Merrill Lynch Capital Markets España

Pillar 3 Disclosure

As at 31 December 2017

Bank of America
Merrill Lynch

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Glossary

AT1	Additional Tier 1
BAC	Bank of America Corporation
BIA	Basic Indicator Approach
CCYB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFs	Control Functions
CGP	Compensation Governance Policy
CMU	Collateral Monitoring unit
CNMV	Comisión Nacional del Mercado de Valores
CQS	Credit Quality Steps
CRD IV	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustment
EBA	European Banking Association
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
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
MCC	Management Compensation Committee
MLCME	Merrill Lynch Capital Markets España
MRT	Material Risk Takers
RAS	Risk Appetite Statement
RTS	Regulatory Technical Standards
RSU	Restricted Stock Units
RWA	Risk Weighted Assets
SPANISH GAAP	Spanish Generally Accepted Accounting Principles
WC	Wholesale Credit

1. Introduction

1.1 Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2017 in respect of the capital and risk management of Merrill Lynch Capital Markets España, S.A., S.V. ("MLCME" or "the Firm"), 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.
Scope of Application:	Individual
Department Responsible for Production and Review of Report:	International Capital Management & Advocacy
Report Responsibility:	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: 21 March 2018

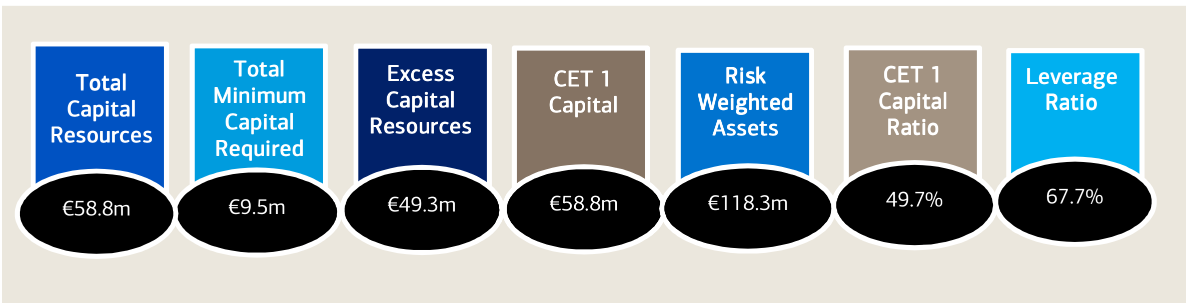
1.1.1 Merrill Lynch Capital Markets España, S.A., S.V.

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

1.1.2 MLCME's Capital Position at 31 December 2017

MLCME's Capital Resources of €58.8m consist entirely of Tier 1 capital. MLCME has Risk Weighted Assets ("RWA") of €118.3m, a Tier 1 to RWA ratio of 49.7%, and a surplus over Pillar 1 Minimum Capital Requirement of €49.3m.

Figure 1 - Summary of MLCME's Key Metrics as at 31 December 2017



1.2 Basis of Preparation

The information contained in these disclosures has been prepared in accordance with the Basel III rule framework, for the purpose of explaining the basis on which MLCME has prepared and disclosed certain information about the management of risks and the application of regulatory and capital adequacy rules and concepts. It therefore does not constitute any form of financial statement on MLCME, or of the wider Enterprise, 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.

In addition, the report does not constitute any form of contemporary or forward looking record or opinion on the Firm. Although the Pillar 3 disclosure is 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 banks.

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 has assessed that it will not make additional disclosures.

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 CRR Chapter II. In addition, as at 31 December 2017, 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 and Organisation

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.

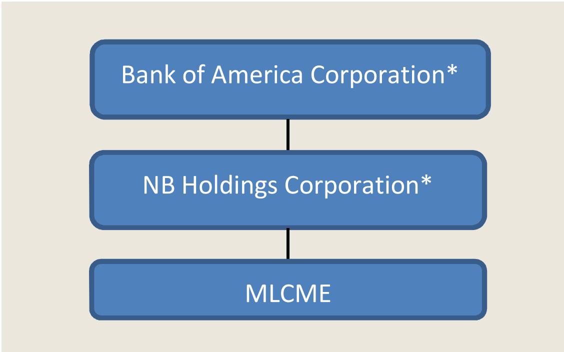
MLCME was entered in the Register of Securities Brokers-Dealers (Registro de Sociedades de Valores) of the CNMV on 9 July 1996 under number 161. MLCME is wholly owned by NB Holdings Corporation which in turn belongs to BAC, which is registered in the United States of America.

Below is the list of activities undertaken by 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.;
- Advising companies on capital structures, industrial strategy and related questions, as well as advising and other services in relation to corporate mergers and acquisitions; and
- Foreign exchange services in relation to the provision of investment services.

For a full BAC organisation chart, please refer to the investor relations website at http://investor.bankofamerica.com

Figure 2 - MLCME Ownership Structure



Not all subsidiaries of Bank of America Corporation and NB Holdings Corporation are represented.

2. Capital Resources and Minimum Capital Requirement

2.1 Capital Resources

2.1.1 Summary of 2017 Capital Resources

Capital resources represents the amount of regulatory capital available to an entity in order to cover all risks. Defined under CRD IV, capital resources are designated into two tiers, Tier 1 and Tier 2. Tier 1 capital consists of common equity capital ("CET1") and additional tier 1 ("AT1"). CET1 is the highest quality of capital and typically represents equity and audited reserves; AT1 usually represents contingent convertible bonds; Tier 2 capital typically consists of subordinated debt and hybrid debt capital instruments.

All of MLCME's Tier 1 capital is made up of CET1.

Table 1 – Total Qualifying Capital

(Euro Thousands)		2017	2016
1.1	TIER 1 CAPITAL	58,792	230,224
1.1.1	COMMON EQUITY TIER 1 CAPITAL	58,792	230,224
Total		**58,792**	**230,224**

2.1.2 Key Movements in 2017

Capital Resources in the period decreased by 74.5% due to a dividend payment of €184m approved by MLCME's Board in November. Despite this dividend payment, MLCME remains well capitalised with a Total Capital Adequacy Ratio of 49.7%.

2.1.3 Transferability of Capital within the Group

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

2.2 Minimum Capital Requirement

2.2.1 Summary of 2017 Capital Requirement

MLCME is subject to a Minimum Capital Requirement set out in the CRR and CNMV requirements. MLCME is required to hold capital in addition to the Minimum Capital Requirement to meet CRDIV buffers and local CNMV obligations.

The Minimum Capital Requirement is comprised of credit risk, market risk and operational risk requirements. MLCME has a Minimum Capital Requirement of €9.5m (2016: €12.7m) comprising of the risk requirements outlined in Table 2.

Table 2 - Minimum Total Capital Requirement

(Euro Thousands)	2017	2016
Credit Risk	1,395	3,485
Credit Valuation Adjustment	0	161
Market Risk	224	412
Operational Risk	7,847	8,673
Pillar 1 Capital Requirement	**9,466**	**12,731**

2.2.2 Key Movements in 2017

MLCME's Pillar 1 capital requirement has decreased from €12.7m in 2016 to €9.5m in 2017. The key movements in capital requirements relate to a decrease in credit risk, CVA and market risk requirements driven by the sale of the remaining assets in its investment securities portfolio as well as decreased balances with financial institutions. Operational risk, which follows the Basic Indicator Approach ("BIA"), has also decreased in 2017.

2.2.3 Minimum Total Capital Requirement Approach

MLCME has adopted the standardised approach for calculating credit, counterparty and market Risk, and 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 Capital Requirement

MLCME's Capital Resources in excess of its Minimum Total Capital Requirement have decreased from €217.5m in 2016 to €49.3m in 2017 as a result of the dividend payment of €184m in November 2017.

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 decreased from 144.7% to 49.7% over the year due to the dividend payment. It must also be noted that MLCME has seen a significant reduction of its credit risk, CVA, market risk and operational risk requirements caused by a reduction of its balance sheet and the activities it carries out during 2017. MLCME no longer invests in securities or derivatives, which has been a source of CVA and market risk in previous years.

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 January 2021. MLCME's transitional and fully-phased in leverage ratios are in excess of this at 67.7%.

Table 3 - Leverage Ratio

	2017	Minimum Requirement
Transitional Leverage Ratio	67.7%	3%
Fully Phased-In Leverage Ratio	67.7%	3%

	2016	Minimum Requirement
Transitional Leverage Ratio	88.2%	3%
Fully Phased-In Leverage Ratio	88.2%	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"), 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

MLCME was in compliance with its regulatory and internal liquidity requirements throughout 2017.

3.1.3 Funding Profile

MLCME funds its balance sheet through capital and intercompany term funding.

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 has loan agreements with other Group entities to manage its liquidity requirements. As of 31st December 2017, MLCME does not have any encumbered assets on its balance sheet, nor does it hold any collateral.

This asset encumbrance disclosure, as at 31st December 2017, is prepared in accordance with 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

(Euro 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**		**86,820**	
Equity instruments	0	0	3	3
Debt securities	0	0	0	0
Other assets	0		86,817	

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

(Euro 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	**0**	**0**
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	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

(Euro 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**	**0**

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, 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 mind-set and behaviour to enable effective risk management and promote sound risk-taking within BAC's risk appetite. Sustaining a culture of managing risk well is critical to the success of BAC and is a clear expectation of BAC executive management and the boards of directors.

4.2.2 Risk Appetite

The BAC Risk Appetite Statement ("RAS") defines the types and levels of risk BAC is willing to take 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.

MLCME is a Spanish broker-dealer within the BAC group and 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 2017, MLCME's total assets, prepared in accordance with Spanish GAAP, are €86.8m, and comprised mainly of cash and intercompany loans of €76.1m. Net income after tax for the year ended 31 December 2017 is €21.2m. As at 31 December 2017 MLCME has €80.0m of total equity, with Tier 1 capital of €58.8m. Tier 1 capital ratio is reported at 49.7%.

MLCME's largest exposure as at 31 December 2017 is to operational risk, calculated following the Basic Indicator Approach, with RWAs of €98.1m.

MLCME's second largest exposure is credit risk with RWA of €17.4m. Its credit portfolio, based on regulatory credit exposures, is 97.31% concentrated in Europe. The largest industry concentration is to financial institutions which represent 99.96% of the exposure. Exposures are under 1 year.

MLCME has limited market risk exposure from Indian equities as this activity ceased in October 2017, with only 3 residual positions remaining in the portfolio with a market value of just €1,536.

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2017, MLCME has a liquidity ratio of 23% which far exceeds the minimum requirement of 10% of liabilities due within 1 year. 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 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 aligned to 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 Processes

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.

Front Line Units ("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; and
- 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.

4.3.1 Credit Risk

Definition
Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.

Credit Risk Management
MLCME manages credit risk to a borrower or counterparty based on its risk profile, which includes assessing repayment sources, underlying collateral, if any, and the expected effects 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. At the front line unit level, Independent Risk oversees credit risk management processes and governance in accordance with BAC requirements and authority levels. 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 reported through the various regulatory and internal reports produced monthly and quarterly for senior management and the Board.

4.3.2 Market Risk

Definition
Market risk is the risk that changes in market conditions may adversely impact the values of assets and liabilities or otherwise 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 foreign exchange risk from its activity. MLCME sold the remaining assets from its Indian equities business except for three positions with a market value of just €1,536. As a result of this MLCME's market risk exposure as of 31 December 2017 is minimal.

4.3.3 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

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 is 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 supporting standards, and adherence to the operational risk management program.

The BAC operational risk management 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.

4.3.4 Liquidity Risk

Definition

Liquidity risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support the businesses and customers, under a range of economic conditions.

Liquidity Risk Management

Each of the FLUs are 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 FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of the MLCME'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 Corporate Treasury and GRM.

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% of its short-term (due in less than one year) liabilities in high quality liquid assets (cash, highly-rated sovereign bonds). Throughout 2017, MLCME had sufficient liquid assets to meet short-term liabilities on its balance sheet. As at 31 December 2017, MLCME had a liquidity ratio of 23% which far exceeds the 10% minimum regulatory requirement.

4.3.5 Compliance Risk

Definition

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

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 global compliance program and defines roles and responsibilities of the three lines of defence in mapping compliance risk.

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 and risk associated with improper conduct.

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,

Compliance risk metrics are regularly reported to the Board of Directors of MLCME.

4.3.6 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 Management

Reputational risk is managed 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 Europe, Middle East and Africa ("EMEA") region there is a dedicated committee, the EMEA Reputational Risk Committee, whose mandate 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 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.

4.3.7 Strategic Risk

Definition

Strategic risk is the risk that results from incorrect assumptions about external and / or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus, ambiguous), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments in the geographic locations in which BAC operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

Strategic Risk Management

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

4.4.1 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.

4.4.2 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

4.4.3 Securitisation

MLCME has not conducted any asset securitizations to date, so no capital is required for these positions according to CRR Title II.

4.4.4 Impact of Risk Reduction Techniques and Positions Deducted Directly From Own Funds

MLCME neither applies the credit reduction techniques referred to in CRR article 108 nor does it deduct any positions from own funds.

4.4.5 Internal Capital Adequacy Assessment Process ("ICAAP")

MLCME prepares an ICAAP at least annually in compliance with Royal Decree 358/2015 of 8 May 2015. 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.

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 2017.

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)

2017			
Categories of exposure	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Institutions	17,394	1,.392	99.78%
Companies	39	3	0.22%
Total	**17,433**	**1,395**	**100%**

For the purposes of this table, the exposure classes not included 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 CRR Title II as at 31 December 2017, without considering the effects of credit risk mitigation that may apply to those positions, stood at €86.8 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	2017 Exposure
Government	8,057
Institutions	78,721
Companies	39
Total	**86,817**

The following table presents the average value during 2017 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	2017 (*) Average Exposure
Government	6,446
Institutions	149,503
Companies	21
Retail	274
Total	**156,244**

(*) Value of the position calculated according to CRR Title II. The average value has been obtained as the simple mean of the quarterly positions maintained by MLCME between 1 January 2017 and 31 December 2017 on the basis of the regulatory requirements established in CRR.

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 2017, broken down by geographical areas:

Table 10 – Geographical Distribution

(Euro Thousands)

2017	Country				
Categories of Exposure	Spain	India	United Kingdom	United States	(*) position
Government	8,057				8,057
Financial Institutions	301	2,060	76,083	277	78,721
Companies	39				39
Total	**8,397**	**2,060**	**76,083**	**277**	**86,817**

(*) Value of the position taken according to CRR Title II.

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 2017 in the categories of "Government" and "Institutions" relate to positions with financial institutions. Exposures to financial institutions amounted to 99.96% of the total risk exposure.

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 2017, 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 2017					
	On demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than five years	Total
Governments	8,057	-	-	-	-	8,057
Financial Institutions	2,926	-	75,795	-	-	78,721
Corporates	39	-	-	-	-	39
Retail	0	-	-	-	-	0
Other exposures	0	-	-	-	-	0
Position at 31 December 2017	**11,022**	**-**	**75,795**	**-**	**-**	**86,817**

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 CRR Title II, Chapter II, Section II. 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

	2017
Asset Class / Credit Quality Step	(€ 000s)
Central Government	**8,057**
Credit quality step	
1	8,057
2	
3	
4	
5	
6	
Non Rated	
Institutions	**78,721**
Credit quality step	
1	76,659
2	
3	
4	
5	2,062
6	
Non Rated	
Corporates	**39**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	39

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 CRR Article 274.

After the sale of all its derivatives products in 2017, as of 31st December 2017, MLCME does not have any counterparty credit risk exposure.

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

As at 31 December 2017, MLCME did not have past due or impaired positions as per the definition of the CRR.

In addition, no expense was recorded in MLCME's 2017 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

CRR Article 135 of 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 ECAIs 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. MLCME's Risk exposure from CVA as of 31st December 2017 was zero.

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.

Table 13 – Market Risk Exposure and Capital Requirements

(Euro Thousands)

2017			
	Risk Weighted Assets	Capital Requirements	% of Total Capital Requirements
Foreign Exchange Risk	2,798	224	100%
Total	**2,798**	**224**	**100%**

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 14 – Operational Risk Exposure and Capital Requirements

(Euro Thousands)	2017	
	Risk Exposure	Capital Requirements
Operational risk	98,088	7,847
Total	**98,088**	**7,847**

5.6 Capital Resources

MLCME has Total Capital of €58.8m, all of which is Tier 1. Information required by Article 437 of CRR has been included in Tables 16 and 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 15 – Regulatory Capital Resources Reconciliation to Audited Balance Sheet

(Euro Thousands)	Balance Per Balance Sheet	Adjustment to Balance Sheet Items for Regulatory Capital Resources	Balance per Regulatory Capital Resources
Tier 1 Capital			
Share Capital	36,061	-	36,061
Share Premium	-	-	-
Capital Contribution	-	-	-
Profit and Loss Account and Other Reserves	22,732	-	22,732
Tier 1 Capital After Deductions	**58,793**	**-**	**58,793**
Tier 2 Capital	**-**	**-**	**-**
Total Capital Resources	**58,793**	**-**	**58,793**

Table 16 – 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 immediately senior to instrument)	Tier 1 instruments
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Table 17 – Common Equity Tier 1 Capital: Instruments and Reserves

	Common Equity Tier 1 capital: instruments and reserves	31 Dec 2017 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)	22,732	26 (1)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	58,793		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	58,793		N/A
Additional Tier 1 (AT1) capital: instruments				
45	Tier 1 capital (T1 = CET1 + AT1)	58,793		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)	58,793		N/A
60	Total risk-weighted assets	118,319		N/A
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	49.69%	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of total risk exposure amount	49.69%	92 (2) (b), 465	N/A
63	Total capital (as a percentage of total risk exposure amount	49.69%	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)	1.25%	CRD 128, 129, 140	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	48.44%	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 2017 is 3%. MLCME's ratio as of December 31st 2017 is 67.7%.

Table 18 – Leverage Ratio

	LEVERAGE RATIO	31/12/2017
	(Euro Millions)	**2017**
1	Total consolidated assets as per published financial statements	87
4	Adjustments for derivative financial instruments	0
7	Other adjustments	0
8	**Leverage Ratio Exposure - (transitional basis)**	**87**
Additional information		
	Leverage ratio exposure - transitional basis	87
	Additional asset amounts deducted in determining Basel III all-in Tier 1 capital	0
	Leverage Ratio Exposure - all-in basis	**87**

	LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE	
	(Euro Millions, except percentages)	
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures, but including collateral)	87
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)**	**87**
Derivatives exposures		
4	Replacement cost associated with all derivatives transactions	0
11	**Total derivative exposures (sum of lines 4 to 10)**	**0**
Capital and Total Exposures - Transitional Basis		
20	Tier 1 capital	59
21	Total Exposures (sum of lines 3,11,16 and 19)	87
Leverage ratio - Transitional Basis		
22	Basel III leverage ratio	67.72%
All-in basis (Required by OSFI)		
23	Tier 1 capital - All-in basis	59
24	(Regulatory adjustments)	
25	Total Exposures (lines 21+24-2) - All-in basis	87
26	**Leverage ratio - All-in basis**	**67.72%**
	Total on-balance sheet exposures (excluding derivatives and STFs), of which:	**87**
	Trading book exposures	0
	Banking book exposures	
	Other exposures	87

Regarding the factors that had an impact on the leverage ratio during 2017, MLCME's on-balance sheet exposure decreased from previous year as MLCME has sold the remaining assets of its portfolio of stocks hedged with derivative products. MLCME no longer has off-balance sheet exposures from derivatives. The consequence of these reduction in exposures is that even though entity's Tier 1 capital decreased after the dividend, the leverage ratio of 67.7% continues to be significantly higher than the 3% minimum required.

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 2017 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 1,400 Euros, consisting of 7 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 Countercyclical Capital Buffer

The countercyclical capital buffer 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. Spain and U.S.A. have published a countercyclical buffer rate of 0%, India has not released a buffer rate to date and U.K. has published 1% to be applied only from 28 November 2018.

Table 19 – Countercyclical Capital Buffer as at 31 December 2017

MLCME Exposures

	General credit Exposures	Trading book Exposures	Securitisation Exposures
(Euro Thousands)	Exposure value for Standardised Approach	Sum of long and short positions of trading book exposures for Standardised Approach	Exposure value for Standardised Approach
United Kingdom	76,083	0	0
United States of America	277	0	0
Spain	8,397	0	0
India	2,060	2	0
Total	**86,817**	**2**	**0**

MLCME Own Funds Requirement

	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
(Euro Thousands)	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
United Kingdom	1,217	0	0	1,217	0.87	0%
United States of America	5	0	0	5	0.00	0%
Spain	8	0	0	8	0.01	0%
India	165	0	0	165	0.12	0%
Total	**1,395**	**0**	**0**	**1,395**	**1.00**	**0%**

Institution Specific Countercyclical Capital Buffer

(Euro Thousands)	
Total risk exposure amount	86,817
Institution specific countercyclical capital buffer rate (%)	0%
Institution specific countercyclical capital buffer requirement	0

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 2017, regarding the incentive compensation programs operated in performance year 2017 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 BAC'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 EBA 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 Company-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 ("MCC"), and

(iv) governance by line of business management and independent control functions aligned to the line of business and regional governance (remuneration) committees.

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 (most recently in July 2017) the BAC Compensation Governance Policy ("CGP") to govern incentive compensation decisions and define the framework for design oversight of incentive compensation programs across the Company. The CGP 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 2017, 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, conduct reviews and individual incentive compensation awards for certain highly compensated employees and MRTs. As part of its governance routine, the Committee met with the heads of the Company's independent control functions (including the Chief Risk Officer ("CRO")) and business lines to discuss their feedback on the pay-for-performance process, including their experience managing risk and conduct matters. In addition, the Company's CRO also certifies all incentive plans across the Company as part of the MCC's governance process.

As a result of these processes and reviews, and in combination with the risk management and clawback features of the Company's compensation programs, BAC 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. Moreover, oversight by the Committee, MCC, independent control functions, and line of business management help the Company maintain a compensation program that is intended to mitigate the potential for conflicts of interests.

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 2017, the Committee held ten (10) 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 BAC'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 ongoing 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.

In addition, the Company does not remunerate or assess employees' performance in a way that encourages employees to act in a manner that conflicts with the duties owed to the Company's clients. Each employee's performance is assessed on quantitative and qualitative objectives as well as specific behaviours, and performance is factored into each employee's incentive compensation award. Depending on the employee, quantitative performance objectives may be focused on Company-wide, line of business, or product results. Qualitative performance objectives 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 factors such as business performance) and a behaviour rating (based on factors such as conduct, broader contributions to the Company, leadership, teamwork, etc.). The scale for both ratings is Exceeds Expectations, Meets Expectations, and Does Not Meet Expectations. Both the Result and Behaviour 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 behaviours, 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.

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.

Bank of America offers guaranteed bonus payments only in exceptional circumstances to newly hired employees, limited to the first year of employment. Where required, the Bank structures severance payments in accordance with regulatory requirements and defers payments in accordance with normal policies where required by applicable rules.

6.6 Material Risk Taker Pay

For performance year 2017, 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 European Banking Authority's Regulatory Technical Standards for the identification of MRTs (the "RTS") as well as additional criteria identified by the Company through internal governance routines. 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 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 stockholders for an increase of the approved ratio to not exceed 200% of the fixed component of the total remuneration for each individual, which were passed unanimously by relevant group holding companies. The average variable to total remuneration ratio for MLCME MRTs is 42%.

Fixed pay for MRTs for performance year 2017 consisted of salary, certain benefits and in some cases, role based allowances. Variable pay for MRTs for performance year 2017 consisted of a mixture of upfront payments (delivered in cash or restricted stock units ("RSUs")) and deferred payments. Deferred awards were delivered in the form of equity-based awards, typically in the form of RSUs which become earned and payable over a period of three years after grant with, for MRTs, each tranche being subject to a further six or twelve month holding period (as required) 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 may 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 2017 incentive awards for MRTs were reviewed on a name by name basis by the Committee at its meeting in January 2018.

By combining deferred awards with the Company's malus and clawback provisions, including the criteria set out in CRD IV, the Company considers that it places a strong focus on sustainable long-term results and appropriate behaviours.

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 2017 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.

Table 20 – Aggregate Quantitative Information

Category	Total Board Members and MRTs
Amounts of Remuneration	
Fixed Remuneration (000's)	EUR 3,702
Variable Remuneration (000's)	EUR 3,258
Number of Staff	7
Types of Variable Remuneration	
Upfront Cash (paid February 2018) (000's)	EUR 473
Vested RSUs (Upfront Equity-based awards, vested February 2018, 6 or 12 month hold) (000's)	EUR 355
Deferred Equity-based awards (000's)	EUR 2,430
Deferred Remuneration	
Amount unvested at 1 January 2017 (000's)	EUR 10,404
Amount awarded in 2017 (000's)	EUR 3,148
Amount vesting in 2017 (000's)	EUR 4,643
Amount unvested at 31 December 2017 (000's)	EUR 8,909
Amounts awarded in February 2018 (000's)	EUR 2,658
Amounts reduced by performance adjustments (000's)	EUR 0

Category	Total Board Members and MRTs
New Sign on and Severance Payments	
Total sign on payments (000's)	EUR 0
Number of payees	0
Total severance payments (000's)	EUR 0
Number of payees	0
Highest single severance payment (000's)	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 -1.1167208
Stock price for Deferred Remuneration calculations (values) -15 Feb 2018 Fair Market Value ($32.21)