Itaúsa Europa Investimentos

Sociedade Gestora de Participações Sociais, Lda.

Pillar 3 Disclosures

2015

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1. Introduction

Itaúsa Europa Investimentos, SGPS, Lda. ("IEI" or the "Company") is the ultimate financial holding company based in the European Union ("EU") of Itau BBA International plc (the "Bank" or "IBBAInt"), 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. IEI is the sole shareholder of Itaúsa Portugal SGPS S.A. ("Itaúsa Portugal"), which in turn is the sole shareholder of the Bank.

Both IEI and Itaúsa Portugal are "SGPS" incorporated under the Portuguese Law, pursuant to which they are legally defined as pure holding companies. The corporate purpose of both companies is strictly limited to the holding of participations in other companies. The only participation Itaúsa Portugal holds is the 100% interest in the Bank; the only participation IEI holds is the 100% interest in Itaúsa Portugal.

In this context, the disclosures below have been prepared by IBBAInt, and cover IBBAInt and its subsidiaries (together the "IBBAInt Group" or the "Itau BBA UK Group"), except for section 8 – Capital adequacy which reflects the regulatory capital resources and requirements on a consolidated basis of IEI ("IEI Group").

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

2. The Three Pillars of the Basel II 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")[1], which took effect from 1 January 2014.

[1] The CRD IV legislation consists of: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation ("CRR") and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD).

3. Background to Pillar 3 disclosures

These disclosures cover the IBBAInt Group.

The IBBAInt Group's 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").

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 the IBBAInt Group (except for section 8 – Capital adequacy, which reflect the regulatory capital resources and requierements of the IEI 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 information contained in this document represents the position as of 31 December 2015. 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 2015 audited financial statements (the "IBBAInt Consolidated Annual Report 2015") 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 Consolidated Annual Report 2015 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.

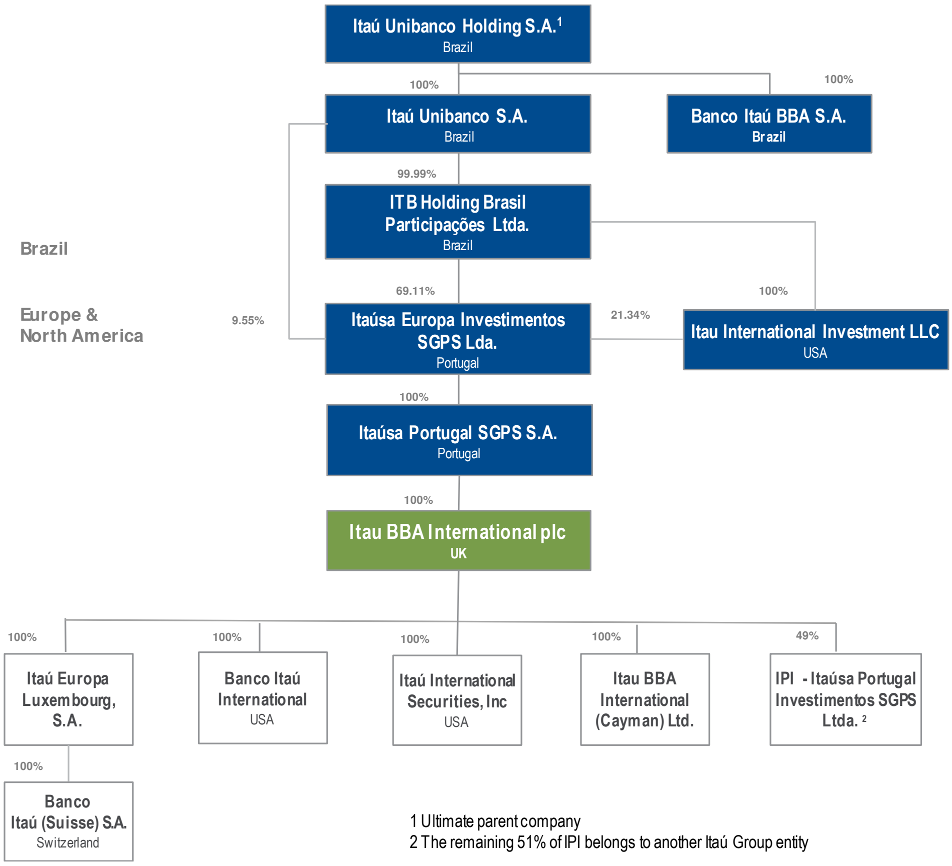
These disclosures have not been audited by the external auditors except where the information is equivalent to that included in the Consolidated Annual Report 2015.

4. Overview of IBBAInt legal structure

IBBAInt 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.

The Bank is a wholly owned subsidiary of Itaúsa Portugal, SGPS, S.A., a Portuguese sub-holding company. Itaúsa Portugal is indirectly owned by Itaú Unibanco Holding S.A., a publicly listed joint stock company with its head office in Brazil which owns, inter alia, Itaú Unibanco S.A. (its commercial banking arm) and Banco Itaú BBA S.A. (its investment banking arm). Itaú Group is the largest Latin American financial conglomerate with more than 90 thousand employees and operations in 18 countries throughout the Americas, Asia and Europe.

IBBAInt has overseas banking subsidiaries in the United States of America ("USA") (Miami) and in Switzerland (Zurich) and non-banking subsidiaries in Luxembourg and the Cayman Islands. These subsidiaries, together with IBBAInt, comprise the IBBAInt Group, as shown in the chart below:



5. IBBAInt Group

The IBBAInt Group’s business model is structured on the basis of two segments of business activity: Corporate & Investment Banking (“CIB”) and International Private Banking (“IPB”).

In the UK, the Bank operates in the CIB, where the strategic focus is on large economic groups and cross-border business between developed markets, in particular between developed markets and Latin America.

IBBAInt owns private banking subsidiaries in Switzerland and in the USA, which are the primary delivery channel for the IPB activities of the Itaú Group: Banco Itaú International, headquartered in Miami, and Banco Itaú Suisse S.A., headquartered in Zurich.

The focus of both CIB and IPB is on cross-border business between Latin America and the northern hemisphere (primarily Europe and the USA), taking advantage of the Itaú Group's market leadership in Brazil and its increasing penetration in Latin America.

IBBAInt Group is regulated by the PRA (at the level of the EU parent – IEI). It includes all the entities that form part of the accounting consolidation group. As at 31 December 2015, there were no entities which were deducted from IBBAInt Group’s capital resources. The IBBAInt Group calculates capital requirements in accordance with the regulatory capital requirements of the PRA, the CRD IV legislation and associated guidance.

6. Governance arrangements

Set out below is a summary of the key governance arrangements in place at IBBAInt. Specific arrangements with regard to risk governance are described in section 7 (Risk management framework) below.

Board of Directors (the "Board")

IBBAInt 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 Individual Liquidity Adequacy Assessment ("ILAA") report, reviewed annually;

d) the Capital Plan - as outlined in the Internal Capital Adequacy Assessment Process ("ICAAP") report, reviewed annually; and

e) the Bank's Recovery Plan and Resolution Pack.

The Board is composed of Group Non-Executive Directors, Independent Non-Executive Directors and Executive Directors.

The following directors held office throughout 2015 and to the date of approval of this report, except where otherwise indicated:

Director	Role	Appointment	Resignation
Candido Botelho Bracher	Chairman Non-Executive	September 2012	
Alberto Fernandes	Non-Executive	September 2012	
Alfredo Egydio Setubal	Non-Executive	September 2012	April 2015
Charles Fyfe Stewart	Executive – CEO*	July 2013	December 2015
Eduardo Mazzilli de Vassimon	Non-Executive	May 2013	
Flavio Augusto Aguiar de Souza	Non-Executive	December 2015	
Gay Huey Evans	Non-Executive**	September 2012	
Paulo Jorge dos Santos Lopes	Executive	September 2012	
Renato Lulia Jacob	Executive – CEO*	September 2012	
Ricardo Villela Marino	Non-Executive	September 2012	
Robert Mark Pickering	Non-Executive**	September 2012	

* Renato Lulia Jacob succeeded Charles Fyfe Stewart as CEO from 1 January 2016 subject to regulatory approval. Renato Lulia was granted final regulatory approval as the new CEO of the Bank on 24 February 2016.

** 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.

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

In 2015, the non-executive directors holding additional non-executive directorships in organisations outside the Itaú Group which pursue commercial objectives were:

- Alberto Fernandes – one additional non-executive directorship;
- Candido Bracher – three additional non-executive directorships;
- Eduardo Vassimon – one additional non-executive directorship;
- Gay Huey Evans – two additional non-executive directorships;
- Ricardo Marino – two additional non-executive directorships; and
- Robert Mark Pickering – four additional non-executive directorships.

Recruitment policy and diversity on the Board

The Board Remuneration and Nomination Committee is responsible for leading the process for new appointments to the Board. The Board Remuneration and Nomination Committee shall regularly 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 future appointments.

In performing its duties, the Board Remuneration and Nomination Committee 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 is taken into account when assessing Board composition and considering Board appointments.

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 Chief Executive Officer (the "CEO"), as Chairman, the Business Director; the Chief Risk Officer (the "CRO"), the Chief Financial Officer (the "CFO") and the Head of Markets.

Board Committees

The Board level governance structure comprises three Board Committees: the Risk and Capital Committee ("RCC"), the Audit Committee ("AC"), and the Remuneration and Nomination Committee ("R&N 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 IBBAInt include RCC in charge of providing focused support and advice to the Board on risk and capital adequacy matters.

The main duties RCC include:

a) providing advice and critical review in relation to the ICAAP, the ILAA, the Recovery Plan and the Resolution Pack 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 day-to-day risk management and oversight arrangements of the executives;

e) reviewing whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy;

f) reviewing the Bank's capability to identify and manage new risk types;

g) considering and approving the remit of the risk management function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and

h) providing the advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Bank.

The Risk and Capital Committee is chaired by Eduardo Vassimon, a non-executive director of IBBAInt who holds the position of CRO and CFO of Itaú Unibanco, and is composed by at least two independent non-executive directors (one of which is the chairman of the Audit Committee). IBBAInt's CEO, CFO and CRO are mandatory attendees. All remaining Board members may be invited to attend this Committee's meetings.

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

(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 CFO 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 R&N 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 the chairman of the Board. The chairman of the RCC is also a member of the R&N 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, executive committee members and senior officers in the risk management, compliance and audit functions of the Bank, and of the CEOs and heads of risk and compliance functions of the Bank's IPB subsidiaries. In discharging its responsibilities, the Committee must take into account the long-term interests of shareholders, investors and other stakeholders in the Bank.

Nomination:

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

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

7. Risk management framework

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

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 only being able to secure resources at excessive cost. It occurs as a result of imbalances between tradable assets and falling due liabilities, tenor and/or currency mismatches.
- **Market risk:** is the risk of losses resulting from adverse changes in the market factors, including foreign exchange rates, interest rates, price indexes, equity and commodity prices.
- **Operational risk:** is the risk of loss, or damage to 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 governance arrangements with a particular relevance for risk and capital management are set at both 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 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 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 and Board assurance

The Group's risk profile is underpinned by a business model that focuses primarily on (i) wholesale banking with Itaú 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 high net-worth 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 comprises 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 the Bank's business model.
- To maintain reliable sources of funding while building diversification – the Bank seeks the most effective and stable funding structure; and
- 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); and
- Market limits are to be respected at all times.

c. Franchise

- A limited tolerance for losses caused by operational failures and a tolerance for only minor compliance breaches that have no operational or financial impact, or impact on reputation or image; and
- A zero tolerance for negative media exposure and unethical behaviour.

The Board considers that the governance arrangements and the risk management framework of the Bank are effective to provide assurance that the risk management systems put in place are adequate with regard to the Bank's current profile and strategy.

Management of Credit Risk

Credit risk refers to the possibility of losses associated with: (i) the failure by the borrower, issuer, 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) debt recovery costs.

The IBBAInt Group establishes limits, risk mitigation mechanisms and processes to monitor and control risks inherent to clients, portfolio concentrations and the impacts of potential changes in the economic environment. Credit risk is monitored on an ongoing basis, and limits and mitigation mechanisms are subject to periodical review. Limits are set by taking into consideration credit risk, country risk and industry risk.

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

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

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

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

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

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

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

In the IPB, credit exposures are collateralised by deposits, highly liquid investments or a combination of both.

Further details and analysis of the credit portfolio and credit risk figures are provided from page 12 to 17 of the IBBAInt Consolidated Annual Report 2015.

Management of Counterparty Credit Risk

Counterparty credit risk comprises the possibility of non-compliance, by a given counterparty, with obligations related to the settlement of transactions that involve the trading of financial assets with a bilateral risk, including those related to the settlement of derivative financial instruments. Additionally, the Bank includes the risk of deterioration of the credit quality of the counterparty in its risk assessment.

Managing, monitoring and controlling the counterparty credit risk arising from derivative financial instruments and other complex financial instruments, as well as from operations with variable indices, is an integral part of the credit risk management structure in place at the Bank.

Management of Liquidity Risk

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

Key principles underlying liquidity risk control are as follows:

- Ensure enough liquidity to guarantee the timely funding needs;
- Provide a prudent cushion for unforeseen liquidity needs;
- Invest liquid funds in a manner which emphasises the need for security of principal and ease of conversion to cash; and
- Be in compliance with the applicable regulatory requirements and guidelines.

The Board determines the liquidity risk management strategy in the context of:

- The overall business strategy;
- The liquidity risk appetite; and
- The strategic demands of liquidity and funding disclosed in the business plan.

An independent risk and management control function is responsible for measuring, monitoring and reporting the liquidity risk exposures against the prescribed limits on a daily basis, ensuring the appropriate escalation process. The liquidity risk management and control process is subject to periodic reviews in order to reflect the best market practices, and continuous improvement over time.

IBBAInt Group has a comprehensive liquidity risk management framework for managing its liquidity and funding risk, built on policies and governance structures (risk committees), ensuring that the Board-approved Liquidity Risk Appetite is translated into the strategic and day-to-day management of risks and decision-making processes. This framework is established in line with the Itaú Group-wide risk management framework, and also aims to ensure that business is conducted in compliance with regulatory requirements and applicable laws.

Liquidity risk is prudently managed primarily through stressed net contractual and contingent outflows under a variety of stress scenarios measured against the available liquidity resources (liquidity pool). These scenarios cover a range of idiosyncratic, market-wide and combined stresses (prescribed by the PRA) and firm-specific stress events. The IBBAInt Group maintains its liquidity surplus under these stress scenarios at an efficient level, monitoring on a daily basis the key liquidity risk drivers and reassessing the nature and severity of its stress scenarios, adjusting its liquidity resources accordingly. The liquidity risk management activities that the IBBAInt Group undertakes also includes monitoring a range of market and internal Early Warning Indicators ("EWIs") on a daily basis, identifying early emerging signs of liquidity risk in the market or specific to the business. The EWIs enable senior management to take pre-emptive actions to address the stress, including activation of the Contingent Funding Plan or Recovery Plan, if necessary.

Further details of liquidity and funding risk figures are provided from page 20 to 23 of the IBBAInt Consolidated Annual Report 2015.

Management of 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.

At IBBAInt Group, market risk management is the process by which management monitors and controls risk of variations in the financial instruments, due to market movements, while aiming to optimise the risk-return ratio through an adequate limits structure, effective risk management models and related management tools.

IBBAInt's market risk management strategy is aimed at balancing corporate business goals, taking into account, among other things:

- Political, economic and market conditions;
- The market risk profile of the portfolio; and
- Expertise within the Itaú Group to support operations in specific markets.

The market risk management framework is subject to the governance and hierarchy of committees, with specific limits assigned to different levels and classes of market risk that help to ensure the effectiveness and coverage of control. Limits are calibrated based on projections of future balance sheet, performance expectations and in compliance with the Board-approved Risk Appetite and IBBAInt Group's risk policies.

Key principles underlying market risk control are as follows:

- All market risk taken should be in line with the Bank's risk-return objectives;
- Through disciplined dialogue, senior management is to be kept informed of the overall market risk profile and its evolution through time;
- There should be transparency as to how the business works to optimise results; and
- The market risk control structure should provide early warning mechanisms to facilitate effective risk management, without obstructing the business objectives.

An independent risk and management control function is responsible for measuring, monitoring and reporting the market risk exposures against the prescribed limits on a daily basis, ensuring the appropriate escalation process. The market risk management and control process is subject to periodic reviews to reflect the best market practices, and continuous improvement over time.

The Bank's activity is predominantly characterised by portfolios originated from the banking business and operations related to the management of the institution's balance sheet. As a general rule, this book is intended to be either held to maturity, or sold in the medium and in the long run; interest and foreign exchange rate derivatives are commonly used to hedge the structural risk.

Market risk exposures take into account a set of financial instruments, including derivatives, composed by different risk factors. The main risk factors measured by the Bank are as follow:

- Interest rates: the risk of losses from transactions subject to interest rates variation;
- Foreign exchange rates: the risk of losses from positions subject to foreign exchange rate variation (e.g., foreign currency positions); and
- Equities/Indices and Commodities: the risk of losses from transactions subject to equity/indices or commodities price variations.

Market risk is managed by a combination of processes, including marking-to-market positions, calculating sensitivity to interest rate variations, Value at Risk ("VaR") modelling and performing stress tests across the portfolio.

Market risk is analysed on the basis of the following key metrics:

- VaR: a statistical metric that quantifies the maximum potential economic loss expected in normal market conditions, considering a defined holding period and confidence level;
- Losses in Stress Scenarios ("Stress Testing"): a simulation technique to evaluate the impact, in the assets, liabilities and derivatives of the portfolio, of various risk factors in extreme market situations (based on prospective scenarios);
- Mark-to-Market ("MtM"): cumulative exposure of certain asset or risk factor calculated at market value;
- Sensitivity ("DV01" or "Delta Variation Risk"): impact on the market value of cash flows when a 1 basis point change is applied to current interest rates or on the index rates; and
- Stop Loss Alerts: metrics that trigger a management review of positions, if the accumulated losses in a given period reach specified levels.

Further details of market risk VaR and sensitivity figures are provided from page 18 to 20 of the IBBAInt Consolidated Annual Report 2015.

Management of 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.

For categorisation purposes, IBBAInt uses the definitions of operational risk adopted by the Basel Committee, as follows:

- internal frauds;
- external frauds;
- employee practices and workplace safety;
- clients, products & business practices;
- damage to physical assets;
- business disruption & system failures; and
- execution, delivery & process management.

In accordance with the three lines of defence model, the heads of the business and support areas are responsible for managing operational risks and implementing first-line controls. The second line of defence is primarily performed by the Risk Management and Compliance functions. These functions are responsible for risk oversight, policies' compliance monitoring and guidance. An independent and objective review of the first two lines of defence is performed by the Internal Audit function in order to provide assurance to the Board that the Bank's activities are aligned with the Risk Appetite, and compliant with legal and regulatory requirements.

The operational risk control is carried out by an independent and specialised function, duly segregated from the commercial areas.

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

- Process Mapping – Assessment performed between the first and second lines of defence where the Bank's key processes and operational risks are identified and mapped;
- Risk Classification – Classification of the risks identified based on the inherent impact (financial, operational, regulatory and reputational) were these risks to materialise;
- Risk Response – Based on the risk classification, the first line of defence sets out an adequate response, which may include: implementing improvements to the process, running periodical tests on the key controls that mitigate the risk, establishing additional indicators to be monitored, or take no action;
- Risk Indicators – The development of risk indicators ensures that the operational risks identified and assessed are monitored and controlled within the limits tolerated; and
- Risk Report – Regular operational risk analysis is disseminated across the Bank through reports discussed with the relevant areas as well as at the Risk, Assets and Liabilities Committee ("RALCO") meetings.

Within the scope of this ongoing monitoring, the Operational Risk team considers: the issues identified by internal and external audit, the daily events and weaknesses identified by the first line of defence, the action plans defined when performing the risk response, the operational losses and the key risk and performance indicators.

8. Capital adequacy

Capital resources

Under PRA supervision, the IEI Group is required to maintain a minimum ratio of total capital resources to capital requirements. The same consolidation scope is used by the IEI Group for both accounting and regulatory purposes, which means that the group of companies and risks that are part of the regulatory analysis is the same as the ones presented on the IEI Group financial statements (IEI Consolidated Annual Report 2015).

Notes 25, 26 and 27 to the IEI Consolidated Annual Report 2015 provide additional information and disclosure regarding the main features of Common Equity Tier 1 items.

The table below summarises the components of regulatory capital as at 31 December 2015. During the past exercise IEI and all its regulated subsidiaries complied with all of the imposed capital requirements to which they are subject.

Table 1: Capital resources

USD m	31.12.15	31.12.14
Common equity tier 1 capital	**953**	**943**
Permanent share capital	702	702
Share premium	132	132
Profit and loss account and other reserves	199	194
Intangible assets	(79)	(84)
Prudent valuation adjustments	(1)	(1)
Tier 2 capital	**10**	**16**
Total regulatory capital	**963**	**959**
Total capital requirements	**422**	**419**
Risk-weighted assets (RWA) [1]	**5,283**	**5,232**
Common equity tier 1 ratio	**18.0%**	**18.0%**
Total capital ratio	**18.2%**	**18.3%**

[1] Total capital requirements x 12.5

The table below shows Tier 2 capital issued by instrument and provides particular key terms and conditions. Regulatory Tier 2 capital amounts are different from the ones recorded under IFRS due to the PRA specific eligibility requirements.

Table 2: Summary of terms and conditions of capital resources

USD m Dated subordinated liabilities	Maturity date	31.12.15 Regulatory balance	31.12.15 IFRS balance	31.12.14 Regulatory balance	31.12.14 IFRS balance
Tier 2 capital resources					
Subordinated Loan	26/09/2017	10	30	16	30
Total Tier 2		10	30	16	30

Regulatory Capital Requirements

The IEI Group calculates capital requirements in accordance with the rules and guidance set out by the PRA and the European Banking Authority. This section describes IEI Group Pillar 1 capital requirements.

Where it is not separately shown, counterparty credit risk is within credit risk.

The following table shows IEI Group capital requirements as at 31 December 2015:

Table 3: Total capital requirements by risk type

USD m	31.12.15	31.12.14
Credit Risk	297	305
Counterparty Credit Risk	87	73
Market Risk	3	8
Debt instruments	2	3
Foreign-exchange risk	1	5
Settlement Risk	-	-
Credit Valuation Adjustment (CVA)	2	2
Operational Risk	33	31
Total	422	419

The IEI Group's overall minimum capital resources requirement under Pillar 1 is calculated by adding the credit risk charge (standardised approach) and the counterparty credit risk charge (MtM method) to that required for market risk (debt instruments and foreign-exchange risk requirement) and the operational risk element (basic indicator approach).

The table below provides the risk weighted assets by IFRS balance sheet asset type.

Notwithstanding the fact that the basis of consolidation for both accounting and regulatory purposes is the same, some balances are subject to specific regulatory adjustments prescribed by the CRD IV, such as adjustments to account for differences in IFRS and regulatory netting, and items treated as regulatory capital deductions.

Table 4: IFRS Balance sheet and risk weighted assets by type

USD m	31.12.15			31.12.14		
	Balance sheet amount	Average weight	Risk weighted assets (RWA)	Balance sheet amount	Average weight	Risk weighted assets (RWA)
Assets						
Cash and Balances at central banks	1,561	0.0%	-	1,030	0.0%	-
Loans and advances to Banks	936	24.9%	233	717	23.8%	171
Loans and advances to customers	4,682	87.2%	4,082	4,535	83.1%	3,768
Securities non-trading book	621	0.0%	-	663	0.8%	5
Securities trading book	106	0.0%	-	196	0.0%	-
OTC and market derivatives	224	38.8%	87	235	31.1%	73
Embeded derivatives	319	0.0%	-	226	0.0%	-
Property, plant and equipment	18	100.0%	18	20	100.0%	20
Goodwill and intangible assets	93	0.0%	-	96	0.0%	-
Investment in associates	26	100.0%	26	28	100.0%	28
Tax assets	18	105.6%	19	18	144.4%	26
Other assets	40	100.0%	40	33	100.0%	33
Total Assets	**8,644**	**52.1%**	**4,505**	**7,797**	**52.9%**	**4,124**
Guarantees	185	60.5%	112	362	80.7%	292
Commitments	436	42.9%	187	809	37.9%	307
Total Off-Balance Sheet	**621**	**48.1%**	**299**	**1,171**	**51.2%**	**599**
Total RWA for Credit Risk	**9,265**	51.9%	**4,804**	**8,968**	52.7%	**4,723**
Credit Risk capital requirement			384			378

Despite being presented as having an average risk weight of 0%, goodwill, intangible assets and deferred tax assets that rely on future profitability are excluded from the calculation of the credit risk exposure value as they are deducted from regulatory capital under the CRD IV.

Analysis of Credit Risk

CAPITAL REQUIREMENTS FOR CREDIT RISK AND EXPOSURES

The table below summarises credit risk information and shows original exposure, exposure after Credit Risk Mitigation ("CRM"), Risk Weighted Assets ("RWAs") and the related capital requirements. Exposures before CRM are further analysed by geography and residual maturity.

It should be noted that the regulatory criteria used for defining exposures is different from the accounting criteria used for defining assets.

Table 5: Exposure values (original and after CRM), RWAs and capital requirements by exposure class

USD m	31.12.15							
	Year-end				Average			
Exposure class	Exposure value	Exposure value after CRM	RWA	Capital requirements	Exposure value	Exposure value after CRM	RWA	Capital requirements
Standardised approach								
Central governments or central banks	2,297	2,192	-	-	1,785	1,717	-	-
Institutions	1,387	1,338	408	33	1,421	1,131	390	32
Corporates	5,517	3,924	4,285	342	5,598	4,522	4,348	348
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	8	8	8	1	9	9	9	1
Exposures in default	-	-	-	-	-	-	-	-
Equity exposures	26	26	26	2	26	26	26	2
Other items	159	159	77	6	162	162	78	6
Total	9,394	7,647	4,804	384	9,000	7,566	4,851	389

USD m	31.12.14							
	Year-end				Average			
Exposure class	Exposure value	Exposure value after CRM	RWA	Capital requirements	Exposure value	Exposure value after CRM	RWA	Capital requirements
Standardised approach								
Central governments or central banks	1,776	1,700	1	-	1,735	1,670	2	-
Institutions	1,506	1,405	455	37	1,605	1,414	487	39
Corporates	5,584	4,045	4,150	332	5,008	3,713	3,840	307
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	11	11	11	1	13	13	13	1
Exposures in default	-	-	-	-	2	2	2	-
Equity exposures	28	28	28	2	31	31	31	3
Other items	160	160	78	6	253	253	90	7
Total	9,065	7,349	4,723	378	8,646	7,094	4,464	357

Table 6: Geographic distribution of credit exposure

USD m Exposure value As at 31 December 15	Europe	South America	North America	Central America and Caribbean	Other countries	Total
Standardised approach						
Central governments or central banks	567	266	1,460	-	4	2,297
Institutions	591	90	158	541	7	1,387
Corporates	1,431	1,977	699	1,312	98	5,517
Retail	-	-	-	-	-	-
Secured by mortgages on immovable property	8	-	-	-	-	8
Exposures in default	-	-	-	-	-	-
Equity exposures	26	-	-	-	-	26
Other items	38	-	121	-	-	159
Total	**2,661**	**2,333**	**2,438**	**1,853**	**109**	**9,394**

USD m Exposure value As at 31 December 14	Europe	South America	North America	Central America and Caribbean	Other countries	Total
Standardised approach						
Central governments or central banks	390	266	1,116	-	4	1,776
Institutions	683	302	278	237	6	1,506
Corporates	1,698	1,920	736	1,188	42	5,584
Retail	-	-	-	-	-	-
Secured by mortgages on immovable property	11	-	-	-	-	11
Exposures in default	-	-	-	-	-	-
Equity exposures	28	-	-	-	-	28
Other items	38	-	122	-	-	160
Total	**2,848**	**2,488**	**2,252**	**1,425**	**52**	**9,065**

Table 7: Residual maturity breakdown of credit exposure

USD m Exposure value As at 31 December 15	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Standardised approach					
Central governments or central banks	75	600	51	1,571	2,297
Institutions	722	428	30	207	1,387
Corporates	1,932	2,499	1,086	-	5,517
Retail	-	-	-	-	-
Secured by mortgages on immovable property	-	-	8	-	8
Exposures in default	-	-	-	-	-
Equity exposures	-	-	-	26	26
Other items	-	-	-	159	159
Total	**2,729**	**3,527**	**1,175**	**1,963**	**9,394**

USD m Exposure value As at 31 December 14	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Standardised approach					
Central governments or central banks	161	552	26	1,037	1,776
Institutions	732	417	50	307	1,506
Corporates	1,922	2,387	1,275	-	5,584
Retail	-	-	-	-	-
Secured by mortgages on immovable property	-	-	11	-	11
Exposures in default	-	-	-	-	-
Equity exposures	-	-	-	28	28
Other items	-	-	-	160	160
Total	**2,815**	**3,356**	**1,362**	**1,532**	**9,065**

CREDIT RISK MITIGATION

The IEI Group uses a range of techniques to mitigate credit risk under the standardised approach. Where credit risk mitigation is available in the form of an eligible guarantee or credit derivatives, the risk weight of the protection provider is considered in the amount of the protection it provides.

For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the Financial Collateral Simple Method.

The following table shows the CRM by exposure class under the standardised approach as of December 2015.

Table 8: Standardised approach – credit risk mitigation by exposure class

USD m As at 31 December 15	Exposures covered by eligible financial and other collateral	Exposures covered by credit derivatives or guarantees	Exposure value
Standardised approach			
Central governments or central banks	-	105	2,297
Institutions	-	49	1,387
Corporates	783	955	5,517
Retail	-	-	-
Secured by mortgages on immovable property	-	-	8
Exposures in default	-	-	-
Equity exposures	-	-	26
Other items	-	-	159
Total	**783**	**1,109**	**9,394**

USD m As at 31 December 14			
Standardised approach			
Central governments or central banks	-	76	1,776
Institutions	-	101	1,506
Corporates	930	1,054	5,584
Retail	-	-	-
Secured by mortgages on immovable property	-	-	11
Exposures in default	-	-	-
Equity exposures	-	-	28
Other items	-	-	160
Total	**930**	**1,231**	**9,065**

CREDIT QUALITY ANALYSIS OF STANDARDISED EXPOSURES

Credit Rating Agencies

In order to determine the RWAs for calculating the credit risk charge, the IEI Group has adopted the standardised approach, where the credit risk derives among other factors from external ratings provided by External Credit Assessment Institutions ("ECAIs"). The PRA determines which agencies may be used to determine such ratings and therefore the correct risk weights. Based on that guidance the IEI Group has chosen the Standard & Poor's, Moody's and Fitch Ratings.

The following table describes the relationship of ECAIs' long-term external credit ratings and the correspondent credit categories (denominated as credit quality steps) for risk-weight purposes.

Table 9: Relationship of long-term external credit ratings to credit quality steps

Credit Quality Step	Moody´s	Fitch	S&P
Credit Quality Step 1	Aaa to Aa3	AAA to AA	AAA to AA-
Credit Quality Step 2	A1 to A3	A+ to A-	A+ to A-
Credit Quality Step 3	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
Credit Quality Step 4	Ba1 to Ba3	BB+ to BB-	BB-+ to BB-
Credit Quality Step 5	B1 to B3	B+ to B-	B+ to B-
Credit Quality Step 6	Caa1 and below	CCC+ and below	CCC+ and below

The following table shows the relationship between the credit quality steps and the correspondent risk weights under the standardised approach.

Table 10: Credit quality steps and risk weights

Credit Quality Step	Corporates	Institutions (Includes Banks)			Sovereigns
		Sovereign Method	Maturity <= 3 months	Maturity > 3 months	
Credit Quality Step 1	20%	20%	20%	20%	0%
Credit Quality Step 2	50%	50%	20%	50%	20%
Credit Quality Step 3	100%	100%	20%	50%	50%
Credit Quality Step 4	100%	100%	50%	100%	100%
Credit Quality Step 5	150%	100%	50%	100%	100%
Credit Quality Step 6	150%	150%	150%	150%	150%

The table below shows original exposure broken down by exposure class and credit quality step.

Table 11: Credit quality step analysis of original exposure and capital deductions

USD m Exposure value As at 31 December 15	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Step 4	Credit Quality Step 5	Credit Quality Step 6	Credit quality step unrated	Total	Deducted from Capital Resources
Standardised approach									
Central governments or central banks	2,013	3	5	265	-	-	11	2,297	-
Institutions	19	587	339	124	-	-	318	1,387	-
Corporates	14	88	222	1,252	100	263	3,578	5,517	-
Retail	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	8	8	-
Exposures in default	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	26	26	-
Other items	-	-	-	-	-	-	159	159	-
Total	**2,046**	**678**	**566**	**1,641**	**100**	**263**	**4,100**	**9,394**	**-**
USD m Exposure value As at 31 December 14									
Standardised approach									
Central governments or central banks	1,466	3	299	1	-	-	7	1,776	-
Institutions	210	434	744	43	-	3	72	1,506	-
Corporates	37	193	1,082	844	70	184	3,174	5,584	-
Retail	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	11	11	-
Exposures in default	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	28	28	-
Other items	-	-	-	-	-	-	160	160	-
Total	**1,713**	**630**	**2,125**	**888**	**70**	**187**	**3,452**	**9,065**	**-**

The table below shows exposure after CRM, broken down by exposure class and credit quality step.

Table 12: Credit quality step analysis of exposure after CRM and capital deductions

USD m Exposure value after CRM As at 31 December 15	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Step 4	Credit Quality Step 5	Credit Quality Step 6	Credit quality step unrated	Total	Deducted from Capital Resources
Standardised approach									
Central governments or central banks	2,012	-	-	169	-	-	11	2,192	-
Institutions	19	566	311	123	-	-	319	1,338	-
Corporates	14	88	135	521	24	63	3,079	3,924	-
Retail	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	8	8	-
Exposures in default	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	26	26	-
Other items	-	-	-	-	-	-	159	159	-
Total	**2,045**	**654**	**446**	**813**	**24**	**63**	**3,602**	**7,647**	**-**
USD m Exposure value after CRM As at 31 December 14									
Standardised approach									
Central governments or central banks	1,428	-	264	1	-	-	7	1,700	-
Institutions	198	357	733	43	-	3	71	1,405	-
Corporates	37	168	416	585	30	142	2,667	4,045	-
Retail	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	11	11	-
Exposures in default	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	28	28	-
Other items	-	-	-	-	-	-	160	160	-
Total	**1,663**	**525**	**1,413**	**629**	**30**	**145**	**2,944**	**7,349**	**-**

ACCOUNTING IMPAIRMENT

The following tables show total loans and advances to customers and banks, past due and impaired loan balances, split by asset type and by geographic distribution. The information presented is consistent with the IEI Consolidated Annual Report 2015, and therefore follows the IFRS as adopted by the EU.

Table 13: Analysis of impaired and past due exposures and allowance for impairment by asset class

USD m As at 31 December 15	Neither Past due nor Impaired	Past Due but not Impaired	Impaired Loans		Allowance for Impairment	Total
			Specific	General		
Loans to Banks	936	-	-	-	-	936
Corporate loans	3,175	-	8	-	(12)	3,171
Other loans	1,509	2	-	-	-	1,511
Total	**5,620**	**2**	**8**	**-**	**(12)**	**5,618**
USD m As at 31 December 14						
Loans to Banks	717	-	-	-	-	717
Corporate loans	2,849	-	8	-	(12)	2,845
Other loans	1,680	10	-	-	-	1,690
Total	**5,246**	**10**	**8**	**-**	**(12)**	**5,252**

Table 14: Geographic distribution of impaired and past due exposures and allowance for impairment

USD m As at 31 December 15	Neither Past due nor Impaired	Past Due but not Impaired	Impaired Loans		Allowance for Impairment	Total
			Individually	Collectively		
Europe	1,666	-	-	-	(2)	1,664
South America	2,163	1	8	-	(10)	2,162
North America	634	-	-	-	-	634
Central America and Caribbean	1,083	1	-	-	-	1,084
Other countries	74	-	-	-	-	74
Total	**5,620**	**2**	**8**	**-**	**(12)**	**5,618**
USD m						
As at 31 December 14						
Europe	1,849	-	-	-	(2)	1,847
South America	2,155	2	8	-	(10)	2,155
North America	404	-	-	-	-	404
Central America and Caribbean	816	8	-	-	-	824
Other countries	22	-	-	-	-	22
Total	**5,246**	**10**	**8**	**-**	**(12)**	**5,252**

The following table describes the movement on impairment during the past two exercises.

Table 15: Movement on impairment and the amounts taken against profit and loss

USD m Impairment movement	31.12.15	31.12.14
	Allowance for Impairment	
Starting Period	(12)	(7)
Exchange and other adjustments	1	15
Amounts writen off	-	-
Amounts charged against profit	(1)	(20)
Ending Period	**(12)**	**(12)**

The following table shows the impairment allowance by exposure class as of December 2015.

Table 16: Analysis of impairment allowance by exposure class

USD m Regulatory impairment allowance	Impairment
Standardised approach	
Central governments or central banks	-
Institutions	-
Corporates	(4)
Retail	-
Secured by mortgages on immovable property	-
Exposures in default	(8)
Equity exposures	-
Other items	-
Total as at 31 December 15	**(12)**
Standardised approach	
Central governments or central banks	-
Institutions	-
Corporates	(4)
Retail	-
Secured by mortgages on immovable property	-
Exposures in default	(8)
Equity exposures	-
Other items	-
Total as at 31 December 14	**(12)**

Analysis of Counterparty Credit Risk

COUNTERPARTY CREDIT RISK EXPOSURE

The IEI Group calculates Counterparty Credit Risk ("CCR") using the MtM method.

Under the MtM method, exposures are subject to appropriate netting and collateral offsets and require adjustment for market driven movements that may lead to increased replacement cost at the time of default (potential future credit exposure).

The following table shows counterparty credit risk for derivative exposures.

Table 17: Counterparty credit exposure

USD m Mark to Market Method Net derivative credit exposure	Gross Positive Fair Value of Contracts	Potential Future Credit Exposure	Netting Benefits	Net Current Credit Exposure	Collateral Held	Net Derivatives Credit Exposure
Counterparty Credit Risk	224	324	(202)	346	179	167
Total as at 31 December 15	**224**	**324**	**(202)**	**346**	**179**	**167**
Counterparty Credit Risk	235	145	(172)	208	65	143
Total as at 31 December 14	**235**	**145**	**(172)**	**208**	**65**	**143**

CREDIT DERIVATIVE NOTIONALS

The table below shows the notional values of credit derivatives, credit default swaps ("CDS") and total return swaps ("TRS"), of own credit portfolio. With regards to intermediation activities, the IEI Group currently does not engage in such activities, all credit derivatives are entered into for hedging purposes and are part of the IEI Group's own Credit Portfolio.

Table 18: Notional amounts of credit derivative transactions

USD m Credit derivative product type	Own Credit Portfolio		
	Protection bought	Protection sold	Total
Credit Default Swaps	62	997	1,059
Total Return Swaps	6	-	6
Total as at 31 December 15	**68**	**997**	**1,065**
Credit Default Swaps	57	1,096	1,153
Total Return Swaps	6	-	6
Total as at 31 December 14	**63**	**1,096**	**1,159**

The Credit Derivatives used for managing the banking book decreased USD 99m as protection seller. Such decrease was in line with the shrink of structured notes issuances. Note 20 to the IEI Consolidated Annual Report 2015 provides additional information and disclosure regarding structured notes issuances.

Analysis of Market Risk

CAPITAL REQUIREMENTS FOR MARKET RISK

The IEI Group holds capital for the market risk arising from exposures classified as trading for regulatory purposes. Such capital allocation is calculated according to the standardised approach.

The table below breaks down the elements of capital requirements and RWAs under the market risk framework set out in the CRR.

Table 19: RWAs and capital requirements for market risk

USD m	Risk weighted	Capital requirements
Market risk		
Debt instruments	25	2
Foreign-exchange risk	13	1
Total as at 31 December 15	**38**	**3**
Market risk		
Debt instruments	38	3
Foreign-exchange risk	63	5
Total as at 31 December 14	**100**	**8**

Credit Valuation Adjustment

The CRR introduced a new regulatory capital charge to cover the risk of mark-to-market losses on expected counterparty risk to derivatives: Credit Valuation Adjustment (CVA).

The CVA measures the risk from MtM losses due to deterioration in the credit quality of a counterparty to over-the-counter derivative transactions. It is a complement to the counterparty credit risk charge that accounts for the risk of outright default of a counterparty.

Table 20: Credit valuation adjustment capital charge

USD m	EAD post-CRM	Risk weighted	Capital requirements
Standardised CVA capital charge			
CVA capital charge	59	25	2
Total as at 31 December 15	**62**	**25**	**2**
Standardised CVA capital charge			
CVA capital charge	87	25	2
Total as at 31 December 14	**93**	**25**	**2**

Analysis of Operational 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 three year net interest income and net non-interest income to calculate a capital charge for operational risk.

The following table details the IEI Group's operational risk RWAs.

Table 21: Risk weighted assets for operational risk

USD m	31.12.15	31.12.14
	Risk weighted assets	
Operational risk		
Basic indicator approach	413	388
Total	**413**	**388**

9. Remuneration disclosures

Decision-making process for determining the Remuneration Policy

The Board, upon the advice of the 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 PRA Senior Management Arrangements, Systems and Controls Sourcebook and the related guidance issued by the 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 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 those companies, in which case they may not be remunerated for their functions in the Bank.

[2] See section 6 ("Governance arrangements") for further details on the R&N Committee.

The remuneration of non-executive directors shall be determined by the Chairman and the CEO. No director shall be involved in any decisions as to their own remuneration.

Remuneration of the Executive Directors

Fixed remuneration

Fixed remuneration will primarily reflect the Executive Director's professional experience and organisational responsibilities. The level of fixed remuneration shall be sufficient to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration either to all the Executive Directors - due to the insufficiency or unsustainability of the results obtained - or to individual Executive Directors who, after being subject to the respective performance assessment processes, are found not to have made an adequate contribution.

The Executive Directors are eligible for similar benefits to those granted to the Bank's other employees (including health insurance, pension and life assurance) in accordance with the Bank's policy and the rules of the relevant benefit schemes in force from time to time.

Variable remuneration

The Executive Directors may be eligible to receive discretionary variable remuneration which shall take into consideration the added value or overall contribution to the Group.

Link between pay and performance

The variable remuneration of the Executive Directors is subject to an assessment of their individual performance and takes into account quantitative and qualitative factors as follows:

a) leadership capacity;

b) sound and prudent management;

c) the achievement of financial results and non-financial objectives, namely through a long-term vision aligned to the interests of the shareholders; and

d) compliance with the regulations applicable to the Bank’s activity, 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 Group.

Risk and performance adjustments

The determination of individual variable remuneration awards shall not be based solely on the assessment of individual performance but shall also take into account any relevant current and future risks. Where appropriate this may lead to awards being reduced, including to nil, to properly reflect risks and/or to reflect subdued or negative financial performance of the Bank, the Bank's consolidation group or the relevant business unit.

The Risk, Compliance and Audit functions shall each report on any risk failings and any current and future risks, at the level of the Bank, the Bank's consolidation group, the relevant business unit or the employee, and any such reports of risk failings or risks shall be taken into account in the assessment of individual performance and/or the determination of individual variable remuneration awards as referred to above.

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.

Variable remuneration shall not be awarded to the extent that any such award would materially affect the Bank's solvency ratio or in any way jeopardise the continuity and sustainability of the Bank's future activity and/or lead to a breach of the Bank's capital or liquidity requirements.

Remuneration of employees – design and structure

Fixed remuneration shall reflect an individual's role, experience and technical skills, and will also take account of market practice and the need to recruit, develop and retain talent. Benefits may include health insurance for the employees and their dependents, pension and life assurance, in accordance with the Bank's policy and the rules of the relevant benefit schemes in force from time to time

The level of fixed remuneration shall be sufficient 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, are found not to have made an adequate contribution.

Employees may also be eligible for 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.

Individual performance of employees is assessed in accordance with methodologies established by the Bank, with the input of the Head of Human Resources, and approved by the Executive Committee, and may vary depending on the area of activity in which the employee is engaged.

The general objective of the assessment processes is to determine differentiation of performance and contribution based on merit, understood as the achievement of results and the manifestation of skills that strengthen the Bank's and the Group's culture.

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:

Any variable remuneration of staff whose corporate title is Managing Director or above is paid:

- 50% upfront in cash; and
- 50% in the form of an instrument on deferred terms, the value of which is linked to the value of the preference shares of Itaú Unibanco Holding S.A., consisting of three tranches, each representing one third of the amount of variable remuneration deferred.

A proportion of the variable remuneration of the remaining staff 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 the area in which the employee is engaged, 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.

In the event that the Bank determines, at its absolute discretion, that the payment of any deferred variable remuneration is not sustainable according to the financial situation of the Itaú Group, the Bank consolidation group (the "Consolidation Group") and/or the Bank, or is not justified on the basis of the performance of any of the Itaú Group, the Consolidation Group, the Bank, the relevant business unit or the employee, the Bank may determine that the amount of any deferred variable remuneration that shall become payable may be reduced (including to nil).

Without limitation, the Bank's discretion to reduce (including to nil) the amount of any deferred variable remuneration may be exercised where the Bank determines that:

a) the employee participated in, or was directly or indirectly responsible, for conduct (including by omission) which resulted in significant losses (including both direct financial losses and indirect losses, including without limitation, through reputational damage) to the Itaú Group, the Consolidation Group or the Bank;

b) the employee failed to meet appropriate standards of fitness and propriety;

c) there is reasonable evidence, at the Bank's discretion, that the employee committed an act or omission which constitutes misbehaviour or a material error;

d) the Itaú Group, the Consolidation Group or the Bank, or any business unit in which the employee works, has suffered a material downturn in its financial performance; and/or

e) the Itaú Group, the Consolidation Group or the Bank, or any business unit in which the employee works, has suffered a material failure of risk management.

Quantitative disclosures

The remuneration disclosure consists of remuneration awarded for 2015, including fixed remuneration and the upfront and deferred components of variable remuneration awarded for the year. Note 35 to IBBAInt Consolidated Annual Report 2015 provides additional information and disclosure regarding staff costs in 2015.

The disclosures apply to those categories of staff whose professional activities have a material impact on the Bank's risk profile, including senior managers and other material risk takers who are in lower levels of management below the Board of Directors and the Executive Committee. The material risk takers are collectively referred to as "Code Staff" and have been identified in accordance with the European Commission's technical standards with respect to criteria to identify material risk takers (Commission Delegated Regulation 604/2014) (the "European Technical Standards"). The number of individuals identified as Code Staff is 52.

Code Staff aggregate quantitative information on remuneration broken down by business area:

CIB: USD 12,550,148.22

IPB[2]: USD 13,645,673.00

Code staff aggregate quantitative information on remuneration, broken down by senior management and Code Staff:

Senior managers: USD 6,841,021.59

Other Code Staff: USD 19,354,799.62

10. Basis and frequency of disclosures

In accordance with FCA and PRA requirements, IEI will publish Pillar 3 disclosures at least annually. The disclosures are published on www.itausaeuropa.eu.

[2] Due to the timing of the IPB's grant process, certain variable remuneration awards that may be made to certain Code Staff of the IPB (who are Senior Management and Staff) have not been made by the date of the disclosure, the maximum value of that additional variable remuneration that could be awarded would be USD 2,541,080.20.

Appendix A – Disclosure on asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.

USD m Template A – Assets		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	1,134		7,510	
030	Equity instruments	-	-	12	12
040	Debt securities	33	33	682	682
120	Other assets	-		740	

USD m Template B – Collateral received		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	-	850
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

USD m Template C – Encumbered assets/collateral received and associated liabilities		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	902	850

Appendix B – Disclosure of information relevant for the calculation of the countercyclical buffer

Table 1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

USD m		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country:												
	Norway	10,138	-	-	-	-	-	802	-	-	802	0.02	1%
	Sweden	16,546	-	-	-	-	-	1,307	-	-	1,307	0.05	1%
020	**Total**	**26,684**	**-**	**-**	**-**	**-**	**-**	**2,109**	**-**	**-**	**2,109**	**0.07**	

Table 2 - Amount of institution-specific countercyclical capital buffer

USD m		Amount
		010
010	Total risk exposure amount	5,282,589
020	Institution specific countercyclical capital buffer rate	0.006%
030	Institution specific countercyclical capital buffer requirement	294