Bank of America Merrill Lynch Banco Múltiplo SA

Pillar 3 Disclosures

As at December 31, 2015

Ombudsman

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1. Introduction

In June 2006, the Basel Committee on Banking Supervision introduced a new capital adequacy framework to replace the 1988 Basel Capital Accord in the form of the 'International Convergence of Capital Measurement and Capital Standards' (commonly known as "Basel II"). During 2013, new rules were enacted by Central Bank of Brazil ("BACEN") due to the implementation of the Basel capital framework aligned with the Basel III global standards, effective from October 2013. As per requirement issued by the Central Bank, the Bank of America Merrill Lynch Brazil ("BofAML") complies with these Capital Adequacy requirements.

The supervisory objectives of Basel III are to promote safety and soundness in the financial system and maintain an appropriate level of capital, enhance competitive equality and establish a more comprehensive approach to addressing risks. Basel III is structured around three pillars: Pillar 1, 'minimum capital requirements', Pillar 2, 'supervisory review' and Pillar 3, 'market discipline'. The aim of Basel III Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

BofAML states its commitment to transparency in all of its activities and therefore, it aims to provide access to the information in compliance with the requirements of the regulators and inspection agencies.

2. Scope of the Document

This report covers the Financial Conglomerate of BofAML that comprises of the two entities: Bank of America Merrill Lynch Banco Múltiplo S.A. ("Banco BofAML") and Merrill Lynch Corretora de Títulos e Valores Mobiliários ("Merrill Lynch S.A. CTVM").

BofAML certifies the information detailed in the Appendix I and II spreadsheet represents, from a Regulatory Capital perspective, 100% of the terms and conditions of all contracts with clients against this Financial Institution.

3. Risk Management Framework

BofAML manages some risks that are most relevant to their business, which includes the following (but are not limited to):

- Market risk: Risk of potential losses in a business portfolio or investments arising out of fluctuations in market conditions (equity prices, FX rates and interest rates etc);
- Credit risk: Possibility of losses associated to not compliant by the counterparty on their financial obligations perspective in the terms of the devaluation of the credit risk classification of the counterparty, to the reduction of profits, to the advantages conceived on the renegotiation and the operational costs, as established by the local regulator;
- Liquidity risk: The potential incapability to meet the financial obligations, both for on-balance sheet and off-balance sheet items when due; and
- Operational risk: Risk of loss resulting from failure of people, processes and internal systems, or from external events.
- Compliance and Legal Risk;

BofAML has established a risk management framework responsible for identifying, measuring, assessing, mitigating, controlling, monitoring, reporting and reviewing exposures to such risks. This framework comprises of policies, processes, practices, procedures, models and systems that are appropriate to the nature and complexity of the products, services, activities, processes and systems of BofAML.

3.1. Goals and Policies

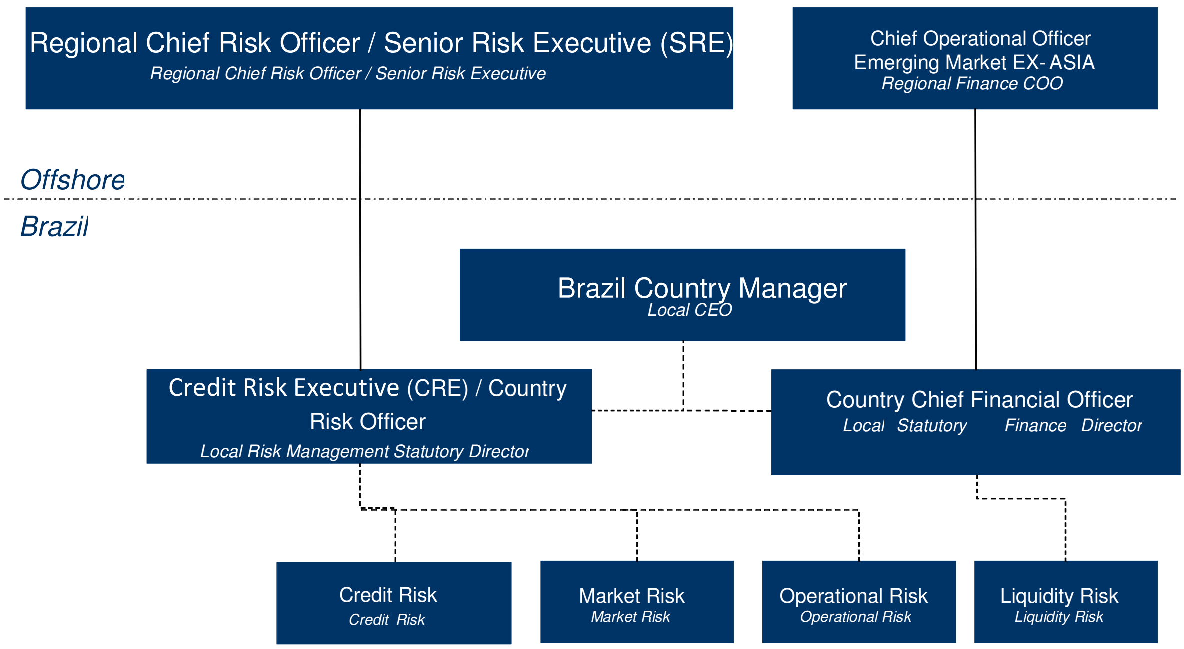
Given the diversity of the business lines (“Businesses” or “LOB”), markets and regions where BofAML operates, the establishment of an efficient risk management framework is critically important.

Underlying the fact that Bank of America Corporation or “BAC” (ultimate parent of the BofAML) is a global financial institution, the initial responsibility in the risk management process of the Group relies on the individual business units to manage the risks. Thus, the BofAML manages these risks by adherence to established risk policies and procedures.

3.2. Organizational Structure

The primary groups responsible for the maintenance of the risk policies and procedures and for establishing, controlling and monitoring the risk limits are: market risk management, credit risk management, liquidity risk management and operational risk management. These groups are independent of the Businesses in BofAML and report to the Senior Management. Furthermore, Finance also shares risk management responsibilities, especially with regard to the processing of regulatory reports, and therefore, follows the table below:

Figure 1: Risk Management Organizational Structure



3.3. Risk Management Committees

3.3.1. ALMRC – Assets, Liabilities and Market Risk Committee

Responsible for, among others, meeting periodically to analyze, review and formulate the strategies, risks and financial results relevant to BofAML's activities.

3.3.2. Credit Risk Committee ("CRC")

The CRC is responsible for approval of credit risk strategy of BofAML and approval of credit policies. The responsibilities of this committee are also to propose, assess and define the internal standards of credit risk, suggest and decide the operational procedures and related mitigating actions, monitor the credit portfolio and credit activity as well as maintain the required framework for appropriate credit risk management.

3.3.3. Brazil Risk Committee ("BRC")

The BRC is responsible for monitoring BofAML policies and processes aimed at ensuring a solid management of the market, operational, credit, liquidity, compliance and legal risks. It is responsible for the measurement, management and control processes related to these risks and it can also delegate authority to senior managers or sub-committees as necessary.

3.3.4. Executive Committee or Country Leadership Team ("CLT")

It is the primary governance committee in Brazil which functions following the global risk directives of BAC. The Committee is chaired by the country executive of the BofAML and its members include the Operations, Compliance and Finance Directors, Directors of Businesses as well as Directors of Governance and Controls Functions ("GCFs") and other supporting areas. Its goal is to supervise the business activities of BofAML, approve new initiatives and significant changes in the local corporate structure as well as to ensure the appropriate implementation of the corporate governance framework.

4. Capital

As of December 31st, 2015 the capital management framework consolidates all actions taken by BofAML with the purpose of managing the regulatory capital. Capital projections provides a forecast of available capital based on the business plan and budgeting, future profit forecasts, dividends policy and corporate actions foreseen by the senior management. The Capital Plan includes the following:

- Three-year planning horizon;
- It is aligned with the expected profits and balance sheet as well as other inputs prepared by the Finance and Risk Management departments and approved by the senior management committees of BofAML;
- Is based on pro-forma estimates of BofAML's Risk Weighted Assets ("RWA") and capital ratios that are consistent with the applicable regulatory requirements;
- Covers key risks to the projections as well as planned capital actions to ensure adequacy of regulatory capital;
- States assumptions, at a minimum, for both baseline scenario and adverse stress scenario appropriate to BofAML business model and portfolios;
- Evaluate and report the capability of BofAML to withstand adverse stress scenarios from a regulatory capital point of view, and
- The capital projections over the next three years show that the BofAML Entities are adequately capitalized under both normal and severe, but plausible, stress scenarios;

4.1. Capital Allocation and Measurement

According to the Basel III capital requirements, the Central Bank of Brazil ("BACEN") has published the National Monetary Council ("CMN") Resolutions 3.380/06, 3.464/07 and 3.721/09 which deal with operational, market and credit risk management. It has also published Circulars 3.634/13 to 3.648/13 that define the methodologies used for the weighting factors necessary for the credit, market and operational risks, as well as Resolution 4.192/13, which updated the Reference Capital calculation rules and provided guidelines for the Reference Capital Requirement calculation. CMN has also published Resolution 3.988/11 which deals with the implementation of the capital management framework.

BofAML carefully maintains capital to cover the risks inherent to the Business. The adequacy and evaluation of the BofAML's Reference Capital sufficiency is made to ensure BofAML can maintain a solid capital structure in a way to hold its activities development and it is discussed monthly in the ALMRC Committee with the purpose of determining strategies to maintain the balance between the available capital and minimum capital requirement, as well as the minimum capital ratios required by the Central Bank, including 11% for the PR, 5,5% for Tier I and 4,5% for the Main Capital, as defined in the Resolutions 4.192/2013 and 4.193/2013 (CMN).

BofAML calculates the reference capital required for credit and market risk using the Standardized Approach, and for operational risk using the Basic Indicator Approach ("BIA").

4.2. Capital Structure

The regulatory capital consists of Tier 1 capital, which includes the stockholders' equity and the profits reserve, including the retained earnings from the current period. The other component of regulatory capital is Tier 2 capital, which includes a long-term junior debt security. According to the definitions of CMN Resolution 2.837/2001, BofAML issued a subordinated debt with a principal amount of R$ 86,7 million on December 6th 2006, the balance of which on 31 of December of 2015, sums up to R$ 87,5 million, and will mature on December 6th, 2016. Considering from December of 2015 the Subordinated Debt is now less than 1 year to its maturity, the Reduction Factor applied to its Tier II Capital is now at 100% (0% applied to the total amount).

BofAML calculates its reference capital ("PR") as the sum of Tier 1 and 2 capitals in a consolidated manner, based on the accounting rules and its corresponding chart of accounts applicable for national financial system institutions ("COSIF").

Table 1: Reference Capital

In R$ (thousands)		Dec/15	Sep/15
LEVEL I REFERENCE CAPITAL			
Net Equity		1,486,986	1,456,148
Profit Result Accounts		0	26,840,080
(-) Loss Result Accounts		0	(26,823,797)
(-) Deferred Fixed Assets		(1,268)	(1,368)
(-) Prudential Adjustments Res. 4192		(2,511)	0
	Total	**1,483,208**	**1,471,063**
MAIN CAPITAL		**1,483,208**	**1,471,063**
T1 (TIER I LEVEL %)		**14.03%**	**14.05%**
ICP (MAIN CAPITAL LEVEL %)		**14.03%**	**14.05%**
CR (CAPITAL RATIO %)		**14.03%**	**14.22%**
LEVEL II REFERENCE CAPITAL			
Subordinated Debt		0	17,486
	Total	**0**	**17,486**
REFERENCE CAPITAL DEDUCTION			
Shares Issued by Financial Institutions		**0**	**0**
	Total	**0**	**0**
	Total	**1,483,208**	**1,488,549**

4.3. Capital Requirement

The capital requirements for credit, market, and operational risks and for the Basel index, as per BACEN guidelines, are provided below:

Table 2: Capital Requirements as per BACEN Guidelines

In R$ (thousands)		Dec/15	Sep/15
VALUE OF (*) RWACpad, SHARE BY WEIGHTING FACTOR			
Factor 2%		24,790	1,909
Factor 20%		158,155	501,055
Factor 50%		191,025	230,555
Factor 75%		0	1,200
Factor 100%		4,334,411	4,345,091
Factor 250%		25	27
Factor 300%		0	0
CVA		1,542,129	1,037,892
	Total	**6,250,535**	**6,117,727**
(*) RWA_{JUR1}		735,712	571,109
(*) RWA_{JUR2}		1,728,725	1,156,273
(*) RWA_{JUR3}		518,242	883,745
(*) RWA_{ACS}		0	164
(*) RWA_{CAM}		214,429	617,409
(*) RWA_{COM}		0	0
	Total	**3,197,109**	**3,228,700**
***RWAopad**		1,123,149	1,123,145
	Total	**1,123,149**	**1,123,145**
	RWA TOTAL	**10,570,793**	**10,469,573**
BASEL INDEX			
RWA TOTAL		10,570,793	10,469,573
Situation (PR)		1,483,208	1,488,549
Margin		320,421	336,896
Basel Index		**14.03%**	**14.22%**
Rban		460	2,476
Capital Ratio (Basel Index)		**14.03%**	**14.19%**

(*)RWAs are multiplied by risk factor of 11%.
Risk-Weighted Assets related to Credit Risk (“RWACPAD”)
Risk-Weighted Assets related to Exposure in Gold, Foreign Currency and Currency Variation (“RWACAM”)
Exposure to Interest Rate Variation (trading portfolio) (“RWAJUR1”)
Exposure to Variation of Foreign Currency Coupon Rate (“RWAJUR2”)
Exposure to the Variation of the Price Index Coupon Rate (“RWAJUR3”)
Risk-Weighted Assets related to Exposure to Stock Price Variation - trading portfolio (“RWAACS”)
Risk-Weighted Assets related to trades subjected to Commodities Price Variation (“RWACOM”)
Risk-Weighted Assets related to Exposure to Operational Risk (“RWAOPAD”)
Capital requirements attributed to positions with exposures to interest rate risk for Banking Book (“RBAN”)
Regulatory capital requirements (“Patrimônio de Referência Exigido” or “PRE”)

Considering the BACEN requirements, follows the formulas used to calculate some of the main components on the table above:

* Risk Weighted Assets:

$$\mathbf{RWA} = \underbrace{RWA_{CPAD}}_{\text{Risco de Crédito}} + \underbrace{\text{Max}\ (RWA_{MPAD}*80\%;\ RWA_{MINT})}_{\text{Risco de Mercado}} + \underbrace{RWA_{OPAD}}_{\text{Risco Operacional}}$$

* Tier I Level: $IN1 = \dfrac{\text{Nível 1}}{RWA}$

* Basel Index (or Capital Adequacy Ratio):

$$IB = \frac{PR}{RWA}$$

* Main Capital Level (ICP - Indice de Capital Principal):

$$ICP = \frac{\text{Capital Principal}}{RWA}$$

4.4. Capital Projections

The Capital and Contingency Plan is prepared annually and is a key process for the establishment of a good level of governance and assessment of the capital adequacy of the BofAML Entities, including:

- Detailed explanation of the structure of the legal entity and also its governance structure;
- Description of the business strategy and the estimated results and balance sheet along with the assumptions used to prepare the estimated data for the planned period;
- Detailed estimated data of the capital requirements and resources for the planned period;
- Details of the impact of the stressed scenario on the capital position and the discussion/analysis by management, considering the results of the stress test;

- Details of the actions to be undertaken in response to deterioration in the capital position, if necessary.

4.5. Shareholdings

The investment in a subsidiary is carried under the equity method. Equity investments are valued at cost. The choice of method to be used is in accordance with the current legislation applicable, as described below:

- Equity Consolidation Method: Accounting technique used to assess the profits earned by their investments in other companies. The bank reports the income earned on the investment on its income statement and the reported value is based on the bank's share of the company assets. The reported profit is proportional to the size of the equity investment. The calculation of the estimated investment is on a monthly basis, based on the balance sheet for the month of December (in this case). Therefore, this method is used for the Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários (broker dealer), which is the most significant Shareholding in BofAML.

- Cost Method: Valued to investment costs in equity securities of other companies, which are classified in the subgroup investment, considering that such societies are not affiliates or subsidiaries (including the ones which are jointly controlled). By this method the investments are recorded at cost less provision for losses. Within this method, BofAML Brazil has two Non Significant Shareholdings, as described in the table below:

(In R$, thousands)	31/12/2015	30/09/2015
Significant Shareholdings	-	-
Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários **(1)**	177.741	173.817
Non Significant Shareholdings	-	-
Stocks and Fund Shares - ANBIMA	10	10
CETIP Educational	1	1
Total	**177.752**	**173.828**

(1) Information on the controlled Institution as of December 31st, 2015:

The Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários was incorporated as a joint stock company (privately held), having engaged in the practice of active and passive operations inherent in brokerage securities. Its operations are conducted in the context of a group of entities that operate in the financial market, using the administrative and operational structure of the Bank of America Merrill Lynch Banco Multiplo S.A.

The updated values of this Shareholding as of December 31st, 2015 are as follows.

In R$ (thousands) as of 12/31/2015

Capital	Net Worth	Net Profit	Participation %	Declared Dividends	Equity Pickup
100.000	172,190	22,620	99.9954	5,559	22,619

5. Credit Risk Management

Credit Risk is defined as the risk of losses related to the failure of financial obligations pursuant to the terms agreed by the borrower or counterparty, arising out of deterioration in the borrower's risk rating. Losses due to the reduction in income are based on re-negotiation and recovery costs as established by the regulator.

Following are included in the definition of credit risk: counterparty credit risk, country risk, transfer risk, possibility of disbursements to honor guarantees, sureties, joint obligations, credit commitments or other operations of a similar nature and also the possibility of losses associated with the failure to perform financial obligations under the terms agreed by the intermediary party.

Any financial transaction made by BofAML with counterparty may result in a risk exposure for the institution, causing potential losses, either directly or indirectly. Thus, establishment of procedures for an appropriate credit risk management and maintenance of exposure levels at levels compatible with the risk appetite defined by BofAML is the key goal. Thus, the credit risk assessment of each counterparty and product, portfolio credit quality monitoring and adequacy of the approved credit limits are essential for the continuity of BofAML's operations.

5.1. Policies and Strategies for Credit Risk Management

Considering the business profile of BofAML and the complexities of the financial market, the policy formalizes the rules and principles in alignment with the main goals of the credit risk management, according to the risk appetite of BofAML and in line with the Global Credit policy of BAC and, pursuant to the prudential principles, rules, laws and local regulatory practices.

The BofAML Credit Risk Policy ensures that BofAML has a risk management governance framework, controls, systems and practices that are sufficiently robust and adequate to manage its credit risk, compatible to the risk of its counterparties, the nature of its operations, the complexity of the products and services provided and also, proportional to its risk appetite. Based on this framework, the Credit Risk department, The Credit Analysis department and the Board of Directors (“BoD”) of BofAML take actions in the assessment, control and monitoring of the credit risk.

The Credit Risk Policy assigns the CRC with the function of reviewing and approving the policies, processes, systems, controls and local limits so as to provide a suitable framework for credit risk management. Decisions with material impact on the credit risk management should be discussed by the CRC.

BofAML's Credit Risk Policy defines the rules for:

- Establishing and maintaining the supervision of activities which expose BofAML to the credit risk and related risks;
- Maintaining an appropriate framework in order to control the credit approval and granting process. The credit granting process is managed by a unit that is independent from the professionals who are responsible for commercial activities. The credit granting policy should be transparent, consistent for all products and types of businesses and also should provide the professionals granting the credit with clear limits within which they should operate;
- Maintain a credit authority policy for credit approval and credit extensions or renegotiations as necessary. The rules for granting credit authority should be defined with clarity, in a way that should be easy to understand by both the credit granting authorities and for the Business responsible for credit origination. Controls are put in place to ensure that excesses or violations are avoided;
- Identify and assign credit risk rating to all counterparties in a consistent and standardized manner to be used in all decisions relating to credit granting and management. Such ratings are always kept updated. There should be an efficient exposure analysis and rating system, besides a formal process for credit granting and monitoring, that allows BofAML to: identify and mitigate potential losses, develop renegotiation strategies and contingency plans and properly account for losses;
- Manage limit excesses and violations, as losses beyond acceptable levels and unforeseen damages may occur when the limits are exceeded. Thus, monitoring of current credit exposures to the existing limits and any limit violations is undertaken;
- Early detection of the following situations: deterioration of credit conditions of a counterparty/debtor party, or potential incapability of a counterparty in honoring its commitments according to the original conditions of the transaction. All these situations should be accompanied by credit risk rating reviews;
- Establish and supervise the implementation of changes in the credit policy of BofAML. Such supervision should be conducted by the CRC; and
- Implement credit analysis process that considers the performance of counterparty's business, economic activity sector, main competitors and suppliers and also considers the management structure, current and projected economic and financial situation, degree of leverage and indebtedness, cash flow and contingencies, among other factors.

5.2. Credit Origination Process

The origination process for credit granting is initiated by the LOBs who communicate with the Credit Analysis department when they have identified a potential transaction with a specific counterparty, indicating the characteristics and details of the transaction.

5.3. Credit Approval and Analysis Process

Any credit approval requires a credit assessment which should be formalized in the Credit Approval Memorandum ("CAM") and submitted to the Credit Analysis department and after to the Credit Risk department for approval. For approval of credit, the BofAML authorization process should be followed, defined by the volume of credit and risk rating of the counterparty involved.

BofAML uses a framework for determining outstanding credit limits and exposures during the approval process. During the approval process, BofAML uses an appropriate system for storage of the financial statements, credit risk rating measurement and assessment of the returns and economic capital consumed in the transaction.

The credit analysis is fundamental and takes into account the performance of the counterparty, economic activity sector, main competitors and suppliers, assessment of the management of the counterparty, corporate structure, current and projected economic and financial situation, degree of leverage and indebtedness, cash flow and contingencies. These factors are important criteria for determining the appropriate risk rating of the counterparty.

Specifically, in the case of financial institutions, the financial analysis includes: capital, quality of the assets, management structure, financial results assessment, liquidity, sensitivity analysis and opinion of the rating agencies. This assessment also analyzes the transaction (strengths/weaknesses), the client overview and the main risks and mitigating circumstances as well as the main sources of payment.

5.4. Credit Risk Exposure Management

The credit risk exposure management aims at monitoring on an individual basis, the business and risk profile of the counterparty, using both the external and internal information, identifying the potential loss events and deciding suitable measures for the mitigation thereof. When deteriorations are effectively observed, relevant measures are discussed by the CRC.

5.5. Credit Portfolio Management

BofAML Credit Risk and Credit Analysis departments adopt several control measures for efficient and robust credit risk management. The limits relate to the maximum pre-approved levels, the procedures to establish acceptable risk levels and benchmark assessments to incorporate best practices. These controls, along with the regulatory limits, form the credit risk limits structure at BofAML.

BofAML seeks to diversify the portfolio in a way to reduce the volatility of credit risk related losses and maximizing the return on capital. The credit limits structure, including the procedures and exposure-related benchmark assessments, for the credit and capital assigned to the country, has been established to reach such goals.

Besides, monitoring the credit limits granted according to the risk of the counterparty, aiming at maintaining the portfolio diversification, credit concentration of the portfolio is assessed by type of industry/sector and risk rating of the counterparty. Credit concentration related parameters have been established and in specific cases, the parameters established may be changed after approval by the CRC. Additionally, the Credit Risk and Credit Analysis department monitors the concentration of the top ten exposures by counterparty, regardless of the type of industry/sector or rating.

The counterparties are monitored periodically and the review includes the following:

- Financial-Economic situation of the counterparty;
- Current exposure of BofAML against the counterparty;
- Present situation of the potential negotiations; and
- Discussion of the action plan.

5.6. Credit Portfolio Monitoring

The Credit Analysis department is responsible for monitoring information on the sectors and/or specific counterparties with the purpose of identifying information which could anticipate the potential deterioration in the counterparty's capacity to honor its obligations. The Credit Analysis Manager is responsible for monitoring and analysis of the different aspects and trends of the sectors and industries within remit, using several tools and information channels made available by BofAML. However, beyond the Credit Analysis Manager, it’s mandatory of the Credit Analysis and Credit Risk departments as an entire unit signalize any relevant aspect related to companies and/or sectors which are part of the portfolio.

The monitoring covers a series of financial metrics of the counterparty that relate to the cash generation, billing, Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) and leverage, as well as the factors that may lead to the breach of covenants, among others, in order to guide potential actions.

5.7. Counterparty Risk Analysis

Maintaining a consistent and dynamic risk rating methodology is very important for effective credit risk management by BofAML. Thus, BofAML implements a risk rating methodology which follows the following principles:

- The risk ratings are assigned as part of the credit approval process and reviewed periodically, so as to reflect the changes in the counterparty's conditions;
- The Credit Analysis Manager has the responsibility of assigning a Credit Risk rating for the new counterparties and keeping the existing ratings up-to-date;
- The rating reviews and updates occur at least annually or whenever the information which may impact the counterparty's risk rating is assessed; and
- The risk ratings are assessed in an independent manner by the Credit Internal Audit (Credit Review), so as to ensure the accuracy and consistency of the rating assigned.

5.8. General Attributes of the Credit Risk Ratings

The payment capacity is assessed based on the financial performance of the counterparties which shall be identified in the analysis prior to the credit granting, focused on the cash flow generation and service debt coverage. The limits for each counterparty are established and approved with the involvement of the Credit Risk and Credit Analysis departments, following the policies and procedures established by BofAML.

The counterparty's risk rating shall reflect the general conditions which impact the credit exposure during the time they are assigned. The analysts who assign or update the credit risk assessment will consider the vulnerability of the counterparty or borrower to the economic or industry sector conditions when a rating is assigned.

5.8.1. Scorecard

The risk rating methodology deployed at BofAML is an objective and consistent system which uses a risk rating model called the Risk Rating Scorecard. The model uses the financial and non-financial factors of the counterparty, that include: revenue and profitability, cash generation and coverage indexes (cash generation versus debt amortization/financial expenses), variability in cash flow, financial flexibility and capital structure.

Besides the financial analysis, a descriptive analysis of the counterparty's business profile (“business analysis”) is prepared, which lists the key strengths and challenges of the company on the short and long term in the credit limit proposition. In this methodology, a two-dimensional focus of risk rating is established for the risk rating allocation of the counterparty and for each transaction.

BofAML adopts a rating scale divided into 10 grades, based on the probability of the counterparty's failure to perform and in line with the risk rating scale defined globally by BAC.

Table 3: Counterparty Risk Rating Categories

Counterparty's Risk Rating	Description
1	Exceptional
2	Excellent
3	Strong
4	Good
5	Satisfactory
6	Acceptable (Adequate)
7	Transition
8	Special Mention
9	Deficient
10	Default

5.8.2. External Ratings Equivalence

In case the information required is not available for the counterparty's credit risk rating through the scorecard, a rating should be performed by means of the External Agencies' Risk Rating Equivalence methodology i.e. Mapping to External Ratings Scorecard, a methodology which uses the ratings of the main international agencies (S&P, Moody's and Fitch) as a basis for assigning the credit risk rating.

Up to 6 months after having been assigned a rating by the international agencies, the ratings could be used as per this methodology. However this approach is not applied to Government Agencies.

Table 4: Mapping between BofAML Ratings Classification and External Rating Agencies' Risk Rating

S&P Corporate Issuer Ratings	ORR
AAA	1
AA+	1
AA	1
AA-	1
A+	2
A	2
A-	3
BBB+	3
BBB	4+
BBB-	4-
BB+	5
BB	5-
BB-	6
B+	7+
B	7-
B-	8
CCC+	9+
CCC	9+
CCC-	9+
CC	9
C	9
D	9-

Fitch Corporate Issuer Ratings	ORR
AAA	1
AA+	1
AA	1
AA-	1
A+	2
A	2
A-	3
BBB+	3
BBB	4+
BBB-	4-
BB+	5
BB	5-
BB-	6
B+	7+
B	7-
B-	8
CCC+	9+
CCC	9+
CCC-	9+
CC	9
C	9
D	9-

Moody's Corporate Issuer Rating	ORR
Aaa	1
Aa1	1
Aa2	1
Aa3	1
A1	2
A2	2
A3	3
Baa1	3
Baa2	4+
Baa3	4-
Ba1	5
Ba2	5-
Ba3	6
B1	7+
B2	7-
B3	8
Caa1	9+
Caa2	9+
Caa3	9+
Ca	9
C	9

5.9. Control and Mitigation Policies

Taking into account that BofAML's strategy is focused on wholesale banking, the credit risk mitigation techniques are assessed on a case by case basis and include:

- The right to initially require a guarantee or margin;
- The right to terminate the operations or that of requesting more guarantees due to the probability of unfavorable events:
- The right to request for more guarantees when certain exposure levels are exceeded; and
- The right to require sureties from third parties and the purchase of protection against credit default.

Due to the strategic focus on large and high credit quality clients ("eligible clients" seen as the most important credit granting element), most of the BofAML portfolio tend to not have structural mitigators or guarantees.

As a general rule, BofAML uses the legal procedure of compensation and settlement of the obligations within the scope of the National Financial System ("SFN"). Nevertheless, an analysis needs to be made on a case by case basis, since the terms of the agreements are subject to negotiation between the parties.

5.9.1. Methodology to Ensure Effectiveness of Guarantees

Guarantees are risk mitigators that aim to decrease incurred losses from credit risk transactions. For these to be accepted as mitigation instruments, they must be formalized and controlled according to Article 36 from Circular 3.644 from BACEN.

When granting credit, BofAML may require guarantees related to several types of assets in order to reduce the risk, including, but not limited to, sureties, collateral of assets and properties, receivables, government bonds and other securities. So as to ensure the effectiveness of the guarantee for the intended risk reduction, it is essential that the guarantee made in favor of BofAML is duly documented and that such guarantee is duly assessed and monitored at its origination and on a regular basis.

The methodology used for the assessment and measurement of the guarantee shall depend on the use and degree of dependency of BofAML on the guarantee. The guarantee assessment should be part of any repayment analysis. Besides, the guarantee and control assessment is an important control feature e.g. in using a loan basis.

In the assessment and measurement of guarantees as a secondary or tertiary source of repayment, using the historical value recorded in the financial statements may be an appropriate means of measuring the guarantee. However, with the borrower's deterioration and with the increase in the reliance on the guarantee as a source of repayment, efforts should be made to obtain additional or independent sources of information or verification of the guarantee values. In such cases, the LOBs should also complement the assessment and measurement with more specific or strict requirements.

When BofAML is more dependent on the guarantees as a source of repayment, the initial and regular assessment of the guarantees should be stricter and may include requirement for more detailed information and periodic verifications or assessments by third parties.

Due to the volatility of prices inherent to securities with immediate liquidity, the monitoring of the securities given as a guarantee, including specific loans or thresholds, is required. The control requirements include marking to market of collateral provided and verification of the compliance with the coverage indexes by means of integrated systems.

The table below provides the percentage of the exposures amounts subject to mitigation:

Table 5: Exposure Amount Subject to Mitigation

In R$ (thousands) Risk Weight Factor	Dec/15	Sep/15
Settlement Agreement	-	-
CGD (Global Derivatives Contract)	37,873,185	18,096,255
0% - Government Bonds	3,562,545	2,181,424
50% - Financial Institutions Guarantees	-	-
Total	**41,435,730**	**20,277,679**

The above calculation includes exposures relating to transactions subject to Global Derivatives Contracts “GDC” (“Contrato Global de Derivativos” – “CGD”). The exposures include certain mitigating factors such as Settlement Agreement (given by Resolution 3.263/2005), which is included in the RWA calculation (as given by Circular 3.644/2013).

For the purposes of ascertaining the credit risk capital allocation, below is the total value mitigated by these instruments per Risk Weight Factor (“FPR”).

Table 6: Exposure Amounts Subject to Mitigation by Risk Factor

In R$ (thousands) Risk Weight Factor	Dec/15	Sep/15
0%	5,773,716	2,192,853
2%	523,918	397,336
20%	300,047	243,270
50%	7,745,948	567,579
100%	27,092,101	16,876,641
Total	**41,435,730**	**20,277,679**

5.10. Exposure Limits

The credit approval and granting process requires credit risk analysis and rating for the counterparty. For each counterparty, credit risk rating is assigned as per the risk rating methodology adopted by BofAML, following the corporate policies and procedures. The credit risk limits take into account the current and potential exposure measures and these are defined and monitored by the type of risk, type of product and maturity.

All transactions are approved according to the credit authorities established by the corporate policy. The local accounting practices, rules and laws are taken into account to determine the local appetite for risk.

5.11. Provisioning Rules

The determination of provisions for doubtful accounts meets the regulatory requirements of the BACEN, defined in Resolutions CMN 2.682 and 2.697 and the supplementary circulars, with the purpose of ensuring the proper treatment of the credit risk of the operations, both in the qualitative assessment of the borrower and in the quantitative aspect, the latter represented by the economic and financial aspects resulting in the assessment of its payment capability.

BofAML maps its credit risk exposures to the risk ratings defined by BACEN in Resolution 2.682. The classification is made based on the consistent and verifiable criteria, backed by both external and internal information.

Table 7: Minimum Provision% Based on Ratings

BACEN	BofAML Brazil	Minimum Provision %
AA	1	0%
	2	
	3	
	4+, 4, 4-	
	5+, 5, 5-	
A	6+, 6, 6-	0,5%
B	7+, 7, 7-	1%
C	8	3%
D	9+	10%
E, F, G e H	9, 9- e 10	E – 30% F – 50% G – 70% H – 100%

The provision for the non-performing loans is made on a monthly basis. The reclassification adjustments of provision levels within credit portfolio are determined by delays and triggered through deterioration of risk levels also including other operations of the same client in the portfolio.

The amount provisioned may be increased if there is an imminent risk of default, such a risk being detected by the Businesses or by the Credit Analysis and Credit Risk departments.

5.12. Non Performing Trades

The table below provides the amounts in delay by range of days.

*Table 8: Non performing **trades** by range of days*

In R$ (thousands) Non Performing Trades by range of days	Dec/15	Sep/15
Between 15 and 60 days	1,308.47	760.96
Between 61 and 90 days	-	-
Between 91 and 180 days	1.23	0.07
Between 181 and 360 days	0.02	-
Above 361 days	-	-
Total	**1,309.72**	**761.03**

There were no write-offs of trades during the fourth quarter.

5.13. Quantitative Data of the Portfolio Subject to Credit Risk

5.13.1. Total Amount of the Credit Risk Exposures at Quarter End and Average Exposures During the Quarter

The table below provides the total credit risk-weighted exposures by each factor:

Table 9: Total Credit Risk-Weighted Exposures by Quarter

In R$ (thousands) Risk Weight Factor	Dec/15	Sep/15
0%	6,018,476	6,112,676
2%	1,239,513	95,641
20%	3,410,798	2,027,981
50%	944,238	3,664,025
75%	-	1,594
100%	5,199,015	4,561,517
250%	10	10
300%	-	-
Do Not Apply *	1,363	5,286
Total	**16,813,413**	**16,468,730**

* Do Not Apply = Other Compensation Systems / Deferred

The exposures in table 9 are after the consideration of the Risk Factors, when applicable. Some of the Risk Factors applied are as follows: Conversion Factors in Credit “CFC” (Fatores de Conversão em Crédito”- “FCC”) ; Future Potential Exposure Factors “FPEF” (Fatores de Exposição Potencial Futura” – “FEPF”) ; and Credit Conversion on Operations to be Settled “CCOS” (Fatores de Conversão em Crédito de Operações a Liquidar” – “FCL”).

The table below provides the average quarterly credit risk exposures by risk weighting factor:

Table 10: Average Quarterly Credit Risk Exposures

In R$ (thousands) Risk Weight Factor	Oct/15 - Dec/15	Jul/15 - Sep/15
0%	5,594,895	5,595,799
2%	1,036,241	720,912
20%	3,958,474	2,948,686
50%	946,363	2,216,694
75%	-	641
100%	4,565,351	4,075,685
250%	10	10
300%	-	-
Do Not Apply *	5,295	7,436
Total	**16,106,629**	**15,565,863**

* Do Not Apply = Other Compensation Systems / Deferred

The quarterly average is assessed as the simple average of the exposures on the last day of the months that make up the quarter. The exposures are provided after the application of the Risk Factors described above.

5.13.2. Percentage of Exposures of the Ten and Hundred Largest Clients

Below is the concentration of the 10 and 100 largest borrowers, by economic group, of the portfolio subject to credit risk:

Table 11: Concentration Level of the 10 and 100 Largest Borrowers

Percentage of the 10 biggest clients	Dec/15	Sep/15
	74.86%	76.15%

Percentage of the 100 biggest clients	Dec/15	Sep/15
	100,00% *	100,00% *

* This 100% does not mean BofAML only have 100 clients in Brazil ; Must consider some of them have low exposures as this percentage is the round of 99,9995%

5.13.3. Exposures by Economic Sector

The table below provides the credit risk exposures segmented by the economic sector:

Table 12: Credit Exposures by Economic Sector

Economic Sector (in R$ thousands)	Dec/15	%	Sep/15	%
Food and Beverages	256,207	1.52%	273,462	1.66%
Consumer Goods	139,709	0.83%	120,893	0.73%
Durable Goods	49,661	0.30%	44,454	0.27%
Oil and Gas	-	0.00%	2,717	0.02%
Agricultural Commodities	543,740	3.23%	448,502	2.72%
Clearing	35,619	0.21%	496	0.00%
Electricity	542,964	3.23%	393,035	2.39%
Government	4,403,294	26.19%	5,561,894	33.77%
Infrastructure	77,278	0.46%	23,827	0.14%
Financial Institution	4,786,191	28.47%	6,200,688	37.65%
Institutional Investor	1,706,381	10.15%	1,593,675	9.68%
Metals and Mining	666,252	3.96%	334,968	2.03%
Others (*)	2,550,638	15.17%	610,132	3.70%
Paper and Pulp	85,017	0.51%	83,832	0.51%
Pesticide / Other Agric. Chemicals	48,982	0.29%	12,114	0.07%
Chemicals	75,204	0.45%	56,060	0.34%
Technology	126,806	0.75%	83,321	0.51%
Telecom	285,617	1.70%	291,122	1.77%
Tourism	2,421	0.01%	5,350	0.03%
Retail	431,433	2.57%	328,188	1.99%
Total	**16,813,413**	**100%**	**16,468,730**	**100%**

Note(*): Above, the economic sector classified as "Others" refers to Tax Credits, Court Deposits, and Permanent Assets

Individual Accounts	**0**	**0%**	**0**	**0%**
Agricultural Credit	-	-	-	-
Mortgage	-	-	-	-
Personal Loans (with payroll loans)	-	-	-	-
Leasing of Vehicles	-	-	-	-
Credit Card	-	-	-	-
BNDES / Finame Transfers	-	-	-	-
Other Individual Products	-	-	-	-
Corporate Accounts *	**16,813,413**	**100%**	**16,468,730**	**100%**
Agricultural Credit	150,449	0.89%	88,264	0.54%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	547,366	3.26%	12,583	0.08%
Capital de Giro, Desconto de Títulos, Conta Garantic	83,129	0.49%	108,657	0.66%
Other Corporate Products	16,032,470	95.36%	16,259,226	98.73%
Total	**16,813,413**	**100%**	**16,468,730**	**100%**

Note(*):
- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans agains the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Titulos, Conta Garantida --> Specific products, such as Overdraft, Bonds Discounting , etc. ;
- Other Corporate Products --> All other bank products in Brazil ;

Table 13: Average credit exposures per economic sector

Economic Sector (in R$ thousands)	Oct/15 - Dec/15	%	Jul/15 - Sep/15	%
Food and Beverages	239,950	1.49%	148,330	0.95%
Consumer Goods	149,877	0.93%	89,024	0.57%
Durable Goods	43,752	0.27%	36,112	0.23%
Oil and Gas	8,166	0.05%	906	0.01%
Agricultural Commodities	528,921	3.28%	386,736	2.48%
Clearing	36,332	0.23%	215	0.00%
Electricity	526,653	3.27%	425,408	2.73%
Government	4,055,161	25.18%	4,667,072	29.98%
Infrastructure	79,944	0.50%	20,936	0.13%
Financial Institution	5,361,877	33.29%	6,014,607	38.64%
Institutional Investor	1,587,745	9.86%	1,500,459	9.64%
Metals and Mining	423,503	2.63%	419,438	2.69%
Others (*)	1,927,639	11.97%	1,005,354	6.46%
Paper and Pulp	100,143	0.62%	56,027	0.36%
Pesticide / Other Agric. Chemicals	49,256	0.31%	9,041	0.06%
Chemicals	83,238	0.52%	40,862	0.26%
Technology	128,753	0.80%	75,458	0.48%
Telecom	283,367	1.76%	321,071	2.06%
Tourism	2,486	0.02%	4,537	0.03%
Retail	489,868	3.04%	344,270	2.21%
Individual Accounts	-	0.00%	-	0.00%
Total	**16,106,629**	**100%**	**15,565,863**	**100%**

Note(*): Above, the economic sector classified as “Others” refers to Tax Credits, Court Deposits, and Permanent Assets

Individual Accounts	**0**	**0%**	**0**	**0%**
Agricultural Credit	-	-	-	-
Mortgage	-	-	-	-
Personal Loans (with payroll loans)	-	-	-	-
Leasing of vehicles	-	-	-	-
Credit Card	-	-	-	-
BNDES / Finame Transfers	-	-	-	-
Other Individual Products	-	-	-	-
Corporate Accounts *	**16,106,629**	**100%**	**15,565,863**	**100%**
Agricultural Credit	150,449	0.93%	92,350	0.89%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	267,707	1.66%	11,393	0.29%
Capital de Giro, Desconto de Títulos, Conta Garantic	80,242	0.50%	94,279	1.19%
Other Corporate Products	15,608,232	96.91%	15,367,841	97.63%
Total	**16,106,629**	**100%**	**15,565,863**	**100%**

Note(*):
- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans agains the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Titulos, Conta Garantida --> Specific products, such as Overdraft, Bonds Discounting , etc. ;
- Other Corporate Products --> All other bank products in Brazil ;

Table 14: Credit Exposures by Economic Sector (segregated by their maturity)

Economic Sector (in R$ thousands)	Less than 6 Months	Greater than 6 Months	Greater than 1 Year Less than 5 Years	Greater than 5 Years	TOTAL
Food and Beverages	6,576	165,158	0	84,473	256,207
Consumer Goods	87,576	0	52,133	0	139,709
Durable Goods	22,062	2,541	25,058	0	49,661
Oil and Gas	0	0	0	0	-
Agricultural Commodities	0	223,838	316,508	3,394	543,740
Clearing	0	0	334	35,285	35,619
Electricity	10,318	43,087	360,338	129,221	542,964
Government	4,403,294	0	0	0	4,403,294
Infrastructure	39,612	0	0	37,666	77,278
Financial Institution	3,914,617	67,780	133,206	670,587	4,786,191
Institutional Investor	1,008,879	0	454,118	243,384	1,706,381
Metals and Mining	525,361	1,439	19,145	120,307	666,252
Others *	0	0	0	2,550,638	2,550,638
Paper and Pulp	0	4,500	0	80,517	85,017
Pesticide / Other Agric. Chemicals	48,982	0	0	0	48,982
Chemicals	5,511	57,405	0	12,288	75,204
Technology	60,016	59,902	0	6,888	126,806
Telecom	15,186	0	253,379	17,052	285,617
Tourism	1,921	500	0	0	2,421
Retail	90,609	136,493	151,811	52,520	431,433
Total	**10,240,520**	**762,642**	**1,766,031**	**4,044,220**	**16,813,413**
Note(*): Above, the economic sector classified as "Others" refers to Tax Credits, Court Deposits, and Permanent Assets					
Individual Accounts	**0**	**0**	**0**	**0**	**-**
Agricultural Credit	-	-	-	-	-
Mortgage	-	-	-	-	-
Personal Loans (with payroll loans)	-	-	-	-	-
Leasing of vehicles	-	-	-	-	-
Credit Card	-	-	-	-	-
BNDES / Finame Transfers	-	-	-	-	-
Other Individual Products	-	-	-	-	-
Corporate Accounts *	**10,240,520**	**762,642**	**1,766,031**	**4,044,220**	**-**
Agricultural Credit	89,798	-	0	0	89,798
BNDES / Finame Transfers	0	0	0	0	-
Import and Export Trades	547,366	0	0	0	547,366
Capital de Giro, Desconto de Títulos, Conta Garantida	62,390	20,739	0	0	83,129
Other Corporate Products	9,540,966	741,903	1,766,031	4,044,220	16,093,120
Total	**10,240,520**	**762,642**	**1,766,031**	**4,044,220**	**16,813,413**

Note(*):
- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans agains the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Titulos, Conta Garantida --> Specific products, such as Overdraft, Bonds Discounting , etc. ;
- Other Corporate Products --> All other bank products in Brazil ;

5.13.4. Exposure by Geographic Region

The table below provides the credit risk exposures segmented by geographic regions:

Table 15: Credit Exposures by Geographic Region

Geographic Region (in R$ thousands)	Dec/15	%	Sep/15	%
Center-West	4,580,660	27.24%	5,634,647	34.21%
International (Offshore)	687,669	4.09%	2,481,552	15.07%
Northeast	715,238	4.25%	542,263	3.29%
North	-	0.00%	-	0.00%
Southeast	10,480,041	62.33%	7,462,047	45.31%
South	349,806	2.08%	348,221	2.11%
Total	**16,813,413**	**100%**	**16,468,730**	**100%**
Individual Accounts *	**0**	**0%**	**0**	**0%**
Agricultural Credit	-	-	-	-
Mortgage	-	-	-	-
Personal Loans (with payroll loans)	-	-	-	-
Leasing of vehicles	-	-	-	-
Credit Card	-	-	-	-
BNDES / Finame Transfers	-	-	-	-
Other Individual Products	-	-	-	-
Corporate Accounts	**16,813,413**	**100%**	**16,468,730**	**100%**
Agricultural Credit				
Southeast	150,449	0.89%	88,264	0.54%
Repasses BNDES / Finame				
Center-West	-	0.00%	-	0.00%
Import and Export Trades				
Center-West	547,366	3.26%	12,583	0.08%
Southeast	0	0.00%	0	0.00%
Northeast	0	0.00%	0	0.00%
Capital de Giro, Desconto de Títulos, Conta Garantida				
Northeast	0	0.00%	0	0.00%
North	0	0.00%	0	0.00%
Southeast	81,790	0.49%	107,357	0.41%
South	1,339	0.01%	1,300	0.01%
Others				
Center-West	4,033,294	23.99%	5,594,563	34.16%
International (Offshore)	687,669	4.09%	2,481,552	15.08%
Northeast	715,238	4.25%	542,263	3.30%
North	0	0.00%	0	0.00%
Southeast	10,247,802	60.95%	7,306,229	44.40%
South	348,467	2.07%	334,619	2.03%
Total	**16,813,413**	**100%**	**16,468,730**	**100%**

Geographic Region Average (in R$ thousands)	Oct/15 - Dec/15	%	Jul/15 - Sep/15	%
Center-West	4,234,781	26.29%	4,906,165	31.52%
International (Offshore)	1,099,057	6.82%	1,365,298	8.77%
Northeast	720,454	4.47%	536,628	3.45%
North	-	0.00%	-	0.00%
Southeast	9,701,686	60.23%	8,480,165	54.48%
South	350,651	2.18%	277,607	1.78%
Total	**16,106,629**	**100%**	**15,565,863**	**100%**

Note(*):
- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans agains the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Titulos, Conta Garantida --> Specific products, such as Overdraft, Bonds Discounting , etc. ;
- Other Corporate Products --> All other bank products in Brazil ;

5.13.5. Flow of Accounts Written Off in the Quarter

The table below provides the movement of provisions for non-performing loans on a quarterly basis:

Table 16: Movement in Provisions for Non-Performing Loans

In R$ thousands	Oct/15 - Dec/15	Jul/15 - Sep/15
Provision Balance	(1,660)	(2,932)
Provision During Quarter	(9,613)	(2,855)
Reversion During the Quarter	10,885	1,298
Write-Off	-	-

5.13.6. Notional Value of the Contracts Subject to the Counterparty's Risk

Table 16 provides the amounts related to the contracts where clearing houses have not been used as a central counterparty, and thus the contracts are not guaranteed.

Table 17: Notional Amount of Transactions where Clearing Houses have not been used as Central Counterparty

In R$ thousands	Dec/15	Sep/15
Amount of contracts subject to:		
COUNTERPARTY CREDIT RISK		
Swap	**70,794,592**	**67,105,023**
Option	**17,036,892**	**21,779,546**
NDF	**61,350,040**	**30,385,517**
Government Bond Term	**254,216**	**1,459,217**
DERIVATIVES	**149,435,739**	**120,729,303**
TRANSACTIONS TO BE SETTLED	**-**	**-**
REPO TRANSACTIONS	**2,758,077**	**2,181,486**
TOTAL	**152,193,816**	**122,910,789**

The exposure calculation related to the transactions to be settled and repo transactions consider only the exposures related to counterparty credit risk in line with the definitions established with Circular 3.644/13 of BACEN.

The table below provides the exposure amounts related to the contracts where Bovespa/BM&F (clearing houses) act as a central clearing house:

Table 18: Notional Value of Transactions where Bovespa / BM&F acts as Central Clearing House

In R$ thousands	Dec/15	Sep/15
Futures	32,281,044	23,388,210
Swaps	1,157,972	1,065,972
FX Forward		1,258,260
Options	0	0
Total	**36,074,351**	**25,712,442**

5.13.7. Gross Positive Value of the Contracts Subject to the Counterparty's Risk

The table below provides the amounts related to the gross positive value of the contracts subject to counterparty risk, segmented by risk weighting factor and not considering negative amounts of derivatives netting agreement:

Table 19: Gross Positive Value of Contracts after Collateral Subject to Counterparty Risk

In R$ thousands Risk Weight Factor	Dec/15	Sep/15
0%	3,759,908	2,624,157
2%	129,873	149,656
20%	3,387,176	5,817,507
50%	625,015	858,843
100%	2,828,909	3,368,452
Total	**10,730,881**	**12,818,615**

Specifically, the gross positive values in the table above include the replacement value of foreign exchange transactions to be settled, marked to market value of derivatives, repo transactions, and interbank deposit transactions net of guarantees and not considering negative values relating to offsetting agreements.

6. Market Risk Management

Market Risk is defined as the risk of losses resulting from the fluctuations in equity prices and market related factors such as the foreign exchange rates, interest rates, assets prices, etc.

Given that the market risk is a key component of the business operations of BofAML, a framework for the proper management of the market risk becomes imperative. The basis of any risk management framework relies both on the corporate governance practices of the institution and in the effectiveness of the internal control structure. The corporate governance and internal control structure affect the way the strategy and goals of the risk management are established and also the way risks are identified when the assessment, planning and consequent execution of the business activities are performed.

The specific components of the market risk management structure consist of clearly documented policies and strategies, which establish limits and procedures to maintain the market risk exposure within the levels accepted by BofAML, besides systems to measure, monitor and control market risk exposures and an appropriate organizational structure for reporting timely and efficiently risk exposures accordingly to the levels defined as appropriate by the Board. Provide information for evaluating the performance of the LOBs is part of the effectiveness of the internal control systems and procedures.

The market risk management at BofAML includes the identification and measurement of the existing and potential market risks; risks mitigation and control by means of policies and procedures, monitoring and management of the risk levels, ensuring adherence to BofAML's appetite for risk and review and appropriate reporting both to the Board and to the regulators.

The responsibility for the market risk management at BofAML belongs to the Local Risk Director (Country Risk Officer), which together with the ALMRC, defines and determines the market risk level which BofAML is able to accept, consistent with its business goals and not diverging from the global goals and strategies of BAC. The Board and the ALMRC delegate to the Local Market Risk department - this area is independent from the business operations - the responsibility for the identification, measurement, monitoring and reporting of market risk activities, including the responsibility for the daily calculation and analysis of risk measurements such as Value-at-Risk (“VaR”), Dollar value of a one-basis point (“DV01”), currency exposure, back testing and stress testing among other measures and the measurement and monitoring of the risk levels and established limits, besides the responsibility for supporting compliance with the local regulations related to the market risk management.

6.1. Policies and Strategies of Market Risk

The local market risk policy of BofAML aims at establishing standards for the identification, measurement, monitoring and reporting of activities that expose BofAML to market risk. These standards have been adapted from the Market Risk Global Policies of BAC to the local market, and in accordance with the local regulations established by the BACEN. The policies are reviewed annually and approved by ALMRC.

The market risk management principles of BofAML focus on ensuring that the functions generating this risk do not expose BofAML to undesirable losses which could affect its strategy and viability. With the purpose of providing effective risk monitoring, the Local Market Risk department operates according to the following principles:

- Market risk exposure is an integral part of the BofAML's activities and the Market Risk Local department is in charge of ensuring the appropriate identification and measurement of risks and also responsible for establishing controls and providing regular reports on the market risks incurred;
- The Market Risk Local department should ensure that risk levels incurred by BofAML are compatible with the appetite for risk, through limits monitoring;
- The Market Risk Local department should assess the market risk exposures of BofAML and the hedges connected to them. Hedges are protection strategies which reduce or cancel the risks such as those of prices, mismatched maturities and quantities. Hedges are frequently made in order to protect BofAML against high-risk exposures, whether they are credit, market or liquidity related and to reduce the exposures which have become inappropriate due to changes in the market or to meet the risk appetite or to manage positions in order to comply with the risk limits of BofAML. The instruments used as hedges by BofAML should be previously approved instruments;
- Significant concentrations in instruments, maturities, sectors and counterparties should be followed by the risk monitoring functions and actively controlled by the professionals in various Businesses. The expected returns should be in line with the risk exposure levels. Risk factors tied to high levels of exposure and expected return are justifiable provided they remain consistent with the risk appetite of BofAML and that they are duly reported;
- The role of risk management function is to guarantee accuracy and transparency in the information given to the Board and ensure that the information is necessary to operate in accordance with the goals and strategies of the institution.

6.2. Operations Classification

The methodology used by BofAML to measure market risk of the portfolio depends on their classification, as to their characteristics and purposes, in one of the following categories:

- Trading portfolio “trading book”;
- Portfolio not included in the trading portfolio (“banking book”).

BofAML follows the global policy for classification of transactions in these portfolios, specially the policy called “Covered Positions – Enterprise Policy. The classification of the portfolio into one of these categories allows for the calculation of regulatory capital using the specific methodologies that are used for the regulatory capital measurement of the trading book. These methodologies are different from those used to measure risk for the portfolio classified under the banking book.

The interest rate risk of the banking book are measured and monitored through the regulatory capital for portfolio not classified in the trading portfolio (“RBAN”) and the stress test analysis, as established by BACEN.

6.3. Sensitivity Analysis

The sensitivity analysis of risk factors allows measuring the impact on the value of a position or portfolio resulting from the changes in specific market factors, keeping the other market risk factors constant. The Local Market Risk department daily analyzes and reports risk sensitivity measures related to interest rates, interest curves, volatilities, currency exposure, shares and commodities to the Businesses involved.

In conformance with the global directives of BAC, the Local Market Risk department also uses other Market Risk indicators such as exposure levels, VaR and stress testing, besides testing the adherence of the VaR methodologies through back testing.

6.4. Value at Risk (“Var”)

BofAML applies the VaR methodology to measure the potential losses of the portfolio. The VaR is a standard methodology used to estimate the maximum loss expected from a portfolio given the level of significance and within a specific time horizon. The Local Market Risk Unit uses the VaR measure as a Market Risk level indicator and changes observed in the VaR measure should be correlated with the change in market risk perspective.

The VaR calculation methodology is in line with the procedures adopted globally by BAC, which has increased the transparency of the model and inclusion of more granularity in the risk factors considered for the calculation. The model is based on a historical simulation approach made with an observation window of 3 years updated periodically. The confidence level used is 99% and the time horizon is 1 day but the average of the 19 worst losses in the observation period is considered. This methodology takes into account the effect of the "fat tail" losses that are a characteristic of financial time series.

Below is the BofAML's VaR result on a quarterly basis. The main observations are: (i) the individual values per risk factor may be positive; and (ii) the sum of these individual values equals the total which is a characteristic of the risk coherent measure.

Table 20: VaR Result - Quarterly Basis

VaR* 99%, 1 Day				
In R$				
Risk Factor	Dec 15	Sep 15	Jun 15	Mar 15
Shares	0	0	-191	-0
Foreign Exchange	-292,473	-295,492	-323,086	-138,986
Interest	-10,869,825	-12,415,899	-5,623,245	-5,287,194
Total	-11,162,298	-12,711,392	-5,946,522	-5,426,181
Minimum**	-4,779,822	-4,779,822	-2,557,614	-3,949,177
Maximum**	-15,623,190	-15,623,190	-7,390,948	-6,148,464
Average**	-9,434,855	-8,085,880	-4,806,877	-4,803,220

*Average of the 19 worst losses in a 3 year observation window
**Minimum, maximum and average VaR of the quarter ended on the date at issue

The VaR methodology, as per historical simulation approach, does not require assumptions regarding the returns distribution and it is not necessary to estimate volatilities or correlations between the portfolio assets, an advantage in comparison to the other VaR calculation methodologies. However, when considering the historical returns, it should be considered that past events do not necessarily represent future events, i.e. the time series could contain events which will not occur anymore or also omit events which will occur in the future. Furthermore, by considering all samples with the same weight, the VaR can be distorted by old information and, if an extreme value exits the observation window, the VaR can suffer a significant variation. Thus, in addition to the VaR, the Market Risk Local Unit performs back-testing to analyze the adherence and accuracy of the local models used to measure market risks in relation to the market realities. Essentially, the back test compares the actual results to the estimated results in the VaR model.

6.5. Adherence Tests - Back Testing

The Market Risk Local Unit performs back testing to analyze the adherence and accuracy of the local models used to measure market risk in relation to the market realities. The essence of the back testing technique is the comparison of the actual trading results with the estimated results obtained by the models considered. In conformance with the global back testing program of BAC, the Local Market Risk Unit calculates the VaR on a daily basis for the Businesses and provides the back testing results on a monthly basis.

6.6. Stress Tests

Regarding the stress testing approach, it is undertaken periodically and captures the impact on affected trading positions under a specific market stress scenario. Such tests allow identification of the positions with potential for significant impact arising out of changes in the market risk parameters.

For the exposures classified in the trading book, daily stress tests are performed by applying pre-set stress scenarios. For the exposures not classified in the trading book, a stress test is performed on a quarterly basis by undertaking sensitivity analysis of key market variables such as the asset prices and implied volatility in accordance with requirements of the BACEN.

6.7. Trading Portfolio

The table below provides the value of the trading portfolio segmented between the purchased and sold positions, by relevant market risk factors.

Table 21: Trading Portfolio

In Thousands of R$	Position Dec/2015		Position Sep/2015	
Risk Factor	Purchased	Sold	Purchased	Sold
Shares - Issued in Brazil	-	-	-	-
Price Index Coupon - IGP-M	235,300	234,385	224,031	223,160
Price Index Coupon - IPCA	1,300,093	2,396,476	1,126,987	2,383,200
Price Index Coupon - Others	102,627	102,627	104,068	104,068
Currency Coupon - Canadian Dollar	-	-	-	-
Currency Coupon - US Dollar	73,633,838	74,854,169	69,270,189	67,636,527
Currency Coupon - Euro	6,935,551	6,946,963	4,859,210	4,858,684
Currency Coupon - Swiss Frank	26,275	26,275	38,261	38,261
Currency Coupon - Yen	202,562	202,562	721,782	721,782
Currency Coupon - Sterling Pound	47,105	47,023	10,718	10,634
Currency Coupon - Others	272,120	272,179	40,845	40,697
Other Risk Factors	36,748,591	28,450,862	34,956,112	25,960,696
Commodities	-	-	-	-
Foreign Currency - Canadian Dollar	-	-	-	-
Foreign Currency - US Dollar	71,330,007	69,969,093	69,270,188	67,636,526
Foreign Currency - Euro	6,935,551	6,946,963	4,859,209	4,858,682
Foreign Currency - Swiss Frank	26,274	26,274	38,261	38,261
Foreign Currency - Yen	202,561	202,561	721,781	721,781
Foreign Currency - Sterling Pound	47,106	47,024	10,717	10,634
Foreign Currency - Others	374,747	374,806	144,912	144,765
Pre *	56,987,595	61,853,398	26,375,559	31,546,935
Grand Total	**255,407,903**	**252,953,640**	**212,772,830**	**206,935,293**

* Pre --> Pre represents the amounts indexed to the pre-fixed rate interest (in BRL).
** The sum of tables 21 and 22 is not exactly the same as shown in table above, as table 21 shows only the derivatives cleared with a central counterparty, while some minor operations/instruments are not specified in table 21
*** Positions indexed to CDI are showed exclusively on the category “Other Risk Factors”

6.8. Derivative Financial Instruments

The table below provides the exposure to derivative financial instruments with a central counterparty, by market risk factor category.

Table 22: Derivative Financial Instruments cleared with Central Counterparty

In Thousands of R$	Position Dec/2015		Position Sep/2015	
Risk Factor	Purchased	Sold	Purchased	Sold
Shares - Issued in Brazil	-	-	-	-
Price Index Coupon - IGP-M	91,051	-	86,697	-
Price Index Coupon - IPCA	578,123	762,424	477,758	673,273
Currency Coupon - US Dollar	17,010,609	6,181,782	11,802,747	3,720,734
Other Risk Factors	863,576	1,084,027	819,948	977,663
Foreign Currency - US Dollar	14,706,777	1,296,706	11,802,746	3,720,733
Pre *	5,720,884	13,555,240	3,772,807	6,050,757
Total	**38,971,020**	**22,880,179**	**28,762,703**	**15,143,160**

* Pre --> Pre represents the amounts indexed to the pre-fixed interest rate (in BRL)
** Positions indexed to CDI are showed exclusively on the category “Other Risk Factors”

The table below provides the exposure to derivative financial instruments without a central counterparty, per market risk factor category.

Table 23: Derivative Financial Instruments not cleared with a Central Counterparty

In Thousands of R$	Position Dec/2015		Position Sep/2015	
Risk Factor	**Purchased**	**Sold**	**Purchased**	**Sold**
Shares - Issued in Brazil	-	-	-	-
Price Index Coupon - IGP-M	144,249	234,385	137,334	223,160
Price Index Coupon - IPCA	721,970	1,634,052	649,229	1,709,927
Price Index Coupon - Others	102,627	102,627	104,068	104,068
Currency Coupon - Canadian Dollar	-	-	-	-
Currency Coupon - US Dollar	56,623,229	68,672,387	57,467,442	63,915,793
Currency Coupon - Euro	6,935,551	6,946,963	4,859,210	4,858,684
Currency Coupon - Swiss Frank	26,275	26,275	38,261	38,261
Currency Coupon - Yen	202,562	202,562	721,782	721,782
Currency Coupon - Sterling Pound	47,105	47,023	10,718	10,634
Currency Coupon - Others	272,120	272,179	40,845	40,697
Other Risk Factors	35,885,015	27,366,835	34,136,164	24,983,033
Commodities	-	-	-	-
Foreign Currency - Canadian Dollar	-	-	-	-
Foreign Currency - US Dollar	56,623,230	68,672,387	57,467,442	63,915,793
Foreign Currency - Euro	6,935,551	6,946,963	4,859,209	4,858,682
Foreign Currency - Swiss Frank	26,274	26,274	38,261	38,261
Foreign Currency - Yen	202,561	202,561	721,781	721,781
Foreign Currency - Sterling Pound	47,106	47,024	10,717	10,634
Foreign Currency - Others	374,747	374,806	144,912	144,765
Pre *	51,266,711	48,298,158	22,602,752	25,496,178
Grand Total	**216,436,883**	**230,073,461**	**184,010,127**	**191,792,133**

* Pre --> Pre represents the amounts indexed to the pre-fixed rate interest (in BRL).
** Positions indexed to CDI are showed exclusively on the category “Other Risk Factors”

6.9. Operation not classified on the Trading Portfolio – sensitivity to variation on the interest rates

The sensitivity of the market value of the operations not classified on the Trading Portfolio, to a parallel increase of 1bps (0,01%) in the interest rate curve to the data-basis as of December, 31st, 2015 was at R$ 953,00. This sensitivity measurement, known as DV01, shows that the interest rate risk of the Trading Portfolio has low significance, which is explained considering the Portfolio structure that, in its majority, is composed by indexed instruments to the post fixed interest rate on a one day CDI.

7. Liquidity Risk Management

Liquidity Risk is defined as a risk that an institution is unable to honor short, medium or long term commitments as a result of insufficient and/or inappropriate resources to fulfill obligations. A continuous and efficient management of the liquidity risk provides the institution with the ability to comply with the cash flow obligations.

For adequate liquidity risk management, the institutions should ensure the establishment of a robust framework, including: control and monitoring of the institution's financial transactions, continuous analysis of the liquidity impacts in the cash flow due to external events, preparing stress scenarios including a range of risk factors and market variables, periodic assessment of the quality and liquidity of assets, contingency plans and funding instruments, among others.

7.1. Policies and Strategies of Liquidity Risk

The main goal of liquidity risk management is to develop a strategy to ensure that the BofAML is able to meet contractual and occasional financial obligations during any market cycles and liquidity stress periods.

There are four strategic components to reach this goal:

- Maintain liquidity that is sufficient to promptly meet the on- and off-balance obligations of its portfolio without incurring excessive costs, while acting regularly in accordance with the internal growth strategy of the institution;
- Maintain liquidity that is sufficient for BofAML, based on the bond maturity analysis and other potential cash outflows, including expectations of cash outflow in market stress conditions;
- Diversify the funding sources, considering the profile of the assets and structure of the legal entities; and
- Maintain an adequate and sufficient contingency plan to protect BofAML in case of relevant liquidity events.

The responsibility for supervising daily liquidity requirements, control and monitoring activities falls on the Liquidity Risk Director who should also maintain a broad communication and consultation channel with the Corporate Treasury and Liquidity Risk department.

The Liquidity Risk activities related to managing, controlling and monitoring could be classified into categories, such as:

General

- Communicate and implement procedures for the liquidity risk management;
- Supervise compliance with the daily liquidity risk control and monitoring activities;
- Keep information systems and processes to measure, monitor, control and report the liquidity risk;
- Provide the Executive Board, ALMRC and the local regulators with relevant and updated information;
- Maintain applicable contingency plans; and
- Maintain an appropriate Investments Policy.

Strategic

- Identify the extreme liquidity scenarios and perform stress test analyses;
- Assess the adequacy of the liquidity level considered as appropriate;
- Ensure that the liquidity aspects are considered in the development of new products, business activities or corporate initiatives, as part of the day-to-day process of review adopted by BofAML (e.g.: new products review process);
- Manage the funding needs from or to connected entities;
- Maintain easy access to the capital market;
- Maximize the diversification of the funding sources;
- Support the coordination and alignment with the risk management practices of BofAML, including the Market, Credit and Operational Risk; and
- Support the coordination and alignment with the Liquidity Risk management practices of the BAC.

Tactical

- Identify relevant scenarios for normal and stress conditions of market;
- Identify the relevant liquidity factors and its behaviors under each scenario;
- Identify the funding sources under each scenario;
- Conduct analyses to support the behavior and funding related assumptions; and

Operational

- Provide and analyze daily cash flow forecasts;
- It is the responsibility of the Corporate Treasury and liquidity risk areas to review and adjust, whenever necessary, the adequacy and sufficiency of the practices adopted by BofAML.

7.2. Identification, Measurement and Monitoring

The Liquidity Risk department, with support of the LOBs, is responsible for identifying the main liquidity risk factors to be measured and monitored. It is also responsible for the proposition of the liquidity limits, to be approved by ALMRC according to the tolerance level defined by BofAML Management.

Once the most relevant factors (liquidity drivers) have been identified for the Liquidity Risk, (e.g. instruments requiring periodical margin adjustments or concentration in assets with low liquidity) whether under the sources or uses of liquidity, the daily Liquidity Risk control should analyze the behavior that such factors have in the stress scenarios defined for BofAML.

Liquidity Risk department is responsible for assuring that all liquidity factors approved by ALMRC are captured and included by the system used to measure, control and report liquidity risk of BofAML.

7.3. Liquidity Gap Analysis

Through the liquidity gap analysis, it is possible to anticipate the significant cash needs or cash outflow periods, which may impact the liquidity of the BofAML.

The cash flow forecast is one of the key procedures adopted by BofAML for the liquidity gap analysis, since it provides BofAML with a future view of the continuous flow between the generating sources and the borrowers. The projected cash flow gap analysis allows assessing BofAML's capacity for generating cash inflows and meeting the cash outflows resulting from its activities and market volatilities.

BofAML projects its cash flow for a minimum horizon of three months on a daily basis and analyzes the mismatches. Such analysis is done based on daily and accumulated cash needs, resulting from the mismatches in the projected cash flows.

7.4. Mitigation and Control

Among the control activities for managing and monitoring liquidity risk, the Liquidity Risk department is responsible for:

- Daily monitoring the compliance with or violation of the preset liquidity limit for BofAML;
- Timely reporting of the violations in the liquidity limits to the Liquidity Risk Director of BofAML and the respective approvals required;

- Reporting a monthly summary of the approvals required resulting from the liquidity limits violated to ALMRC;
- Supervising the submission of the information required by the local regulator;
- Analyzing and presenting stress test results to ALMRC ;
- Providing ALMRC and the Executive Board with explanations, if necessary, for the limit violations and remedy actions;
- Performing scenario analyses and stress tests at least on a quarterly basis;
- Reporting any weakness observed on the liquidity controls; and
- Keeping an extensive communication channel with the Local Market Risk Unit in order to provide for coordination and integration at the risk management.

7.5. Communication

The main function of ALMRC, under the delegated authority of the BofAML Board, with regard to Liquidity Risk is ensuring that BofAML has the policies, processes, systems, controls and limits to manage liquidity risk. Decisions with relevant impacts on liquidity risk management should be discussed by ALMRC and approved jointly.

ALMRC should also be the forum and communication channel between the areas responsible for the management and monitoring of the different types of risk with an impact, either directly or indirectly, on liquidity, market, credit and operational risk. Through this forum, it is possible to maintain the transparency on the risk management and monitoring and to obtain a consolidated view of the risks incurred by BofAML and its impacts on the liquidity risk.

8. Operational Risk Management

8.1. Operational Risk Management System

The structure of the Operational Risk Management is defined through the internal policies and by the Operational Risk Local team, subjected to both the Country Risk Officer and the International Operational Risk Team (GBAM International Operational Risk).

BAC has created an adequate system to identify, evaluate, control, mitigate, monitor and report the operational risks associated to all of its activities, in accordance with the established standards of the Operational Risk Management required by the Central Bank, as well with the internal global policies of the BAC.

8.2. Operational Risk Definition

The BofAML defines the operational risk as the risk of losses due to flaws or inadequate internal processes, personal, systems and/or external events. It also includes the Legal Risks, however both strategic and reputational are not included. Operational risk events may result in an unexpected or undesired consequence, including financial losses, unexpected profits, and opportunity costs (loss of future revenue) or reputational impacts.

8.3. Operational Risk Procedures

According to the Policy adopted by the BofAML, the procedures of the Operational Risk Management are divided in:

a. Operational Risk Policy
   - Establishes the minimum requirements and the responsibilities to the operational risk management in BAC, in accordance with legislation and regulation.

b. Operational Risk Governance Standards
   - It provides guidelines to the Operational Risk Teams of BofAML, in accordance with the requirements of the global Operational Risk Governance Standards and the Operational Risk approach throughout the BAC.
   - Defines the methodologies considered in the operational risk governance standards, as applicable to the responsible on the Operational Risk Management.
   - Requires compliance to the practices and policies on the Operational Risk Management to all the Lines of Business.
   - Directs the Operational Risk Team to develop an appropriated level of local procedures in accordance with these requirements and local regulatory requirements that are applicable.

c. Operational Losses Report Policy

- Ensure the procedures for the operational losses reports are always adequate and maintained to:
  - Timely identify, register and clarifying the pertinent issues;
  - Analyze issues considering its basic reasons and effects;
  - Identify and monitor, when appropriate, corrective actions taken to reduce the repetition probability; and
  - Identify, monitor, control and improve elimination or mitigation mechanisms of operational risks.

8.4. Operational Risk Scope

The local team responsible has the responsibility of monitoring all the business operation of BofAML under the perspective of the Operational Risk. It also has the responsibility to develop and guide the fundamental strategy, structure and key elements to the operational risk management throughout the entire company.

8.5. Types of Operational Risks

The operational risk categories are related to:

- Personal Risk: Risk where the business needs are not achieved due to: management flaw, internal fraud, and deficiency in the organizational structure, impropriate human resources or other deficiencies in the human resources.

- Processing Risk: Risk incurring of products and services or changes that are not documented, processed and / or executed in an accurate and efficient way. It also includes the risks associated to the register, financial or management information reports flaws.

- Systems Risk: Risk incurring of deficiencies, complexities or systems/technologies instabilities that give support the business activities.

- External Events Risks: Incurring on outside factors of the normal scope of the internal controls of the company, including the risks associated with suppliers and service providers, as well as political, social, cultural factors, so specific and cases with a bigger strength.

8.6. Component of the PR, related to the Operational Risk

BofAML calculates the PR component in a consolidated way, referring to the operational risk, using the BIA approach, as defined by the Central Bank in the Circular 3.640/2013.

$$RWA_{OPAD} = \frac{1}{F} \times \frac{\sum_{t=1}^{3} \max\,[0.15 \times IE_t;\, 0]}{n}$$

This calculation approach can be changed, in basis the same Circular 3.640/2013, considering that to coordinate this change, will be necessary the approvals of the Operational Risk Manager, of the Financial Director, of the Risks Director, of the Risks Committee and of the Central Bank.

9. Updating Periodicity

BofAML discloses its information pursuant to the terms stipulated by the BACEN, in accordance with the Circular 3.678/2013 of the CMN.