

Bank of America Merrill Lynch Banco Múltiplo S.A.

Pillar 3 Disclosures

December 2017

Ombudsman

Telephone: 0800-8862000

email: ouvidoria_bamlbrasil@baml.com

Address:

**Avenida Brigadeiro Faria Lima, 3400 - 18º Andar
- CEP 04538-132 - São Paulo, SP**



Contents

1.	Introduction	5
2.	Scope of the Document	6
3.	Risk Management Framework.....	7
3.1.	Goals and Policies	7
3.2.	Organizational Structure.....	7
3.3.	Risk Management Committees.....	8
4.	Capital.....	10
4.1.	Capital Regulation and Measurement	10
4.2.	Capital Structure	12
4.3.	Capital Requirement	13
4.4.	Capital Projections	14
4.5.	Shareholdings	15
5.	Credit Risk Management	16
5.1.	Policies and Strategies for Credit Risk Management	16
5.2.	Credit Origination Process	17
5.3.	Credit Approval and Analysis Process	17
5.4.	Credit Risk Exposure Management.....	18
5.5.	Credit Portfolio Management.....	18
5.6.	Credit Portfolio Monitoring	19
5.7.	Counterparty Risk Analysis	19
5.8.	General Attributes of the Credit Risk Ratings	19
5.9.	Control and Mitigation.....	20
5.10.	Exposure Limits	22
5.11.	Provisioning Rules.....	22
5.12.	Non Performing Trades.....	23
5.13.	Quantitative Data of the Portfolio Subject to Credit Risk.....	23
6.	Market Risk Management	32
6.1.	Policies and Strategies of Market Risk	33
6.2.	Operations Classification	34
6.3.	Sensitivity Analysis	34
6.4.	Value at Risk (“VaR”).....	34
6.5.	Adherence Tests - Back Testing	35

6.6.	Stress Tests	36
6.7.	Trading Portfolio	36
6.8.	Derivative Financial Instruments	36
6.9.	Operations not classified under the Trading Portfolio – sensitivity to fluctuations of interest rates	37
7.	Liquidity Risk Management	38
7.1.	Policies and Strategies of Liquidity Risk	38
7.2.	Identification, Measurement, and Monitoring	39
7.3.	Liquidity Gap Analysis	40
7.4.	Mitigation and Control.....	40
7.5.	Communication.....	41
8.	Operational Risk Management	42
8.1.	Operational Risk Definition	42
8.2.	Operational Risk Management System.....	42
8.3.	Operational Risk Procedures.....	42
8.4.	Operational Risk Scope	43
8.5.	Types of Operational Risks.....	43
8.6.	Component of the PR, related to Operational Risk	44
9.	Updating Periodicity	45



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 and, (iv) 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 PCBofAML, 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:** The risk that changes in market conditions may adversely impact the value of assets or liabilities or otherwise negatively impact earnings.
- **Credit risk:** The risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.
- **Liquidity risk:** The inability to meet expected or unexpected cash flow and collateral needs while continuing to support our businesses and customers under a range of economic conditions.
- **Operational risk:** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, which is the risk of loss (including litigation costs, settlements, and regulatory fines). Resulting from the failure of the Company to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the Company's business.

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

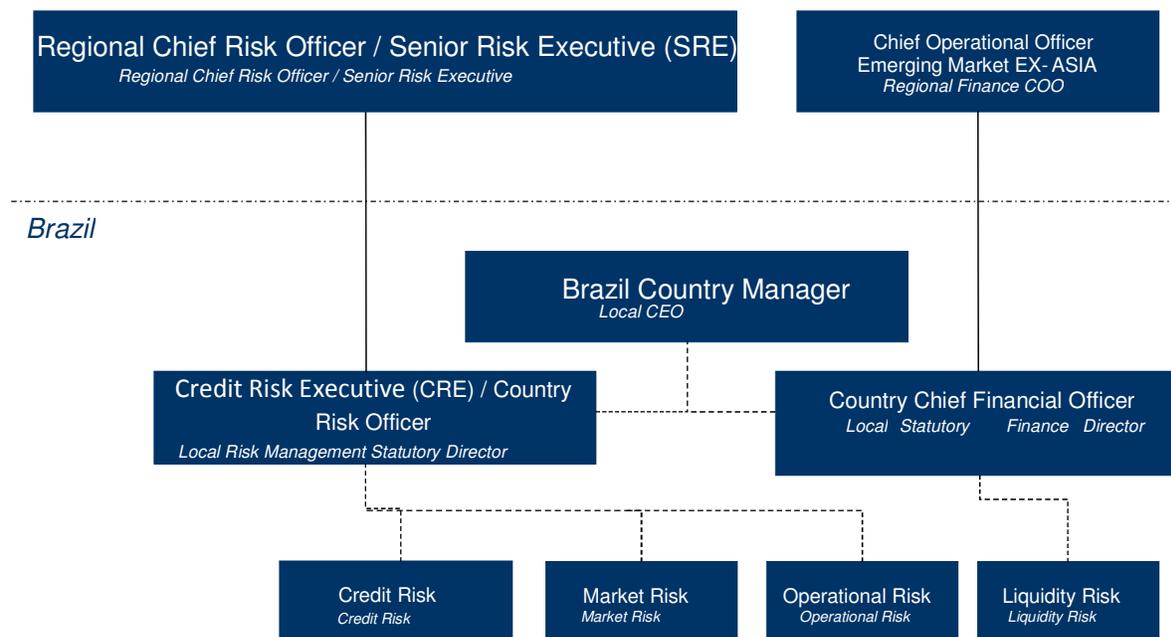
Given the diversity of the lines of business, markets, and regions in which PCBofAML operates, the establishment of an efficient risk-management framework is of critical importance. Basically, PCBofAML manages risk by adherence to established risk policies and procedures, aligned with the goals of risk management, the risk appetite of PCBofAML and the prudential principles, rules, laws and local regulatory practices. On the following sections 5, 6, 7 and 8, we disclose each one of the risks mentioned above with more details.

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 Board of Directors ("BoD") of PCBofAML. 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 approve 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 strong 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”)

The primary governance committee in Brazil. 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

The 2017 Capital Plan & Contingency Plan (with reference date as of June 30th 2017) 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 Board of Directors;
- 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 the National Monetary Council ("CMN") resolutions as described on below table.

Regulatory Requirements	Details
3.380/06, 3.464/07, and 3.721/09 (updated with Res. 4.388/14)	Sets requirements for Operational, Market and Credit risk management.
3.634/13 to 3.648/13	Define the methodologies used for and the weighting factors necessary for credit, market, and operational risks.
4.192/13	Discloses about the Reference Capital calculation standard rules and provides guidelines for calculating the Reference Capital Requirement.
3.988/11	Implementation of the capital management framework.
4.557/17 (effective from Feb 2018)	Risk management integration disclosures and requirements.
4.193/13	Minimum level of the Capital Ratio in 2017 is 10.5% including: i) a minimum of 9.25%, ii) Conservation Buffer of 1.25% , and iii) 0% for the Countercyclical Buffer. ----- The Countercyclical Buffer may range from 0% to 1.25% and is reviewed every 45 days by BACEN. Once the regulator decides to modify it, the financial institutions have 12 months before this increase becomes effective.
3.748/15	Leverage Ratio calculation disclosures

PCBofAML carefully manages and maintains its capital base to cover the risks mentioned. Assessments of the adequacy of capital are made to ensure that PCBofAML maintain a strong capital basis to support planned Business activities. Monthly reviews by the ALMRC focus on strategies to balance the available capital and business activities with the minimum capital required and ratios of BACEN.

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 only, which includes the stockholders' equity, the profit reserve and the earnings from the current period.

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

Table 1: Reference Capital

In R\$ (thousands)	Dec/17	Sep/17
LEVEL I REFERENCE CAPITAL		
Net Equity	2,397,276	2,258,057
Profit Result Accounts	0	4,583,216
(-) Loss Result Accounts	0	(4,526,234)
(-) Deferred Fixed Assets	0	0
(-) Prudential Adjustments Res. 4192	0	0
(-) Shares Issued by Financial Institutions	0	0
Total	2,397,276	2,315,038
MAIN CAPITAL		
	2,397,276	2,315,038
T1 (TIER I LEVEL %)	16.73%	20.06%
ICP (MAIN CAPITAL LEVEL %)	16.73%	20.06%
CR (CAPITAL RATIO %)	16.73%	20.06%
LR (LEVERAGE RATIO %)	11.92%	11.00%
LEVEL II REFERENCE CAPITAL		
Subordinated Debt	0	0
Total	0	0
Total	2,397,276	2,315,038

* For December/17 the net equity amount also includes profits and retained earnings for the period, per local accounting requirements.

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/17	Sep/17
VALUE OF (*) RWACpad, SHARE BY WEIGHTING FACTOR		
Factor 2%	13,230	9,450
Factor 20%	56,629	52,971
Factor 50%	496,026	422,847
Factor 75%	0	0
Factor 100%	2,999,295	3,802,501
Factor 250%	372,850	328,089
Factor 300%	0	0
Factor 1,081.08%	349,577	0
CVA	748,890	949,387
Total	5,036,497	5,565,245
(*) RWA _{JUR1}	1,224,464	427,844
(*) RWA _{JUR2}	3,703,196	1,877,089
(*) RWA _{JUR3}	1,976,386	1,382,945
(*) RWA _{aes}	0	101,221
(*) RWA _{CAM}	484,407	349,618
(*) RWA _{COM}	62,907	0
Total	7,451,359	4,138,717
*RWAopad	1,838,832	1,838,832
Total	1,838,832	1,838,832
RWA TOTAL	14,326,687	11,542,794
CAPITAL RATIO		
RWA TOTAL	14,326,687	11,542,794
Situation (PR)	2,397,276	2,315,038
Margin	892,973	1,103,045
Capital Ratio	16.73%	20.06%
Rban	6,737	4,735
Amplified Capital Ratio (with RBAN)	16.72%	20.05%
Fixed Assets Limits	1.88%	1.87%
Leverage Ratio	11.92%	11.00%

* 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:

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

* 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 to establish capital adequacy and the 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

On November 30th 2016, as a consequence of an internal 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 - USA. No relevant events occurred during 2017.

5. Credit Risk Management

Credit Risk is defined as the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. Losses due to the reduction in income are based on re-negotiation and recovery costs as established by the 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 failure to perform financial obligations under the terms agreed by the intermediary party.

For all financial transaction made by PCBofAML with a counterparty, there's a risk exposure for the Institution together with the possibility of potential credit losses either directly or indirectly. Thus, the established procedures for appropriate credit risk management and maintenance of exposure levels in accordance with the risk appetite defined by PCBofAML is fundamental. The credit risk assessment of each counterparty and product, along with their portfolio credit quality monitoring and adequacy of the approved credit limits are essential for the continuity of PCBofAML's operations.

5.1. Policies and Strategies for Credit Risk Management

Considering the business profile of PCBofAML and the complexities of the financial market, the Credit Risk Policy formalizes the rules and principles aligned with the goals of credit risk management, the risk appetite of PCBofAML, the Global Credit policy of BAC and the prudential principles, rules, laws and local regulatory practices.

Based on this policy, both the Credit Risk and Credit Analysis departments of PCBofAML take actions in the assessment, control and monitoring of credit risk.

The Board of Directors assigns the Brazil Credit Risk Committee ("BCRC") 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 are discussed by the BCRC.

PCBofAML's Credit Risk Policy defines the rules for:

- Establishing and maintaining the supervision of activities which expose PCBofAML 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 risk policy is transparent, consistent for all products and types of businesses and provides the professionals granting the credit with clear limits within which they must operate;

- Maintain the credit risk policy for credit approval and credit extensions or renegotiations as necessary. The rules for granting credit authority are 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 (RR) 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 must be an efficient exposure analysis and rating system, besides a formal process for credit granting and monitoring, that allows PCBofAML 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 are accompanied by credit risk rating reviews;
- Implementation of changes in the credit policy of PCBofAML. are supervised by the BCRC; 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, confirming the 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 ("CAM") and submitted to the Credit Analysis department for review before approval by the Credit Risk department. For approval of credit, the PCBofAML authorization process must be followed, defined by the size of the exposure and the risk rating of the counterparty involved.

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, the main risks, any mitigating circumstances and the main sources supporting 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 the potential loss events and deciding suitable measures for the mitigation thereof. When deteriorations are observed, relevant measures are discussed by the BCRC.

5.5. Credit Portfolio Management

PCBofAML Credit Risk and Credit Analysis departments adopt several control measures 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 structure at PCBofAML.

PCBofAML 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 meet such goals.

Monitoring the credit limits granted according to the risk of the counterparty, Credit Risk and Credit Analysis department, 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 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 PCBofAML. 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

A client or counterparty credit risk is managed based on their risk profile, which includes the analysis of the payment capability (evaluated by the economic-financial performance of counterparties which will be identified in the previous analysis to credit given, with focus on their cash flow generation and debt coverage), the guarantee (if it exists) and eventual economic environment impacts. Analysis, monitoring and credit limits are proactive reevaluated in order to capture possible variances in the risk profile.

PCBofAML analyses credit risk through credit analysis, in the fundamentalist perspective with focus in the cash flow generation, taking as basis every time it's possible, and the financial statements of the last three years of the counterparty. The analysts which attribute or update the credit risk analysis will consider the vulnerability of the counterparty or the decision-making owner to the economic and sectorial conditions when a classification is given.

5.8. General Attributes of the Credit Risk Ratings

Maintaining an assertive, consistent and dynamic risk classification methodology of counterparties is very important to effectively manage credit risk. PCBofAML's rating scale is divided into 11 grades, from 11 (weakest) to 1 (strongest), based on the probability of the counterparty's failure to perform and in line with the risk rating scale defined 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
11	Loss

Scorecards are objective and a consistent system using the risk classification model based on financial and non-financial factors of the counterparty, developed for specific portfolios and lines of business use. The financial and non-financial factors vary between scorecards, including: income and profitability, cash flow generation and coverage indexes (cash flow generation versus debt amortization/financial expenses), cash flow variability, financial flexibility and capital structure. There are 4 types of Scorecards:

(i) Portfolio Scorecards: used for most counterparties. The Scorecard selection is determined by the NAICS (*North American Industry Classification Code*) code of the counterparty.

(ii) External Ratings Equivalence: used in case required items for the counterparty risk classification are not complied with through the Scorecard Portfolio. This methodology uses ratings from the main international agencies (S&P, Moody's and Fitch), as basis for the credit risk classification attribution.

(iii) Not Elsewhere Covered (NEC) Scorecard: used for counterparties which can't fit into the Portfolio Scorecard and on the External Ratings Equivalence.

(iv) Judgmental Scorecard (Subjective Analysis): used in specific cases in which the counterparty does not fit into the criteria of the other Scorecard methodologies (Portfolio, External Rating Equivalence and NEC Scorecards).

5.9. Control and Mitigation

Taking into consideration PCBoAML'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.

5.9.1. Methodology to Ensure Effectiveness of Guarantees

Guarantees are risk mitigation instruments that aim to decrease incurred losses from credit risk transactions. For these to be eligible as mitigation instruments for regulatory capital purpose, they must be formalized and controlled according to Circular 3.809/2017 from BACEN.

When granting credit, PCBofAML 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. To ensure the effectiveness of guarantees for risk reduction, it is essential that the guarantee made in favor of PCBofAML is duly documented and that such guarantee is duly assessed and monitored at origination and a regular basis.

The methodology used for the assessment and measurement of guarantees depend on the use and degree of dependency of PCBofAML on the guarantee. The guarantee assessment is part of any repayment analysis.

The monitoring of securities, specific loans and thresholds are required due to the inherent price volatility of securities with immediate liquidity. The requirement include marking to market of collateral and verification of compliance with coverage ratios through integrated systems.

The table below provides the exposures amounts subject to mitigation reported by mitigation instrument:

Table 4: Exposure Amounts Subject to Mitigation

In R\$ (thousands)	Dec/17	Sep/17
Risk Weight Factor		
0% - Global Net Agreement	159,615	756,704
0% - Global Net Agreement / DNA*	649,080	1,635,307
0% - Government Bonds	10,210,816	7,718,636
50% - Financial Institutions Guarantees	-	-
Total	11,019,512	10,110,647

* DNA --> Derivatives Netting Agreements

The exposure table above include a Settlement Agreement category given by Resolution 3.263/2005, included in the RWA calculation per Circular 3.809/2017.

The table below presents the exposures subject to mitigation per Risk Weight Factor (“FPR”):

Table 5: Exposure Amounts Subject to Mitigation by Risk Factor

In R\$ (thousands)	Dec/17	Sep/17
Risk Weight Factor		
0%	-	-
2%	7,838	7,563
20%	8,382,575	7,025,610
50%	317,398	987,442
100%	2,311,701	2,090,032
Total	11,019,512	10,110,647

5.10. Exposure Limits

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 BAC Credit Risk 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 credit risk, 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.

PCBofAML 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 6: 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-, 10 and 11	E - 30% F - 50% G - 70% H - 100%

The provision for the non-performing loans is made on a monthly basis. If necessary, adjustments in the portfolio's provision level are determined by reclassifying the accounts in arrears and triggered through deterioration of risk levels (ratings into lower ratio which demands higher provisions) of all other operations for the same client in the portfolio. The amount provisioned will increase if there is an imminent risk of default.

5.12. Non Performing Trades

The table below provides the amounts in arrears by days outstanding. These trades are all from corporate clients, located on the southeast region. There were no write-offs during the fourth quarter of 2017.

Table 7: Non performing trades by days outstanding

In R\$ (thousands)	Dec/17	Sep/17
Non Performing Trades by range of days		
Between 15 and 60 days	841.39	957.40
Between 61 and 90 days	-	-
Between 91 and 180 days	-	-
Between 181 and 360 days	-	-
Above 361 days	-	-
Total	841.39	957.40

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 exposures in tables 8 and 9 are after the consideration of the conversion factors, when applicable. Some of the conversion 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” – “FEFP”) ; 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 total exposures by credit risk weight factor:

Table 8: Total Credit Risk-Weighted Exposures by Quarter

In R\$ (thousands)	Risk Weight Factor	Dec/17	Sep/17
	0%	4,720,578	5,589,966
	2%	669,318	480,060
	20%	8,665,721	7,290,465
	50%	1,307,778	1,832,795
	75%	-	-
	100%	4,727,635	5,482,267
	250%	149,140	131,236
	300%	-	-
	1081.08%	32,336	-
	Do Not Apply *	583,361	410,266
Total		20,855,867	21,217,056

* Do Not Apply = Other Compensation Systems / Deferred

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

Table 9: Average Quarterly Credit Risk Exposures

In R\$ (thousands)	Risk Weight Factor	Oct/17 - Dec/17	Jul/17 - Sep/17
	0%	4,776,205	5,233,383
	2%	727,745	477,356
	20%	6,365,695	7,438,125
	50%	4,299,442	1,869,766
	75%	-	-
	100%	4,992,167	5,648,323
	250%	146,883	124,800
	300%	-	-
	1081.08%	21,499	-
	Do Not Apply *	642,204	556,294
Total		21,971,840	21,348,047

* Do Not Apply = Other Compensation Systems / Deferred

In table 9 we can observe the migration from 3Q17 TO 4Q17 from higher figures in 0%, 20% and 100% to also 50% as we had more trades here in this section for the 4Q17.

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 conversion factors described above.

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

Below is the concentration of the largest 10 and 100 borrowers, of the portfolio subject to credit risk (only trade's exposures with lending features):

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

Percentage of the 10 biggest clients	Dec/17	Sep/17
	65.02%	61.09%
Percentage of the 100 biggest clients	Dec/17	Sep/17
	99.82%	99.36%

5.13.3. Exposure by Economic Sector

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

Table 11: Credit Exposures by Economic Sector:

Economic Sector (in R\$ thousands)	Dec/17	%	Sep/17	%
Food and Beverages	131,258	0.63%	172,790	0.81%
Consumer Goods	322,201	1.54%	399,263	1.88%
Durable Goods	0	0.00%	0	0.00%
Oil and Gas	2	0.00%	545	0.00%
Agricultural Commodities	388,975	1.87%	471,608	2.22%
Clearing	195,597	0.94%	261,370	1.23%
Electricity	135,810	0.65%	524,596	2.47%
Government	3,579,607	17.16%	4,256,491	20.06%
Infrastructure	14,505	0.07%	16,020	0.08%
Financial Institution	9,751,402	46.76%	9,373,923	44.18%
Institutional Investor	3,151,641	15.11%	2,390,810	11.27%
Metals and Mining	73,934	0.35%	98,796	0.47%
Others (*)	1,418,715	6.80%	1,273,728	6.00%
Paper and Pulp	53,277	0.26%	69,637	0.33%
Pesticide / Other Agric. Chemicals	8,741	0.04%	11,680	0.06%
Chemicals	45,655	0.22%	48,150	0.23%
Technology	118,584	0.57%	143,473	0.68%
Telecom	392,474	1.88%	504,874	2.38%
Tourism	2,182	0.01%	1,466	0.01%
Retail	1,071,307	5.14%	1,197,836	5.65%
Total	20,855,867	100%	21,217,056	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 *	20,855,867	100%	21,217,056	100%
Agricultural Credit	355,325	1.70%	467,631	2.20%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	0	0.00%	0	0.00%
Capital de Giro, Desconto de Títulos, Conta Garantida	360,631	1.73%	334,831	1.58%
Other Corporate Products	20,139,910	96.57%	20,414,594	96.22%
Total	20,855,867	100%	21,217,056	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 12: Average Credit Exposures by Economic Sector:

Economic Sector (in R\$ thousands)	Oct/17 - Dec/17	%	Jul/17 - Sep/17	%
Food and Beverages	163,604	0.74%	202,033	0.95%
Consumer Goods	267,602	1.22%	285,245	1.34%
Durable Goods	0	0.00%	0	0.00%
Oil and Gas	652	0.00%	588	0.00%
Agricultural Commodities	452,590	2.06%	524,035	2.45%
Clearing	214,202	0.97%	266,485	1.25%
Electricity	518,216	2.36%	710,556	3.33%
Government	3,272,093	14.89%	4,028,330	18.87%
Infrastructure	19,049	0.09%	21,129	0.10%
Financial Institution	10,854,220	49.40%	9,488,755	44.45%
Institutional Investor	2,765,678	12.59%	2,354,908	11.03%
Metals and Mining	110,196	0.50%	135,895	0.64%
Others (*)	1,489,397	6.78%	1,311,892	6.15%
Paper and Pulp	69,531	0.32%	86,242	0.40%
Pesticide / Other Agric. Chemicals	12,336	0.06%	15,288	0.07%
Chemicals	61,238	0.28%	70,668	0.33%
Technology	132,118	0.60%	132,982	0.62%
Telecom	429,628	1.96%	521,333	2.44%
Tourism	1,884	0.01%	1,529	0.01%
Retail	1,137,605	5.18%	1,190,153	5.57%
Individual Accounts	0	0.00%	0	0.00%
Total	21,971,840	100%	21,348,047	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 *	21,971,840	100%	21,348,047	100%
Agricultural Credit	366,953	1.67%	465,065	2.18%
BNDES / Finame Transfers	0	0.00%	0	0.00%
Import and Export Trades	0	0.00%	0	0.00%
Capital de Giro, Desconto de Titulos, Conta Garantida	361,949	1.65%	329,145	1.54%
Other Corporate Products	15,608,232	96.68%	20,553,838	96.28%
Total	21,971,840	100%	21,348,047	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 Titulos, Conta Garantida --> Specific products, such as Overdraft, Bonds Discounting, etc. ;
- Other Corporate Products --> All other bank products in Brazil ;

Table 13: 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	6,697	76,303	0	48,259	131,258
Consumer Goods	322,201	0	0	0	322,201
Durable Goods	0	0	0	0	0
Oil and Gas	2	0	0	0	2
Agricultural Commodities	39,484	94,040	254,025	1,426	388,975
Clearing	0	0	1,095	194,502	195,597
Electricity	8,751	6,927	39,960	80,172	135,810
Government	3,374,835	0	163,818	40,954	3,579,607
Infrastructure	2,332	10,000	0	2,173	14,505
Financial Institution	8,965,985	530,819	100,022	154,577	9,751,402
Institutional Investor	2,258,955	63,962	528,268	300,455	3,151,641
Metals and Mining	0	755	10,047	63,133	73,934
Others *	0	0	0	1,418,715	1,418,715
Paper and Pulp	0	5,793	0	47,483	53,277
Pesticide / Other Agric. Chemicals	8,741	0	0	0	8,741
Chemicals	5,154	37,348	0	3,153	45,655
Technology	104,315	13,060	0	1,208	118,584
Telecom	24,493	51,761	296,281	19,939	392,474
Tourism	2,182	0	0	0	2,182
Retail	348,067	404,320	207,273	111,647	1,071,307
Total	15,472,194	1,295,088	1,600,788	2,487,797	20,855,867
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 *	15,472,194	1,295,088	1,600,788	2,487,797	20,855,867
Agricultural Credit	0	355,325	0	0	355,325
BNDES / Finame Transfers	0	0	0	0	0
Import and Export Trades	0	0	0	0	0
Capital de Giro, Desconto de Títulos, Conta Garantida	234,363	126,269	0	0	360,631
Other Corporate Products	15,237,832	813,494	1,600,788	2,487,797	20,139,910
Total	15,472,194	1,295,088	1,600,788	2,487,797	20,855,867
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 by geographic region:

Table 14: Credit Exposures and Averages by Geographic Region:

Geographic Region (in R\$ thousands)	Dec/17	%	Sep/17	%
Center-West	3,715,162	17.81%	4,387,816	20.68%
International (Offshore)	260,631	1.25%	239,366	1.13%
Northeast	256,720	1.23%	532,199	2.51%
North	0	0.00%	0	0.00%
Southeast	16,621,838	79.70%	16,050,890	75.65%
South	1,515	0.01%	6,784	0.03%
Total	20,855,867	100%	21,217,056	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	20,855,867	100%	21,217,056	100%
Agricultural Credit				
Southeast	355,325	1.70%	467,631	2.20%
Repasses BNDES / Finame				
Center-West	-	0.00%	-	0.00%
Import and Export Trades				
Center-West	0	0.00%	0	0.00%
Southeast	0	0.00%	0	0.00%
Northeast	0	0.00%	0	0.00%
Capital de Giro, Desconto de Titulos, Conta Garantida				
Northeast	0	0.00%	0	0.00%
North	0	0.00%	0	0.00%
Southeast	360,631	1.73%	330,181	1.56%
South	0	0.00%	4,650	0.02%
Others				
Center-West	3,715,162	17.81%	4,387,816	20.68%
International (Offshore)	260,631	1.25%	239,366	1.13%
Northeast	256,720	1.23%	532,199	2.51%
North	0	0.00%	0	0.00%
Southeast	15,905,882	76.27%	15,253,079	71.89%
South	1,515	0.01%	2,134	0.01%
Total	20,855,867	100%	21,217,056	100%
Geographic Region Average (in R\$ thousands)	Oct/17 - Dec/17	%	Jul/17 - Sep/17	%
Center-West	3,593,234	16.35%	4,203,587	19.69%
International (Offshore)	139,345	0.63%	119,078	0.56%
Northeast	405,510	1.85%	548,828	2.57%
North	0	0.00%	0	0.00%
Southeast	17,830,437	81.15%	16,469,417	77.15%
South	3,313	0.02%	7,136	0.03%
Total	21,971,840	100%	21,348,047	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 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 presents the current movement for non-performing loans on a quarterly basis:

Table 15: Movement in Provisions for Non-Performing Loans

In R\$ thousands	Oct/17 - Dec/17	Jul/17 - Sep/17
Provision Balance	(128)	(1,107)
Provision During Quarter	(184)	(228)
Reversal During the Quarter	1,164	272

5.13.6. Notional Value of the Contracts Subject to Counterparty risk

Table 16 below provides the notional amount related to bilateral contracts where a clearing house have not been used as a central counterparty.

Table 16: Notional Amount of Transactions where a Clearing House have not been used as Central Counterparty:

In R\$ thousands	Dec/17	Sep/17
Amount of contracts subject to:		
COUNTERPARTY CREDIT RISK		
Swap	51,525,227	60,318,130
Option	1,112,449	1,650,161
NDF	15,897,238	20,615,994
Government Bond Term	571,370	1,068,780
DERIVATIVES	69,106,284	83,653,065
TRANSACTIONS TO BE SETTLED	-	-
REPO TRANSACTIONS	10,209,167	7,660,530
TOTAL	79,315,451	91,313,596

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 3.809/2017 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 17: Notional Value of Transactions where Bovespa / BM&F acts as Central Clearing House

In R\$ thousands	Dec/17	Sep/17
Futures	28,866,109	22,821,524
Swaps	1,438,650	1,503,650
Total	30,304,759	24,325,174

5.13.7. Exposures of the Contracts Subject to Counterparty Risk

The table below provides the amounts related to the exposures of the contracts subject to counterparty risk, segmented by risk weighting factor excluding negative amounts:

Table 18: Gross Positive Value of Contracts after Collateral Subject to Counterparty Risk

In R\$ thousands		Dec/17	Sep/17
	Risk Weight Factor		
	0%	104,984	69,978
	2%	105,325	113,378
	20%	8,385,042	7,031,065
	50%	1,077,330	1,505,991
	100%	2,928,404	2,585,324
Total		12,601,084	11,305,737

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 the risk that changes in market conditions and may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings. Market risk is composed of price risk and interest rate risk:

- Price risk is the risk to current or projected financial condition and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market-making, dealing, and capital markets activity in interest rate, foreign exchange, equity, commodities and credit markets.
- Interest rate risk is the risk to current or projected financial condition and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in bank products (options risk).

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, 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 for 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 policies and procedures 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, and the average of the 19 worst losses in the observation period is considered. This methodology takes into consideration the "fat tails" effects, one of the financial assets series characteristics.

Table 19: VaR Results

VaR*				
99%, 1 Day				
In R\$				
	Dec 17	Sep 17	Jun 17	Mar 17
VaR*	-17,727,549	-16,316,026	-17,269,799	-13,914,146
Minimum**	-11,401,128	-10,397,793	-10,887,127	-8,454,646
Maximum**	-19,672,740	-17,805,094	-18,034,439	-16,887,462
Average**	-14,760,751	-14,599,371	-12,963,924	-11,908,097

*Average of the 19 worst losses in a 3 year observation window, for the prudential conglomerate including the Trading and the Banking books.

** Minimum, Maximum and Average VaR of the quarter-end on the date at issue

When considering the VaR methodology by historical simulation, it's not necessary to estimate the volatility or correlations between the portfolio assets, which represents an advantage in relation to other methodologies of VaR calculation. However, when considering historical data, the events occurred in the past may not repeat themselves in the future, or, this timing series may consider events which can never happen again. Besides that, by weighting all figures with the same amounts, the VaR can suffer some variances by extreme highs or lows during the observation window, as this can generate some VaR distortions.

6.5. Adherence Tests - Back Testing

The Local Market Risk department uses the back test to analyze the adherence and accuracy of the model results comparing them with the actual results. The results of back testing are calculated in accordance with the global back testing program of BAC, and are reported monthly.

6.6. Stress Tests

Periodic stress tests are undertaken and captures the impact on trading positions under a specific market stress scenario. The stress tests enable timely identification of positions with potential for significant loss. Daily stress tests are performed for the trading book using pre-determined stress scenarios. Non trading book positions are stressed on a quarterly basis in accordance with the requirements of BACEN.

6.7. Trading Portfolio

The table below provides the value of the trading portfolio segmented between the purchased and sold positions and the relevant product groups.

Table 20: Trading Portfolio by Risk Factor

In Thousands of R\$ Product	Position Dec/2017		Position Sep/2017	
	Bought	Sold	Bought	Sold
Shares	-	-	-	39
Commodities	-	-	-	-
Inflation Coupons	4,615,899	5,059,425	4,620,146	5,313,871
Other Risk Factors	25,432,197	18,354,067	31,559,279	22,911,226
FX	43,871,909	43,806,279	49,962,787	49,920,333
Interest Rate	25,238,242	20,796,642	25,354,354	22,135,441
Total	99,158,247	88,016,413	111,496,566	100,280,910

* Table 20 include all positions compared to tables 21/22 that only present derivatives.

** CDI index positions are reported under "Other risk factors", therefore they are ot part of the "Interest Rate" classification.

*** For positions with maturity greater than 10 years, where applicable, the RWAJUR's calculations multipliers were applied to MTMs.

6.8. Derivative Financial Instruments

The table below provides the exposure to derivative financial instruments with a central counterparty, by product groups.

Table 21: Derivative Financial Instruments Cleared with a Central Counterparty

In Thousands of R\$ Product	Position Dec/2017		Position Sep/2017	
	Bought	Sold	Bought	Sold
Shares	-	-	-	-
Commodities	-	-	-	-
Inflation Coupons	1,898,396	2,285,756	1,780,002	625,409
Other Risk Factors	484,025	1,516,460	475,639	1,570,530
FX	12,442,500	4,506,341	11,642,947	3,849,426
Interest Rate	6,952,271	4,349,125	3,545,890	3,633,455
Total	21,777,192	12,657,682	17,444,478	9,678,820

* CDI index positions are reported under "Other risk factors", therefore they are ot part of the "Interest Rate" classification.

** For positions with maturity greater than 10 years, where applicable, the RWAJUR's calculations multipliers were applied to MTMs (except for Swaps).

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

Table 22: Derivative Financial Instruments not cleared with a Central Counterparty

In Thousands of R\$ Product	Position Dec/2017		Position Sep/2017	
	Bought	Sold	Bought	Sold
Shares	-	-	-	-
Commodities	-	-	-	-
Inflation Coupons	1,138,150	2,773,669	1,175,144	4,688,462
Other Risk Factors	24,948,180	16,837,613	31,083,643	21,340,698
FX	31,042,464	38,992,058	37,426,390	45,510,765
Interest Rate	15,501,444	14,115,650	18,057,634	16,267,333
Total	72,630,238	72,718,990	87,742,811	87,807,258

* CDI index positions are reported under "Other risk factors", therefore they are of part of the "Interest Rate" classification.

** For positions with maturity greater than 10 years, where applicable, the RWAJUR's calculations multipliers were applied to MTMs (except for Swaps).

6.9. Operations not classified under the Trading Portfolio – sensitivity to fluctuations of interest rates

The sensitivity of the market value of the Non Trading Book Portfolio, to a parallel increase of 1bps (0.01%) in the interest rate curve as of December, 31st, 2017 was R\$ 10,197. This sensitivity measurement, known as DV01, indicate that the interest rate risk of the non-Trading Portfolio has low significance.

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 meet its cash flow obligations.

For adequate liquidity risk management, PCBofAML has a robust framework, including: control and monitoring of the financial transactions, continuous analysis of the liquidity impacts of external events, preparing stress scenarios, 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 cycle 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 normally in line with the growth strategy of PCBofAML;
- Maintain liquidity that is sufficient for PCBofAML, based on the bond maturity analysis and other potential cash outflows, including 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 broad communication and consultation 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 Board of Directors.

Once the most relevant factors (liquidity *drivers*) have been identified for Liquidity Risk, (e.g. instruments requiring margin adjustments or concentration in assets with low liquidity) the daily Liquidity Risk control analyzes the impact of the stress scenarios on liquidity 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 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 violations in the liquidity limits to the Liquidity Risk Director of PCBofAML and obtaining 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 ;
- Performing distinct scenario analysis and stress tests reports at least on a quarterly basis;
- Reporting any weakness observed on the liquidity controls; and
- Coordinate and integrate with Local Market Risk Unit through extensive communication.



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 with the Board.

ALMRC a central committee between the departments responsible for management and monitoring of the different types of risk that impact, either directly or indirectly, liquidity, market, credit, and operational Risk. Through the AMLRC, it is possible to maintain transparency regarding risk management and monitoring and to obtain a consolidated view of the risks incurred by PCBofAML and any impacts on Liquidity Risk.

8. *Operational Risk Management*

8.1. Operational Risk Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the Company to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the Company's business. Although operational risk excludes strategic and reputational risks, operational risk may impact or be impacted by these risks.

8.2. 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 Committees and Directors and the International Operational Risk Team (BAC International Operational Risk).

The PCBofAML 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 as the global policies of BAC.

8.3. Operational Risk Procedures

In accordance with the policy adopted by PCBofAML, the Operational Risk Management framework is 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 are adequate and kept up to date, in order to:
 - Timely identify, register and clarify 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 BAC.
- Defines the Operational Risk methodologies to be considered and its applicability.
- 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 Operational Risk team has the responsibility of monitoring the operational risk of PCBofAML, with also developing and guiding the framework and key elements of operational risk management for PCBofAML.

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 errors and errors 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 which may affect the company, including the risks associated with suppliers and service providers, as well as political, social, cultural factors, and other specific cases.

8.6. Component of the PR, related to Operational Risk

PCBofAML calculates the consolidated regulatory capital component, in relation to the operational risk, using the Basic Indicator Approach, as defined by BACEN in Circular 3.640/13.

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



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.