

Bank of America Merrill Lynch Banco Múltiplo S.A.

Pillar 3 Disclosures

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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 The Central Bank of Brazil ("BACEN") as a result of the implementation of the Basel capital framework aligned with the Basel III global standards, effective from October 2013. As per requirement issued by BACEN, Prudential Conglomerate Bank of America Merrill Lynch BR ("PCBofAML") complies with the adequacy framework and the capital requirements (more details on the Regulatory Requirements on Section 4.1 below).

The supervisory objectives of Basel III are: (i) promote safety and soundness in the Financial System, (ii) maintain appropriate levels of capital, (iii) enhance competitive equality, (iv) 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 through a prescribed set of disclosure requirements.

PCBofAML 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 Prudential Conglomerate or PCBoAML, which consists of 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”).

The information included in 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

PCBofAML manages the types of risks that are most relevant to its business, which include (but are not limited to):

- Market risk: Risk of potential losses in a business or investment portfolio arising from fluctuations in market conditions (equity prices, foreign exchange rates, interest rates, etc.);
- Credit risk: Possibility of losses associated with the non-fulfillment by the borrower or counterparty of their financial obligations pursuant to the agreed terms, with the devaluation of the credit contract due to the deterioration of the borrower's credit risk classification, with the reduction of earnings or income, with the advantages given by renegotiation, and with the collection costs, as established by the Local Regulatory Agency;
- Liquidity risk: The potential inability to meet 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;

PCBofAML has established a risk management framework responsible for identifying, measuring, assessing, monitoring, controlling, mitigating and reporting exposures to such risks. This framework consist of policies, processes, practices, procedures, models, and systems that suit the nature and complexity of PCBofAML's products, services, activities, processes, and systems.

3.1. Goals and Policies

Given the diversity of the lines of business, markets, and regions in which PCBofAML operates, the establishment of an efficient risk-management framework is of critical importance.

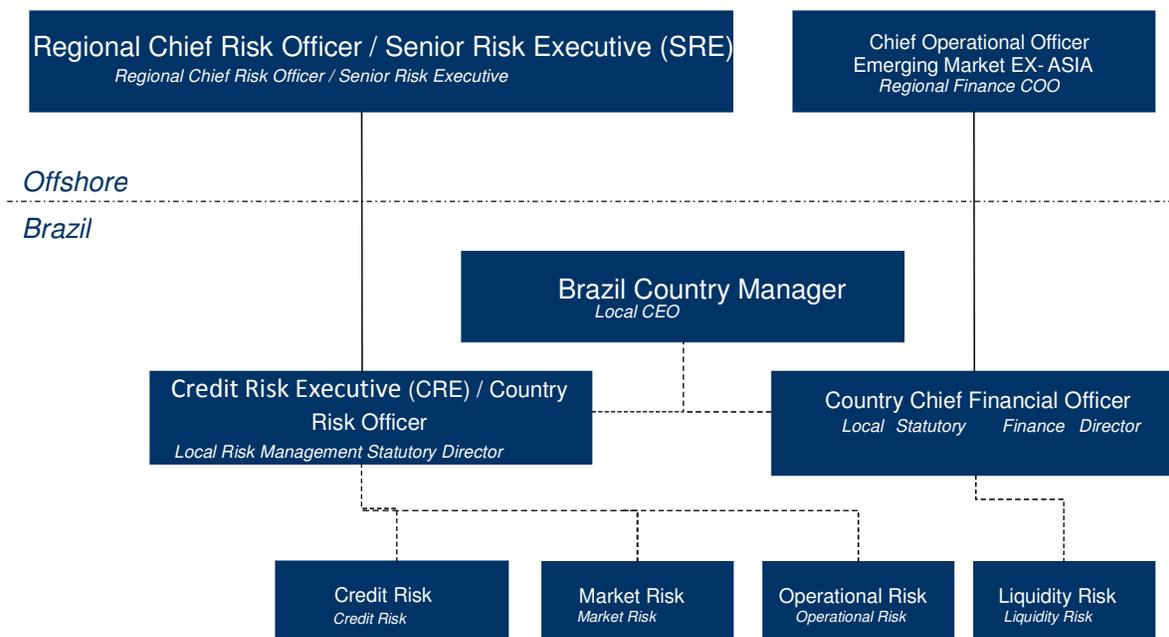
As a result of the fact that Bank of America Corporation or "BAC" (ultimate parent of PCBofAML) is a global financial institution, the initial responsibility for the Group's risk management process falls on the individual business units managing risks. Thus, PCBofAML manages these risks by adherence to established risk policies and procedures.

3.2. Organizational Structure

The groups primarily responsible for maintaining 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 Business in PCBofAML and report to the Senior Management. Furthermore, the Finance department

also shares relevant risk management responsibilities, especially with regard to the processing of regulatory reports, and, therefore, is also included in the chart 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 other things, meeting periodically to analyze, review, and formulate the strategies, risks, and financial results relevant to PCBofAML's activities.

3.3.2. Credit Risk Committee (“CRC”)

Responsible for approval of PCBofAML's credit risk strategy and approval of its credit policies. The responsibilities of this committee also include proposing, assessing, and setting the internal credit risk standards, suggesting and deciding on the operational procedures and related mitigating actions, monitoring the credit portfolio and credit activity, as well as maintaining the required framework for appropriate credit risk management.

3.3.3. Brazil Risk Committee (“BRC”)

Responsible for monitoring PCBofAML’s policies and processes aimed at ensuring solid management of Market, Operational, Credit, and Liquidity 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 PCBofAML 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 PCBofAML, 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 31, 2016 the Capital Plan & Contingency Plan consolidates all measures implemented by PCBofAML's for the purpose of managing regulatory capital. The Capital Plan provides projections of available regulatory capital based on strategic and budget objectives, future profit, dividends and corporate actions expected 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 factors prepared by the Finance and Risk Management departments and approved by PCBofAML's entities' senior management committees;
- Is based on pro-forma estimates for each type of risk-weighted assets (RWA) and capital ratios, consistent with PCBofAML applicable regulatory requirements;
- Covers key risks to the projections as well as planned capital actions to ensure adequacy of regulatory capital;
- Determines assumptions, at minimum, for a baseline scenario and an adverse-stress scenario, appropriate for the business model and PCBofAML's portfolios; and
- Evaluate and report the capability of PCBofAML to withstand adverse-stress scenarios from a regulatory capital standpoint.

4.1. Capital Regulation and Measurement

In accordance with Basel III capital requirements, the Central Bank of Brazil ("BACEN") has issued National Monetary Council ("CMN") Resolutions 3.380/06, 3.464/07, and 3.721/09 (all three were updated with Res. 4.388/14) which deal with operational, market, and credit risk management. It has also issued Circulars 3.634/13 to 3.648/13, which define the methodologies used for the weighting factors necessary for credit, market, and operational risks, as well as Resolution 4.192/13, which updated the Reference Capital calculation standard rules and provided guidelines for calculating the Reference Capital Requirement. CMN has also issued Resolution 3.988/11, which deals with the implementation of the capital management framework. New regulations such as Mitigation Rules (Circular 3.801/17) and Risk Management Integration (Circular 4.557/17) were also disclosed but will be valid only from January/2017 onwards.

PCBofAML maintains a strong capital base to cover the risks mentioned above. Assessments of the sufficiency of the reference capital are made to ensure that PCBofAML can maintain a solid capital base in order to support planned Business activities and discussed monthly in the ALMRC Committee. The ALMRC determine strategies to balance the relationship between available capital and minimum capital requirement, as well as the minimum capital ratios required by BACEN. As defined by Resolution 4.193/13, the minimum requirement for the Capital Ratio in 2016 is 10.5% (9.875% minimum, 0.625% Conservation Buffer, and from 0% to 0.625% for the Countercyclical

Buffer). When considering Countercyclical Buffer PCBofAML follows BACEN requirements of the Detailed ACPcountercyclical Approach where the final calculation = 0%.

For the calculation and disclosure of the data regarding the Leverage Ratio (“Razão de Alavancagem”), PCBofAML follows the requirements outlined in Circular 3.748/15.

PCBofAML calculates the regulatory capital required in relation to 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 profit reserve, including the earnings from the current period. The other component of regulatory capital is Tier 2 capital, which includes subordinated long-term debt that matured on 6 December 2016, no tier 2 capital existed at 31 December 2016.

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

Table 1: Reference Capital

In R\$ (thousands)	Dec/16	Sep/16
LEVEL I REFERENCE CAPITAL		
Net Equity	2,041,502	1,776,333
Profit Result Accounts	0	15,419,662
(-) Loss Result Accounts	0	(15,346,116)
(-) Deferred Fixed Assets	(905)	(977)
(-) Prudential Adjustments Res. 4192	0	0
(-) Shares Issued by Financial Institutions	0	0
Total	2,040,597	1,848,901
MAIN CAPITAL		
	2,040,597	1,848,901
T1 (TIER I LEVEL %)	18.14%	17.37%
ICP (MAIN CAPITAL LEVEL %)	18.14%	17.37%
CR (CAPITAL RATIO %)	18.14%	17.37%
LR (LEVERAGE RATIO %)	11.44%	8.94%
LEVEL II REFERENCE CAPITAL		
Subordinated Debt	0	0
Total	0	0
Total	2,040,597	1,848,901

* For data-basis as of December/2016 result accounts were zeroed and incorporated to the Net Worth, following current local accounting regulation

4.3. Capital Requirement

The capital requirements for credit, market, and operational risks and the Capital Ratio, per BACEN guidelines are provided below:

Table 2: Capital Requirements as per BACEN guidelines:

In R\$ (thousands)	Dec/16	Sep/16
VALUE OF (*) RWACpad, SHARE BY WEIGHTING FACTOR		
Factor 2%	11,564	17,371
Factor 20%	16,490	127,726
Factor 50%	425,553	228,571
Factor 75%	0	0
Factor 100%	4,113,500	4,340,639
Factor 250%	361,863	281,754
Factor 300%	0	0
CVA	1,118,365	1,197,490
Total	6,047,334	6,193,551
(*) RWA_{JUR1}		
(*) RWA _{JUR2}	570,251	606,797
(*) RWA _{JUR3}	1,843,703	1,171,409
(*) RWA _{JUR3}	1,019,782	860,677
(*) RWA _{ACS}	0	611
(*) RWA _{CAM}	163,974	205,786
(*) RWA _{COM}	0	0
Total	3,597,710	2,845,281
*RWAopad		
Total	1,606,920	1,606,920
RWA TOTAL	11,251,965	10,645,752
BASEL INDEX		
RWA TOTAL	11,251,965	10,645,752
Situation (PR)	2,040,597	1,848,901
Margin	859,141	731,097
Capital Ratio	18.14%	17.37%
Rban	5,303	485
Amplified Capital Ratio (with RBAN)	18.13%	17.37%
Fixed Assets Limits	2.34%	2.72%
Leverage Ratio	11.44%	8.94%

¹ 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, the formulas used to calculate some of the main components above are as follows:

* RWA - Risk Weighted Assets:

$$RWA = RWA_{CPAD} + \text{Max}(RWA_{MPAD} * 80\%; RWA_{MINT}) + RWA_{OPAD}$$

The diagram shows three boxes labeled 'Credit Risk', 'Market Risk', and 'Operational Risk' positioned below the equation. Lines connect the terms in the equation to these boxes: RWA_{CPAD} to Credit Risk, RWA_{MPAD} to Market Risk, and RWA_{OPAD} to Operational Risk.

* Tier 1 Capital:

$$IN1 = \frac{\text{Tier 1}}{RWA}$$

* Capital Ratio (or Capital Adequacy Ratio):

$$CR = \frac{\text{Reference Capital}}{RWA}$$

* Main Capital Level (ICP - Índice de Capital Principal)

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

* Leverage Ratio (Razão de Alavancagem - "RA"):

$$RA = \frac{\text{Tier 1}}{\text{Total Exposure}}$$

4.4. Capital Projections

The Capital and Contingency Plan is prepared annually and is a key process for the establishment of adequate capital and level of governance for PCBofAML. The Capital Plan includes:

- Detailed explanation of the legal entity and also governance structures;
- Description of the business strategy and the estimated results, balance sheet and the assumptions used to prepare the estimates;
- Detailed estimates of the capital requirements and resources for the planning period;
- Details of the impact of the stress scenario on the capital position and the discussion/analysis by management, considering the results;
- 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.

On November 30th 2016, as consequence of the shareholding reorganization, the bank fully sold its holding (99.9954%) of Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários (Broker Dealer or “CTVM”) to BofAML EMEA Holdings 2 Limited (BofAML EMEA Holdings II), a BAC subsidiary located in Jersey. This sale explains the material reduction in shareholding in the below table. For Regulatory Reporting, the structure remains the same, the Prudential Conglomerate Bank of America Merrill Lynch.

(In R\$, thousands)	12/31/2016	09/30/2016
Significant Shareholdings	-	-
Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários (1)	-	187,595
Non Significant Shareholdings	-	-
Stocks and Fund Shares - ANBIMA	10	10
CETIP Educational	1	1
Total	11	187,606

(1) Information on the Shareholding as of December 31st, 2016:

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 Múltiplo S.A.

Shareholding as of December 31st 2016 and September 30th 2016 are showed below.

In R\$ (thousands) as of 09/30/2016

Capital	Net Worth	Net Profit	Participation %	Declared Dividends	Equity Pickup
100,000	187,604	(3,668)	99.9954%	187,595	(3,668)

In R\$ (thousands) as of 12/31/2016

Capital	Net Worth	Net Profit	Participation %	Declared Dividends	Equity Pickup
100,000	191,689	5,063	0.00%	-	-

5. Credit Risk Management

Credit risk is defined as the possibility of losses associated with the non-fulfillment by the borrower or counterparty of their respective financial obligations pursuant to the agreed terms, with the devaluation of the credit agreement resulting from deterioration in the borrower's risk rating classification, causing reduction of earnings or wages with also possible advantages granted in the renegotiation and recovery costs, as established by the Local Regulator.

The 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 non-fulfillment of financial obligations under the terms agreed to by the intermediary or appropriate counterparty.

Any financial transaction made by PCBofAML with a counterparty may result in a risk exposure, causing potential losses, either directly or indirectly. 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 PCBofAML's operations. Thus, establishment of procedures for appropriate credit risk management and maintenance of exposure levels compatible with the risk appetite defined by PCBofAML is a key requirement.

5.1. Policies and Strategies for Credit Risk Management

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

The PCBofAML Credit Risk Policy ensures that PCBofAML has a risk management governance framework, controls, systems, and practices that are sufficiently robust and capable of managing its credit risk, in a way that is compatible with the risk of its counterparties, the nature of its operations, the complexity of the products and services provided, as well as proportional to its risk appetite. Via this framework, the Credit Risk Department, the Credit Analysis Department and the Board of Directors ("BoD") of PCBofAML assess, control, and monitor the credit risk.

The Credit Risk Policy is approved by the BoD and delegates to the CRC with the function of reviewing policies, process, systems, controls, and local limits in order to provide a suitable framework for satisfactory credit risk management. Decisions with relevant impact on credit risk management must be discussed by the Credit Risk Committee.

PCBofAML's Credit Risk Policy defines the rules for:

- Establishing and maintaining the supervision of activities which expose PCBofAML to credit risk and other related risks;
- Maintaining an appropriate framework in order to control the credit approval and granting process. The credit granting process is managed by units that are independent from the professionals who are responsible for commercial activities. The credit granting policy must be transparent, consistent for all products and types of businesses, and must provide the professionals granting the credit with clear limits within which they operate;
- Maintaining a credit authority policy for credit approval and credit extensions or renegotiations as necessary. Controls are put in place to ensure that excesses or violations are avoided;
- Identify and assigning a credit risk rating to all counterparties in a consistent and standardized manner, which will be used in all decisions relating to credit granting and management. These ratings are always kept up-to-date. There must be an efficient exposure analysis and rating system, as well as a formal process for credit granting and monitoring, which allow PCBofAML to: identify and mitigate potential losses, develop renegotiation strategies and contingency plans, and determine relevant forecasts;
- Managing when limits are exceeded or violated, since losses beyond acceptable levels and unforeseen damages may occur when limits are exceeded. Thus, current credit exposures are monitored in relation to existing limits, and all discrepancies are reported;
- Early detection of the following situations: deterioration of credit conditions of a counterparty/debtor, or potential incapability of a counterparty in honoring its commitments pursuant to the original conditions of the transaction. All of these situations must be accompanied by credit risk rating reviews;
- Establishing and supervising the implementation of changes in PCBofAML's credit policy. This supervision must 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 Business Units that 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 must be formalized in the Credit Approval Memorandum and submitted to the Credit Analysis Department and then to the Credit Risk Department for approval. For credit-granting approval, the PCBofAML authorization process is followed, defined by the volume of credit and by risk rating of the counterparty involved.

All credit requests must be formalized in the Credit Approval Memorandum (“CAM”) and submitted to the Credit Analysis department for analysis, recommendation and first approval and subsequent submitted to Credit Risk for final approval, based on the authorization levels pre-established by the CRC and aligned with BAC’s Global Credit Policies.

PCBofAML uses a framework for determining outstanding credit limits and exposures during the approval process. Furthermore, during the approval process, PCBofAML uses a system appropriate for storing financial statements, measuring the credit risk rating, and assessing 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, and also considers the management, corporate structure, current and projected economic/financial situation, degree of leverage and debt, cash flow, and contingencies, among other factors. These factors are important in determining the appropriate risk rating for the counterparty.

Specifically, in the case of Financial Institutions, the financial analysis considers: capital, quality of the assets, assessment of management and financial results, liquidity, sensitivity analysis, and the opinion of the Rating Agencies. It also analyzes the overview of the transaction (strengths/weaknesses), the overview of the client, the client’s main risks and mitigating circumstances, as well as the client’s 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 external and internal information, identifying potential losses and deciding on suitable measures for the mitigation thereof. When deteriorations are properly noted, relevant measures are discussed by the CRC.

5.5. Credit Portfolio Management

PCBofAML's Credit Risk and Credit Analysis departments adopt a series of controls for efficient and robust credit risk management. The limits refer 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 framework at PCBofAML.

PCBofAML seeks to diversify the portfolio in order to reduce the volatility of losses related to credit risk and to maximize the return on capital. The credit limits framework, including the procedures and benchmark assessments related to the exposure, 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 PCBofAML in relation to the counterparty;
- Current situation of 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 PCBofAML.

The monitoring covers a series of financial metrics of the counterparty that relate to cash generation, billing, Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), and leverage, as well as 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 PCBofAML. Thus, PCBofAML implements a risk rating methodology which follows some of the basic principles of every risk rating methodology across the Financial Institutions.

5.8. General Attributes of the Credit Risk Ratings

The payment capacity is assessed based on the counterparties' economic-financial performance, which shall be identified in the analysis prior to the granting of credit, with focus on the generation of cash flow and debt service coverage. The limits for each counterparty are established and approved in collaboration with the Credit Analysis and Credit Risk Departments and follow the policies and procedures established by PCBofAML.

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

5.8.1. Scorecard

The risk rating methodology used by PCBofAML is an objective and consistent system that uses a risk rating model called the *Risk Rating Scorecard*. The model is based on financial and non-financial factors of the counterparty, which 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.

PCBofAML 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 is 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 PCBofAML Ratings Classification and External Rating Agencies' Risk Rating

S&P Corporate Issuer Ratings	ORR [Obligor Risk Rating]	Fitch Corporate Issuer Ratings	ORR	Moody's Corporate Issuer Rating	ORR
AAA	1	AAA	1	Aaa	1
AA+	1	AA+	1	Aa1	1
AA	1	AA	1	Aa2	1
AA-	1	AA-	1	Aa3	1
A+	2	A+	2	A1	2
A	2	A	2	A2	2
A-	3	A-	3	A3	3
BBB+	3	BBB+	3	Baa1	3
BBB	4+	BBB	4+	Baa2	4+
BBB-	4-	BBB-	4-	Baa3	4-
BB+	5	BB+	5	Ba1	5
BB	5-	BB	5-	Ba2	5-
BB-	6	BB-	6	Ba3	6
B+	7+	B+	7+	B1	7+
B	7-	B	7-	B2	7-
B-	8	B-	8	B3	8
CCC+	9+	CCC+	9+	Caa1	9+
CCC	9+	CCC	9+	Caa2	9+
CCC-	9+	CCC-	9+	Caa3	9+
CC	9	CC	9	Ca	9
C	9	C	9	C	9
D	9-	D	9-		

5.9. Control and Mitigation Policies

Taking into consideration PCBofAML's strategy that focuses on wholesale banking, the credit risk mitigation techniques are assessed on a case by case basis and include:

- The right to require a guarantee or margin up front;
- The right to terminate operations or to request more guarantees due to the probability of unfavorable events;
- The right to request 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 (“client selection,” seen as the most important element in credit granting), most of the PCBoFAML portfolio tend not to have structural mitigators or guarantees.

As a general rule, PCBoFAML uses the legal procedure of compensation and settlement of the obligations within the scope of the National Financial System (“SFN”). Nevertheless, an accurate 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, PCBoFAML may require guarantees related to several types of assets in order to reduce 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 PCBoFAML is duly documented, and that the 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 PCBoFAML’s use of and degree of dependency on the guarantee. The guarantee assessment is part of all repayment analyses. Moreover, the guarantee and control assessment constitutes an important control mechanism feature e.g. in using a loan basis.

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

The table below provides the exposures amounts subject to mitigation reported by Risk weight factor:

Table 5: Exposure Amounts Subject to Mitigation

In R\$ (thousands)	Risk Weight Factor	Dec/16	Sep/16
	Settlement Agreement	26,421	36,499
	Settlement Agreement / CGD (Global Derivatives Contract)	2,041,964	1,996,337
	0% - Government Bonds	5,195,167	3,529,994
	50% - Financial Institutions Guarantees	-	-
	Total	7,263,552	5,562,830

The above table 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 that was mitigated by these instruments per Risk Weight Factor (“FPR”):

Table 6: Exposure Amounts Subject to Mitigation by Risk Factor

In R\$ (thousands)	Dec/16	Sep/16
Risk Weight Factor		
0%	-	-
2%	-	-
20%	3,833,078	2,864,808
50%	46,950	364,209
100%	3,383,524	2,333,813
Total	7,263,552	5,562,830

5.10. Exposure Limits

The credit approval and granting process requires a credit risk analysis and credit risk rating for the counterparty. For each counterparty, a credit risk rating is assigned as per the risk rating methodology adopted by PCBoAML, following 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 corporate policy. Local accounting practices, rules and laws are taken into account to determine the local risk appetite.

5.11. Provisioning Rules

The determination of provision for bad debt meets the regulatory requirements of BACEN, defined in Resolutions NMC 2.682/99 and 2.697/00 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 economic and financial aspects that aid in the assessment of payment capability.

PCBoAML classifies its credit risk exposures in accordance with the risk ratings defined by BACEN in Resolution 2.682/99. The classification is made based on consistent and verifiable criteria, backed by both external and internal information.

Table 7: Minimum Provision % Based on Ratings

BACEN	PCBofAML	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, and H	9, 9-, and 10	E - 30% F - 50% G - 70% H - 100%

The provision for the non-performing loans is made on a monthly basis. Adjustments in the portfolio's provision level are determined by reclassifying delayed operations and triggered through deterioration of risk levels of 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 business departments 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. These trades here are all against Retail clients, located on the southeast region.

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

In R\$ (thousands)	Dec/16	Sep/16
Non Performing Trades by range of days		
Between 15 and 60 days	0.24	4.17
Between 61 and 90 days	-	-
Between 91 and 180 days	-	-
Between 181 and 360 days	-	-
Above 361 days	-	-
Total	0.24	4.17

There were no write-offs of trades during the fourth quarter of 2016.

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/16	Sep/16
	0%	5,339,159	6,571,582
	2%	578,207	868,563
	20%	3,915,528	3,503,441
	50%	898,056	821,351
	75%	-	-
	100%	7,180,494	6,397,655
	250%	144,745	112,702
	300%	-	-
	Do Not Apply *	316,531	276,796
Total		18,372,719	18,552,090

* 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”), all established following Circular 3.644 from BACEN.

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/16 - Dec/16	Jul/16 - Sep/16
	0%	5,389,862	6,267,355
	2%	497,088	512,892
	20%	4,722,610	3,261,072
	50%	770,681	625,315
	75%	-	-
	100%	7,022,858	6,079,661
	250%	134,137	71,843
	300%	-	-
	Do Not Apply *	320,351	288,918
Total		18,857,587	17,107,055

* 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 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, of the portfolio subject to credit risk (only trade's exposures with lending features):

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

Percentage of the 10 biggest clients	Dec/16	Sep/16
	56.12%	53.81%
Percentage of the 100 biggest clients	Dec/16	Sep/16
	98.79%	98.44%

5.13.3. Exposure by Economic Sector

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

Table 12: Credit Exposures by Economic Sector:

Economic Sector (in R\$ thousands)	Dec/16	%	Sep/16	%
Food and Beverages	213,256	1.16%	255,754	1.38%
Consumer Goods	168,616	0.92%	169,055	0.91%
Durable Goods	0	0.00%	16,310	0.09%
Oil and Gas	1,085	0.01%	0	0.00%
Agricultural Commodities	462,579	2.52%	556,727	3.00%
Clearing	195,654	1.06%	236,252	1.27%
Electricity	462,370	2.52%	550,192	2.97%
Government	4,973,016	27.07%	5,162,565	27.83%
Infrastructure	31,477	0.17%	24,629	0.13%
Financial Institution	5,134,934	27.95%	5,191,307	27.98%
Institutional Investor	3,400,600	18.51%	3,271,219	17.63%
Metals and Mining	125,374	0.68%	151,178	0.81%
Others (*)	1,076,005	5.86%	774,890	4.18%
Paper and Pulp	87,742	0.48%	101,516	0.55%
Pesticide / Other Agric. Chemicals	14,657	0.08%	17,698	0.10%
Chemicals	62,977	0.34%	46,870	0.25%
Technology	102,828	0.56%	98,633	0.53%
Telecom	623,778	3.40%	739,983	3.99%
Tourism	2,284	0.01%	1,915	0.01%
Retail	1,233,487	6.71%	1,185,397	6.39%
Total	18,372,719	100%	18,552,090	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 *	18,372,719	100%	18,552,090	100%
Agricultural Credit	91,357	0.50%	93,645	0.50%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	512,708	2.79%	486,954	2.62%
Capital de Giro, Desconto de Títulos, Conta Garantida	299,030	1.63%	290,212	1.56%
Other Corporate Products	17,469,624	95.08%	17,681,279	95.13%
Total	18,372,719	100%	18,552,090	100%

Note(*):

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

Table 13: Average Credit Exposures by Economic Sector:

Economic Sector (in R\$ thousands)	Oct/16 - Dec/16	%	Jul/16 - Sep/16	%
Food and Beverages	217,790	1.15%	237,137	1.39%
Consumer Goods	186,384	0.99%	192,382	1.12%
Durable Goods	1	0.00%	22,380	0.13%
Oil and Gas	858	0.00%	635	0.00%
Agricultural Commodities	554,078	2.94%	562,438	3.29%
Clearing	271,483	1.44%	252,645	1.48%
Electricity	590,293	3.13%	704,034	4.12%
Government	4,907,420	26.02%	4,305,937	25.17%
Infrastructure	35,256	0.19%	27,117	0.16%
Financial Institution	6,068,528	32.18%	5,078,380	29.69%
Institutional Investor	2,884,826	15.30%	2,588,187	15.13%
Metals and Mining	152,442	0.81%	257,201	1.50%
Others (*)	1,038,195	5.51%	877,346	5.13%
Paper and Pulp	97,036	0.51%	97,430	0.57%
Pesticide / Other Agric. Chemicals	17,029	0.09%	17,710	0.10%
Chemicals	73,032	0.39%	56,244	0.33%
Technology	102,489	0.54%	106,079	0.62%
Telecom	579,618	3.07%	619,763	3.62%
Tourism	2,095	0.01%	2,544	0.01%
Retail	1,078,733	5.72%	1,101,468	6.44%
Individual Accounts	0	0.00%	0	0.00%
Total	18,857,587	100%	17,107,055	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 *	18,857,587	100%	17,107,055	100%
Agricultural Credit	90,674	0.48%	154,715	0.90%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	504,368	2.67%	175,747	1.03%
Capital de Giro, Desconto de Títulos, Conta Garantida	290,775	1.54%	237,038	1.39%
Other Corporate Products	15,608,232	95.30%	16,539,555	96.68%
Total	18,857,587	100%	17,107,055	100%

Note(*):

- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans against the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Títulos, 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 (according to their maturity)

Economic Sector (in R\$ thousands)	Less than 6 Months	Greater than 6 Months Less than 1 Year	Greater than 1 Year Less than 5 Years	Greater than 5 Years	TOTAL
Food and Beverages	5,667	126,665	0	80,923	213,256
Consumer Goods	168,616	0	0	0	168,616
Durable Goods	0	0	0	0	0
Oil and Gas	1,085	0	0	0	1,085
Agricultural Commodities	0	166,558	293,630	2,391	462,579
Clearing	0	0	1,836	193,819	195,654
Electricity	14,674	12,192	301,068	134,436	462,370
Government	4,629,646	0	274,696	68,674	4,973,016
Infrastructure	27,833	0	0	3,644	31,477
Financial Institution	4,578,915	129,097	167,720	259,201	5,134,934
Institutional Investor	1,956,738	0	940,045	503,816	3,400,600
Metals and Mining	1,397	1,266	16,847	105,864	125,374
Others *	0	0	0	1,076,005	1,076,005
Paper and Pulp	0	8,120	0	79,622	87,742
Pesticide / Other Agric. Chemicals	14,657	0	0	0	14,657
Chemicals	10,319	47,372	0	5,287	62,977
Technology	93,805	6,998	0	2,026	102,828
Telecom	50,297	43,230	496,817	33,435	623,778
Tourism	2,284	0	0	0	2,284
Retail	309,883	527,512	208,877	187,215	1,233,487
Total	11,865,816	1,069,010	2,701,536	2,736,357	18,372,719
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 *	11,865,816	1,069,010	2,701,536	2,736,357	18,372,719
Agricultural Credit	0	91,356.87	0	0	91,357
BNDES / Finame Transfers	0	0	0	0	0
Import and Export Trades	512,708	0	0	0	512,708
Capital de Giro, Desconto de Títulos, Conta Garantida	257,525	41,505	0	0	299,030
Other Corporate Products	11,095,583	936,148	2,701,536	2,736,357	17,469,624
Total	11,865,816	1,069,010	2,701,536	2,736,357	18,372,719
Note(*):					
- Agricultural Credit --> Credit specifically directed to agricultural business ;					
- BNDES / Finame Transfers --> Specific loans against the multilateral government banks / entities ;					
- Import and Export Trades --> FX Import and Export trades ;					
- Capital de Giro, Desconto de Títulos, 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 arranged by geographic region:

Table 15: Credit Exposures and Averages by Geographic Region:

Geographic Region (in R\$ thousands)	Dec/16	%	Sep/16	%
Center-West	5,434,021	29.58%	5,756,931	31.03%
International (Offshore)	42,781	0.23%	456,245	2.46%
Northeast	532,210	2.90%	607,136	3.27%
North	0	0.00%	0	0.00%
Southeast	12,355,750	67.25%	11,723,252	63.19%
South	7,957	0.04%	8,526	0.05%
Total	18,372,719	100%	18,552,090	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	18,372,719	100%	18,552,089	100%
Agricultural Credit				
Southeast	91,357	0.50%	93,645	0.50%
Repasses BNDES / Finame				
Center-West	-	0.00%	-	0.00%
Import and Export Trades				
Center-West	512,708	2.79%	486,954	2.62%
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	294,380	1.60%	285,562	1.54%
South	4,650	0.03%	4,650	0.03%
Others				
Center-West	4,916,870	26.76%	5,269,977	28.41%
International (Offshore)	42,781	0.23%	456,245	2.46%
Northeast	532,210	2.90%	607,136	3.27%
North	0	0.00%	0	0.00%
Southeast	11,974,457	65.18%	11,344,044	61.15%
South	3,307	0.02%	3,876	0.02%
Total	18,372,719	100%	18,552,090	100%
Geographic Region Average (in R\$ thousands)	Oct/16 - Dec/16	%	Jul/16 - Sep/16	%
Center-West	5,174,488	27.44%	4,617,788	26.99%
International (Offshore)	299,232	1.59%	183,482	1.07%
Northeast	619,804	3.29%	617,773	3.61%
North	1	0.00%	-	0.00%
Southeast	12,757,857	67.65%	11,679,696	68.27%
South	6,205	0.03%	8,316	0.05%
Total	18,857,587	100%	17,107,055	100%

Note(*):

- Agricultural Credit --> Credit specifically directed to agricultural business ;
- BNDES / Finame Transfers --> Specific loans against the multilateral government banks / entities ;
- Import and Export Trades --> FX Import and Export trades ;
- Capital de Giro, Desconto de Títulos, 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

There were no written off operations in this quarter referenced.

The table below presents the current movement for non-performing loans on a quarterly basis:

Table 16: Movement in Provisions for Non-Performing Loans

In R\$ thousands	Oct/16 - Dec/16	Jul/16 - Sep/16
Provision Balance	(2,391)	(2,488)
Provision During Quarter	(103)	(111)
Reversion During the Quarter	200	249
Write-Off	-	-

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

Table 17 below provides the amounts related to the contracts where clearing houses have not been used as a central counterparty.

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

In R\$ thousands	Dec/16	Sep/16
Amount of contracts subject to:		
COUNTERPARTY CREDIT RISK		
Swap	57,395,438	60,598,302
Option	4,795,708	6,052,839
NDF	46,095,554	32,800,842
Government Bond Term	848,734	841,050
DERIVATIVES	109,135,435	100,293,034
TRANSACTIONS TO BE SETTLED	-	-
REPO TRANSACTIONS	5,065,360	3,509,415
TOTAL	114,200,795	103,802,449

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/16	Sep/16
Futures	24,712,451	27,155,602
Swaps	1,819,100	962,050
FX Forward		0
Options	0	0
Total	26,531,551	28,117,652

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	Dec/16	Sep/16
Risk Weight Factor		
0%	340,714	361,154
2%	88,128	95,922
20%	3,837,952	3,026,873
50%	627,340	510,709
100%	4,447,374	3,963,705
Total	9,341,507	7,958,363

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, and others. The main composition of market risk is basically price and interest rate risk. The first one is related to the risk to current or anticipated earnings or capital arising from changes in the value of either portfolios of trading positions. The second one refers to the risk to current or anticipated earnings or capital arising from movements in interest rates.

Given that market risk is a key component of the business operations of PCBofAML, a framework for the proper management of market risk becomes imperative. The basis of any risk management framework relies both on the corporate governance practices and on the effectiveness of its internal controls framework. The corporate governance and the internal controls framework affect the way the strategy and goals of the risk management are established, as well as the way risks are identified in the assessment, planning, and consequent performance of the business' activities. The specific components of the Market Risk management framework consist of clearly documented policies and strategies, which establish limits and procedures to maintain market risk exposure within the levels accepted by PCBofAML; in addition, it includes systems for measuring, monitoring, and controlling market risk exposures and an appropriate organizational framework for efficient and timely reporting of risk exposures, in accordance with the levels deemed appropriate by the Board. Providing information for assessing the performance of the lines of business is part of the effectiveness of the internal control systems and procedures.

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

The responsibility for the market risk management at PCBofAML belongs to the Local Risk Director (Country Risk Officer), which together with the ALMRC, defines and determines the market risk level which PCBofAML 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 PCBofAML establishes standards for the identification, measurement, monitoring and reporting of activities that expose PCBofAML to market risks. These standards have been adopted from the Market Risk Global Policies of BAC to the local market, and in accordance with the local regulations established by BACEN. This policy is reviewed annually and approved by the ALMRC.

The principles of PCBofAML's market risk management focus on ensuring that the causes of this type of risk do not expose the Financial Institution to undesirable losses that 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 activities and the local market risk department is in charge of ensuring that risks are properly identified and risk measurement, as well as developing controls and providing regular reports on incurred market risks;
- The local market risk department must ensure that risk levels incurred by PCBofAML are compatible with its risk appetite, via limit monitoring;
- The local market risk department assess the transactions in PCBofAML's portfolio and the hedges connected to them, since hedges are protection strategies which reduce or cancel risks, such as those associated with rates, prices, mismatched maturities, and quantities. Hedges are frequently made in order to protect against high-risk exposures, whether they are credit, market or liquidity-related, and to reduce the exposures which have become unsuitable due to changes in the market or in risk appetite, or to manage positions in order to comply with the risk limits. The instruments used as hedges by PCBofAML must be previously approved instruments;
- Significant concentrations in instruments, maturities, sectors and counterparties are monitored via the risk monitoring processes and actively controlled by the professionals in the Business Units. Expected returns must be in line with the risk exposure levels. Risk factors tied to high levels of exposure and expected return are justifiable provided that they remain consistent with the risk appetite of PCBofAML and 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 PCBofAML.

6.2. Operations Classification

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

- Trading portfolio (“*trading book*”);
- Portfolio of operations not classified under the trading portfolio (“*banking book*”).

PCBoFAML follows the global policy for classification of transactions in these portfolios, the “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 risks of the banking book are measured and monitored via the regulatory capital for operations 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”)

PCBoFAML applies the VaR methodology to measure the total potential losses of the portfolio. 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 department uses the VaR measure as a Market Risk level indicator. Any changes observed in the VaR measure must be correlated with corresponding changes in market risk perspective.

The VaR calculation methodology is in line with the procedures adopted globally by the corporation, which has increased the model’s transparency and the included 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 model's confidence level is 99% and the 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 created by the "fat tails" losses that are a characteristic of financial time series. Below is the VaR results per quarter.

Table 20: VaR Results

VaR*				
99%, 1 Day				
In R\$				
	Dec 16	Sep 16	Jun 16	Mar 16
VaR	-13,461,645	-16,814,654	-5,606,907	-8,389,237
Minimum**	-8,315,797	-3,949,406	-4,255,436	-6,787,835
Maximum**	-17,674,405	-17,763,904	-17,301,088	-22,538,557
Average**	-12,363,981	-7,945,100	-6,817,429	-10,289,492

*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 calculation methodologies. However, when considering the historical returns, it must 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.

6.5. Adherence Tests - Back Testing

The Local Market Risk department uses the back test 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 test technique is the comparison of the actual trading results with the estimated results obtained by the models considered.

The results of back testing are calculated in conformance with the global back testing program of BAC, and are provided 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 allows timely 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 in accordance with requirements of 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\$ Risk Factor	Position Dec/2016		Position Sep/2016	
	Purchased	Sold	Purchased	Sold
Shares - Issued in Brazil	-	-	-	-
Interest - Inflation Coupons	4,400,759	4,693,735	2,360,967	4,314,867
Interest - FX Coupons	53,438,956	53,510,611	57,577,859	56,631,779
Other Risk Factors **	32,515,394	18,864,754	31,480,656	21,204,961
Commodities	-	-	-	-
FX	53,438,957	53,510,300	57,577,854	56,631,777
Interest Rate	50,603,905	43,882,015	30,107,268	28,606,159
Total	194,397,971	174,461,415	179,104,604	167,389,543

* 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"

*** For the positions with maturity greater than 10 years, were considered just their pure MtM amounts, without considering the multipliers applied on RWAJURs components calculation

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 a Central Counterparty

In Thousands of R\$ Risk Factor	Position Dec/2016		Position Sep/2016	
	Purchased	Sold	Purchased	Sold
Shares - Issued in Brazil	-	-	-	-
Interest - Inflation Coupons	1,500,466	586,880	787,820	574,341
Interest - FX Coupons	15,751,197	439,332	16,223,318	437,578
Other Risk Factors *	602,047	1,710,043	583,137	1,026,125
FX	15,751,197	439,332	16,223,316	437,578
Interest Rate	5,627,003	3,676,914	4,008,894	7,720,863
Total	39,231,910	6,852,501	37,826,485	10,196,485

* Positions indexed to CDI are showed exclusively on the category "Other Risk Factors"

** For the positions with maturity greater than 10 years, were considered just their pure MtM amounts, without considering the multipliers applied on RWAJURs components calculation

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\$ Risk Factor	Position Dec/2016		Position Sep/2016	
	Purchased	Sold	Purchased	Sold
Shares - Issued in Brazil	-	-	-	-
Interest - Inflation Coupons	1,445,082	4,106,857	1,573,147	3,740,526
Interest - FX Coupons	37,450,466	52,128,468	41,354,541	56,194,201
Other Risk Factors *	31,913,006	17,154,706	30,897,519	20,178,836
Commodities	-	-	-	-
FX	37,450,467	52,128,470	41,354,538	56,194,199
Interest Rate	40,727,461	37,810,312	26,098,374	20,885,296
Total	148,986,482	163,328,813	141,278,119	157,193,058

* Positions indexed to CDI are showed exclusively on the category "Other Risk Factors"

** For the positions with maturity greater than 10 years, were considered just their pure MtM amounts, without considering the multipliers applied on RWAJURs components calculation

6.9. Operations not classified under the Trading Portfolio – sensitivity to fluctuations 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 as of December, 31st, 2016 was R\$ 7,282.00. This sensitivity measurement, known as DV01, shows that the interest rate risk of the non-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 the risk that an institution will be financially incapable of honoring short, medium or long term commitments and will be affected as a result of insufficient and/or inadequate resources to fulfill obligations for liabilities. Continuous and efficient management of the Liquidity Risk allows PCBofAML to be able to meet its cash flow obligations, which represent an uncertainty factor, since they are affected by external events that are often unexpected or that cannot be reasonably estimated.

For adequate liquidity risk management, PCBofAML ensure the establishment of a robust framework, including: control and monitoring of the 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 PCBofAML is able to meet contractual and potential financial obligations during any market cycles and liquidity stress periods.

There are four strategic components to reaching this goal:

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

The responsibility for supervising daily liquidity requirements, control and monitoring activities falls on the Liquidity Risk Director who must 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 can be classified into categories, such as:

General

- Communicate and implement procedures for liquidity risk management;
- Supervise compliance with daily Liquidity Risk control and monitoring activities;
- Keep information systems and processes to measure, monitor, control, and report 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 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 PCBofAML (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 coordination and alignment with the risk management practices of PCBofAML, including Market, Credit, and Operational Risk; and
- Support the coordination and alignment with the Liquidity Risk management practices of BAC.

Tactical

- Identify relevant scenarios for normal and stress market conditions;
- Identify the relevant liquidity factors and their behaviors in each scenario;
- Identify the funding sources in each scenario;
- Conduct analyses to support 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 departments to review and adjust, whenever necessary, the adequacy and sufficiency of the practices adopted by PCBofAML.

7.2. Identification, Measurement, and Monitoring

The Liquidity Risk department, duly supported by the Business Units, is responsible for identifying the main Liquidity Risk factors to be measured and monitored. It is also responsible for proposing

the liquidity limits to be approved by the ALMRC according to the tolerance level defined by PCBofAML 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 from the perspective of sources or uses of liquidity, the daily Liquidity Risk control analyzes the behavior that such factors have in the stress scenarios defined for PCBofAML.

The Liquidity Risk department is responsible for ensuring that all liquidity factors approved by ALMRC are identified and included in the system used to measure, control, and report PCBofAML's Liquidity Risk.

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 PCBofAML.

The cash flow forecast is one of the key procedures adopted by PCBofAML for the Liquidity gap analysis, since it provides PCBofAML with a future view of the ongoing flow between the generating sources and the borrowers. The projected cash flow gap analysis allows one to assess PCBofAML's capacity for generating resources to meet cash needs resulting from its activities and from market volatilities.

PCBofAML projects its cash flow on a daily basis for a minimum horizon of 3 (three) months and analyzes the observed mismatches. This analysis is conducted 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, the Liquidity Risk department is responsible for:

- Daily monitoring the compliance with or violation of the preset liquidity limit for PCBofAML;
- Timely reporting of the violations in the liquidity limits to the Liquidity Risk Director of PCBofAML 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 the ALMRC, under the delegated authority of the PCBofAML Board, with regard to Liquidity Risk is ensuring that PCBofAML has the policies, processes, systems, controls, and limits to manage Liquidity Risk. Decisions that could impact the management of Liquidity Risk are discussed by the ALMRC and approved jointly.

ALMRC must be the forum and communication channel between the departments responsible for the management and monitoring of the different types of risk that impact, either directly or indirectly, liquidity, market, credit, and operational Risk. Via this channel, it is possible to maintain transparency regarding risk management and monitoring and to obtain a consolidated view of the risks incurred by PCBofAML and their impacts on Liquidity Risk.

8. *Operational Risk Management*

8.1. Operational Risk Management System

The structure of Operational Risk Management is defined through the internal policies and by the Regional Operational Risk department, which reports locally to both the Risk Executive Board and the International Operational Risk Team (GBAM International Operational Risk).

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

8.2. Operational Risk Definition

The PCBofAML defines the operational risk as the risk of losses due to flaws or inadequate personal, internal processes, 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

In accordance with the policy adopted by PCBofAML, the Operational Risk Management procedures are divided into the following categories:

- a. Operational Risk Policy
 - Establishes the minimum requirements and the responsibilities for operational risk management within the PCBofAML, in accordance with legislation, local regulations, and current global policies.
 - Ensures that the procedures for reporting operational losses reports are adequate and kept updated, in order to:
 - Timely identify, register and clarifying the pertinent issues;
 - Analyze incidents as to their basic cause and effects;
 - Identify and monitor, when appropriate, corrective actions taken to reduce the probability of recurrence; and
 - Identify, monitor, control, and improve mechanisms for eliminating or mitigating operational risks.

b. Operational Risk Governance Standards

- It provides guidelines to the Operational Risk Teams, 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 with the Operational Risk Management practices and policies for all Departments within the company.
- Directs the Operational Risk Team in developing an appropriate level of local procedures in accordance with these requirements and with the regulatory requirements.

8.4. Operational Risk Scope

The local team responsible has the responsibility of monitoring the operational risk throughout the entire PCBofAML operation. It also has the responsibility to develop and guide the fundamental strategy, structure and key elements to the operational risk management through the company

8.5. Types of Operational Risks

The operational risk categories cover:

- **Personnel Risk:** The risk that business' needs are not met due to: management error, internal fraud, weakness in the organizational structure, inadequate human resources or other flaws in the management of human resources.
- **Processing Risk:** The risk resulting from products and services or changes that are not documented, processed and/or executed in an accurate and efficient manner. Processing risk also includes the risks associated with information recording flaws and flaws in financial and/or management report data.
- **Systems Risk:** The risk resulting from deficiencies, complexities, or instabilities on the part of systems or technologies that support business activities.
- **External Events Risk:** 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 Operational Risk

PCBofAML calculates the regulatory capital component in a consolidated way, in relation to the operational risk, using the BIA approach, as defined by BACEN in Circular 3.640/13.

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

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*

PCBofAML discloses its information pursuant to the terms stipulated by BACEN, in accordance with the requirements of Circular 3.678/2013. Furthermore, all quantitative and qualitative information is revised and updated on a quarterly basis by the appropriate authorities.