balance sheet date of collateral accepted and re-pledged to others was as follows:

Collateral held for Loans and advances to banks	31.12.13	31.12.12
Fair value of securities accepted as collateral	255,911	-
Of which fair value of securities re-pledged/transferred to others	-	-
	255,911	**-**

Note 10 - Loans and advances to customers

This item is analysed as follows:

Loans and advances to customers	31.12.13	31.12.12
Customer loans		
Overdrafts	7,493	39,533
Term loans	3,437,648	3,386,115
Represented by securities	206,634	296,730
Import and export discount	96,035	122,822
Leasing	1,287	3,766
Factoring	4,437	-
Loans to employees	14,108	14,705
Interest receivable	21,556	19,820
	3,789,198	3,883,491
Overdue loans and interest	9,622	11,897
Commissions related to amortised cost (net)	(7,349)	(4,440)
Gross amount of loans and advances to customers	**3,791,471**	**3,890,948**
Loan impairment	(7,194)	(15,693)
Net amount of loans and advances to customers	**3,784,277**	**3,875,255**

Further analysis on the Group's loans and advances to customers and impairment allowances are included in the Credit Risk section of the Strategic Report.

Note 11 - Financial assets available for sale

This item is analysed as follows:

Financial assets available for sale	31.12.13	31.12.12
Debt instruments		
Government bonds	404,117	166,409
Bonds of other issuers		
Unsubordinated debt	20,122	27,611
Subordinated debt	9,584	7,521
Impairment	(1,454)	-
Net amount of financial assets available for sale	**432,369**	**201,541**

The detail of financial assets available for sale is presented below:

Type of securities	Original currency	Quantity	Unit values Nominal	Unit values Price	Purchase value	Impairment	Book value/ fair value	Gain/ Loss (+/-)	Relevant organised market
Debt instruments									
Public Issuers									
Government Bonds									
Bonds									
REPUBLIC OF FRANCE 13-7-2015	EUR	5,000,000	1	102.70%	6,940	-	7,141	136	MTS FRANCE
KINGDOM OF BELGIUM 5-3-2015	USD	21,000,000	1	102.71%	21,421	-	22,045	149	FRANKFURT
REPUBLIC OF FRANCE 26-10-2015	EUR	10,000,000	1	104.97%	14,424	-	14,541	41	EURONEXT-PARIS
UNITED STATES OF AMERICA 30-11-2017	USD	200,000	100	97.51%	19,961	-	19,511	(458)	DTC
NETHERLANDS GOVERNMENT 24-2-2017	USD	26,000,000	1	100.14%	26,173	-	26,127	(136)	EURONEXT-AMSTER
UNITED STATES OF AMERICA 29-12-2017	USD	700,000	100	97.81%	69,633	-	68,467	(1,167)	DTC
REPUBLIC OF FRANCE 25-10-2018	EUR	10,000,000	1	114.40%	15,772	-	15,872	(9)	EURONEXT-PARIS
UNITED STATES OF AMERICA 15-1-2016	USD	100,000	100	99.97%	9,990	-	10,015	7	DTC
UNITED STATES OF AMERICA 16-2-2016	USD	100,000	100	99.93%	9,992	-	10,007	1	DTC
UNITED STATES OF AMERICA 28-2-2018	USD	100,000	100	97.37%	9,935	-	9,762	(198)	DTC
UNITED STATES OF AMERICA 31-3-2017	USD	50,000	100	100.25%	5,051	-	5,025	(38)	DTC
UNITED STATES OF AMERICA 15-6-2016	USD	150,000	100	99.91%	14,929	-	14,989	56	DTC
NETHERLANDS GOVERNMENT 15-1-2019	EUR	20,000,000	1	100.30%	27,937	-	27,818	(296)	EURONEXT-AMSTER
REPUBLIC OF ITALY 15-11-2016	EUR	28,000	1,378	102.69%	39,670	-	39,935	(49)	MILAN
UNITED STATES OF AMERICA 17-10-2016	USD	50,000	100	99.82%	5,002	-	4,998	(11)	DTC
UNITED STATES OF AMERICA 31-10-2018	USD	50,000	100	98.00%	4,956	-	4,911	(56)	DTC
SWITZERLAND GOVERNMENT 5-6-2017	CHF	2,000	1,359	94.36%	2,719	-	2,620	(153)	SIX
UNITED STATES OF AMERICA 14-9-2014	USD	1,000,000	100	100.06%	100,176	-	100,333	56	NY
					404,681	**-**	**404,117**	**(2,125)**	
Other Issuers									
Unsubordinated debt									
Bonds									
BANCO DO BRASIL SA, NEW YORK BRA 14-9-2(	USD	20,000,000	1	100.23%	20,000	-	20,122	46	
					20,000	**-**	**20,122**	**46**	
Subordinated debt									
Bonds									
BANIF-BANCO INTERN DO FUN 30-12-2015	EUR	3,000	1,378	63.96%	4,134	(1,454)	2,644	(36)	LUXEMBOURG
DEUTSCHE BANK AG 22-9-2015	EUR	4,000	1,378	99.50%	5,511	-	5,486	(27)	FRANKFURT
					9,645	**(1,454)**	**8,130**	**(63)**	
					434,326	**(1,454)**	**432,369**	**(2,142)**	

Note 12 - Property, plant and equipment

The movement in property, plant and equipment was the following:

	Gross value						Accumulated amortization							
	Balance on 31.12.12	Acquisitions	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.13	Balance on 31.12.12	Amortization for the period	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.13	Balance on 31.12.12	Balance on 31.12.13
Other tangible assets														
° Buildings	14,337	82	4,283	61	(163)	18,600	(4,756)	(1,646)	-	(25)	76	(6,351)	9,581	12,249
° Furniture and fixtures	4,942	370	-	42	(257)	5,097	(2,137)	(1,124)	-	(22)	141	(3,142)	2,805	1,955
° Machinery and tools	371	4	-	-	(50)	325	(242)	(38)	-	-	50	(230)	129	95
° Computer equipment	9,002	1,088	144	42	(2,248)	8,028	(6,170)	(1,655)	-	(51)	1,503	(6,373)	2,832	1,655
° Furnishings	1,758	186	324	-	-	2,268	(925)	(148)	-	-	-	(1,073)	833	1,195
° Safety equipment	187	7	-	-	-	194	(135)	(27)	-	-	-	(162)	52	32
° Other equipment	17	-	-	-	-	17	(14)	(1)	-	-	-	(15)	3	2
° Art Objects	3,709	659	-	51	(12)	4,407							3,709	4,407
° In course														
Buildings [1]	295	4,385	(4,545)	(4)	(22)	109							295	109
Other tangible assets	3	297	(297)	-	(3)	-							3	-
Total	34,621	7,078	(91)	192	(2,755)	39,045	(14,379)	(4,639)	-	(98)	1,770	(17,346)	20,242	21,699

	Gross value						Accumulated amortization							
	Balance on 31.12.11	Acquisitions	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.12	Balance on 31.12.11	Amortization for the period	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.12	Balance on 31.12.11	Balance on 31.12.12
Other tangible assets														
° Buildings	12,093	2,848	33	88	(725)	14,337	(3,832)	(1,381)	-	(56)	513	(4,756)	8,261	9,581
° Furniture and fixtures	4,648	1,051	(1,030)	422	(149)	4,942	(1,497)	(658)	-	(51)	69	(2,137)	3,151	2,805
° Machinery and tools	371	-	-	-	-	371	(208)	(33)	-	(1)	-	(242)	163	129
° Computer equipment	7,108	1,622	-	272	-	9,002	(4,485)	(1,556)	-	(129)	-	(6,170)	2,623	2,832
° Furnishings	1,557	134	67	-	-	1,758	(787)	(134)	-	(4)	-	(925)	770	833
° Safety equipment	187	-	-	-	-	187	(109)	(26)	-	-	-	(135)	78	52
° Other equipment	14	3	-	-	-	17	(14)	-	-	-	-	(14)	-	3
° Art Objects	1,933	771	1,030	-	(25)	3,709							1,933	3,709
° In course														
Buildings [1]	33	295	(33)	-	-	295							33	295
Other tangible assets	67	3	(67)	-	-	3							67	3
Total	28,011	6,727	-	782	(899)	34,621	(10,932)	(3,788)	-	(241)	582	(14,379)	17,079	20,242

[1] The balance of In course tangible assets - Buildings corresponds to leasehold improvements in progress.

Note 13 - Goodwill and intangible assets

This item is analysed as follows:

Goodwill and Intangible Assets	31.12.13	31.12.12
Intangible assets		
- Gross value	63,141	99,073
- Accumulated amortization	(36,410)	(65,561)
	26,731	33,512
Goodwill		
- Gross value	74,023	74,023
	74,023	74,023
	100,754	**107,535**

The amount of goodwill results from the acquisition of Private Banking units, businesses and portfolios, which occurred in the Group since May 2007.

According to IAS 36 – *Impairment of assets*, this goodwill is tested annually for impairment as part of the impairment test of the group of cash-generating units to which it is related, and which is expected to benefit from the business combination from which this goodwill arose (according to IFRS 8 – *Operating Segments*).

The goodwill is tested for impairment by comparing the present value of the expected future cash flows of that group of cash-generating units, with the carrying amount of its net assets.

The movement in intangible assets was the following:

	Gross value						Accumulated amortization							
	Balance on 31.12.12	Acquisitions	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.13	Balance on 31.12.12	Amortization for the period	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.13	Balance on 31.12.12	Balance on 31.12.13
Intangible assets														
° Software	19,153	1,802	91	22	(8,391)	12,677	(14,782)	(2,160)	-	(24)	7,416	(9,550)	4,371	3,127
° Goodwill indentified as intangible	74,500	-	-	-	(25,500)	49,000	(46,510)	(5,850)	-	-	25,500	(26,860)	27,990	22,140
° Other intangible	4,792	-	-	137	(4,929)	-	(4,269)	(518)	-	(142)	4,929	-	523	-
° In course Software [1]	628	836	-	-	-	1,464							628	1,464
Total	99,073	2,638	91	159	(38,820)	63,141	(65,561)	(8,528)	-	(166)	37,845	(36,410)	33,512	26,731

	Gross value						Accumulated amortization							
	Balance on 31.12.11	Acquisitions	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.12	Balance on 31.12.11	Amortization for the period	Trans-fers	Exchange rate fluctuation	Disposals	Balance on 31.12.12	Balance on 31.12.11	Balance on 31.12.12
Intangible assets														
° Software	15,991	2,609	520	46	(13)	19,153	(12,385)	(2,376)	-	(34)	13	(14,782)	3,606	4,371
° Goodwill indentified as intangible	105,788	-	-	-	(31,288)	74,500	(67,862)	(8,331)	-	-	29,683	(46,510)	37,926	27,990
° Other intangible	3,607	-	-	1,185	-	4,792	(929)	(2,981)	-	(359)	-	(4,269)	2,678	523
° In course Software [1]	478	670	(520)	-	-	628							478	628
Total	125,864	3,279	-	1,231	(31,301)	99,073	(81,176)	(13,688)	-	(393)	29,696	(65,561)	44,688	33,512

[1] The balance of In course intangible assets - Software corresponds to software development in progress and advances for purchase of software pending implementation.

Note 14 - Investments in associates and subsidiaries

In the individual financial statements of IBBAInt, investments in subsidiaries are stated at cost less impairment.

On 31 December 2013, the Bank and its subsidiaries financial information is presented as follows:

Subsidiaries	Participation (%)		Total assets	Total equity	Net income for the year
	Direct	Effective	a) / b)	a) / b)	a) / b)
Itau BBA International plc	-	-	4,804,226	1,012,620	89,426
Itaú Europa SGPS, Lda	99.9998%	99.9998%	20,369	10,147	2,346
Itau BBA International (Cayman) Ltd	-	99.9998%	3,205	3,162	4,305
Banco Itaú Europa Luxembourg, SA	99.9898%	99.9898%	227,601	192,077	(3,855)
Banco Itaú Suisse, SA	-	99.9898%	905,164	140,134	9,627
Banco Itaú International	100.00%	100.00%	1,774,115	231,790	8,180
Itaú International Securities, Inc.	100.00%	100.00%	27,895	22,858	4,023

a) All amounts are as of 31 December 2013 (accounting balances, before consolidation adjustments)
b) Itau BBA International (Cayman) Ltd. ends its accounting year on October 31. However, for the purposes of consolidation, the amounts corresponding to the 12 months of the activities during the year 2013 were used.

Details of the subsidiaries are set out as follows:

- The company **Itaú Europa, Sociedade Gestora de Participações Sociais, Lda.** (Itaú Europa – SGPS), has its registered office at Madeira Free Trade Zone. The share capital of the Company amounts to €1,126 thousands, fully subscribed and paid, represented by 2 shares with nominal values of €1,125,997.69 and €2.31, held by the Bank and by Itaúsa Portugal, respectively. The activity of this subsidiary consists of managing the Bank's financial investments abroad.

- Itau BBA International (Cayman) Ltd. was incorporated in July 1996, under the name BIE-Bank & Trust Ltd.. The share capital of Itau BBA International (Cayman) Ltd. in the amount of USD 2,000,000 is represented by 2,000,000 shares of USD 1 each, fully subscribed and paid by Itaú Europa – SGPS. Until December 2013, this bank was licensed to conduct all acts and business specific to banking and "trust" institutions under the terms of the "Banks and Trust Companies Law" of the Cayman Islands. Under the reorganization project of the Itaú Group that has been in place since 2011, the assets and liabilities of Itau BBA International (Cayman) Ltd. were gradually transferred to the Bank, its licence was cancelled and it has currently no activity. On 20 December 2013, the investment in **BIE – Cayman, Ltd.**, a company incorporated in April 1996 to manage private banking funds, fully owned by Itau BBA International (Cayman) Ltd., was sold to another Itaú Group company, by the amount of its equity attributable to shareholders (USD 1,804,555.46 USD), comprised by its share capital of USD 550,000 and by USD 1,254,555.46 of net income generated in 2013, until de date of the sale.

- Banco Itaú Europa Luxembourg, S. A. (BIE Luxembourg) has its registered office in Luxembourg. It operates in Private Banking, capital markets and interbank money markets. BIE Luxembourg can also conduct all the other operations that are or may come to be permitted under the regulatory guidelines issued by the regulatory authorities. BIE Luxembourg share capital is USD 97,670,000, fully subscribed and paid, represented by 9,767 ordinary shares of USD 10,000 each, of which 9,766 are held by IBBAInt and 1 by a third entity. As part of the reorganisation project of the Group activities in Europe, the international private banking European activities are being concentrated in the subsidiary Banco Itaú (Suisse), and BIE Luxembourg is being progressively deactivated.

- **Banco Itaú Suisse SA**, based in Zurich, Switzerland, operates in the Private Banking area. It was established on September 15, 2010. Its share capital of CHF 146 million is represented by 14,600 shares of CHF 10,000 each, fully subscribed and paid by BIE Luxembourg.

- **Banco Itaú International**, headquartered in Miami, was acquired in May 31, 2007 through an agreement with Bank of America Corporation and at the time was named Banco Itaú Europa International. Its main activity is to perform operations in the Private Banking area. Its share capital of USD 7 million is represented by 70,000 shares of USD 100 each, fully subscribed and paid by the Bank.

- **Itaú International Securities, Inc**., headquartered in Miami, incorporated on September, 2008 under the name Itaú Europa Securities, Inc., 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.

Associates	Effective Participation (%)		Book Value		Share of profit in associates (equity method)	
	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12
IPI - Itaúsa Portugal Investimentos - SGPS, Lda.	49.00%	49.00%	32,346	30,923	50	2,998
			32,346	30,923	50	2,998

Investments in associates are recognized using the equity method, which means that the value of the investment initially recognised as cost is adjusted by the post-acquisition change of 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.

The associate **IPI – Itaúsa Portugal Investimentos – SGPS, Lda.** (IPI) is based in Portugal, in the Madeira Free Trade Zone. It was incorporated on February 22, 2000 and its purpose is the management of its financial investments. Its subscribed and paid share capital amounts to €29,844 thousand and is held on 49% by IBBAInt and 51% by Afinco Américas Madeira – SGPS, Lda, a subsidiary of Itaú Unibanco, S.A..

The most significant financial data, extracted from the financial statements of the associate (prepared according to IFRS standards) and converted to thousands of USD, are as follows:

Associates - IPI	31.12.13	31.12.12
Net assets	66,029	63,116
Liabilities	17	8
Total equity	66,012	63,109
Profit for the year	103	6,118

Note 15 - Deferred tax assets

Deferred tax assets are comprised as follows:

Deferred tax assets	31.12.13	31.12.12
Financial assets available for sale	469	175
Loan impairment	-	988
Provisions	262	7,386
Depreciation and amortization of tangibles and intangibles	2,727	2,267
Derivatives	-	489
Tax losses carried forward	12,383	17,610
Other	1,299	1,490
	17,140	**30,405**

Deferred tax assets	31.12.13	31.12.12
Deferred tax assets to be recovered after more than 12 months	10,904	17,841
Deferred tax assets to be recovered within 12 months	6,236	12,564
	17,140	**30,405**

Net deferred taxes are comprised as follows:

Net Deferred taxes	31.12.13	31.12.12
Deferred tax assets	17,140	30,405
Deferred tax liabilities (Note 22)	(10,615)	(15,339)
	6,525	**15,066**

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

Movement on the deferred income tax	31.12.13	31.12.12
At 1 January	15,066	(1,708)
Income statement charge	(9,023)	16,947
Disposals	-	-
Exchange and other adjustments	364	344
Amount charged to equity	118	(517)
At 31 December	**6,525**	**15,066**

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

Note 16 - Other assets

This item is analysed as follows:

Other assets	31.12.13	31.12.12
Debtors and other aplications		
Public sector	185	1,496
Other Debtors	1,789	3,748
	1,974	5,244
Accrued income		
For irrevocable commitments assumed with third parties	503	426
For bank services provided	5,365	11,806
For operations rendered to third parties	5,422	2,532
Other accrued income		
Commissions on guarantees given	10	1
	11,300	14,765
Deferred expenses		
Rents and leases	768	1,046
Insurances	129	70
Systems and equipments maintenance	130	231
Information services	206	137
Advertisement and periodics	11	-
Interbanking communication	-	5
Interbanking services	-	40
Other deferred expenses	4,672	2,132
	5,916	3,661
Other adjustment accounts		
Foreign exchange transactions pending settlement	-	40
Other operations pending settlement		
Charged amounts	-	15
Secutities pending settlement	14,842	38,439
Other	854	1,655
	15,696	40,149
	34,886	**63,819**

Note 17 - Trading liabilities

The trading liabilities correspond to Structured Notes issued by the Group under a Structured Medium Term Note Programme. The Group issues two types of Structured Notes classified as trading liabilities, both of pass-through nature, where the Group passes to the client all the income and risks regarding the underlying asset: Currency Constraint and Credit-Linked Notes which are hedged by Brazilian government bonds and Currency Constraint and Equity Participation Notes (also called P-Notes) hedged mostly by Brazilian companies' shares. Both Brazilian government bonds and Brazilian companies' shares hedging the trading liabilities are recorded as Trading assets (see **Note 6**).

Trading liabilities

Issuer	Type of Note	Currency	Issue amount in USD'000	Revaluation	Balance in 31.12.13
IBBAInt London	Equity Participation Notes	USD	128,797	(65,858)	62,939
IBBAInt London	Debt Participation Notes	USD	124,563	(28,961)	95,602
					158,541

Issuer	Type of Note	Currency	Issue amount in USD'000	Revaluation	Balance in 31.12.12
IBBAInt London	Equity Participation Notes	USD	161,307	(15,645)	145,663
IBBAInt London	Debt Participation Notes	USD	177,308	(8,647)	168,659
					314,322

Note 18 - Deposits from banks

This item is analysed as follows:

Deposits from banks	31.12.13	31.12.12
Demand deposits	5	12,430
Interbank Money Market / Term deposits	613,201	585,713
Fiduciary deposits	9,000	9,000
Syndicated loans	275,590	-
Other amounts due	198	182
Interest payable	2,904	1,347
Commissions related to amortised cost (net)	(1,080)	-
	899,818	**608,672**

Note 19 - Customer accounts

This item is analysed as follows:

Customer accounts	31.12.13	31.12.12
Demand deposits	2,032,090	1,677,234
Time deposits	269,567	397,649
Other amounts due to customers	1,888	1,046
Interest payable	543	929
	2,304,088	**2,076,858**

Note 20 - Debt securities in issue

This item is analysed as follows:

Debt securities in issue	31.12.13	31.12.12
Floating Rate Notes	6,186	145,771
Certificates of deposit	150,878	630,930
Structured financial instruments	1,719,622	1,307,860
Net interest payable	27,802	46,000
	1,904,488	**2,130,561**

Floating Rate Notes on 31 December 2013

Issuer	Description	Issue date	Currency	Quantity	Issue amount in USD'000	Buy-backs	Balance on 31.12.13	Interest Rate Reference	Interest Rate Current rate	Frequency of interest	Maturity
IBBAInt London	Floating Rate Notes	Dec/09	USD	1,100	1,963	-	1,963	USLibor 12m	4.48%	Half-yearly	Dec/14
IBBAInt London	Floating Rate Notes	Oct/11	USD	200	200	-	200	USLibor 12m	2.66%	Half-yearly	Oct/14
IBBAInt London	Floating Rate Notes	Feb/12	USD	1,470	453	-	453	USLibor 12m	2.41%	Annual	Feb/14
IBBAInt London	Floating Rate Notes	Oct/13	USD	1,963	3,000	-	3,000	USLibor 6m	3.13%	Annual	Oct/23
IBBAInt London	Floating Rate Notes	Aug/12	USD	300	570	-	570	USLibor 6m	3.50%	Annual	Feb/14
							6,186				

Floating Rate Notes on 31 December 2012

Issuer	Description	Issue date	Currency	Quantity	Issue amount in USD'000	Buy-backs	Balance on 31.12.12	Interest Rate Reference Rate	Interest Rate Current rate	Frequency of interest payments	Maturity
IBBAInt London	Floating Rate Notes	Sep/09	USD	1,100	1,100	-	1,100	USLibor 12m	3.19%	Annual	Sep/13
IBBAInt London	Floating Rate Notes	Sep/09	USD	200	201	-	201	USLibor 12m	3.00%	Annual	Sep/13
IBBAInt London	Floating Rate Notes	Nov/09	USD	1,470	1,470	-	1,470	USLibor 12m	2.65%	Annual	Nov/13
IBBAInt London	Floating Rate Notes	Dec/09	USD	1,963	1,963	-	1,963	USLibor 6m	4.48%	Half-yearly	Dec/14
IBBAInt London	Floating Rate Notes	Dec/09	USD	300	300	-	300	USLibor 6m	3.70%	Half-yearly	Dec/13
IBBAInt London	Floating Rate Notes	Jan/10	USD	200	201	-	201	USLibor 12m	2.89%	Annual	Jan/13
IBBAInt London	Floating Rate Notes	Dec/09	USD	600	600	-	600	USLibor 12m	2.97%	Annual	Dec/13
IBBAInt London	Floating Rate Notes	Feb/11	USD	341	340	-	340	USLibor 12m	1.47%	Annual	Feb/13
IBBAInt London	Floating Rate Notes	Oct/11	USD	200	201	-	201	USLibor 6m	2.30%	Half-yearly	Oct/13
IBBAInt London	Floating Rate Notes	Oct/11	USD	200	201	-	201	USLibor 6m	2.66%	Half-yearly	Oct/14
IBBAInt London	Floating Rate Notes	Feb/12	USD	453	453	-	453	USLibor 12m	2.41%	Annual	Feb/14
IBBAInt London	Floating Rate Notes	Aug/12	USD	570	570	-	570	USLibor 12m	3.50%	Annual	Feb/14
IBBAInt London	Floating Rate Notes	Aug/12	USD	250	249	-	249	USLibor 6m	2.79%	Half-yearly	Apr/13
IBBAInt London	Floating Rate Notes	Aug/12	USD	5,000	5,001	-	5,001	USLibor 6m	1.52%	Half-yearly	Feb/13
IBBAInt London	Floating Rate Notes	Aug/12	USD	10,000	10,000	-	10,000	USLibor 6m	1.52%	Half-yearly	Feb/13
IBBAInt London	Floating Rate Notes	Aug/12	EUR	75,000	98,955	-	98,953	Euribor 6m	4.20%	Half-yearly	Feb/13
IBBAInt London	Floating Rate Notes	Aug/12	EUR	10,000	13,194	-	13,194	Euribor 6m	2.51%	Half-yearly	Feb/13
IBBAInt London	Floating Rate Notes	Oct/12	USD	10,000	10,000	-	10,000	USLibor 6m	1.52%	Half-yearly	Feb/13
IBBAInt Cayman	Floating Rate Notes	May/10	USD	500	500	-	500	USLibor 6m	3.70%	Half-yearly	May/15
IBBAInt Cayman	Floating Rate Notes	May/10	USD	275	274	-	274	USLibor 6m	3.70%	Half-yearly	May/15
							145,771				

Certificates of deposit on 31 December 2013

Description		Currency	Issued amount in USD'000	Buy-backs	Balance in 31.12.13	Average Effective	Average Initial Term
Certificates of Deposit	(a)	EUR	499	-	499	0.97%	360
Certificates of Deposit	(a)	USD	148,041	-	148,041	0.66%	967
Certificates of Deposit	(a)	GBP	2,338	-	2,338	1.79%	414
					150,878		

(a) The total amount of the Euro Certificate of Deposit Programme is USD 2,000 m.

Certificates of deposit on 31 December 2012

Description		Currency	Issued amount in USD'000	Buy-backs	Balance in 31.12.12	Average Effective	Average Initial Term
Certificates of Deposit	(a)	EUR	3,263	-	3,263	0.45%	344
Certificates of Deposit	(a)	USD	651,917	(26,889)	625,027	1.51%	445
Certificates of Deposit	(a)	GBP	2,640	-	2,640	1.68%	306
					630,930		

(a) The total amount of the Euro Certificate of Deposit Programme is USD 2,000 m.

Structured Financial Instruments on 31 December 2013

Description	Currency	Issued amount in USD'000	Buy-backs	Balance in 31.12.13	Average Effective Interest Rate	Average Initial Term
100% Double Knock Out Straddle	USD	2,415	-	2,415	3.55%	456
Brazilian Foreign Exchange Equity Index Linked Note	USD	314	-	314	2.70%	1,096
Buffered Note	USD	2,008	-	2,008	2.92%	1,820
Capital Protected Note	USD	9,354	-	9,354	2.99%	1,825
Capped Contingent Twin Win Note	USD	154,192	(150)	154,042	2.39%	912
Capped Note With Bonus Payment Note	USD	1,689	-	1,689	1.81%	620
Capped Note With Contingent Minimum Coupon	USD	40,903	(1,050)	39,853	1.99%	503
Capped Notes With Bonus Payment Note	USD	3,562	-	3,562	2.33%	732
Capped Twin Win Note	USD	7,727	-	7,727	2.36%	1,000
Capped Twin Win Note With Bonus Payment	USD	2,640	-	2,640	3.18%	1,095
Capped Twin Win With Bonus Payment Note	USD	31,651	-	31,651	2.55%	1,046
Collared Floating Rate Note	USD	674	-	674	0.98%	1,826
Credit Linked Note	USD	669,520	-	669,520	2.21%	1,192
Credit Linked Note	EUR	6,022	-	6,022	1.71%	1,734
Double Knock Out Straddle Note	USD	1,208	-	1,208	3.59%	459
Enhanced Xs Up Note	USD	6,629	-	6,629	1.80%	365
Fixed Rate Note	USD	3,847	-	3,847	2.87%	1,087
Fixed/Us Inflation Index Linked Interest And Credit Linked Note	USD	1,669	-	1,669	3.75%	1,795
Fx Linked Note	USD	34,719	-	34,719	1.82%	366
Fx Wedding Cake Note	USD	750	-	750	2.74%	360
Index Linked Interest And Credit Linked Note	USD	133,304	-	133,304	1.86%	1,320
Index Wedding Cake Note	USD	1,691	-	1,691	2.75%	431
Knock In Reverse Convertible Note	USD	7,264	-	7,264	3.48%	1,670
Knock-In Reverse Convertible Note - European Ki	USD	13,507	-	13,507	3.24%	1,554
Phoenix Autocall Memory Note	USD	600	-	600	0.17%	549
Phoenix Autocall Note	USD	17,950	-	17,950	0.51%	630
Phoenix Autocall Range Accrual Note	USD	36,385	-	36,385	1.36%	981
Phoenix Worst Of Autocall Note	USD	126,533	-	126,533	0.39%	497
Phoenix Worst Of Autocall Note	EUR	8,075	-	8,075	0.30%	732
Phoenix Worst Of Range Accrual Autocall	USD	178,017	-	178,017	1.01%	1,084
Step Up Knock-In Reverse Convertible Note	USD	5,710	-	5,710	1.91%	369
Step Up Note	USD	44,898	-	44,898	2.33%	475
Uncapped Note	USD	41,221	-	41,221	1.97%	710
Uncapped Note	EUR	707	-	707	2.71%	730
Uncapped Note With Bonus Payment	USD	1,110	-	1,110	1.93%	735
Uncapped Note With Bonus Payment	EUR	1,461	-	1,461	1.98%	730
Uncapped Note With Contingent Minimum Coupon	USD	24,346	(1,200)	23,146	2.28%	703
Uncapped Notes With Bonus Payment	USD	1,045	-	1,045	2.23%	731
Uncapped Twn Win Note	USD	4,777	-	4,777	2.08%	731
Us Inflation Linked Note	USD	993	-	993	2.87%	974
Worst Of Capped Contingent Return Notes	USD	30,834	-	30,834	2.54%	819
Worst Of Reverse Convertible Note	USD	1,220	-	1,220	3.13%	730
Worst Of Reverse Convertible Note - European Ki	USD	36,465	-	36,465	3.44%	1,512
Worst Of Step Up Reverse Convertible Note	USD	7,078	-	7,078	2.39%	977
Xs Up Note	USD	15,338	-	15,338	1.67%	565
				1,719,622		

Structured Financial Instruments on 31 December 2012

Description	Currency	Issued amount in USD'000	Buy-backs	Balance in 31.12.12	Average Effective Interest Rate	Average Initial Term
Brazilian Foreign Exchange Equity Index Linked Note	USD	1,321	-	1,321	2.67%	564
Capital Protected Note	USD	431	-	431	3.12%	1,821
Capped Contingent Twin Win Note	USD	92,037	-	92,037	2.59%	690
Capped Note With Contingent Minimum Coupon	USD	12,464	-	12,464	3.70%	365
Capped Notes With Contingent Minimum Coupon	USD	79,039	-	79,039	2.98%	473
Capped Twin Win Note	USD	4,233	-	4,233	2.82%	591
Cln Linked To Brazilian Sovereign Bonds	USD	8,462	-	8,462	0.00%	439
Cln Linked To Chile Sovereign Bonds	USD	18,058	-	18,058	3.25%	442
Cln Linked To Corporate Bonds	USD	325,317	-	325,317	2.64%	707
Cln Linked To Corporate Bonds	EUR	5,525	(363)	5,162	2.14%	1,155
Cln Linked To Euro Sovereign Bonds	USD	36,643	-	36,643	2.68%	1,132
Cln Linked To Israel Sovereign Bonds	USD	3,785	-	3,785	3.02%	1,116
Double Knock Out Straddle Note	USD	4,878	-	4,878	3.41%	365
Dual Currency Notes	USD	1,116	-	1,116	2.63%	359
Dual Currency Notes	CHF	547	-	547	0.00%	90
First To Default Credit Linked Note	USD	2,980	-	2,980	2.34%	364
Fixed Rate Notes	USD	4,229	-	4,229	2.87%	1,086
Fixed Rate Notes	GBP	1,102	-	1,102	2.18%	494
Fixed/Us Inflation Index Linked Interest And Credit Linked Notes	USD	2,290	-	2,290	6.45%	1,795
Fx Linked Notes	USD	28,771	-	28,771	2.03%	317
Fx Wedding Cake Note	USD	5,550	-	5,550	1.75%	264
Index Linked Interest And Credit Linked Notes	USD	82,645	-	82,645	1.83%	1,116
Index Wedding Cake Note	USD	652	-	652	4.27%	361
Knock In Reverse Convertible Note	USD	13,106	-	13,106	3.35%	1,246
Knock-In Reverse Convertible Note - European Ki	USD	27,317	-	27,317	3.44%	970
Lock In Best Coupon Note	USD	2,320	-	2,320	1.53%	874
Phoenix Autocall Memory Note	EUR	5,267	-	5,267	0.39%	456
Phoenix Autocall Note	USD	20,913	-	20,913	0.40%	732
Phoenix Autocall Note	EUR	1,511	-	1,511	0.42%	547
Phoenix Autocall Range Accrual Note	USD	127,763	-	127,763	1.16%	1,068
Phoenix Autocall worst of kicker Note	USD	1,000	-	1,000	0.50%	365
Phoenix Worst Of Autocall Note	USD	145,562	-	145,562	0.40%	442
Shark Note	USD	838	-	838	2.86%	1,089
Step Up Notes	USD	127,667	-	127,667	3.70%	390
Step Up Quanto Note	USD	89	-	89	3.58%	364
Uncapped Notes	USD	7,634	-	7,634	2.90%	365
Uncapped Notes With Contingent Minimum Coupon	USD	58,758	-	58,758	2.50%	652
Uncapped Notes With Contingent Minimum Coupon	EUR	529	-	529	2.98%	729
Uncapped Twn Win Note	USD	1,303	-	1,303	2.78%	730
Us Inflation Linked Note	USD	987	-	987	7.55%	974
Worst Of Reverse Convertible Note - European Ki	USD	24,593	-	24,593	4.09%	1,700
Worst Of Step Up Reverse Convertible Note	USD	17,076	-	17,076	5.17%	633
Xs Up Note	USD	1,915	-	1,915	1.90%	365
				1,307,860		

As of 31 December 2013, there are no debts represented by listed securities.

Note 21 - Subordinated liabilities

This item is analysed as follows:

Subordinated liabilities	31.12.13	31.12.12
Subordinated debt issues	30,000	30,000
Interest payable	59	89
	30,059	**30,089**

There were no issuances, repurchases or repayments of subordinated debt since 31 December 2012.

Note 22 - Deferred tax liabilities

Deferred tax liabilities are comprised as follows:

Deferred tax liabilities	31.12.13	31.12.12
Financial assets available for sale	38	-
Provisions	-	5,863
Derivatives	6	516
Goodwill amortization	10,571	8,960
	10,615	**15,339**

Deferred tax liabilities	31.12.13	31.12.12
Deferred tax liabilities to be paid after more than 12 months	10,571	8,960
Deferred tax liabilities to be paid within 12 months	44	6,379
	10,615	**15,339**

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

Note 23 - Other liabilities

This item is analysed as follows:

Other liabilities	31.12.13	31.12.12
Creditors and other resources		
Public Sector	2,478	2,872
Other creditors	2,267	2,149
	4,745	5,021
Expenses payable		
Staff costs		
Share-based payments	3,010	959
Other staff costs	30,841	35,565
General and administrative expenses		
Audit	868	1,810
Consulting	190	216
Structuring and technical support	12	102
Other services provided by third parties	173	128
Other General and Administrative expenses	438	711
Other expenses payable	17,059	9,835
	52,591	49,326
Deferred income		
Irrevocable commitments assumed with third parties	1,708	929
Guarantees given and other contingent liabilities	73	232
Rents	1,216	-
Other deferred income	1,160	1,924
	4,157	3,085
Other adjustment accounts		
Responsibilities with pension plans		
Net defined benefit (Note 24)	1,706	-
Foreign exchange transactions pending settlement	321	36
Other operations pending settlement		
Charged amounts	108,908	32,590
Other	1,337	1,616
	112,272	34,242
	173,765	**91,674**

The balance of Charged amounts recognised in Other adjustment accounts, is mainly comprised of securities and structured notes pending settlement.

Note 24 - Defined benefit pension plans

The subsidiary Banco Itaú Suisse operates a post-employment plan considered to be of defined benefit 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 risks for the employer Banco Itaú Suisse 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	31.12.13
Defined benefit obligation	10,310
Fair value of plan assets	(8,604)
Total deficit of defined benefit pension plans	1,706
Adjustment to asset ceiling	-
Net defined benefit liability	1,706

The movement in the defined benefit obligation over the year is as follows:

Movement in the defined benefit obligation	Defined obligation	Fair value assets	Net defined liability
As at 01.01.13	6,128	(5,008)	1,120
Interest expense / (income)	152	(128)	24
Current service cost (employer)	1,586	-	1,586
Contributions:			
- Employer	676	(1,259)	(583)
- Plan participants	-	(676)	(676)
Benefits (paid) / deposited	1,475	(1,475)	-
Past Service Cost	-	-	-
(Gains) and losses on settlement	-	-	-
Effect of business combination and disposal	-	-	-
Administration cost (excl. cost for managing plan assets)	3	-	3
Actuarial (gain) / loss on defined benefit obligation			
- arising from changes in financial assumptions	(257)	-	(257)
- arising from changes in demogr. assumptions	244	-	244
- arising from experience adjustments	303	-	303
Return on plan assets excl. interest income	-	(58)	(58)
As at 31.12.13	10,310	(8,604)	1,706

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

Actuarial assumptions	31.12.13
Discount rate (DR)	2.20%
Long-term salary increases (SI)	0.00%
Long-term pension increases	0.00%
Long-term inflation	0.50%
Mortality tables	BVG2010 GT
Retirement probability	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	% Change
Defined Benefit Obligation with DR -0.25%	10,776	4.5%
Defined Benefit Obligation with DR +0.25%	9,877	(4.2%)
Defined Benefit Obligation at 31.12. with SI -0.25%	10,310	-
Defined Benefit Obligation at 31.12. with SI +0.25%	10,438	1.2%
Defined Benefit Obligation at 31.12. with life expectancy +1 year	10,383	0.7%
Defined Benefit Obligation at 31.12. with life expectancy -1 year	10,238	(0.7%)

Contributions as a percentage of the pensionable salary of workers and employers are levied to fund the benefits. Expected contributions to the defined benefit plan for the year ending 31 December 2014 are as follows:

Best Estimate of contributions of next year	
Contributions by the employer	1,299
Contributions by plan participants	698

The weighted average duration of the defined benefit obligation is 17.6 years.

Note 25 - Share capital

As of 31 December 2012 (prior to the Merger), Itaú BBA Portugal had a share capital of €535,624 thousand (USD 725,771 thousand at the foreign exchange rate of the Merger), represented by 107,124,869 ordinary shares with a nominal value of €5 each, fully subscribed and paid by the sole shareholder – Itaúsa Portugal. As of that date, Itau BBA UK had a share capital of USD 200,000 thousand, represented by 20,000,015 ordinary shares with a nominal value of USD 10 each, fully subscribed and paid by the same sole shareholder – Itaúsa Portugal.

On the Effective Date, Itaú BBA Portugal ceased to exist and all of its assets and liabilities were transferred to Itau BBA UK. The shares held by Itaúsa Portugal in Itaú BBA Portugal were cancelled, and in exchange for this cancellation, Itau BBA UK issued and allotted 40,000,030 new ordinary shares with a nominal value of USD 10 each to Itaúsa Portugal, as a consideration for the assets and liabilities transferred.

As a result of this share issue, the share capital of Itau BBA UK upon completion of the merger and as of 31 December 2013 is of USD 600,000 thousand, represented by 60,000,045 ordinary shares with a nominal value of USD 10 each, fully owned by Itaúsa Portugal.

Note 26 - Revaluation reserves

This item is analysed as follows:

Revaluation reserves	31.12.13	31.12.12
Reserves due to fair value adjustments of financial assets available for sale		
Debt instruments	(2,142)	(453)
Deferred tax liabilities	293	175
Foreign currency translation reserve	(1,621)	(532)
Hedge of Net Investment reserve	38	23
Other revaluation reserves		
Remeasurements of post employment defined benefit obligations	(1,397)	-
	(4,829)	**(787)**

Note 27 - Other reserves

In the process of issuance and allotment of new shares (see **Note 25**), the excess capital (USD 325,771 thousand) was allocated to Other Reserves.

The currency translation differences presented on the Statement of Changes in Shareholders' Equity as Other reserves are mainly related to the exchange difference generated in the conversion to USD of Itaú BBA Portugal consolidated financial statements as of 31 December 2012, originally expressed in EUR, at the exchange rates of 31 December 2012. This conversion generated an exchange difference to the extent that the capital has been adjusted retroactively to reflect the legal capital of the acquirer, having been converted at the exchange rate of the date of merger.

Note 28 - Non-controlling interests

This item is analysed as follows:

Non-controlling interests	Balance sheet 31.12.13	Balance sheet 31.12.12	Income statement 31.12.13	Income statement 31.12.12
Minority shareholders of:				
BIE Luxembourg, SA	17	24	(1)	-
	17	**24**	**(1)**	**-**

Note 29 - Guarantees and commitments

This item is analysed as follows:

Guarantees and commitments	31.12.13	31.12.12
Guarantees given		
Institutional guarantees		
Guarantees	123,859	203,686
Stand-by letters of credit	162,705	138,838
Other institutional guarantees given	5,254	5,316
	291,818	**347,840**
Financial assets pledged as collateral		
Securities	14,027	15,379
Other assets	19,637	-
	33,664	**15,379**
	325,482	**363,219**
Commitments to third parties		
Irrevocable credit facilities	1,016,971	741,782
Revocable credit facilities	303,543	138,929
	1,320,514	**880,711**

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

Financial assets pledged as collateral	Asset 31.12.13	Asset 31.12.12	Related liability 31.12.13	Related liability 31.12.12
Financial assets designated at fair value (Note 7):	14,027	15,379	21	45
Loans and advances to banks (Note 9):	19,637	-	18,370	-
	33,664	15,379	18,391	45

On 31 December 2013 and 2012, the financial assets designated at fair value pledged as collateral are securities deposited in BM&F (*Bolsa de Mercadorias e Futuros* - São Paulo, Brazil), as margin for BMF_USD futures transactions.

On 31 December 2013, the pledged loans and advances to banks are collateral deposits for CME_USD future transactions.

Note 30 - Credit impairment charges and other provisions

The movement in impairment and provisions was the following:

Impairment and other provisions	**31.12.13**	**31.12.12**
Opening balance	17,193	30,457
Charge to the income statement		
- Loans and advances to customers	3,273	(458)
- Financial assets available for sale	1,428	-
- Guarantees and commitments	38	(62)
- Other provisions	7	-
	4,746	(520)
Utilisation/Write-off		
- Loans and advances to customers	(11,790)	-
- Goodwill	-	(11,193)
- Intangible assets	-	(1,562)
- Other provisions	(1,394)	-
	(13,184)	(12,755)
Exchange rate and other movements	56	11
Balance at end of year	8,811	17,193
In respect of:		
- Loans and advances to customers	7,194	15,693
- Financial assets available for sale	1,454	-
- Guarantees and commitments	163	113
- Other provisions	-	1,387
Balance at end of year	8,811	17,193

Note 31 - Net interest income

This item is analysed as follows:

Net interest income	31.12.13	31.12.12
Interest income		
Interest from balances at central banks	1,814	1,444
Interest on loans and advances to banks	7,877	3,776
Interest on loans and advances to customers	106,736	120,817
Interest on overdue loans	3	650
Interest on financial assets designated at fair value	617	-
Interest on financial assets available for sale	3,293	1,185
	120,340	127,872
Interest expense		
Interest on amounts due to central banks	-	(30)
Interest on deposits from banks	(10,516)	(13,094)
Interest on deposits from customers	(2,944)	(5,053)
Interest on issued bonds	(1,032)	(4,419)
Interest on issued certificates of deposit	(5,988)	(12,964)
Interest on issued structured financial instruments	(33,073)	(30,440)
Interest on subordinated debt	(250)	(1,697)
Other interest and similar expenses	(24)	(2)
	(53,827)	(67,699)
	66,513	**60,173**

Note 32 - Net fee and commission income

This item is analysed as follows:

Net fee and commission income	31.12.13	31.12.12
Fee and commission income		
For guarantees given	2,054	2,069
For irrevocable commitments	3,692	4,921
For operations on financial instruments	1,341	819
For banking services	114,338	77,115
For operations undertaken for third parties	5,066	34,086
	126,491	119,010
Fee and commission expense		
For guarantees received	(2,839)	(4,133)
For irrevocable commitments	(85)	-
For operations on financial instruments	(23)	0
For banking services	(4,330)	(3,250)
For operations undertaken by third parties	(2,301)	(3,464)
Other	(821)	(369)
	(10,399)	(11,216)
	116,092	**107,794**

Note 33 - Net income on financial operations

This item is analysed as follows:

Net income on financial operations	31.12.13	31.12.12
Net income on financial assets at fair value through profit or loss		
Net income on trading assets	(31,396)	22,213
Net income on trading liabilities	64,024	17,745
Net income on financial assets designated at fair value	6,771	8,983
Net income on derivative financial instruments	15,228	8,975
Net income on currency revaluation	(34,194)	(56,526)
	20,433	**1,390**
Net income on financial assets available for sale		
Debt securities	(96)	(127)
Equity instruments	(2)	115
	(98)	**(12)**
Dividend income	**-**	**54**
Net income on other financial operations		
Net income on purchase/disposal of loans	(328)	(942)
Net income on purchase/disposal of other financial assets	192	883
Net income on repurchase of own issues	1	3,385
Net income on structured financial instruments	5,418	3,946
Net income on other financial operations	(1,929)	(1,023)
	3,354	6,249
	23,689	**7,681**

Note 34 - Other operating income

This item is analysed as follows:

Other operating income	31.12.13	31.12.12
Expenses reimbursement	2,585	2,197
Income from service level agreements	1,608	2,861
Taxes reimbursement	18	901
Gains in tangible assets	2	13
Gains in subsidiaries	1,175	-
Other operating income	3,079	1,283
	8,467	**7,255**

On 31 October 2013, the subsidiary Banco Itaú Europa Luxembourg (BIEL) sold the participation it held in Itau Bank & Trust Bahamas to another Itaú Group company, for its net book value (USD 38,244,022), generating no profit or loss in BIEL separate financial statements, but a gain of USD 1,175 thousand in the consolidated financial statements.

Note 35 - Staff costs

This item is analysed as follows:

Staff costs	31.12.13	31.12.12
Remuneration	76,819	71,296
Social security/Welfare expenses	7,627	6,010
Pension costs		
- Defined contribution plans	2,083	2,067
- Defined benefit plans	297	-
Share-based payments	2,179	958
Other staff costs	5,882	6,278
	94,887	**86,609**

On 31 December 2013, the number of employees (including Board members) working for the Group is 428 (31.12.12: 439 employees).

Note 36 - General and administrative expenses

This item is analysed as follows:

General and administrative expenses	31.12.13	31.12.12
Supplies	1,222	1,242
Services		
Rentals and leasing	6,903	5,701
Communications	2,943	2,730
Travel, lodging and representation	5,298	4,275
Advertising and sponsorship	2,232	1,438
Maintenance and repairs	1,238	1,040
Training expenses	749	531
Insurance	526	617
Specialized services	26,254	27,863
Service level agreements	9,512	11,144
Other services	4,204	3,342
	59,859	58,681
	61,081	**59,923**

Note 37 - Other operating expenses

This item is analysed as follows:

Other operating expenses	31.12.13	31.12.12
Subscriptions and donations	446	324
Losses in tangible assets	207	295
Indirect taxes	2,469	2,503
Direct taxes	1,202	2,047
Other operating expenses	2,392	3,200
	6,716	**8,369**

Note 38 - Income tax

This item is analysed as follows:

Income tax	31.12.13	31.12.12
Current taxes on income for the reporting period	(3,930)	(8,682)
Current taxes referring to previous periods	2,264	125
Total current tax	**(1,666)**	**(8,557)**
Origination and reversal of temporary differences regarding:		
Loan impairment	(1,015)	218
Provisions	(1,412)	4,394
Derivatives	237	489
Goodwill amortization	(1,612)	(1,612)
Depreciation and amortization of tangibles and intangibles	460	355
Financial assets available for sale	168	-
Dividends	-	(901)
Other	(407)	(172)
Use of tax losses carried forward	(5,442)	2,665
Write down or reversal of deferred tax assets	-	11,511
Total deferred tax	**(9,023)**	**16,947**
	(10,689)	**8,390**

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

The table below shows the reconciliation between the actual Group's tax charge and the tax charge that would result from applying the standard corporation tax rate to the Group's profit before tax:

Income tax reconciliation	31.12.13	31.12.12
Profit before tax	**34,214**	**14,044**
Tax calculated at the weighted average Group tax rate of 29% (2012: 20%)	(9,892)	(2,790)
Effect of :		
- Expenses not deductible for tax purposes	(201)	(775)
- Changes in tax rates	(104)	51
- Adjustment for prior years	(1,269)	(767)
- Income not subject to tax	5,259	7,266
- Income of Cayman subsidiary	(1,319)	(4,164)
- Write down or reversal of deferred tax assets	-	11,511
- Tax on business transfer	-	(3,648)
- Minimum corporate income tax	(29)	-
- Tax losses not recovered	(3,134)	1,706
Income tax	**(10,689)**	**8,390**

Note 39 - Related Party Transactions

On 31 December 2013 and 2012, there are no outstanding loan or deposit balances held with members of the Board of Directors of the Bank and subsidiaries. For disclosures regarding Share-based payment transactions, see **Notes 23** and **35**.

The Group records the following balances with related parties:

Related Parties	31.12.13				
	Itaúsa Europa Investimentos, SGPS	Itaúsa Portugal, SGPS	IPI	Itaú Unibanco Group (Brazil) (1)	Total
Assets					
Derivative financial instruments	-	-	-	36,524	36,524
Loans and advances to banks	-	-	-	24,602	24,602
Investments in associates and subsidiaries	-	-	32,346	-	32,346
Other assets	37	78	11	1,094	1,220
	37	78	32,357	62,220	94,692
Liabilities					
Derivative financial instruments	-	-	-	15,938	15,938
Deposits from banks	-	-	-	227,524	227,524
Customer accounts	674	10,530	66,028	60,963	138,195
Subordinated liabilities	-	-	-	30,059	30,059
Other liabilities	-	-	-	1,048	1,048
	674	10,530	66,028	335,532	412,764
Income and Expenses					
Interest income	-	-	-	426	426
Interest expense	-	(1)	(134)	(4,901)	(5,036)
Net income in financial operations	-	-	-	(8,584)	(8,584)
Commission income	-	-	-	12	12
Commission expense	-	-	-	(4,034)	(4,034)
Other income	-	-	-	4,103	4,103
Other expenses	-	-	-	(9,466)	(9,466)
	-	(1)	(134)	(22,444)	(22,579)
Off-balance sheet					
Guarantees received	-	-	-	562,889	562,889
Guarantees given	-	-	-	98,280	98,280
Exchange operations and derivative instruments					
Purchase	-	-	-	1,403,704	1,403,704
Sale	-	-	-	1,371,744	1,371,744
	-	-	-	3,436,617	3,436,617

Related Parties	31.12.12				
	Itaúsa Europa Investimentos, SGPS	Itaúsa Portugal, SGPS	IPI	Itaú Unibanco Group (Brazil) (1)	Total
Assets					
Derivative financial instruments	-	-	-	67,020	67,020
Loans and advances to banks	-	-	-	24,422	24,422
Investments in associates and subsidiaries	-	-	30,923	-	30,923
Other assets	28	28	8	8,340	8,404
	28	28	30,931	99,782	130,769
Liabilities					
Derivative financial instruments	-	1,655	-	38,038	39,693
Deposits from banks	-	-	-	427,561	427,561
Customer accounts	747	204,496	63,110	56,563	324,916
Subordinated liabilities	-	-	-	30,089	30,089
Other liabilities	-	-	-	2,370	2,370
	747	206,151	63,110	554,621	824,629
Income and Expenses					
Interest income	1	128	22	4,507	4,658
Interest expense	-	-	(154)	(997)	(1,151)
Net income in financial operations	-	-	-	(17,361)	(17,361)
Commission income	-	-	-	1,986	1,986
Commission expense	-	-	-	(4,045)	(4,045)
Other income	-	-	-	2,002	2,002
Other expenses	-	-	-	(12,024)	(12,024)
	1	128	(132)	(25,932)	(25,935)
Off-balance sheet					
Guarantees received	-	-	-	1,039,488	1,039,488
Guarantees given	-	-	-	118,823	118,823
Exchange operations and derivative instruments					
Purchase	-	-	-	2,649,818	2,649,818
Sale	-	-	-	2,600,949	2,600,949
	-	-	-	6,409,078	6,409,078

(1) Includes the companies Banco Itaú BBA S.A., Banco Itaú BBA Nassau Branch, Itau Unibanco S.A., Itau Unibanco Cayman Branch, Itaú Unibanco New York Branch, Itaubank (Cayman), Itaú USA Securities, Itaú UK Securities, Banco Itaú Chile, Banco Itaú Uruguay, Banco Itaú Paraguay, Banco Itaú Argentina, Afinco Americas (Madeira), Zux SGPS (Madeira), Zux Cayman, Duratex S.A., Redecard, S.A., Unicorp Bank&Trust Ltd..

Note 40 - Financial Risk and Capital Management

The disclosures required under IFRS relating to financial risks and capital resources have been included within the Risk management and Performance review sections of the Strategic Report.

This move has been to improve transparency and ease of reference by concentrating related information in one place, and to reduce duplication. The relevant disclosures have been marked as audited and can be found as follows:

- Credit risk, on pages 19 to 23;
- Market risk, on pages 24 to 26;
- Liquidity risk, on pages 27 to 28;
- Capital resources, on pages 11 to 13.

Note 41 - Other disclosures

The fees charged on a consolidated basis by the Statutory Auditors, in the year 2013, were as follows:

Statutory Auditors Fees	31.12.13
Statutory auditing	1,021
Other assurance and reliability services	256
	1,277

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Itau BBA International plc, comprise:

- the Consolidated Balance Sheet as at 31 December 2013;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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 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.

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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 32, 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 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 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.

Michael Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
08/04/2014

(a) The maintenance and integrity of the Itau BBA International plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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