Pillar 3 Disclosures 2013

Itau BBA International plc

Table of contents

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1. Overview of legal structure

Itau BBA International plc ("IBBAInt", "Itau BBA UK", the "Bank" or the "Company") 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").

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").

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 USD 200 million, in view of the development of the Bank's business following the Merger.

2. Basel Accord

The Basel Accord was implemented in the European Union ("EU") via the Capital Requirements Directive ("CRD"), which was designed to ensure the financial soundness of credit institutions (banks and building societies) and certain investment firms. The CRD framework known as Basel II introduced the concept of three 'pillars'. Pillar I sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar I and must take action accordingly. Pillar 3 aims to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

The Basel II Accord was updated in 2010 to strengthen the global capital and liquidity rules following the financial crisis, through a number of reforms collectively known as Basel III. This has been implemented in the European Union through a new Directive and a Regulation collectively known as the Capital Requirements Directive IV ("CRD IV"). These new requirements took effect from 1 January 2014.

3. Background to Pillar 3 disclosures

These disclosures cover IBBAInt and its subsidiaries (together the "IBBAInt Group" or the "Itau BBA UK Group").

The IBBAInt Group ultimate parent company is Itaú Unibanco Holding,S.A., a Brazilian corporation which, together with its consolidated subsidiaries, form the "Itaú Group". This holding company is subject to the regulation and supervision of the Central Bank of Brazil (BACEN). In Brazil, the standard method for assessing capital for credit, market and operational risks have been in effect since 1 July 2008. The main rules for capital allocation have been changing so as to adapt to the international standards. The information contained in this document refers to IBBAInt Group and is not necessarily indicative of the Itaú Group as a whole. Investors, stakeholders or other users seeking information on capital adequacy, risk exposure and risk management policies of the Itaú Group, should consult its public disclosures.

The qualitative and quantitative information contained in this document represents the position of the IBBAInt Group as of 31 December 2013. Any amendments to IBBAInt's operating model and risk management procedures that have occurred following this date are not discussed in this document.

This document does not constitute a set of financial statements. The IBBAInt Group 2013 audited financial statements are prepared in accordance with the International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. Information disclosed in IBBAInt Group 2013 audited financial statements will not necessarily be consistent with information disclosed in this document, as some definitions used in this document refer to the regulatory view and may differ from the accounting definitions.

This document has been reviewed and approved by the Bank's Board of Directors.

These disclosures have not been audited by the Bank's external auditors except where the information is equivalent to that included in the Annual Report.

4. Application of the Pillar 3 framework

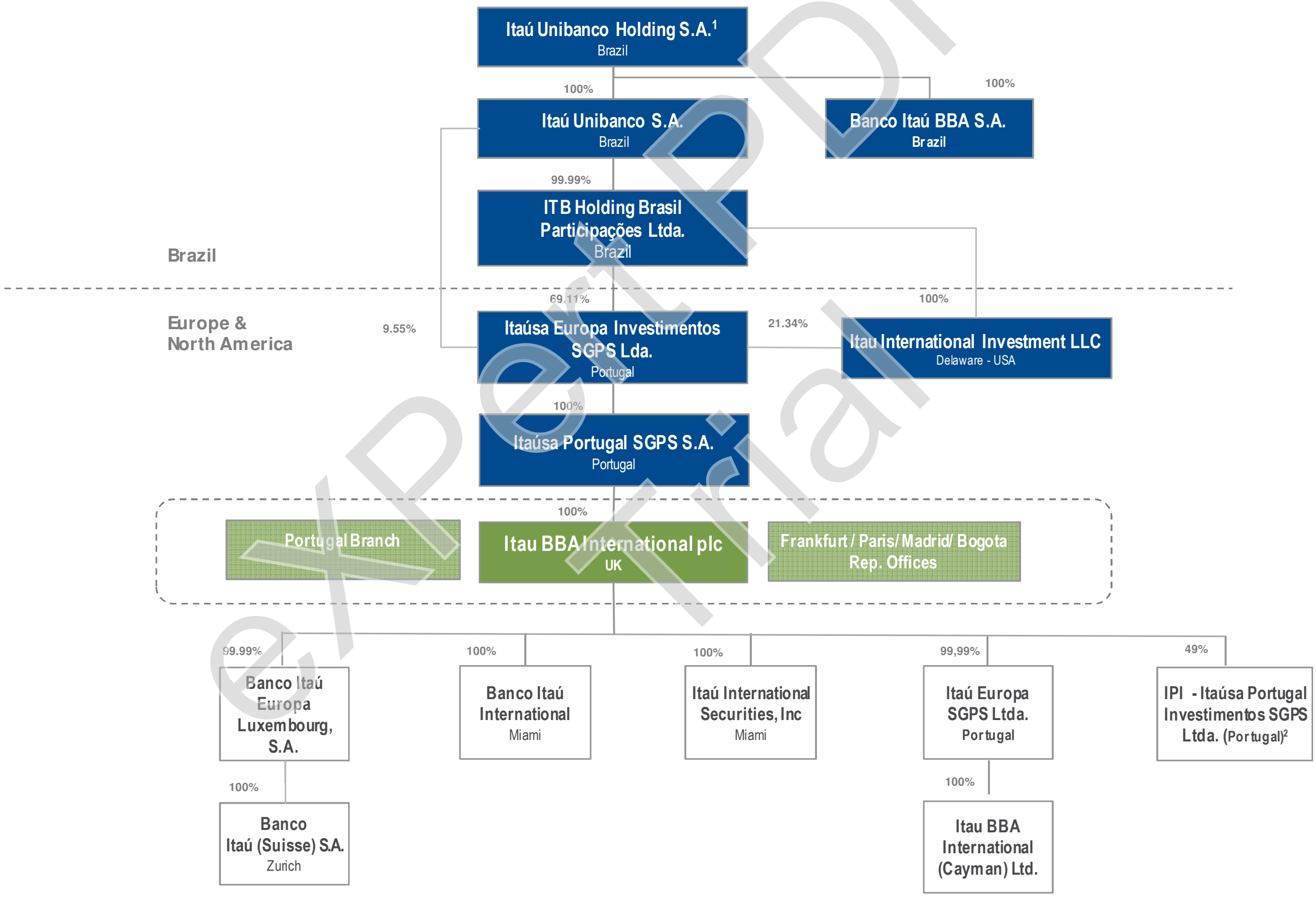
This document represents the annual public Pillar 3 qualitative and quantitative disclosures required by the FCA and PRA prudential sourcebook rules for Banks, Building Societies and Investment Firms ("BIPRU"), in relation to the IBBAInt Group.

5. Itau BBA International Group

IBBAInt Group's business model is structured on the basis of 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, as follows: Corporate & Investment Banking (CIB) and International Private Banking (IPB).

IBBAInt Group is regulated by the PRA (at the level of the EU parent – Itaúsa Europa Investimentos). It includes all the entities that form part of the accounting consolidation group. As at 31 December 2013, there were no entities which were deducted from IBBAInt's Group capital resources. The IBBAInt Group calculates capital requirements in accordance with the regulatory capital requirements of the PRA and with guidelines based in the Basel Accord.

The following simplified chart shows the IBBAInt Group structure as at 31 December 2013:



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

6. Governance arrangements

Set out below is a summary of the key governance arrangements in place at the Bank. Specific arrangements with regard to risk governance are described in section 9 below ("Risk management framework").

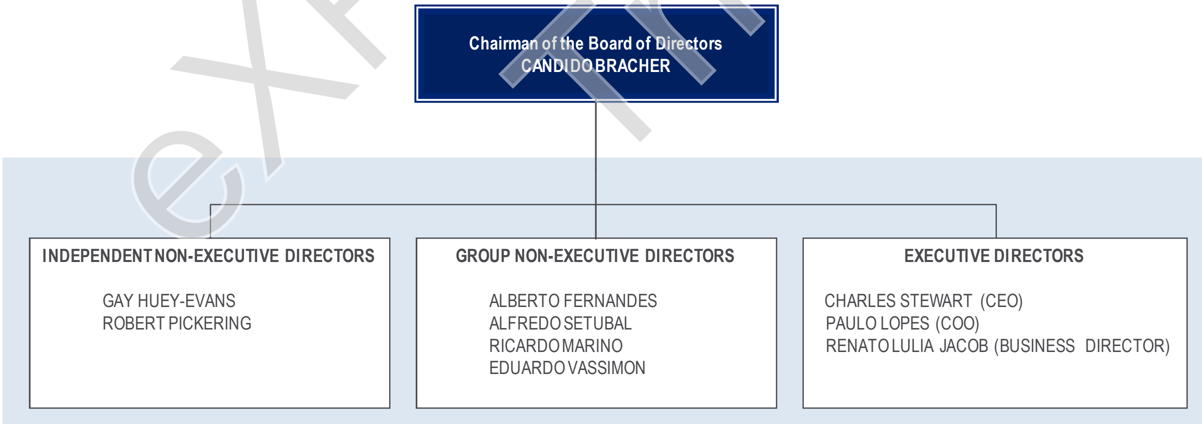
Board of Directors (the "Board")

The Bank operates under a unitary board structure, whereby one body – the Board – provides the overall leadership for the Bank, setting its directions and major policies, appointing and supervising executive top management and ensuring compliance with relevant laws and regulations.

The Board may exercise all of IBBAInt's powers. In particular, the Board has reserved powers to approve:

a) the Bank's strategy and review of its delivery;
b) the Risk appetite;
c) the Liquidity Risk appetite (as outlined in the ILAA annual report, reviewed annually);
d) the Capital Plan (as outlined in this ICAAP annual report and reviewed annually);
e) the Bank's Recovery and Resolution Plans that are reviewed annually.

The Board is composed of Group Non-Executive Directors (five), Independent Non-Executive Directors (two) and Executive Directors (three).



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 2014 annual general meeting.

Except as indicated below, the other directorships held by the directors are within the Itaú conglomerate.

The non-executive directors holding additional non-executive directorships in organisations outside the Itaú Group which pursue commercial objectives are:

- Candido Bracher – 1 additional non-executive directorship;
- Gay Huey-Evans – 3 additional non-executive directorships; and
- Robert Pickering – 2 additional non-executive directorships.

Recruitment policy and diversity on the Board

The Board Remuneration and Nomination committee (R&N) is responsible for leading the process for new appointments to the Board. Before any appointment is made by the Board, the R&N shall evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

In performing its duties, the R&N must not discriminate on basis of any characteristic protected by applicable law such as race, national origin, gender, religion, disability, age or sexual orientation. Instead, candidates to the Board shall be assessed on their honesty, competence and capabilities to carry out the role. In terms of age, however, the competency assessment may be indirectly discriminatory because for some roles (such as the chairman of the Board or of its committees) due regard shall be given to the candidate's experience, which, by definition, is acquired over a period of time. Likewise, in some circumstances, in assessing the capabilities of an individual, the national origin or the country of residence may also impact the assessment insofar as knowledge and experience on a given national market, business and regulatory environment may be linked to the national provenance of the candidate and not fill the skills gap required for the Board.

Although there are no specific and pre-defined targets for the number of women or other groups being appointed to the Board, diversity (including gender) is taken into account when considering Board appointments by selecting from a pool of suitable candidates for membership, with different backgrounds and assessed on merit.

Chairman of the Board and Chief Executive Officer – Separate roles

The roles of the Chairman and the Chief Executive Officer are separate and fulfilled by different individuals.

The Chairman's main responsibility is to provide leadership to the Board and ensure that its functioning is effective (including by setting the agenda and a timely information flow) and fully complies with the legal and regulatory requirements. Promoting an effective communication between executive and non-executive directors is another crucial role attributed to the Chairman.

The Board has delegated to the **Executive Committee** the general management powers necessary or convenient to conduct wholesale banking business, except for those decision-making powers which remain reserved to the Board due to the material significance for the Bank in terms of their strategic, financial or reputational implications and consequences.

The members of the Executive Committee are appointed by the Board and include the CEO, as Chairman, the Business Director; the COO and the CFO.

Board Committees

The Board level governance structure comprises three Board Committees: the Risk and Capital Committee, the Audit Committee, and the Remuneration and Nomination Committee. These Board committees are established pursuant to terms of reference approved by the full Board.

The Board ensures that there is an appropriate balance of skill, experience, independence and knowledge to enable the Committees to discharge their responsibilities effectively. The members of the Board Committees are required to have adequate time in order to carry out their responsibilities effectively.

Set out below is a brief description of the role of each of the Board Committees:

(i) Risk and Capital Committee

Risk control arrangements at Itau BBA UK include a Risk and Capital Committee in charge of providing focused support and advice to the Board on risk and capital adequacy matters.

The main duties of the Committee include:

- **a)** providing advice and critical review in relation to the ICAAP and the ILAA documents;
- **b)** reviewing relevant policy statements and recommending any changes it considers necessary to the Board for approval;
- **c)** the development of proposals for consideration by the Board in respect of overall risk appetite and tolerance, target capital ratios as well as ensuring both qualitative and quantitative metrics are used to monitor the Bank's risk management performance;
- **d)** the oversight and the challenge of the design and execution of risk management and capital allocation policies and methodologies, including recommendation of risk limits and control levels, stress and scenario testing and a regular review of the parameters used and the methodologies adopted;
- **e)** reviewing Itau BBA UK's capability to identify and manage new risk types;
- **f)** considering and approving the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- **g)** undertake periodic general risk assessments, with the focus on risks to the Bank which the committee deems most significant.

The Risk and Capital Committee is chaired by Eduardo Vassimon, a non-executive director of Itau BBA UK who holds the position of Chief Risk Officer of Itaú Unibanco, and is composed by at least two independent non-executive directors (one of which is the chairman of the Audit Committee). The Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer are mandatory attendees. All remaining Board members may be invited to attend this Committee.

The Committee meets at least four times a year, with additional ad hoc meetings as and when required. In 2013, the Committee met 4 times.

(ii) Audit Committee

The Audit Committee is accountable to the Board of Directors for the oversight of (i) the quality and integrity of the accounts; (ii) the effectiveness of the compliance and internal controls (including financial crime prevention) and risk management systems; (iii) internal audit activities; and (iv) external audit activities.

The Audit Committee is required to include at least two independent non-executive directors, all of whom must be financially literate. The members of the Committee are appointed by the Board from among the non-executive directors, with at least one of the members of this Committee being required to have financial expertise. The Chief Financial Officer is a mandatory attendee of the Committee meetings. The Audit Committee is chaired by Gay Huey-Evans, who is an independent director in light of the UK Corporate Governance independence criteria.

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

(iii) Remuneration and Nomination Committee

The Remuneration and Nomination Committee has duties in relation to both remuneration and nomination issues. The Committee is comprised of at least three members, being two independent non-executive directors. The Committee is chaired by Candido Bracher, who is also chairman of the Board. The Chairman of the RCC is also a member of the Remuneration and Nomination Committee.

Remuneration:

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

Nomination:

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

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

7. Capital adequacy

Capital resources

Under PRA supervision, IBBAInt Group is required to maintain a minimum ratio of total capital resources to capital requirements. The table below summarises the composition of regulatory capital as at 31 December 2013, at which point IBBAInt and regulated subsidiaries complied with all of the externally imposed capital requirements to which they are subject.

Capital resources

USD m	31.12.13	31.12.12	% Change
Core tier 1 capital resources	**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 resources	**22**	**29**	**(24.1%)**
Total capital resources	**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

Regulatory capital requirements

The IBBAInt Group calculates Pillar 1 capital requirements in accordance with the regulatory capital requirements of the PRA. As at 31 December 2013, the IBBAInt Group had the following capital requirements:

Capital requirements

USD m	31.12.13	31.12.12
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**

The Group's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge (standardised approach) to that required for market risk (interest rate and foreign currency position risk requirement) and the operational risk element (basic indicator approach).

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 operational risk requirement under Pillar 1 is calculated using the Basic Indicator Approach. This uses a proxy of 15% of the average of the 3 year net interest income and net non-interest income to calculate a capital charge for operational risk. The total Pillar 1 operational risk capital requirement per this approach amounts to USD 30 million as of 31 December 2013.

Credit risk

Credit risk refers to the possibility of losses associated with: (i) the failure by the borrower or counterparty to fulfil 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. Credit risk is based on risk weighted exposures, determined using the standardised approach.

The Group controls 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 by 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 what relates specifically 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.

The tables below show the credit risk exposures and capital requirements for IBBAInt Group as at 31 December 2013, for each exposure class, as per the classifications set out in BIPRU, and the retail exposures are related to Private Banking clients of the IPB subsidiaries:

USD m	Exposure value	Capital requirements
Central governments or central banks	1,363	-
Institutions	1,538	35
Corporates	2,728	214
Retail	1,406	102
Secured by mortgages on residential property	14	1
Past due items	7	1
Other items	120	7
Total	**7,176**	**360**

The geographic distribution of the exposures as at 31 December 2013 was as follows:

USD m	Europe	South America	North America	Central America and Caribbean	Other countries	Total
Central governments or central banks	546	113	704	-	-	1,363
Institutions	946	38	306	239	8	1,537
Corporates	1,578	615	397	72	67	2,729
Retail	55	968	61	309	13	1,406
Secured by mortgages on residential property	14	-	-	-	-	14
Past due items	-	7	-	-	-	7
Other items	120	-	-	-	-	120
Total	**3,259**	**1,741**	**1,468**	**620**	**88**	**7,176**

The table below shows the residual maturity breakdown of exposures by exposure class as at 31 December 2013:

USD m	Less than 1 year	1 to 5 years	5 years and above	No maturity	Total
Central governments or central banks	431	332	28	572	1,363
Institutions	1,049	219	38	232	1,538
Corporates	742	1,719	267	-	2,728
Retail	1,065	340	1	-	1,406
Secured by mortgages on residential property	-	-	14	-	14
Past due items	7	-	-	-	7
Other items	-	-	-	120	120
Total	**3,294**	**2,610**	**348**	**924**	**7,176**

The following table shows the exposure values associated with each credit quality step, as at 31 December 2013, for credit risk exposures in accordance with the PRA's credit quality assessment scale under the standardised approach:

USD m	Exposure value
0%	1,718
20%	1,022
50%	397
100%	3,846
150%	192
Total	**7,176**

For risk weighting purposes, external credit ratings provided by S&P, Moody's and Fitch have been used.

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. IBBAInt Group calculates the capital requirements for market risk according to the standardised approach.

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The table below shows the market risk capital requirements, as at 31 December 2013, calculated in accordance with the standardised approach and categorised by component type:

USD m	Capital requirement
Interest Rate PRR	6
Foreign Currency PRR	7
Total	**13**

8. Application of the Pillar 2 framework

The IBBAInt Group prepares an internal capital adequacy assessment process report ("ICCAP") to consider the level of capital it requires and to identify the sources of additional capital if necessary. The ICAAP report is produced annually or more frequently should the need arise. The outcome of the ICAAP covers all material risks identified by the Bank to determine the capital requirement over a three-year horizon, and includes stressed scenarios. IBBAInt's Board of Directors is responsible for the scrutiny, challenge and approval of the ICAAP upon the advice of the Board Risk and Capital Committee. The PRA periodically undertakes a supervisory review of the Bank's overall financial adequacy and sets Individual Capital Guidance ("ICG") for the Bank.

9. Risk management framework

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 key risks faced by the Bank are:

- **Credit risk:** is the risk of losses arising from a borrower or counterparty to fulfil their respective financial obligations.
- **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.
- **Market risk:** is the risk of losses resulting from adverse changes in the market prices or other factors.
- **Operational risk:** is the risk of loss, or damage to the IBBAInt's reputation, resulting from inadequate or failed internal processes, people and systems, or from external events.

The Risk Management Framework is designed to capture limit breaches and allow for the prompt report of such breaches to senior management so that appropriate follow-up actions are taken. The risk management key principles are:

- Three lines of defence
- Philosophy
- Culture

- Standards
- Independent assurance
- Compliance
- Data integrity

The governance arrangements[1] with a particular relevance for risk and capital management are set at both Board of Directors ("Board") and Executive levels:

- ***Board level*** – The Board has overall responsibility for ensuring that the Bank maintains an effective risk management framework, having 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").
- ***Executive level*** – 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. The Executive Committee shall 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, being required to oversee the implementation of the risk policies, procedures and systems, and ensure that the management and, in particular, the individuals responsible for risk management have expertise and knowledge to accomplish the risk management function.

Risk statement

The Group's risk profile is underpinned by a business model that focus primarily on (i) wholesale banking with Itau Group's European multinational corporate clients (ii) cross-border businesses with Itaú Group's Latin American corporate clients and (iii) international private banking for Latin American individuals.

The Board is committed to seeking solid results with low volatility and continuous growth through client relationship, diversified sources of funding and appropriate use of capital.

The Board has agreed upon a definition of Risk Appetite to limit the total level of risk exposure that it is prepared to accept in pursuit of strategic objectives aligned to those of the wider Itaú Group. The Risk Appetite is a set of overarching and supporting statements, to facilitate embedding the principles into business decision-making and to reinforce a strong risk culture across the organisation.

In order to ensure its risk tolerance is effectively interacting with the business strategy and that risk-taking activities in breach of these metrics are identified, escalated and addressed in a timely manner, the Bank defined quantitative measures across the following dimensions:

a. **Capital and liquidity**

   - To have capital above the required regulatory level to meet extreme events.
   - To maintain a safe and sound funding structure in line with our business model.

[1] Further information on governance arrangements in general can be found in section 6 ("Governance arrangements")

- To maintain reliable sources of funding while building diversification. We will seek the most effective and stable funding structure.
- To maintain levels of liquidity that will allow the Bank to deal with extreme events.

b. Earnings and business mix

- A limited tolerance for Volatility of the results (Net Operating Income).
- Market limits are to be respected at all times.

c. Franchise

- A limited tolerance for losses sustained through operational risk events and a tolerance for only minor compliance breaches that have no operational or financial impact or impact on reputation or image.
- A zero tolerance for negative media exposure and unethical behaviour.

On an annual basis a top down enterprise wide risk assessment is performed based on relevant business impact. During this exercise the business identifies the Bank's key risks and the agreement on a set of plausible, measurable and actionable scenarios to be stress tested and based on the results, senior management proposes and the Board considers and states the Risk Appetite.

10. Remuneration disclosures

Decision-making process for determining the Remuneration Policy

The Bank's Board, upon the advice of the Remuneration and Nomination Committee (R&N Committee)[2] , is responsible for approving a Remuneration Policy for the Bank.

Remuneration Policy

The Remuneration Policy aims to ensure consistency with the human resources management policies of Itaú Group, as well as alignment to, and compliance with, the remuneration requirements, to the extent applicable, of the UK Remuneration Code set out in Chapter 19A of the Prudential Regulation Authority's ("PRA") Senior Management Arrangements, Systems and Controls Sourcebook and the related guidance issued by PRA. For the purposes of the UK Remuneration Code, the Bank is a proportionality level three firm.

The general objectives of this policy are:

a) to foster an organisational culture based on merit, as translated by a focus on performance (sustainable results and growth), and reflecting uniform, consistent, measurable and balanced remuneration criteria;

b) to value individual performance and contribution to the Bank's global results, taking into account factors such as technical skills, initiative, differentiated performance, effort, commitment to ethical and human values, accountability in compliance with the adopted risk

[2] See section 6 ("Governance arrangements")

management policy, the rules applicable to the activity and loyalty in the pursuance of the Bank's long-term interests;

c) to enable the attraction, retention and loyalty of talent with high potential to contribute towards the achievement of the Bank's objectives, across the various functions to be achieved through the offer of a competitive remuneration package that takes into account the practices in the reference markets where the Bank's business activities are developed.

In addition to these general objectives, the policy also aims to ensure appropriate compliance with the applicable rules and guidance. In applying these principles and in establishing this policy, the Bank takes due consideration of its size, internal organisation and the nature, scope and complexity of its activities (the proportionality principle).

Remuneration of the members of the Board other than the Executive Directors

The remuneration of the non-executive members of the Board, as applicable, consists of fixed remuneration only, subject to the below, the amount of which is determined taking into account market and Group practices so as to ensure that it is consistent with normal remuneration levels for similar functions.

The non-executive members of the Board who are members of the management body of companies in a parent-subsidiary or group relationship with the Bank may be remunerated by these companies, in which case they may not be remunerated for their functions in the Bank.

The remuneration of non-executive directors shall be a matter for the Chairman and the Executive Directors. No director shall be involved in any decisions as to their own remuneration.

Remuneration of the Executive Directors

The Executive Directors earn a fixed remuneration in cash, approved by the R&N Committee, which may differ amongst them and is paid twelve times per year, and a discretionary variable remuneration which shall be driven by the consolidated recurrent operating results for the year (the "COR") of the Bank and may take into consideration the added value or overall contribution to the COR of the Itaú Group. The COR shall not include results from extraordinary events unconnected to the current operation of the Bank and its subsidiaries, nor any current or extraordinary results directly or indirectly determined by companies in which the Bank holds interests but which are not considered subsidiaries, i.e., associated companies and other minority holdings.

Link between pay and performance

The variable remuneration of the Executive Directors is subject to an assessment of their individual performance, which takes into account quantitative and qualitative factors, including implementation of recommendations issued by the control functions (Risk Management, Compliance and Internal Audit) and adherence to the high ethical standards and culture of the Itaú Group.

Risk and performance adjustments

An award of variable remuneration is wholly discretionary and it is conditional upon the Bank achieving sustainable results, therefore such an award may not be made if:

a) the COR indicates a substantial deterioration in the Bank's performance relative to the average in the last 3 years;

b) a substantial deterioration in the COR of the following year is expected, even if such expectation is based on a judgement about market conditions, without taking into account the manner in which the Bank is managed; and

c) such deterioration results in a breach of the Bank's capital requirements and its solvency.

In determining any discretionary awards of variable remuneration, account will be taken of any current and future risks facing the Bank, including taking into account the cost and quantity of the Bank's capital and liquidity requirements. Where appropriate, this may lead to awards being reduced including, if necessary, to nil, to properly reflect risks and/or to reflect subdued or negative performance of the Bank

Remuneration of employees – design and structure

The employees' fixed remunerations are attributed taking into account the functions performed and the technical and relationship skills required for such performance, and also the practices followed in the relevant markets, as well as the need to develop and retain talent, in order to develop the activities of the Bank in a sustainable and ethical manner having regard to the achievement of short, medium and long term objectives.

The fixed remunerations consist of a monthly salary, paid under the terms of the employment legislation in force, other benefits of a permanent nature provided for by law, and also regular benefits voluntarily granted by the Bank, including:

a) health insurance for the employees and direct family members;

b) the pension plan; and

c) life insurance.

Employees can also benefit from the payment of wholly discretionary variable remuneration, which is conditional upon the Bank and/or the area of activity in which the employee is engaged achieving adequate and sustainable results, and also upon the performance and individual contribution of the employee to the achievement of those results, under the same principles applicable to Executive Directors as described above.

In so far as the attribution of variable remuneration is wholly discretionary, the amount of the fixed remuneration of the employees should be adequate so as to allow the operation of a fully flexible policy on variable remuneration, including the possibility to pay no variable remuneration either to all the Bank's employees – due to the insufficiency or unsustainability of the results obtained, or to individual employees, who, after being subject to the respective performance assessment processes, were found not to have made an adequate contribution.

The definition of the methods, criteria and processes for employee performance assessment, the possible attribution of variable remuneration, as well as the approval of the respective results and ensuing attribution of possible variable remuneration are the responsibility of the Executive Committee, with the input of the head of HR, under the oversight of the R&N Committee.

For the assessment of the functional groups engaged in business execution and risk-taking, the performance indicators will be primarily of an economic and financial nature, based on an adequate weighting of the global results and the results more directly linked to the respective department units.

As regards the remaining activities, namely control and support activities, the factors to be taken into account will be mainly linked to the quality and effectiveness of controls, the meeting of deadlines, innovation, and the improvement and efficiency of processes generating value for the businesses. The financial results considered in the assessment of employees in control and operational support areas should be the global results only and their assessment should not depend on the individual results of the areas which they control or to which they provide technical and operational support.

Manner and conditions of payment of variable remuneration

For the purposes of the UK Remuneration Code, the Bank is a proportionality level three firm. As such, the Bank is able to disapply some of the more restrictive provisions of the UK Remuneration Code, such as the requirement to defer vesting of minimum portions of variable remuneration and payment in financial instruments. Notwithstanding that, the Remuneration Policy provides for deferral arrangements, as well as payment in financial instruments, as further explained below.

Once the amount of the variable remuneration to be attributed to each Executive Director or employee has been determined and approved, its payment shall be made in accordance with the following rules and conditions:

1. The variable remuneration of (i) Remuneration Code Staff (i.e. senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the risk profile of the Bank; and (ii) any other staff whose corporate title is Managing Director or above is subject to:
    - 50% being deferred over 3 years; and
    - 50% of the total variable remuneration being paid in the form of financial instruments equivalent to shares.

Taking into account that the Bank does not have shares listed on the stock market and that its activity is developed in alignment to the strategy and objectives of Itaú Unibanco Holding S.A., its controller of last resort (the “Holding Company”), the payment of variable remuneration required to be made in financial instruments equivalent to shares shall be made using instruments linked to preference shares of the Holding Company (ITUB4).

A proportion of the variable remuneration of staff not within 1. above whose total cash remuneration is in excess of certain thresholds will also be deferred over 3 years. The amount of the variable remuneration to be deferred will be proportional to the level of total remuneration and may reach up to 50% (fifty percent) of the variable remuneration awarded.

Conditions leading to the non-payment, reduction or suspension of the deferred variable remuneration, either in cash or in instruments

The variable component of remuneration shall not be paid or may be reduced or suspended:

i) if on the scheduled dates for payment or at the close of the financial year immediately preceding the date when such payments would be due:

a) the Bank's Consolidated Equity is not sufficient to guarantee compliance with the Bank's capital requirements; or

b) if, based on the level of results foreseen for the year, or subsequent years, in question, it is expected that such a requirement will or may not be met;

ii) there is reasonable evidence of employee misbehaviour or material error;

iii) the Bank or the relevant business unit suffers a material downturn in its financial performance; or

iv) the Bank or the relevant business unit suffers a material failure of risk management.

Quantitative disclosures

Aggregate remuneration awarded to Code Staff for 2013: USD 13,392,344.

The remuneration disclosure consists of remuneration awarded for 2013, including fixed remuneration and the upfront and deferred components of variable remuneration awarded for the year. Note 35 to the Annual Consolidated Financial Statements provides additional information and disclosure regarding staff costs in 2013.

11. Basis and frequency of disclosures

In accordance with FCA and PRA requirements, IBBAInt will publish Pillar 3 disclosures at least annually. The disclosures are available at www.itaubba.co.uk.