Merrill Lynch Capital Markets España

Pillar 3 Disclosure

As at 31 December 2016

Bank of America
Merrill Lynch

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Glossary

BAC	Bank of America Corporation
BIA	Basic Indicator Approach
CEO	Chief Executive Officer
CFs	Control Functions
CNMV	Comisión Nacional del Mercado de Valores
COR	Corporate Operational Risk
CQS	Credit Quality Steps
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustment
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EMEA	Europe, Middle East and Africa
EU	European Union
FLUs	Front Line Units
FOGAIN	Fondo General de Garantía de Inversiones
GLM	Global Liquidity Management
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
MLCME	Merrill Lynch Capital Markets España
MRT	Material Risk Takers
OTC	Over-The-Counter
RAS	Risk Appetite Statement
RCC	Regional Control Committee
RTS	Regulatory Technical Standards
RWA	Risk Weighted Assets
SPANISH GAAP	Spanish Generally Accepted Accounting Principles

1. Introduction

1.1 Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2016 in respect of the capital and risk management of Merrill Lynch Capital Markets España, S.A., S.V. ("MLCME"), the 'Company', a broker-dealer regulated by Comisión Nacional del Mercado de Valores ("CNMV"). All defined terms are found in the glossary.

Capital Requirements Directive IV ("CRD IV"), the European Union ("EU") legislation implementing Basel III, came into effect on 1 January 2014, mandating the quality of capital that firms are required to hold, introducing an EU wide liquidity regime and establishing leverage requirements. This legislation consists of three Pillars. Pillar 1 is defined as "Minimum Capital Requirement", Pillar 2 "Supervisory Review Process" and Pillar 3 "Market Discipline". The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

This document provides detail on MLCME's available capital resources ("Capital Resources") and regulatory defined Pillar 1 minimum capital requirement ("Minimum Capital Requirement"). It demonstrates that MLCME has Capital Resources in excess of this requirement and maintains robust risk management and controls.

To further increase transparency, this document also includes information on MLCME's liquidity position and information on the capital requirements in respect of the Countercyclical Capital Buffer ("CCYB").

Entity: Merrill Lynch Capital Markets España, S.A., S.V. ("MLCME")

Scope of application: Individual

Department responsible for productions and review of report: Finance

Person responsible for report: Joaquín Monje Arroyo

Merrill Lynch Capital Markets España, S.A., S.V.

Edificio Torre Serrano

C) Marqués de Villamagna, 3

28001 Madrid

Tel: 91 514 3247

Date approved by Board of Directors: 5 July 2017

1.1.1 Merrill Lynch Capital Markets España, S.A., S.V.

MLCME is wholly owned by NB Holdings Corporation which in turn belongs to Bank of America Corporation ("BAC" or "the Company"), which is registered in the United States. MLCME is authorised and regulated by CNMV.

1.1.2 MLCME's Capital Position at 31 December 2016

MLCME's Capital Resources of € 230.2m consist entirely of Tier 1 capital. MLCME has Risk Weighted Assets ("RWA") of € 159.1m, a Tier 1 to RWA ratio of 144.68%, and a surplus over Pillar 1 Minimum Capital Requirement of € 217.5m.

1.2 Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and disclosure rules. The figures presented for the year ended 31 December 2016 and prior year comparatives have been prepared under the Basel III rule framework. This is not an accounting disclosure and as such, is not required to be prepared in accordance with Spanish Generally Accepted Accounting Principles ("Spanish GAAP"). Therefore, the information is not directly comparable with the annual financial statements and the disclosure is not required to be audited by external auditors. Although Pillar 3 disclosures are intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other legal entities.

Part Eight of Regulation (EU) No 575/2013 (the CRR) sets the minimum requirements to disclose information on an annual basis and leaves institutions free to assess the need to disclose some or all of the information more frequently. MLCME does not meet the criteria to consider more frequent disclosure for Pillar 3 reporting.

MLCME's Pillar 3 disclosures are prepared and published annually on BAC's corporate website:

http://investor.bankofamerica.com

MLCME does not form part of any consolidated group of investment entities within the meaning of Chapter II of EU Regulation 575/2013. In addition, as at 31 December 2016, MLCME does not hold shares or units in other entities that may be consolidated for accounting purposes, so there are no differences in the scope of consolidation for accounting and capital adequacy purposes.

1.3 Operation, Structure, Organisation and Capital Position

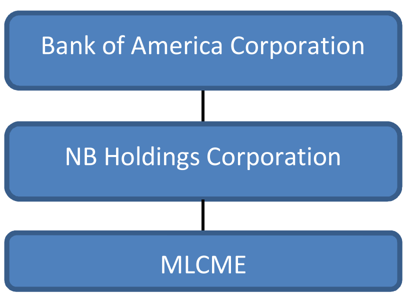
Merrill Lynch Capital Markets España was incorporated in Madrid on 13 June 1996. The registered office is located in Madrid, at Torre Serrano, plantas 8-9-10, Calle Marqués de Villamagna, 3.

MLCME was entered in the Register of Securities Brokers-Dealers (Registro de Sociedades de Valores) of the Comisión Nacional del Mercado de Valores ("CNMV") on 9 July 1996 under number 161. MLCME is wholly owned by NB Holdings Corporation which in turn belongs to Bank of America Corporation ("BAC"), which is registered in the United States.

Below is the list of activities undertaken by the registered corporate entities of MLCME:

- Receiving and executing customer orders in relation to one or more financial instruments;
- Investment in securities;
- Custody and administration for the account of customers of the instruments envisaged in article 2 of the Royal Legislative Decree 4/2015, Spanish Securities Markets Act.; and
- Advising companies on capital structures, industrial strategy and related questions, as well as advising and other services in relation to corporate mergers and acquisitions.
- Foreign exchange ("FX") services in relation to the provision of investment services.

Figure 1: MLCME Ownership Structure



2. Capital Resources and Minimum Capital Requirement

2.1 Capital Resources

2.1.1 Summary of 2016 Capital Resources

For the purposes of calculating total qualifying capital, MLCME classifies its own funds as Common Equity Tier 1 capital according to Part II of EU Regulation 575/2013 on Own Funds.

The table below shows MLCME's total qualifying capital for MLCME:

Table 1 – Total Qualifying Capital

	(Euros in Thousands)	2016	2015
1.1	TIER 1 CAPITAL	230,224	207,655
1.1.1	COMMON EQUITY TIER 1 CAPITAL	230,224	207,655
Total		**230,224**	**207,655**

2.1.2 Key Movements in 2016

Capital Resources in the period increased by 10.9% due to the inclusion of 2015 retained earnings.

2.1.3 Transferability of Capital within the Group

Capital Resources are satisfied by sourcing capital from BAC. There is no material, current or foreseen, practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities.

2.2 Minimum Capital Requirements and Leverage Ratio

2.2.1 Summary of 2016 Capital Requirement

The Minimum Capital Requirement is the amount of capital that Capital Requirement Regulations ("CRR") require MLCME to hold at all times. MLCME's Capital Resources must be greater than its Minimum Capital Requirement, allowing for a capital excess to cover any additional obligations, for example, Pillar 2.

The Minimum Capital Requirement is comprised of Credit Risk, Credit Valuation Adjustment ("CVA"), Market Risk and Operational Risk requirements.

Table 2 outlines the Minimum Capital Requirement, Pillar 2 requirement and capital buffers for MLCME. Capital Resources are significantly in excess of the Pillar 1 Minimum Total Capital Requirement.

Table 2. Minimum Total Capital Requirement

(Euros in Thousands)	2016	2015
Credit Risk	3,485	25,330
Credit Valuation Adjustment	161	4,983
Market Risk	412	2,390
Operational Risk	8,673	9,270
Pillar 1 Capital Requirement	**12,731**	**41,973**
Pillar 2 Capital and Buffers*	**2,153**	**5,898**
Total Capital Requirement	**14,884**	**47,871**

*Pillar 2 Capital and Buffers € 2.2m includes Pillar 2 capital requirement € 1.2m and Buffers € 1.0m.

2.2.2 Key Movements in 2016

MLCME's minimum capital requirement has decreased, from € 42.0m in 2015 to € 12.7m in 2016 and the key movements in capital requirements relates to a decrease in credit risk CVA and market risk requirements driven by a reduction in its investment securities portfolio as well as decreased cash deposits at credit institutions.

2.2.3 Minimum Total Capital Requirement Approach

MLCME has adopted the standardised approach for calculating Credit, Counterparty, CVA and Market Risk, and Basic Indicator Approach ("BIA") for Operational risk. In order to adhere to the standardised rules set out by the European Banking Authority ("EBA"), MLCME uses external ratings from External Credit Assessment Institutions ("ECAIs") based on a combination of Moody's Investors Service, Inc. ("Moody's"), S&P and Fitch Ratings, Inc. (Fitch). ECAI ratings are used for all exposure classes.

2.3 Capital Resources vs. Minimum Total Capital Requirement and Tier 1 Capital Ratio

2.3.1 Capital Resources vs. Minimum Total Capital Requirement

MLCME's Capital Resources in excess of its Minimum Total Capital Requirement have increased from € 165.7m in 2015 to € 217.5m in 2016.

Capital Resources and Minimum Total Capital Requirement for MLCME are monitored and analysed on a regular basis. MLCME continuously maintains a surplus over its Minimum Total Capital Requirement.

2.3.2 Tier 1 ratio

An entity's Tier 1 ratio is the ratio of the Tier 1 Capital to RWA.

MLCME's Tier 1 ratio has increased from 39.58% to 144.68% over the year due to the reduction in credit risk, CVA and market risk requirements.

2.4. Leverage Ratio

The leverage ratio is a measure of Tier 1 capital as a percentage of exposure as defined under the CRR rules.

The requirement for the calculation and reporting of leverage ratios was introduced as part of CRD IV in 2014, and amended by the European Commission Delegated Act (EU) 2015/62 in 2015.

CRD IV legislation allows for the calculation of a transitional leverage ratio, permitting various adjustments to Tier1 capital in the years leading to 2018. However, the CNMV, as local regulator, also requires transitional Tier 1 capital to be calculated on a fully phased in basis.

CRD IV does not currently include a minimum Leverage Ratio requirement. In November 2016 the European Commission published a legislative proposal to amend various elements of CRD IV, which included a binding minimum Leverage Ratio requirement of 3%, as well as a number of changes to the calculation of the exposure measure. Based on the draft text of the proposal, it is currently expected that these amendments will become effective on 1 Jan 2021. MLCME's transitional and fully-phased in leverage ratios are in excess of this at 88.16%.

Table 3. Leverage Ratio

	2016	Minimum Requirement
Transitional Leverage Ratio	88.16%	3%
Fully Phased-In Leverage Ratio	88.16%	3%

	2015	Minimum Requirement
Transitional Leverage Ratio	8.51%	3%
Fully Phased-In Leverage Ratio	8.51%	3%

3. Liquidity Position and Encumbered and Unencumbered Assets

3.1 Liquidity Position

3.1.1 Regulatory Requirement

The Spanish Securities Market Act 24/1988 requires MLCME to adhere to a liquidity ratio (the "Liquidity Ratio"), which requires MLCME to hold the equivalent of 10 percent of its short-term (due in less than one year) liabilities in high quality liquid assets (cash, highly-rated sovereign bonds).

3.1.2 Liquidity Position

As of 31 December 2016, MLCME was in compliance with its regulatory and internal liquidity requirements.

3.1.3 Funding Profile

MLCME funds its balance sheet through capital and intercompany term funding. These funding sources are used to support Global Markets and Global Investment Banking activity.

3.2 Encumbered and Unencumbered Assets

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

MLCME gets the majority of its funding and deposits from other Group entities and these are available on demand or at short notice. The entity has little requirement to get funding from secured markets, and therefore its overall low level of encumbrance reflects this position. However, given the nature of MLCME's businesses, it enters into collateralised financing with some of the counterparties to secure Over-The-Counter ("OTC") transactions settlements.

This asset encumbrance disclosure, as at 31st December 2016, is prepared in accordance with European Banking Authority ("EBA") guidelines and is based on financial statement information prepared in accordance with Spanish GAAP.

Table 4 outlines the carrying and fair value of certain assets of MLCME split between those encumbered and unencumbered.

Table 4. Analysis of Assets for Asset Encumbrance

EUR thousands

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	0		329,410	
Equity instruments	0	0	70,888	70,888
Debt securities	0	0	0	0
Other assets	0		258,522	

Table 5 provides detail on both the fair value of encumbered collateral received and collateral received that is available for encumbrance.

Table 5. Analysis of Collateral Received

EUR thousands

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	2,090	0
Equity instruments	0	0
Debt securities	0	0
Other collateral received	2,090	0
Own debt securities issued other than own covered bonds or ABSs	0	0

Table 6 outlines the value of liabilities against which assets have been encumbered and the respective asset values.

Table 6. Encumbered Assets/Collateral Received and Associated Liabilities

EUR thousands

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	0	2,090

4. Risk Management, Objectives and Policy

4.1 BAC Risk Framework

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. BAC adopted the 2017 Risk Framework in December 2016. The key enhancements from the 2016 Risk Framework include the incorporation of the responsible growth strategy and updates to various definitions, and organisation and governance structures.

MLCME is integrated into and adheres to the global management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements.

The following section lays out the risk management approach and key risk types for MLCME.

4.2 Risk Management Approach

Risk is inherent in all business activities. Managing risk well is the responsibility of every employee. Sound risk management enables the Group to serve the customers and deliver for the BAC shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to the Group's reputation, each of which may adversely impact the Group's ability to execute its business strategies. Managing risk well is fundamental to delivering on the Enterprise's strategy for responsible growth.

The Risk Framework applies to all employees. It provides an understanding of the Group's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Group. The Risk Framework sets forth roles and responsibilities for the management of risk by Front Line Units ("FLUs"), independent risk management, other control functions and Corporate Audit. The following are the five components of the Group's risk management approach:

- Culture of managing risk well
- Risk appetite and risk limits
- Risk management processes
- Risk data management, aggregation and reporting
- Risk governance

Focusing on these five components allows effective management of risks across the seven key risk types faced by the Group's businesses, namely: Strategic, Credit, Market, Liquidity, Operational, Compliance and Reputational risks.

4.2.1 Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC values and operating principles. It ensures appropriate focus on risk in all activities and encourages the necessary mindset and behaviour to enable effective risk management and promote sound risk-taking within BAC's risk appetite. Sustaining a culture of managing risk well throughout the organisation is critical to the success of BAC and is a clear expectation of BAC executive management team and its boards of directors.

4.2.2 Risk Appetite

BAC Risk Appetite Statement ("RAS") collectively defines the types and aggregate level of risk BAC is willing to take in order to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. It is designed with the objective of ensuring that it is comprehensive for all key risks, relevant to the BAC business and aligned with the risk management practices of BAC.

Risk Statement	MLCME is a Spanish broker-dealer entity within the BAC Group and it offers a range of financial services that include, but are not limited to; Receiving customer orders in relation to one or more financial instruments; Investment in securities; Custody and administration for the account of customers of the instruments envisaged in article 2 of the Legislative Royal Decree 4/2015, of October 23, 2015, approving the revised Securities Market Law; and advising companies on capital structures, industrial strategy and related questions, as well as advising and other services in relation to corporate mergers and acquisitions. As at 31 December 2016, MLCME's total assets, prepared in accordance with Spanish GAAP, are EUR 331.5 million, and comprised mainly of cash & cash Equivalents EUR 246.7 million and trading assets EUR 70.9 million. Net income after tax for the year ended 31 December 2016 is EUR 12.6 million. As at 31 December 2016 MLCME has EUR 242.8 million of total equity, with Tier 1 capital of EUR 230.2 million. Tier 1 capital ratio is reported at 144.68%. MLCME's largest exposure as at 31 December 2016 is to operational risk, calculated following Basic Indicator Approach, with Risk Weighted Assets ("RWA") of EUR 108.4 million. MLCME's second largest exposure is credit risk with RWA of EUR 43.6 million. Its credit portfolio, based on regulatory credit exposures, is 96.7% concentrated in Europe. The largest industry concentration is to financial institutions which represent 92.1% of the exposure. Exposures are on demand. Market risk for MLCME is generated by activity in Indian Equities which has been significantly reduced in 2016. Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2016, MLCME has a liquidity ratio of 294.3% which far exceeds the 10% minimum regulatory requirement. MLCME primarily funds the balance sheet through capital and intercompany funding. MLCME is integrated into and adheres to the global BAC group management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements (the 'Risk Framework'). BAC Risk Framework describes the five components (Risk Culture, Risk Appetite and Risk Limits, Risk Management Process, Risk Data Management, Aggregation and Reporting and Risk Governance) of its risk management approach and the seven key risk types (Credit, Market, Operational, Liquidity, Compliance, Reputational and Strategic Risk) faced by its businesses. MLCME's risk tolerance is expressed in BAC's risk appetite statement. BAC's risk appetite statement clearly defines the amount of capital, earnings and liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring) to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. The risk appetite statement ensures that BAC maintains an acceptable risk profile that is in alignment with its strategic and capital plans. The risk appetite statement includes both quantitative limits and qualitative components that are reviewed and approved by the BAC Board of Directors at least annually. The Risk Management Control Report, which is approved quarterly by MLCME's Board of Directors ("the Board") includes a declaration on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to MLCME's profile and strategy.

4.2.3 Risk Management Process

The Risk Framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and in day-to-day business processes across BAC, thereby ensuring risks are appropriately considered, evaluated and responded to in a timely manner.

FLUs have primary responsibility for managing risk inherent in their businesses. BAC employs an effective risk management process referred to as Identify, Measure, Monitor and Control as part of their daily activities

4.2.4 Risk Data Management, Aggregation and Reporting

Effective risk data management, aggregation and reporting are critical to provide a clear understanding of material current and emerging risks and enable BAC to proactively and effectively manage risk.

Risk Data Management, Aggregation and Reporting Principles are:

- Complete, accurate, reliable and timely data
- Clear and uniform language to articulate risks consistently across BAC
- Robust risk quantification methods
- Timely, accurate and comprehensive view of all material risks, including appropriate levels of disaggregation

4.2.5 Risk Governance

BAC has established a risk governance framework for the effective management of risks facing BAC and its subsidiaries. The risk governance framework is designed by independent risk management and approved by the BAC Board of Directors. The risk governance framework includes the delegation of authority from appropriate boards of directors or board committees to management committees and executive officers as well as risk limits established for material activities to ensure BAC operates within its risk appetite. MLCME is integrated into and adheres to this global management structure.
The Board are responsible for MLCME's governance, management and supervision including establishing effective processes for assessing risk ensuring alignment to BAC's risk appetite.

In order to comply with the internal control requirements of the Spanish Securities Market regulations, the Board has set up the following internal control functions:

- Compliance function with responsibility for regulatory compliance;
- Risk Management function whose responsibility is to manage all areas of risk; and
- Internal Audit with responsibility for the evaluation and improvement of efficacy of all the control systems and procedures established by the entity, within which are included those for managing risk and regulatory compliance.

The internal control functions are required to formally report to the Board annually providing details of the work and reviews completed during the year highlighting any detected breaches, the associated risks and the appropriate remediation measures.

<u>Director Selection and Diversity Policy</u>

Members of the MLCME Board, along with representatives from HR, Subsidiary Corporate Governance and Legal, are responsible for identifying and approving Board candidates to fill its Board vacancies as and when they arise.

The Board considers candidates from a wide range of backgrounds and considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender representation, taking care that appointees have sufficient time available to devote to the position.

4.3 Key Risk Types

The Risk Management processes outlined above allow BAC to manage risks across the seven key risk types; credit, market, operational, liquidity, compliance, strategic and reputational.

Credit Risk	**Definition** Credit risk is created when the Company commits to, or enters into, an agreement with a borrower or counterparty. Credit risk is the potential loss to the Company due to a borrower's or counterparty's future inability or failure to repay their contractual obligations; it can have a significant impact on MLCME's earnings. **Credit Risk Management** MLCME, in conjunction with BAC Wholesale Credit underwriting teams ("WC") and Credit Risk Approval teams ("Credit Risk") manages credit risk to a borrower or counterparty on an ongoing basis based on their risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected impacts of the current and forward looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes. In addition the BAC Collateral Monitoring Unit ("CMU") are responsible for the daily monitoring of collateral positions and, when required, initiating variation margin calls on counterparties to maintain collateral coverage in accordance with agreed thresholds. Credit risk is monitored and reported through the various regulatory and internal reports produced monthly and quarterly for senior management and the Board.

Market Risk	**Definition** Market risk is the risk that changes in market conditions may adversely impact the value of assets and liabilities, or negatively impact earnings. **Market Risk Management** Risk Management receives reports issued by Finance and is responsible for monitoring the risks identified and, if applicable, for undertaking risk mitigation actions. MLCME has a set of specific limits and procedures that allow it to adequately manage and control both the market risk from its trading portfolio and the exchange rate risk from its activity. Hedging mechanisms are also used by MLCME to mitigate its exposure to market risk. In addition, MLCME has a set of tools that allow it to manage and control the market risk derived from the pursuit of its activities. The Finance department produces daily reports addressed to Risk Management and Line of Business to monitor Market Risk Limits and Exposures.

Operational Risk	**Definition** Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. ▪ Process risk is the risk that a predetermined process necessary to conduct business does not function properly or leads to undesired results. ▪ People risk is the risk that business objectives will not be met due to human resource deficiencies (e.g., improper conduct, inadequate staffing).

- Systems risk is the risk that arises from systems and / or tools that are deficient, unstable or overly complex for the intended use and are key to conducting the Company's activities.
- External events risk is the risk that arises from factors outside of the Company's span of control.

Operational risks are associated with the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and systems failures; and execution, delivery and process management.

Operational Risk Management, Governance and Reporting

Since operational risk is inherent in every activity across the entity, the firm relies on all employees to conduct themselves properly, contribute to an effective internal control environment and manage operational risk within their roles.

Operational risk must be managed by all employees as part of their day-to-day activities. FLUs and Control Functions ("CFs") are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. Independent risk management teams actively oversee the FLUs/CFs to monitor adherence to the program and identify, advise and challenge operational risks.

Consistent operational risk management across all legal entities within BAC globally is supported through the implementation of the Operational Risk Management - Enterprise policy and the supporting standards, and adherence to the operational risk management program defined by Corporate Operational Risk ("COR").

The BAC Risk Framework incorporates and documents the overarching processes for identifying, measuring, mitigating, controlling, monitoring, testing, reviewing and reporting operational risk information to senior management and governance bodies.

A range of committees at the global, regional ("EMEA"), country and legal entity levels ensures that operational risk is well controlled and understood by senior management.

Day-to-day operational risk management is owned by the various FLUs / CFs and is primarily governed through the regional Business Control Committees (e.g. Equities EMEA BCC), and the Regional Control Committee (RCC).

Transparency of operational risks is critical to effective risk management. To ensure that appropriate operational risk transparency exists across the businesses and up through senior management and the Board, comprehensive and actionable operational risk reports are produced, which contain the required granularity of content for each level of management seniority.

Reporting includes monitoring of Risk Appetite limits, material updates to top risks, operational loss events, relevant issues, and scenario output as appropriate.

Liquidity Risk

Definition

Liquidity risk is 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.

Liquidity Risk Management

In order to ensure adequate governance, controls, systems and risk management practices are in place to manage liquidity risk, BAC has established the Bank of America Corporation liquidity risk policy, which covers BAC and all of its subsidiaries, including

MLCME. This policy establishes the overarching governance, controls, and risk management practices to monitor and manage liquidity risk across the organisation.

The Businesses are the first lines of defence in liquidity risk management, partnering with the Global Liquidity Management ("GLM") and Global Funding functions within Corporate Treasury, to achieve liquidity risk management objectives. Each of the FLUs is accountable for managing liquidity risk by establishing appropriate processes to identify, measure, monitor and control the risks associated with their activities. Global Risk Management ("GRM") provides independent oversight and supervision of activities, provides an independent view of the liquidity risk of FLUs activities and assesses the effectiveness of the Company's liquidity risk management processes.

In certain jurisdictions, such as Spain, liquidity management responsibilities are undertaken by local finance and management teams, who consult with GLM, Global Funding and GRM. For MLCME, this includes:

- Measuring and monitoring MLCME's adherence to the regulatory Liquidity Ratio on an ongoing basis;
- Monitoring MLCME's cash inflows and outflows to ensure sufficient available funds to meet future payment requirements across various time horizons;
- Analysing annual funding needs, revised monthly, as necessary; and
- Monitoring of credit receipts and near-term cash inflows.

The Spanish Securities Market Act 24/1988 requires MLCME to adhere to a liquidity ratio (the "Liquidity Ratio"), which requires MLCME to hold the equivalent of 10 percent of its short-term (due in less than one year) liabilities in high quality liquid assets (cash, highly-rated sovereign bonds)

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2016, MLCME has a liquidity ratio of 294.3 % which far exceeds the 10% minimum regulatory requirement. During 2016, at quarter ends the liquidity ratio has been in the range of 31.6% to 294.3%.

Compliance Risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Company arising from the failure of the Company to comply with requirements of applicable laws, rules and regulations and related self-regulatory organizations' standards and codes of conduct (collectively, "applicable laws, rules and regulations").

Compliance Risk Management

Front line units are responsible for the proactive identification, management and escalation of compliance risks across the Company. Global Compliance is responsible for setting Company-wide policies and standards and provides independent challenge and oversight to the front line units. The Company's approach to the management of compliance risk is further described in the Bank of America Group Risk Framework and the Global Compliance Policy, which outlines the requirements of the Company's global compliance program and defines roles and responsibilities related to the implementation, execution and management of the compliance program by Global Compliance.

Global Compliance is a separate function with governance routines and executive reporting distinct from those of the front line units and other control functions. Global Compliance also collaborates with other control functions to provide additional support for specific remediation efforts and shares responsibility with the front line units, Global Risk Management and other control functions for mitigating reputational risk.

The Global Compliance Executive leads the Global Compliance organisation, which together with the front line units, also has responsibility for the aggregated identification, management and escalation of compliance risks and compliance-related matters across the Company, including financial crimes compliance risks.

Compliance Risk issues are reported, as required, to the Board of Directors of MLCME, the EMEA Executive Committee and the EMEA Regional Controls Committee.

Reputational Risk

Definition

Reputational Risk is the potential risk that negative perceptions of BAC's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer / client relationships or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

Reputational Risk can stem from many of BAC's activities, including those related to the management of the strategic, operational or other risks, as well as the overall financial position. As a result, BAC evaluates the potential impact to its reputation within all risk categories and throughout the risk management process.

Reputational Risk Management, Governance and Reporting

BAC manages reputational risk through established policies and controls in the business and risk management processes to mitigate reputational risks in a timely manner and through proactive monitoring and identification of potential reputational risk events.

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee, whose charter includes consideration of Reputational Risk issues and to provide guidance and approvals for activities that represent specific Reputational Risks which have been referred for discussion by other current control frameworks or lines of business. Reputational Risk items relating to MLCME are considered as part of the EMEA Reputational Risk Committee.

Ultimately, to ensure that Reputational Risk is mitigated through regular business activity, awareness of Reputational Risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees.

Given the nature of Reputational Risk, BAC does not set quantitative limits for the level of acceptable risk. Through proactive risk management, BAC seeks to minimise both the frequency and impact of reputational events.

Through the EMEA Regional Risk Committee and the EMEA Reputational Risk Committee, BAC has an appropriate organisational and governance structure in place to ensure strong oversight at the entity business level.

The EMEA Reputational Risk Committee is a sub-committee of both the EMEA Regional Risk Committee and the Global Reputational Risk Committee and is applicable to all key legal operating entities in the region.

Items requiring increased attention may be escalated from the EMEA Reputational Risk Committee to the EMEA Regional Risk Committee and/or the Global Reputational Risk Committee as appropriate.

Reporting of reputational risk issues is captured as part of management routines for the EMEA Reputational Risk Committee. Items presented to the EMEA Reputational Risk Committee are maintained through reporting which includes description of the reputational risk issue, geographical jurisdiction, reason for escalation and decision reached. A summary report of issues discussed at the EMEA Reputational Risk Committee is provided to the EMEA Regional Risk Committee on a quarterly basis.

Strategic Risk

Definition

Strategic Risk is the risk that results from incorrect assumptions about external and/or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments.

Strategic Risk Management, Governance and Reporting

Strategic Risk is managed through the assessment of effective delivery of strategy and business performance is monitored by the executive management team to assess strategic risk and find early warning signals so that risks can be proactively managed.

MLCME strategic execution and risk management processes are aligned to the overall BAC strategic plans through a formal planning and approval process and are set within the context of overall risk appetite. During the planning process, the BAC Board provides credible challenge to management's assumptions and recommendations, and approves the strategic plans after a comprehensive assessment of the risks.

The BAC Board is responsible for overseeing the strategic planning process and management's implementation of the resulting strategic plan. BAC's strategic plan is reviewed and approved annually by the BAC Board.

Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and MLCME level. Any strategic decisions relating to MLCME are presented and discussed at MLCME Board.

The executive management team provides the BAC Board with progress reports on the strategic plan, including timelines and objectives and recommendation of any additional or alternative actions to be implemented.

Front line units provide updates to certain members of the MLCME Board on their business performance and management of strategic risk. Updates take into account analyses of performance relative to the strategic plan, financial operating plan, risk appetite and performance relative to peers.

4.4 Other Risk Considerations

Wrong-Way Risk

Wrong-way risk exists when there is adverse correlation between the counterparty's probability of default and the market value of the underlying transaction and /or the collateral. Examples of wrong-way risk include, but are not limited to, situations that involve a counterparty that is a resident and/or incorporated in an emerging market entering into a transaction to sell non-domestic currency in exchange for its local currency; a trade involving the purchase of an equity put option from a counterparty whose shares are the subject of the option; or the purchase of credit protection from a counterparty who is closely associated with the credit default swap reference entity.

MLCME uses a range of policies and reports to identify and monitor wrong-way risk across the portfolio. Forums have been established to review potential situations of wrong-way risk, and depending on the nature of the wrong way risk, Risk Management may require pre-trade approval or apply various portfolio limits. In keeping with BAC's risk management framework, several processes exist to control and monitor wrong-way risk including reviews at the Global Markets Risk Committee and Country Credit Risk Committee.

Internal Capital Adequacy Assessment Process ("ICAAP")

MLCME prepares an ICAAP at least annually in compliance with CRD IV. The ICAAP assesses the capital adequacy of MLCME in relation to current and future activities and ensures that MLCME maintains an appropriate amount of capital relative to the risks to which they are exposed. The ICAAP forms a key part of the governance framework and covers MLCME's risk appetite; strategy and financial plans; capital and risk management; and stress testing.

Exposures to Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book ("IRRBB") is the risk to interest income or economic value of equity caused by movements in market interest rates.

No detailed disclosures are made in this respect as management does not consider this risk is significant for MLCME.

Securitization

MLCME has not conducted any asset securitizations to date, so no capital is required for these positions according to Title II of EU Regulation 575/2013.

Impact of Risk Reduction Techniques and Positions deducted directly from Own Funds

MLCME neither applies the credit reduction techniques referred to in article 108 of EU Regulation 575/2013 nor does it deduct any positions from own funds.

5. Further Detail on Capital Requirement, Capital Resources, Leverage and Capital Buffers

5.1 Minimum Capital Requirement Summary

This section provides a description of MLCME's risk exposures and capital requirements by type of risk and approach applied as at 31 December 2016.

5.2 Counterparty and Credit Risk

MLCME calculates its risk exposure for Counterparty and Credit risk using the Standardised Approach. The credit risk exposure and capital requirements, broken down by type of exposure, is provided below:

Table 7 –RWA and capital requirements for Credit Risk

(Euro Thousands)

2016			
Categories of exposure	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Institutions	40,112	3,209	92%
Companies	189	15	0%
Retail	0	0	0%
Other exposures	3,257	261	7%
Total	**43,558**	**3,485**	**100%**

For the purposes of this table, the exposure classes not included on the table have RWA and capital requirement of zero for MLCME. There are no specific or general credit risk adjustments.

5.2.1 Average and Year end Credit Exposures

The total value of the positions calculated per Title II of EU Regulation 575/2013 as at 31 December 2016, without considering the effects of credit risk mitigation that may apply to those positions, stood at EUR 190.3 million. MLCME does not apply any credit risk mitigation factors to these positions, therefore the original exposure equals the fully adjusted exposure value.

Table 8 – Credit Risk Exposure

(Euro Thousands)

Categories of exposure	2016 Exposure
Government	5,503
Institutions	181,269
Companies	223
Retail	
Other exposures	3,257
Total	**190,252**

The following table presents the average value during 2016 of the exposure to credit risk, net of adjustments and of impairment losses recorded, calculated following the standardised approach to estimate the capital requirements for counterparty and credit risk:

Table 9 – Average Exposure

(Euro Thousands)

Categories of exposure	2016 (*) Average Exposure
Government	7,253
Institutions	310,373
Companies	744
Retail	630
Other exposures	3,444
Total	**322,443**

(*) Value of the position calculated according to Title II of EU Regulation 575/2013. The average value has been obtained as the simple mean of the quarterly positions maintained by MLCME between 1 January 2016 and 31 December 2016 on the basis of the regulatory requirements established in EU Regulation 575/2013.

5.2.2 Distribution of Exposures by Geographical Areas

The table below provides the distribution of credit risk positions, net of adjustments and impairment losses and net of credit risk mitigation techniques, as at 31 December 2016, broken down by geographical areas:

Table 10 – Geographical Distribution

(Euro Thousands)

2016	Country					
Categories of Exposure	Spain	Belgium	India	United Kingdom	United States	(*) position
Government	5,503					5,503
Financial Institutions	239		3,027	174,762	3,241	181,269
Companies	223					223
Retail	0					0
Other Exposures	3,257					3,257
Total	**9,222**	**0**	**3,027**	**174,762**	**3,241**	**190,252**

(*) Value of the position taken according to Title II of EU Regulation 575/2013.

5.2.3 Distribution of Exposures by Sector/Type of Counterparty

Given the nature of MLCME's activities, all of the credit risk exposures at 31 December 2016 in the categories of "Government" and "Institutions" relate to positions with financial institutions. "Retail" exposures related to individuals, "Companies" included mostly companies in the Real Estate sector for € 0.14 m. Other Exposures included other items that are considered in terms of Credit Risk Exposure which are weighted at 100%, such as those included in Article 134 (1) of the CRR.

5.2.4 Distribution of Exposures by Residual Maturity

The table below provides the distribution of credit risk exposures by remaining time to maturity as at 31 December 2016, net of the adjustments and impairment losses recorded, and after applying credit risk mitigation techniques:

Table 11 – Maturity Distribution

(Euro Thousands)

Categories of Exposures	Remaining Time to Maturity as at 31 December 2016					
	On demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than five years	Total
Governments	5,503	-	-	-	-	5,503
Financial Institutions	181,269	-	-	-	-	181,269
Corporates	223	-	-	-	-	223
Retail	0	-	-	-	-	0
Other exposures	3,257	-	-		-	3,257
Position at 31 December 2016	**190,252**	**-**	**-**	**-**	**-**	**190,252**

5.2.5 Counterparty and Credit Exposure by Credit Quality Step

The table below analyses exposure value by asset class and Credit Quality Step ("CQS"). A CQS is a credit quality assessment scale as set out in Title II, Chapter II, Section II of the EU Regulation 575/2013. The CQS is derived by referring to approved ECAIs where the rating is available.

Table 12 – Counterparty and Credit Risk Exposure by Credit Quality Step

(Euro Thousands)

Asset Class / Credit Quality Step	2016 (€ 000s)
Central Government	**5,503**
Credit quality step	
1	5,503
2	
3	
4	
5	
6	
Non Rated	
Institutions	**181,269**
Credit quality step	
1	176,446
2	
3	
4	
5	4,823
6	
Non Rated	
Corporates	**223**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	223
Retail	**0**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	0
Other exposures	**3,257**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	3,257

5.2.6 Counterparty Credit Risk Exposure by Product

Measures for exposure value under Counterparty Credit Risk for MLCME are calculated using the mark-to-market method, following Article 274 of EU Regulation 575/2013.

The table below analyses this risk by product:

Table 13 – Counterparty Credit Risk Exposure by Product

(Euro Thousands)

	2016	
Product type	**Notional value**	**Exposure**
OTC Derivatives Counterparty Credit Risk:		
Gross positive fair value of contracts	**71,832**	**5,268**
Netting Benefits		0
Collateral Held		0
Net Current Credit Exposure		**5,268**
Counterparty Credit Risk by Product:		
OTC Derivatives swaps	70,813	4,249
unsettled OTC transactions	1,019	1,019
Total Counterparty Credit Risk Exposure Value	**71,832**	**5,268**

5.2.7 Exposures from "Past due" and "Impaired" Positions

As at 31 December 2016, MLCME did not have past due or impaired positions as per the definition of EU Regulation 575/2013.

In addition, no expense was recorded in MLCME's 2016 income statement for items transferred directly to failed assets, nor was any amount included in the income statement for the recovery of assets previously written off and failed.

5.2.8 Identification of External Credit Assessment Institutions

Article 135 of EU Regulation 575/2013 provides that investment entities may use an external credit assessment to determine the risk weight of an exposure only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009. The external credit assessment institutions thus used should be recognized as "eligible" for these purposes by EBA.

The external credit assessment institutions ("ECAI") appointed by MLCME to determine the risk weightings to apply to its positions are the ECAI designated as eligible by the CNMV and communicated as such through Fondo General de Garantía de Inversiones ("FOGAIN"). Specifically, MLCME has used ratings for all exposure classes issued by Standard & Poor's, Moody's and Fitch.

FOGAIN is the Investors Compensation Scheme for clients of Spanish investment firms and clients of Spanish UCITS Managers (in this latter case, only where a discretionary portfolio management relationship has been established by the investor with the firm).

5.2.9 Accounting Definitions and methodology for Bad Debt Accounts, Impaired Positions and Impairment Allowances

A financial asset is considered past due but not impaired when it is in arrears but the value of the collateral is sufficient to repay both the principal debt and outstanding interest.

A financial asset is considered impaired (and hence its book value is adjusted to reflect the impairment) when there is objective evidence of the occurrence of events that give rise to a negative impact on the future cash flows that were estimated at the time the transaction was executed (for debt securities); and a situation in which not all of their book value can be recovered (for equity instruments).

As a general rule, the correction of the book value of financial instruments due to their impairment is made with a charge to the income statement for the year in which the impairment is observed. If previously recorded impairment losses are recovered, they are recognized in the income statement for the year in which the impairment is eliminated or reduced.

MLCME determines impairment losses according to the following policies:

- **Debt instruments carried at amortized cost.** The amount of impairment losses suffered by these instruments is equal to the negative difference between their carrying value and the present value of their projected future cash flows and is recorded as a reduction of the balances of the adjusted assets. Possible impairment losses are carried out individually. The calculation of some impairment losses is done using formulas based on ageing that consider the time effect of money, the expected cash flows or the age of the balances.

- **Financial assets available for sale.** The impairment loss is equal to the positive difference between their cost of acquisition (net of any amortization of principal, in the case of debt instruments) and their fair value; after deducting any impairment loss previously recognised in the income statement. When there is objective evidence that the negative differences arising in the assessment of these assets is due to impairment, they are no longer presented in the equity chapter "Valuation Adjustments" and are recorded at the full amount accumulated until then in the income statement. If all or part of the impairment losses is subsequently recovered, the recovered amount is recognized in the income statement for the period in which the recovery is made (under "Valuation Adjustments" of the balance sheet, in the case of equity instruments).

- **Equity instruments carried at cost.** Impairment losses are equal to the positive difference between their carrying value and the recoverable value, with the latter being understood to be the larger of their fair value less costs to sell and the present value of the expected future cash flows. Unless better evidence is available of the recoverable value, the latter is obtained by considering the equity of the investee company (consolidated, if applicable) adjusted for the unrealized capital gains existing at the valuation date. The impairment losses are recorded in the income statement for the period in which they arise, as a direct reduction of the cost of the instrument. These losses can only be recovered thereafter if the assets are sold.

5.3 Credit Value Adjustment

Credit Value Adjustment ("CVA") is an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

MLCME calculates CVA risk using the simple approach.

Table 14 – Credit Value Adjustment

(Euro Thousands)

	2016	
	Risk Exposure	Capital Requirements
Credit Value Adjustment	45,570	3,646
Total	**45,570**	**3,646**

5.4 Market Risk

MLCME calculates its risk exposure for market risk using the Standardised Approach**.** The table below provides the risk exposure and capital requirements for market risk in the trading portfolio positions, foreign exchange risk and for the net gold position.

MLCME's own funds requirement for position risk are calculated as the sum of the own funds requirements for the general and specific risk of its positions equity instruments, as MLCME does not have commodities or fixed income positions. Specific risk is calculated as 8% of the overall gross position in equity instruments. General risk is calculated as 8% of the net position in equity instruments.

In the case of exchange rate risk, MLCME calculates it as the sum of its overall net foreign exchange position multiplied by 8%, per Article 351 of EU Regulation 575/2013.

The table below details MLCME's exposure to Market Risk and Foreign Exchange Risk.

Table 15 – Market Risk exposure and capital requirements

(Euro Thousands)

	2016		
	Risk Weighted Assets	Capital Requirements	% of Total Capital Requirements
Positions in Equity Shares	163	13	3%
Exchange Rate Risk	4,986	399	97%
Total	**5,149**	**412**	**100%**

As at 31 December 2016, MLCME did not have capital requirements for settlement risk on the trading portfolio.

5.5 Operational Risk

MLCME calculates its risk exposure for operational risk using BIA**.** The table below provides the risk exposure and capital requirements for operational risk.

Table 16 – Operational Risk exposure and capital requirements

(Euro Thousands)

	2016	
	Risk Exposure	Capital Requirements
Operational risk	108,413	8,673
Total	**108,413**	**8,673**

5.6 Capital Resources

MLCME has Total Capital of € 230.2m, all of which is Tier 1. Information required by Article 437 of Regulation 575/2013 has been included in Table 17 (Capital instruments main features), following the templates laid down by EU Regulation 1423/2013.

By way of derogation from Article 4 of EU Regulation 1423/2013 during the period from 31 March 2014 to 31 December 2017 in order to meet the requirements for disclosure of the additional items on own funds as provided for in Article 492(3) of Regulation (EU) No 575/2013, the information related to those items is included in Table 18 (Common Equity Tier 1 capital: instruments and reserves), of the present document.

Table 17 – Capital instruments main features

	Capital instruments main features	Ordinary shares
1	Issuer	Merrill Lynch Capital Markets España, SA SV
2	Unique identifier	Unlisted
3	Governing law(s) of the instrument	RD 1/2010, de 2 de julio. Articles 90-158
	Regulatory treatment	
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 36
9	Nominal amount of instrument	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholder's equity
11	Original date of issuance	13/06/1996
12	Perpetual or dated	Perpetual
13	Original maturity date	no maturity date
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/Dividends	
17	Fixed or floating dividend/coupon	Floating
18	coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type inmediately senior to instrument)	Tier 1 instruments
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Table 18 – Common Equity Tier 1 capital: instruments and reserves

	Common Equity Tier 1 capital: instruments and reserves	31 Dec 2016 EUR (000)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	36,061	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
2	Retained earnings	0	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and any other reserves)	194,163	26 (1)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	230,224		N/A
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	0	34, 105	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b) (c)	N/A
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	0		N/A
29	Common Equity Tier 1 (CET1) capital	230,224		N/A
Additional Tier 1 (AT1) capital: instruments				
45	Tier 1 capital (T1 = CET1 + AT1)	230,224		N/A
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	0	62, 63	N/A
51	Tier 2 (T2) capital before regulatory adjustment	0		N/A
Tier 2 (T2) capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 (T2) capital	0		N/A
58	Tier 2 (T2) capital	0		N/A
59	Total capital (TC = T1 + T2)	230,224		N/A
60	Total risk-weighted assets	159,132		N/A
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	144.68%	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of total risk exposure amount	144.68%	92 (2) (b), 465	N/A
63	Total capital (as a percentage of total risk exposure amount	144.68%	92 (2) (c)	N/A
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	0.63%	CRD 128, 129, 140	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	144.05%	CRD 128	N/A

5.7 Leverage

The leverage ratio is a measure of Tier 1 capital as a percentage of exposure as defined under the CRR rules.

The leverage ratio minimum requirement during 2016 is 3%. MLCME's ratio as of December 31st 2016 is 88.2%.

Table 19 – Leverage Ratio

	LEVERAGE RATIO	31/12/2016
	(Millions of Euros)	2016
1	Total consolidated assets as per published financial statements	331
4	Adjustments for derivative financial instruments	4
7	Other adjustments	-75
8	**Leverage Ratio Exposure - (transitional basis)**	**261**
Additional information		
	Leverage ratio exposure - transitional basis	261
	Additional asset amounts deducted in determining Basel III all-in Tier 1 capital	0
	Leverage Ratio Exposure - all-in basis	**261**

	LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE	
	(Millions of Euros, except percentages)	
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures, but including collateral)	256
2	(Asset amounts deducted in determining Basel III transitional Tier 1 capital)	
3	**Total on-balance sheet exposure (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**256**
Derivatives exposures		
4	Replacement cost associated with all derivatives transactions	5
11	**Total derivative exposures (sum of lines 4 to 10)**	**5**
Capital and Total Exposures - Transitional Basis		
20	Tier 1 capital	230
21	Total Exposures (sum of lines 3,11,16 and 19)	261
Leverage ratio - Transitional Basis		
22	Basel III leverage ratio	88.16%
All-in basis (Required by OSFI)		
23	Tier 1 capital - All-in basis	230
24	(Regulatory adjustments)	
25	Total Exposures (lines 21+24-2) - All-in basis	261
26	**Leverage ratio - All-in basis**	**88.16%**

	Total on-balance sheet exposures (excluding derivatives and STFs), of which:	**256**
	Trading book exposures	72
	Banking book exposures	
	Other exposures	185

Regarding the factors that had an impact on the leverage ratio during 2016, MLCME's on-balance sheet exposure decreased from previous year as MLCME has sold most of its portfolio of stocks hedged with derivative products. Off-balance sheet exposures also decreased due to lower activity in derivatives. As the entity's Tier 1 capital increased, the leverage ratio has improved when compared to 2015 ratio of 8.51%.

5.8 Equity Holdings and Instruments not included in the Trading Portfolio

The holdings in equity instruments not included in the trading portfolio are booked as available for sale investment assets.

As at 31 December 2016 the investment portfolio classified as “Available for sale investment assets” related to the holding in the management company of the FOGAIN (the Investors Compensation Scheme for clients of Spanish investment firms), worth 5,000 Euros, consisting of 25 shares.

This holding is carried at cost because they are equity instruments not traded in an active market and because their fair value cannot be estimated with reasonable objectivity.

5.9 Capital Conservation Buffer and Countercyclical Buffer

According to CRD IV, firms must calculate the following buffers:

- A capital conservation buffer of common equity tier 1 capital equal to 2.5% of its total risk exposure amount (there is a transitional period between 1 January 2016 and 31 December 2018 where the percentages applied will be 0.625% for 2016, 1.25% for 2017 and 1.875% for 2018). As of December 31st 2016 MLCME held a Capital Conservation Buffer of EUR 1.0 million.
- A countercyclical capital buffer of common equity tier 1 capital which reflects the geographic composition of an entities credit exposures. Phased in from 1 January 2016, the calculation is based on the total risk exposure amount multiplied by the weighted average of the countercyclical buffers rates that apply to exposures in the jurisdiction where the entities relevant credit exposures are located. MLCME has credit exposures in Spain, U.S.A, U.K and India, all of who have a countercyclical buffer rate of 0% with the exception of India who has not released a buffer rate to date. For the Countercyclical Capital Buffer, MLCME does not hold any additional capital as either the published jurisdiction percentage is 0% or there is no information available from the regulator.

6 Additional Information on Remuneration Disclosures

6.1 Introduction

The following information has been prepared in order to comply with the qualitative and quantitative disclosures required by article 191 of the Royal Decree - Law 4/2015 approving the revised Securities Market Law ("Law 4/2015").

Law 4/2015 requires that qualitative and quantitative disclosures be made in accordance with terms specified in article 450(1) of the Capital Requirements Regulation (Regulation (EU) No 575/2013 – the "CRR"). Accordingly, the following information sets forth the qualitative remuneration disclosures required under paragraphs (a) to (f) of article 450(1) of the CRR, as in force at 31 December 2016, regarding the incentive compensation programs operated in performance year 2016 by BAC. The quantitative disclosures required under paragraphs (g) to (i) of article 450(1) of the CRR appear after this section.

The disclosures relate to staff identified as material risk takers ("MRTs") at Bank of America's operations in respect of MLCME, taking into account the qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile developed by the European Banking Authority contained in Commission Delegated Regulation (EU) No 604/2014.

The Company applies prudent risk management practices to its incentive compensation programs across the enterprise and is committed to a compensation governance structure that effectively contributes to its overall risk management policies.

In order to provide an appropriate balance of risk and reward, incentive compensation plans are developed in accordance with the Company's Global Compensation Principles:

Principle 1. Compensation should be comprised of an appropriate mix of salary, benefits and incentives paid over time that properly aligns employee and stockholder interests.

Principle 2. Criteria for payment of incentive compensation should take into account Bank-wide, business unit and individual factors.

Principle 3. Compensation should be determined on the basis of a combination of financial and non-financial factors that reflect both the current period and a longer period.

Principle 4. Compensation programs should incorporate appropriate governance processes and procedures.

These principles work in conjunction with broader compensation practices, including the Company's overall commitment to pay for performance, remuneration policies and risk management processes set forth in the Company's Risk Framework and Risk Appetite.

6.2 Governance and the Decision-making Process for Determining the Remuneration Policy

The Company applies its compensation policy on a global basis and has four primary levels for the governance of incentive compensation plans:

(i) the Board of Directors (the "Board"),

(ii) the Board of Directors Compensation and Benefits Committee (the "Committee"), which is wholly made up of independent directors and functions as the Company's global Remuneration Committee,

(iii) the Management Compensation Committee, and

(iv) Governance by Line of Business Management and Independent Control Functions aligned to the Line of Business.

The Committee oversees the establishment, maintenance and administration of the Company's compensation programs and employee benefit plans, including approving the compensation of the direct reports of the Chief Executive Officer (the "CEO") and approving and recommending the compensation of the CEO to the Board for its further approval. Under supervision of the Committee, oversight, review and responsibility for remuneration decision-making is allocated to the appropriate level of the Company's structure so that the most relevant level of management makes remuneration decisions with documented input from the Company's Independent Control Functions.

The Committee has adopted and annually reviews the Bank of America Compensation Governance Policy to govern incentive compensation decisions and define the framework for design oversight of incentive compensation programs across the Company. The Compensation Governance Policy is designed to be consistent with global regulatory initiatives so that the Company's incentive compensation plans do not encourage excessive risk-taking.

The Committee receives, from time to time, direct feedback from the Independent Control Functions on compensation programs. For performance year 2016, in addition to reviewing the individual incentive compensation awards for executive officers and other senior executives who report directly to the CEO, the Committee also reviewed the outcomes of the Company's robust control function feedback process and individual incentive compensation awards for certain highly compensated employees. As part of its governance routine, the Committee met with the heads of the Company's Independent Control Functions (including the Chief Risk Officer) and business lines to discuss their feedback on the pay-for-performance process, including their experience managing risk and conduct matters. As a result of these processes and reviews, and in combination with the risk management and clawback features of the Company's compensation programs, Bank of America believes that its compensation policies and practices appropriately balance risks and rewards in a way that does not encourage excessive or imprudent risk-taking or create risks that are reasonably likely to have a material adverse effect on the Company. In addition, the Company's Chief Risk Officer also certifies all incentive plans across the Company as part of the Management Compensation Committee's governance process.

As authorized under its charter, the Committee has engaged Farient Advisors, LLC as its independent compensation consultant. The independent compensation consultant meets regularly with the Committee outside the presence of management and alone with the Committee chair, and also reviews management's incentive plan certifications with the Committee.

During performance year 2016, the Committee held seven (7) meetings. Additional information regarding the Committee is included in the annual Proxy Statement available on Bank of America's Investor Relations website.

6.3 The Link Between Pay and Performance

The cornerstone of Bank of America's compensation philosophy across all lines of business is to pay for performance – Company, line of business and individual performance. Through the Company's Performance Management process, employees understand performance expectations for their role through on-going dialogue with their manager. The Performance Management process is designed and monitored by the Leadership Development function in Human Resources. This process is reviewed periodically so that it meets the needs of managers to assess and communicate performance expectations. Throughout the year, employees receive coaching on their performance and ultimately receive a rating for their full year of performance based upon their achievement of goals for their job.

Each employee's performance is assessed on financial and non-financial metrics as well as specific behaviors, and performance is factored into each employee's incentive compensation award. Depending on the employee, financial performance metrics may be focused on corporate-wide, line of business, or product results. Non-financial performance metrics may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture/adherence to risk framework and operating principles and other core values of the Company.

Employees receive two ratings – a Result rating (based on objective metrics such as business performance) and a Behavior rating (based on subjective metrics such as contributions to the Company, leadership, conduct, teamwork, etc.). The scale for both ratings is Exceeds Expectations, Meets Expectations, and Does Not Meet Expectations. Both the Result and Behavior ratings are used in determining employees' compensation. As a result, an employee's compensation can be influenced not only by what the employee achieves, but how the employee achieves it and the employee may receive no variable award if performance is not sufficiently strong.

The Company's pay-for-performance program also requires that all employees complete annual mandatory risk and compliance training.

6.4 Risk Management and Incentive Plans

Risk is inherent in every material business activity that the Company undertakes. The Company's business exposes it to strategic, credit, market, liquidity, compliance, operational and reputational risks. The Company must manage these risks to maximize its long-term results by ensuring the integrity of its assets and the quality of its earnings. To support the Company's corporate goals and objectives, risk appetite, and business and risk strategies, the Company maintains a governance structure that delineates the responsibilities for risk management activities, as well as governance and oversight of those activities, by management and the Company's Board.

Executive management develops for Board approval the Company's Risk Framework, which defines the accountability of the Company and its employees in managing risk; the Company's Risk Appetite Statement, which defines the parameters under which the Company will take risk; and the Company's strategic and financial operating plans. Management monitors, and the Board oversees directly and through its committees, the Company's financial performance, execution against the strategic and financial operating plans, compliance with the risk appetite metrics and the adequacy of internal controls.

The Company believes that prudent risk management practices are applied to its incentive remuneration programs across the enterprise. The Company continually evaluates the design of its remuneration programs in accordance with the risk framework. The Committee is committed to a compensation governance structure that effectively contributes to the Company's broader risk management policies.

The Company's incentive plans are designed to compensate employees based on their performance ratings for results against their individual performance plan and behaviors, as well as overall Company and line of business performance.

Incentive plan bonus pools are based on profit measures, which inherently recognize certain underlying risk factors and are further adjusted to reflect the use of capital associated with individual lines of business or products and/or the quality and sustainability of earnings over time. The determination of incentive plan bonus pools is also subject to management discretion which operates so proper account is taken of the performance of the overall Company, individual lines of business, products and other factors including the achievement of strategic objectives.

Incentive plan bonus pools may be adjusted to reflect long-term risk arising through line of business and product performance. These pools are tied to the overall performance, inclusive of risk, of Bank of America and/or specific lines of business or products, creating for employees a vested interest in profitable performance across the Company and its businesses.

Long-term risk is also taken into account and managed in connection with the Company's incentive compensation programs through arrangements permitting performance adjustment of deferred variable compensation. Employees in positions where the greatest risk is being taken are subject to higher levels of deferral and potential performance adjustments.

The compensation of the Independent Control Functions is determined independently from the line of business supported. The funding of the incentive pool for these employees is based upon overall Company performance with the actual employee awards determined based upon individual performance against predetermined objectives.

6.5 Employee Pay

Bank of America compensates its employees using a balanced mix of fixed remuneration, annual cash incentives and deferred incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee's management level or amount of incentive compensation award, the greater the proportion of incentive compensation should be (i) subject to deferral and (ii) delivered in the form of equity-based compensation. The Company believes equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. A significant portion of incentive awards is provided as a deferred incentive that generally becomes earned and payable over a period of three years after grant and will be cancelled in case of detrimental conduct or (for certain risk-takers) failure of the Company, line of business or business unit (as applicable) to remain profitable during the vesting period. Where applicable, the length of deferral is extended to reflect local regulatory requirements. This approach serves two key objectives, which are to focus employees on long-term sustainable results and to subject compensation awards to risk over an appropriate time horizon that can be easily communicated and understood.

6.6 Material Risk Taker Pay

For performance year 2016, the Company operated an enterprise-wide approach in the identification of MRTs taking into consideration local regulatory requirements. In the EU, the Company layers into its enterprise process the qualitative and quantitative criteria outlined in the EBA Regulatory Technical Standards for the definition of material risk takers (the "RTS"). MRTs are determined based on the role and activities of the employee taking into consideration the size, internal organization and nature, scope and complexity of the Company's activities and on the quantitative criteria in the RTS.

In accordance with Article 94(1)(g) of the Capital Requirements Directive 2013/36/EU ("CRD IV"), the Company has set appropriate ratios between the fixed and variable components of the total remuneration package. Where applicable, the Company has obtained approvals from relevant Shareholders for an increase of the approved ratio to not exceed 200% of the fixed component of the total remuneration for each individual. The average variable to total remuneration ratio for MLCME MRTs is 49%.

Variable pay for MRTs for performance year 2016 consisted of a mixture of upfront payments and deferred payments. Deferred awards were delivered in the form of equity awards which generally become earned and payable over a period of three years after grant with, for MRTs, each tranche being subject to a further six month holding period following vesting. For MRTs with significant incentives, the Company applies deferral percentages which are no less than, and in many cases in excess of, what is prescribed by the CRD IV. Deferred awards will be cancelled in the case of detrimental conduct or failure of the Company, line of business or business unit (as applicable) to remain profitable during the vesting period. If risks taken as part of approved business strategies do not result in sustainable profits, or if the employee fails to behave according to Company standards or fails to meet the criteria set out in CRD IV, the value of the deferred equity award may be impacted or adjusted downwards, and/or vested amounts may be clawed back. The recommendations for performance year 2016 incentive awards for MRTs were reviewed on a name by name basis by the Committee at its meeting in January 2017.

By combining deferred awards with performance-based cancellation, detrimental conduct clawback and other malus and clawback criteria set out in CRD IV, the Company considers that it places a strong focus on sustainable long-term results and appropriate behaviors.

6.7 Quantitative data

This section contains the information required under paragraphs (g) to (i) of article 450(1) of the CRR in respect of MLCME. Aggregate quantitative information is regarding remuneration for performance year 2016 including both (i) Board members in MLCME and (ii) MRTs in MLCME. All MRTs in MLCME are part of the Global Banking and Markets line of business, none of which are categorized as Senior Management within the Company's group structure.

Paragraph 2 of Article 450 of the CRR states that the disclosure requirements must be complied with in a manner that is appropriate to the size, internal organization and the nature, scope and complexity of the activities of a credit institution and without prejudice to Directive 95/46/EC (the "EU Data Protection Directive").

Any disclosure of information in respect of the compensation received by a very small number of MRTs and/or Board members in any country may permit those employees to be easily identified. Any disclosure would therefore carry a material risk of disclosing the compensation of individuals to the public, thereby prejudicing their legitimate interests and would be contrary to the EU Data Protection Directive and/or applicable local law. The Company, therefore, makes the quantitative disclosure below which represents aggregate data for the MRTs and Board members of MLCME to protect the data privacy of the employees. In addition, due to a very small number of MRTs and Board members identified for MLCME, the Company is unable to make detailed quantitative disclosures in respect of new sign-on and severance payments made during the financial year.

Table 20 – Aggregate Quantitative Information

Category	Total Board members and MRTs
	(000's)
Amounts of remuneration	
Fixed Remuneration	EUR 3,308
Variable Remuneration	EUR 3,114
Number of Staff	6
Types of Variable remuneration	
Upfront Cash (paid February 2017)	EUR 786
Vested RSUs (Upfront Equity-based awards, vested February 2017, 6 month hold)	EUR 207
Deferred Equity-based awards	EUR 2,121
Deferred remuneration	
Amount unvested at 1 January 2016	EUR 6,306
Amount awarded in 2016	EUR 3,588
Amount vesting in 2016	EUR 2,957
Amount unvested at 31 December 2016	EUR 6,937
Amounts awarded in February 2017	EUR 2,239
Amounts reduced by performance adjustments	EUR 0

Number of individuals being remunerated EUR 1 million or more	
EUR 1 million to EUR 1.5 million	1
EUR 2.5 million to EUR 3 million	1

Notes for disclosure tables

FX Rate – Frozen rate of -1.1152247

Stock price for Deferred Remuneration calculations (values) -15 Feb 2017 Fair Market Value ($24.58)