Registered number: 2312079

Merrill Lynch International

Annual Report and Financial Statements

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

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Merrill Lynch International – Company Information

Directors

S. Schmidt Bies
J.Y. Bahurel
M.P. Basing
M. Butler
J.A. Gollan
C.A.C. Ighodaro
B.A. Mensah
J.M. Taylor
A.S. Wilmot-Sitwell
S. Zaimi

Company Secretary

Merrill Lynch Corporate Services Limited

Registered Number

2312079

Registered Office

2 King Edward Street
London
EC1A 1HQ

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

A. Strategic Report
For the Year Ended 31 December 2016

Bank of America Merrill Lynch

A. Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report on Merrill Lynch International ("MLI", the "Company") for the year ended 31 December 2016.

The Company's immediate parent is ML UK Capital Holdings Limited ("MLUKCH"). The ultimate parent of the Company is Bank of America Corporation (NYSE: BAC) ("BAC"). The Company is BAC's largest entity outside the United States and helps serve the core financial needs of global corporations and institutional investors.

The Company's head office is in the United Kingdom ("UK") with branches in Dubai, Milan, Rome, Stockholm and Qatar along with a representative office in Zurich. During the year, the Company's Amsterdam branch was closed and on 11 January 2017 the Company closed its offices in Milan and Rome.

The Company has the ability to conduct business with international clients and trade throughout the European Economic Area. The Company is authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

As at 31 December 2016, the Company was rated by Fitch (A/F1) and Standard & Poor's (A+/A-1).

Market Environment

The Eurozone grew moderately in 2016 amid increasing political uncertainty and fragmentation which led to political impasse and fragile governments in many countries, including Italy and Spain. In this context, the ECB extended its quantitative easing program, albeit at a slower pace.

In the US, for a second consecutive year, the Federal Open Market Committee raised its target range for the Federal funds rate by 25 basis points at the year's final meeting. With a stronger economy, rising inflation and continued labour market tightening, Federal Reserve members raised expectations that if economic growth continued, the pace of rate increases will pick up in 2017, although the removal of the accommodation monetary policy would remain gradual. The contrast between U.S. tightening and quantitative easing in Europe and Japan remained a source of dollar strength.

A referendum was held in the UK on 23 June 2016, which resulted in a majority vote in favour of exiting the European Union (EU). At this time, the ultimate impact of the UK's potential exit from the EU is unknown.

The vote increased global economic and market uncertainty and volatility, and resulted in significant declines in the value of the British Pound. Market volatility has since reduced and the Pound has shown some sign of recovery but does remain weak in comparison to the level before June 2016. The timing of the UK's formal commencement of the exit process is uncertain. Once the exit process begins, negotiations to agree on the terms of the exit are expected to be a multi-year process. During this transition period, the ultimate impact of the UK's exit from the EU may remain unclear and economic and market volatility may continue to occur. If uncertainty resulting from the UK's potential exit from the EU negatively impacts economic conditions, financial markets and consumer confidence, the Company's business, results of operations, financial position and/or operational model could be adversely affected.

In addition, if the terms of the exit limit the ability of the Company to conduct business in the EU or otherwise result in a significant increase in economic barriers between the UK and the EU, these changes could impose additional costs and adversely impact the Company's business, financial condition and operational model.

Risk Management

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 24).

Business Review and Future Developments

The Company's performance during 2016 reflects the continuing efficiencies in the BAC group as well as impacts of the volatile and challenging trading environment that the Company's businesses experienced during the year.

As part of a BAC wide initiative, the number of inter-affiliate trades booked in the Company has continued to reduce significantly over the course of the year. This is the driving factor of the reduced total assets year-on-year.

Assets and liabilities of the remaining Power and Gas trading businesses were transferred to the Company from an affiliated company during 2016.

The directors expect the principal activities of the Company will continue during 2017.

Divisional Performance

The Company's results are wholly derived from the Global Banking and Markets business which represents a single class of business.

The Company has three principal business divisions within Global Banking and Markets.

Fixed Income, Currencies and Commodities ("FICC") net revenues were up $6 million on the previous year, driven by increased rates activity within Asia offset by a reduction in global FX revenues.

Equities net revenue was down $421 million driven by decreases in client fulfilment within EMEA and execution services within Asia.

Investment Banking net revenue was up $77 million driven by higher M&A fees and increased debt financing activity.

Income Statement Summary

	2016 $m	2015 $m	Change $m	Change %
Net principal trading	2,613	2,571	42	2%
Corporate finance fees	602	579	23	4%
Commissions	687	767	(80)	(10)%
Other income	716	874	(158)	(18)%
Total net operating income	**4,618**	**4,791**	**(173)**	**(4)%**
Administrative expenses	(3,971)	(4,026)	55	(1)%
Net interest payable	(38)	(41)	3	(7)%
Income from investments	21	-	21	-
Profit before tax	**630**	**724**	**(94)**	**(13)%**

Net principal trading

This income reflects the performance of the Company's trading businesses. These largely operate through derivative contracts with corporate or institutional investors. Hedging strategies are employed in a number of ways and can include purchasing or selling stock, bonds, asset backed securities or corporate debt.

Principal trading also includes profit or loss from financial instruments designated at fair value.

Corporate finance fees

This income reflects the fee income as a result of the Company's various advisory services which includes mergers and acquisitions advice, IPOs and other corporate transactions.

Commissions

Income from commissions is a result of the Company's activities in fulfilling client orders for purchases and sales of global equities and traded bonds on global exchanges.

Other income

This income is generated through the Company's services to the broader BAC group ("service fee income"), as well as interest the Company has paid and received in relation to trading activities ("net interest income") during the year.

Other income also includes any one time income events which are not determined to be part of normal trading activities.

Administrative expenses

Expenses are driven by compensation costs, direct trading related costs and service fee expenses.

Service fee expenses relate to the purchase of services from other affiliates in the BAC group. The charges are computed under arm's length principles reflecting the economic contribution of the affiliate in accordance with BAC's Global Transfer Pricing Policy.

Net interest payable

Interest reflects the Company's income or expense from subordinated debt and intercompany funding.

Income from investments

Income from investments reflects profit or loss on disposal of investments and dividends received from investments.

Taxation

The Company's effective tax rate for the year is (9.5)% driven mainly by previously unrecognised temporary timing differences and tax losses carried forward. The factors affecting the tax charge for the year are detailed in note 7.

Capital

The Company makes "Pillar 3" disclosures as required under the Capital Requirements Directive IV ("CRD IV").

The Company's Capital Resources increased year on year from $35,082 million in 2015 to $35,482 million.

Liquidity

The Company is subject to regulatory oversight by the Prudential Regulation Authority ("PRA") and, as such, must comply with the regulatory requirements specified in the PRA Rulebook, specifically with regards to liquidity risk, the sections on Internal Liquidity Adequacy Assessment and Liquidity Coverage Requirement for UK Designated Investment Firms.

The Company must maintain a minimum portfolio of unencumbered High Quality Liquid Assets as defined by the European Commission's Delegated Act on the Liquidity Coverage Ratio and a minimum Liquidity Pool as defined by the PRA Voluntary Variation of Permission ("VVOP") written notice of 28 May 2015.

Since January 2014, the Company has also been subject to the Basel III liquidity requirements legislated by the European Commission's Capital Requirement Regulations and Capital Requirements Directive ("CRR/CRD IV"). Rules implementing the requirement for credit institutions to comply with the Liquidity Coverage Ratio ("LCR") were finalised by the European Commission in October 2014, and in June 2015, the PRA confirmed the application of these rules to investment firms operating in the UK, including MLI. The Company has been required to meet a minimum LCR since October 2015.

The Company does not issue debt to third parties and is not licensed to receive deposits. The Company primarily funds its activities through wholesale secured funding, capital and intercompany unsecured debt. These funding sources are used to support the Company's trading and capital market activities and maintain sufficient excess liquidity.

The Company was in excess of its regulatory liquidity requirement in both 2016 and 2015.

Key Performance Indicators

The results of the Company were as follows:

The profit on ordinary activities before taxation amounted to $630 million (2015: $724 million)

The profit for the year after tax amounted to $690 million (2015: $585 million)

The net operating income for the year amounted to $4,618 million (2015: $4,791 million)

Return on assets was 0.16% (2015: 0.13%) and return on equity was 1.9% (2015: 1.6%)

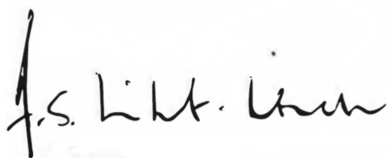
The administrative expenses for the year amounted to $3,971 million (2015: $4,026 million)

Net assets at 31 December 2016 were $36,393 million (2015: $35,730 million)

Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: $nil).

This report was approved by the Board on 7 March 2017 and signed on its behalf.



A.S. Wilmot-Sitwell

Director

B. Directors’ Report
For the Year Ended 31 December 2016

Bank of America Merrill Lynch

B. Directors' Report for the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless satisfied that they are a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who served during the year were:

S. Schmidt Bies

J.Y. Bahurel (appointed 4 October 2016)

M.P. Basing

M. Butler

F. Gallo (resigned 20 January 2016)

J.A. Gollan

C.A.C. Ighodaro

B.A. Mensah

J.S. Przewozniak (resigned 5 December 2016)

J.M. Taylor

A.S. Wilmot-Sitwell

S. Zaimi (appointed 22 February 2016)

Matters Covered in the Strategic Report

Details regarding a review of the business, including future developments, dividends, existence of branches outside of the UK, principal risks and uncertainties are provided in the Strategic Report on pages 5 – 9.

Electronic Distribution

The directors are responsible for ensuring that the Company's financial statements are provided for inclusion on the BAC website. The work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Third Party Indemnity Provisions

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and remains in force.

Employee Involvement

BAC is committed to ensuring that employees share in its success. Employees participate in performance-based incentive schemes and have a substantial sum invested in the shares of BAC, see note 27. They are kept informed of matters of concern to them in a variety of ways including newsletters, the intranet and management briefings. These communications help achieve a common awareness among employees of the financial conduct and economic factors affecting BAC. Employees are also provided with opportunities to share their views and provide feedback on matters that are important to them through, for example, employee surveys and forums.

Disabled Employees

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the Company. Training, career development and promotion of disabled persons is, as far as possible, identical to that of employees who are not disabled.

Disclosure of Information to Auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- So far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- That director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post Reporting Date Events

There have been no significant events affecting the Company since the year end.

This report was approved by the Board on 7 March 2017 and signed on its behalf.

M. Butler

Director

C. Independent Auditors' Report

To the Members of Merrill Lynch International

Bank of America Merrill Lynch

C. Independent Auditors' Report to the Members of Merrill Lynch International

Report on the Financial Statements

Our Opinion

In our opinion, Merrill Lynch International's financial statements ("the financial statements"):

- Give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Merrill Lynch International Annual Report and Financial Statements, (the "Annual Report"), comprise:

- The Income Statement and Statement of Comprehensive Income for the year then ended
- The Statement of Financial Position as at 31 December 2016;
- The Statement of Changes in Equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other Matters on Which We are Required to Report by Exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors’ remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the directors

As explained more fully in the Directors’ Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeff Picton (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside
London
SE1 2RT

7 March 2017

D. Income Statement

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

D. Income Statement for the Year Ended 31 December 2016

	Note	2016 $m	2015 $m
Net operating income	3	**4,618**	4,791
Administrative expenses	4	**(3,971)**	(4,026)
Operating profit		**647**	765
Interest payable on financing activities		**(38)**	(41)
Income from investments	9	**21**	-
Profit on ordinary activities before taxation		**630**	724
Taxation on profit on ordinary activities	7	**60**	(139)
Profit for the year after tax		**690**	585

The notes on pages 37 to 88 form part of these financial statements.

E. Statement of Comprehensive Income

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

E. Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 $m	2015 $m
Profit for the financial year after tax		**690**	585
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit schemes	8	**(11)**	(21)
Movement of deferred tax relating to pension asset	13	**3**	4
Total other comprehensive income		**(8)**	(17)
Total comprehensive income for the year		**682**	568

The notes on pages 37 to 88 form part of these financial statements.

F. Statement of Financial Position

As at 31 December 2016

Bank of America Merrill Lynch

F. Statement of Financial Position as at 31 December 2016

	Note	2016 $m	2015 $m
Non current assets			
Pension	8	**420**	484
Investments	9	**104**	113
Current assets			
Long inventory positions	11	**273,399**	322,403
Debtors	12	**135,067**	136,173
Cash at bank and in hand		**7,801**	2,736
		416,267	461,312
Creditors: Amounts falling due within one year:			
Bank loans and overdraft		**482**	320
Short inventory positions	14	**243,843**	276,289
Creditors	15	**129,709**	142,813
Net current assets		**42,233**	41,890
Total assets less current liabilities		**42,757**	42,487
Creditors: Amounts falling due after more than one year	16	**6,364**	6,757
Net assets		**36,393**	35,730
Capital and reserves			
Called up share capital	17	**7,933**	7,933
Share premium account		**4,499**	4,499
Capital contribution reserve	18	**9,193**	9,193
Profit and loss account	18	**14,768**	14,105
		36,393	35,730

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 7 March 2017.

M. Butler
Director

The notes on pages 37 to 88 form part of these financial statements.

G. Statement of Changes in Equity

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

G. Statement of Changes in Equity for the Year Ended 31 December 2016 and 31 December 2015

	Called up share capital $m	Share premium account $m	Capital contribution reserve $m	Profit and loss account $m	Total equity $m
At 1 January 2016	**7,933**	**4,499**	**9,193**	**14,105**	**35,730**
Profit for the year	-	-	-	690	690
Actuarial loss on pension scheme (net of deferred tax)	-	-	-	(8)	(8)
Group share based payment costs not recharged	-	-	-	(19)	(19)
At 31 December 2016	**7,933**	**4,499**	**9,193**	**14,768**	**36,393**

For further details see note 18.

	Called up share capital $m	Share premium account $m	Capital contribution reserve $m	Profit and loss account $m	Total equity $m
At 1 January 2015	7,933	4,499	6,419	13,572	32,423
Profit for the year	-	-	-	585	585
Actuarial loss on pension scheme (net of deferred tax)	-	-	-	(17)	(17)
Capital contribution	-	-	2,774	-	2,774
Group share based payment costs not recharged	-	-	-	(35)	(35)
At 31 December 2015	7,933	4,499	9,193	14,105	35,730

The notes on pages 37 to 88 form part of these financial statements.

H. Notes to the Financial Statements

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

H. Notes to the Financial Statements for the Year Ended 31 December 2016

1. Accounting Policies

The principal accounting policies, which have been applied consistently throughout the current and prior year, are set out below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with the Companies Act 2006, Financial Reporting Standard 100 ("FRS 100") – Application of Financial Reporting Requirements and Financial Reporting Standard 101 ("FRS 101") – Reduced Disclosure Framework.

FRS 100 and FRS 101 set out the disclosure exemptions for the individual financial statements of entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards that have been adopted in the European Union ("EU-adopted IFRS"). References to accounting standards in these financial statements will accordingly relate to applicable International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS").

The financial statements have been prepared under the historical cost convention, as modified to include certain assets and liabilities at fair value. The Company does not maintain historical cost information on items at fair value as this is not relevant to the operation of the business.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.2 New and amended standards adopted by the Company

There are no accounting standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2016 that have had a material impact on the Company.

1.3 FRS 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 46 and 47 of IFRS 2 Share based payment
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

1.4 Going concern

The directors have a reasonable expectation, based on current and anticipated future performance, that the Company will continue in operational existence for the foreseeable future. The financial statements of the Company have, therefore, been prepared on a going concern basis.

1.5 Incorporation and domicile information

The Company is a private unlimited company incorporated and domiciled in the United Kingdom, with branches in Dubai, Milan, Rome, Stockholm and Qatar along with a representative office in Zurich.

1.6 Consolidated financial statements

The Company has taken advantage of the exemption in Section 401 of the Companies Act 2006 from the obligation to prepare and deliver consolidated financial statements as the Company is a wholly owned subsidiary of BAC, which prepares consolidated financial statements that include the Company. Accordingly, these financial statements present information about it as an individual undertaking and not about its group.

1.7 Foreign currencies

The financial statements have been presented in US dollars which is also the functional currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities in a foreign currency are not subsequently re-translated for movements in prevailing exchange rates.

1.8 Net operating income

Net operating income includes:

Net principal trading

Principal trading revenue comprises realised and unrealised gains and losses on trading, including dividend income on

cash equities. Unrealised gains, which represents changes in fair value of inventories, are recognised within principal trading revenue as they arise.

Gains and losses from financial instruments designated at fair value through profit and loss

Financial instruments are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if related instruments were treated as held for trading and the underlying financial liabilities or assets were carried at amortised cost or when doing so is consistent with the Company's risk management strategy.

Gains and losses arising from changes in the fair value of financial instruments designated at fair value are included in the income statement in the period in which they arise.

Service fee income

Charges made to affiliated undertakings to remunerate the Company for services provided or to reimburse the Company for expenditure incurred, are recognised on an accruals basis.

Corporate finance fees

Investment banking revenues include underwriting revenues and fees for advisory services which are recognised when services for the transactions are substantially completed. Underwriting revenues are presented net of transaction-related expenses.

Commissions

Profit earned on fulfilling customer orders is recognised on an accruals basis. Commission revenue earned from certain customer equity transactions is recorded net of related brokerage, clearing and exchange fees.

Net interest income

Interest income and expense are recognised on an accruals basis within operating income using the effective interest method.

Net other income

The changes in fair value of currency swaps used for cash management purposes are recognised within net other income as they arise.

The Company has disclosed net operating income instead of turnover as this more accurately reflects the results and nature of the Company's activities.

1.9 Segmental reporting

The Company's results are wholly derived from Global Banking and Markets which represent a single class of business. It is not possible to allocate net operating income or net assets to any particular geographical source as one transaction may involve parties situated in a number of different geographical areas.

1.10 Pensions

The Company participates in defined benefit and defined contribution pension schemes in the United Kingdom.

For the defined benefit scheme, the Company recognises a net asset or liability, being the difference between the present value of the defined benefit obligation at the end of the reporting period and the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality UK corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

The Company also operates defined contribution plans which receive contributions calculated as a percentage of each employee's plan salary based on their length of service. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as employee benefit expense when they are due.

1.11 Investments

A subsidiary is defined as an entity that is controlled by another entity. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where the company holds equity or equity-like instruments in a subsidiary, the balance is held within investments in subsidiaries. Other non-equity holdings in special purpose entities are recognised at fair value within long trading inventory. Investments in subsidiaries are held at cost less provision for impairment.

At each reporting date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In the event of impairment, the carrying amount of the asset is reduced accordingly and the amount of the loss recognised in the income statement.

Other investments represent investments in unlisted equity instruments for which the fair value is not reliably

measurable. As such these investments are also recorded at cost less provision for impairment.

Profit or loss on disposal of investments and dividends received from investments are disclosed on the income statement within income from investments.

1.12 Financial assets

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables.

Management determines the classification of the Company's financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets are designated at fair value through profit or loss to significantly reduce measurement inconsistencies that would arise if related instruments were treated as held for trading and the underlying financial assets were carried at amortised cost; or when doing so is consistent with the Company's risk management strategy.

Long inventory positions are classified as held for trading and measured at fair value through profit or loss. Within debtors, some resale agreements and securities borrowed transactions are either designated at fair value through profit or loss or held at amortised cost (see note 1.18). All remaining financial assets are classified as loans and receivables.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the short-term, which are classified as held for trading and those that the Company upon initial recognition designates as at fair value through profit or loss.

Loans and receivables are carried at amortised cost using the effective interest rate method less an allowance for any impairment. Interest calculated using the effective interest rate method is recognised in the income statement.

Loans and receivables are classified within debtors.

1.13 Financial liabilities

The Company recognises financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial liabilities are designated at fair value through profit or loss to significantly reduce measurement inconsistencies that would arise if related instruments were treated as held for trading and the underlying financial liabilities were carried at amortised cost or when doing so is consistent with the Company's risk management strategy.

Short inventory positions are classified as held for trading and are measured at fair value through profit or loss. Gains and losses are recognised through the income statement as they arise. Within creditors are repurchase agreements and securities loaned transactions which are either designated at fair value through profit or loss or held at amortised cost (see note 1.18). All remaining financial liabilities are carried at amortised cost using the effective interest method.

1.14 Recognition of day one profit or loss

Evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or is based on a valuation technique whose variables include only data from observable markets.

The Company has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. The difference between the transaction price and the model valuation, commonly referred to as "day one profit or loss", is not recognised immediately in the income statement.

The timing of recognition of deferred day one profit or loss is determined individually and is either deferred until the instrument's fair value can be determined using market observable inputs or realised through disposal or settlement.

The financial instrument is subsequently measured at fair value. Subsequent changes in fair value are recognised immediately in the income statement.

1.15 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit

or loss. Fair values are obtained from quoted market prices in active markets where available. Where derivatives are not quoted in an active market, appropriate valuation techniques are used including recent market transactions, discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial assets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Gains and losses arising from changes in the fair value of derivatives are included in the income statement in the period in which they arise.

1.16 Physical commodities

Physical commodity inventories are held at fair value less costs to sell with changes in value recognised as net principal trading as they arise.

1.17 Current and deferred taxation

The tax credit for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income (for example, deferred tax liability on pension) or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

Current tax, including UK corporation tax and foreign taxes, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and is measured at the average tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised over the Company's planning horizon.

1.18 Securities financing transactions

The Company enters into resale and repurchase agreements and securities borrowed and loaned transactions to accommodate customers and earn interest rate spreads (also referred to as "matched-book transactions"), to obtain securities for settlement and to finance inventory positions.

Resale and repurchase agreements are generally accounted for as secured financing transactions and may be recorded at their contractual amounts plus accrued interest or at fair value under the fair value option election. Resale and repurchase agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency.

Where the fair value option election has been made, changes in the fair value of resale and repurchase agreements are reflected in net operating income and the contractual interest coupon is recorded as interest revenue or interest expense within net operating income, as appropriate.

Resale and repurchase agreements recorded at their contractual amounts plus accrued interest approximate fair value, as the fair value of these items is not materially sensitive to shifts in market interest rates because of their short-term nature and/or variable interest rates, or to credit risk because the resale and repurchase agreements are substantially collateralised.

Securities borrowed and loaned transactions may be recorded at the amount of cash collateral advanced or received plus accrued interest or at fair value under the fair value option election. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions. For securities borrowed and loaned transactions, the fees paid or received by the Company are recorded as interest revenue or expense. The carrying value of securities borrowed and loaned transactions, recognised at the amount of cash collateral advanced or returned, approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or their variable interest rates, or to credit risk because the securities borrowed and loaned transactions are substantially collateralised.

The Company's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

Securities financing transactions give rise to negligible credit risk as a result of these collateral provisions, and no allowance for loan losses is considered necessary. These instruments therefore are managed based on market risk rather than credit risk.

Substantially all repurchase and resale and securities borrowed and loaned activities are transacted under master agreements that give the Company the right, in the event of default of the counterparty, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Company offsets certain repurchase and resale agreement balances with the same counterparty on the statement of financial position (see note 23).

Securities received under resale and securities borrowed agreements and securities delivered under repurchase and securities lending agreements are not recognised on or derecognised from the statement of financial position respectively unless the risks and rewards of ownership are obtained from or relinquished to the counterparty. Where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the securities lending counterparty is recognised and measured at fair value through the income statement.

1.19 Offsetting

Where the Company has the legal right to net settle and intends to do so (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously, the balance included within the financial statements is the net balance due to or from the counterparty. Central clearing counterparties ("CCP") are individually assessed to identify if net settlement criteria are met. Where this is achieved, assets and liabilities facing the CCP are offset.

1.20 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured borrowing for the cash proceeds received.

1.21 Trade and settlement dated transactions

In general, funding financial instruments (e.g. securities financing transactions) are recognised and derecognised on the statement of financial position on a settlement date basis. Trading financial instruments (e.g. debt securities, equities, derivatives, etc.) are recognised and derecognised on the statement of financial position on a trade date basis.

1.22 Share based payments

BAC grants equity based payment awards to employees of the Company under various incentive schemes.

As this is a group share based payment arrangement, awards are treated as equity settled share based payment plans and measured based on the fair value of those awards at grant date. The fair value determined at the grant date is expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. The Company has entered into a chargeback agreement with BAC under which it is committed to pay BAC the market value at grant date as well as subsequent movements in fair value of those awards to BAC at the time of delivery to its employees.

2. Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with FRS 101 requires the use of accounting estimates and assumptions concerning the future. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

2.1 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees and former employees of the BAC group. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management utilises the valuation provided by actuaries and estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 8 for further information concerning the defined benefit pension scheme.

b) Deferred tax

The Company has recognised a deferred tax asset in its financial statements which requires judgement for determining the extent of its recoverability at each reporting date. The Company assesses recoverability with reference to Board approved forecasts of future taxable profits. These forecasts require the use of assumptions and estimates. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. See note 13 for further information concerning deferred tax.

c) Valuation of financial instruments

Fair value is defined under IFRS 13 – Fair Value Measurement, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's policy for valuation of financial instruments is included in note 26. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency rates, commodity prices or equity prices and correlations between these inputs.

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions.

3. Net Operating Income

	2016 $m	2015 $m
Net principal trading	**2,601**	2,636
Gains/(losses) from financial instruments designated at fair value through profit or loss	**12**	(65)
Service fee income	**516**	521
Corporate finance fees	**602**	579
Commissions	**687**	767
Net interest income	**150**	295
Net other income	**50**	58
	4,618	4,791

Service fee income in 2015 includes $229 million which has been reclassified between service fee income and expense to reflect correctly the nature of the services provided between the Company and its affiliates. This has had no impact on operating profit and the 2016 balances have been presented accordingly.

Net interest income relating to trading activities comprises:

	2016 $m	2015 $m
Interest income		
Due from affiliated companies	**228**	168
Bank deposits, long inventory positions and resale agreements	**886**	1,162
	1,114	1,330
Interest expense		
Due to affiliated companies	**(344)**	(313)
Bank overdrafts, short inventory positions and repurchase agreements	**(620)**	(722)
	(964)	(1,035)
Net interest income	**150**	295

Interest income due from affiliated companies in 2015 includes $96 million which has been reclassified from interest expense due to affiliated companies to reflect correctly the nature of the payable and receivable. Interest income on bank deposits, long inventory positions and resale agreements and interest expense on bank overdrafts, short inventory and repurchase agreements in 2015 have both been reduced by $445 million to correct internal allocations. These have had no impact on net interest income or expense and the 2016 balances have been presented accordingly.

4. Operating Profit

The operating profit is stated after charging/(crediting):

	2016 $m	2015 $m
Staff costs (see note 5)	**1,185**	1,176
Equipment rental and occupancy charges	**32**	43
Service fee expense	**1,970**	1,972
Foreign exchange gain	**(14)**	(129)
Impairment of investments	**-**	63
Other operating expenses	**798**	901
	3,971	4,026

Service fee expense in 2015 includes $229 million which has been reclassified between service fee expense and income to reflect correctly the nature of the services provided between the Company and its affiliates. This has had no impact on operating profit and the 2016 balances have been presented accordingly.

Equipment rental and occupancy charges represent charges from affiliated companies. The contractual commitments arising under rental agreements rest with those affiliated companies.

Audit fees and audit related assurance fees for the Company were borne by an affiliated company and were as follows:

	2016 $m	2015 $m
Fees payable to the Company's auditors for the audit of the Company's financial statements	**2.7**	3.2
Fees payable to the Company's auditors for audit related assurance services	**0.9**	0.8
Fees payable to the Company's auditors for non audit services	**1.5**	-
	5.1	4.0

5. Staff Costs

Staff costs, including directors' remuneration, were as follows:

	2016 $m	2015 $m
Wages and salaries	**1,025**	1,035
Social security costs	**135**	102
Pension costs	**25**	39
	1,185	1,176

Included within wages and salaries are charges relating to share-based compensation plans, see note 27 for further details.

Included within pension costs is a credit of $11 million relating to the defined benefit pension scheme, for further details see note 8.

In accordance with CRR/CRD IV the Company's disclosure in respect of remuneration under CRR article 450 (consolidated along with all other BAC entities operating in the UK) will be posted at http://investor.bankofamerica.com in conjunction with the publication of these financial statements.

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Trading, sales and advisory	**1,165**	1,212
Support, operations and technology	**951**	577
	2,116	1,789

6. Directors' Remuneration

Of the directors that served during the year, 12 (2015: 10) directors were remunerated by the Company and the amounts included are those relating to their services as directors for the Company on a time allocation basis. Emoluments in relation to services performed for other group companies are not disclosed in the Company's financial statements.

Remuneration paid to directors of the Company was:

	2016 $	2015 $
Emoluments	**13,819,705**	15,667,546
Contributions to defined contribution pension schemes	**23,726**	30,807

	2016 No.	2015 No.
Number of directors who:		
Exercised share options	**-**	-
By whom shares are receivable or have been received under long term incentive schemes	**8**	6
Were members of a defined benefit pension scheme	**2**	2
Were members of a defined contribution pension scheme	**8**	6

Remuneration disclosed includes amounts paid to the highest paid director as follows:

	2016 $	2015 $
Emoluments	**3,699,064**	7,527,415
Contributions to defined contribution pension schemes	**809**	9,455

The highest paid director did not exercise share options in the current or prior year.

During the current and preceding year the highest paid director received shares under a long term incentive scheme.

7. Taxation

UK corporation tax

	2016 $m	2015 $m
UK corporation tax	**-**	(30)
Adjustments in respect of previous periods	**3**	23
Double taxation relief	**-**	25
Bank surcharge	**(1)**	-
	2	18
Foreign tax		
Foreign tax on income for the year	**(38)**	(44)
Total current tax	**(36)**	(26)
Deferred tax (see note 13)		
Origination and reversal of temporary differences	**124**	(110)
Impact of change in tax rates	**(32)**	36
Impact of temporary differences recognised on asset transferred from an affiliated entity	**-**	(39)
Impact of bank surcharge on deferred tax	**4**	-
Total deferred tax	**96**	(113)
Income tax credit/(expense)	**60**	(139)

Factors affecting tax charge for the year:

The tax on the Company's profit before tax differs from the amount that would arise using the tax rate applicable as follows:

	2016 $m	2015 $m
Profit on ordinary activities before tax	**630**	724
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**126**	147
Effects of:		
Expenses not deductible for tax purposes	**15**	25
Adjustments to tax charge in respect of prior periods	**(3)**	(23)
Non-taxable income	**(4)**	-
Impact of bank surcharge on deferred tax	**(4)**	-
Impact of bank surcharge on current tax	**1**	-
Movement of previously unrecognised tax losses	**(78)**	226
Movement of previously unrecognised temporary differences	**(223)**	(254)
Impact of foreign taxes	**30**	15
Impact of change in UK tax rate	**32**	(36)
Impact of temporary differences recognised on asset transferred from an affiliated entity	**-**	39
Group relief	**48**	-
Total tax (credit)/expense for the year	**(60)**	139

The Company is a banking company as defined by the Finance (No 2) Act 2015. As such, from 1 January 2016, it has been subject to the 8% surcharge on its profits.

Factors that may affect future tax charges

Factors that affect future tax charges are disclosed in note 13.

8. Pension

The Company participates in a number of defined benefit and defined contribution pension schemes in the United Kingdom. The schemes are funded with the assets held in separate trustee administered funds.

Defined Benefit Scheme

The major defined benefit scheme is the final salary section of the Bank of America Merrill Lynch UK Pension Plan (the "Plan"), which was closed to new entrants with effect from 30 June 1997 and to future accrual from existing members with effect from 30 June 2004. The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

The Company is one of a number of BAC employer companies based in the United Kingdom which participate in the Plan.

The Plan operates under the UK statutory Scheme Funding Regime established by the Pensions Act 2004. The Plan's assets are in excess of its technical provisions as at 31 December 2016.

IFRIC 14 is an interpretation of IAS 19 which relates to the recognition of pension plan surpluses. As currently disclosed, the Company is able to utilise Plan surplus in scenarios set out in IFRIC 14. Accordingly, there is no asset ceiling on the amount of surplus that is currently recognised in the statement of financial position.

The defined benefit plan is administered by a separate Fund that is legally separated from the Company. By law, the board is required to act in the best interests of participants to the schemes and has the responsibility of setting investment, contribution, and other relevant policies.

The Company is deemed to be the sponsoring entity to the Plan and as a result, the Company recognises the present value of the defined benefit obligation, the fair value of the Plan assets, and the associated costs of the Plan.

	2016 $m	2015 $m
Amounts recognised on the statement of financial position:		
Fair value of scheme assets	**2,160**	2,112
Present value of funded defined benefit obligations	**(1,740)**	(1,628)
Net pension asset recognised on the statement of financial position	**420**	484

The movement in the defined benefit asset over the year is as follows:

	Present value of obligation $m	Fair value of plan assets $m	Total $m
2016			
At 1 January 2016	**(1,628)**	**2,112**	**484**
Current service cost	(7)	-	(7)
Interest (expense)/income	(59)	77	18
Pension (expense)/income recognised in income statement	**(66)**	**77**	**11**
Remeasurements in OCI:			
Return on plan assets, excluding amounts included in interest (expense)/income	-	427	427
Losses from change in demographic assumptions	(23)	-	(23)
Losses from change in financial assumptions	(480)	-	(480)
Gains from plan experience	65	-	65
Total amount recognised in OCI	**(438)**	**427**	**(11)**
Exchange differences	**300**	**(380)**	**(80)**
Contributions:			
Employer	**-**	**16**	**16**
Plan participants	**-**	**-**	**-**
Payments from plan:			
Benefit payments	**92**	**(92)**	**-**
As at 31 December 2016	**(1,740)**	**2,160**	**420**

Approximately 9% of the liabilities are attributable to current employees, 71% to former employees and 20% to current pensioners.

Employer contributions of $16 million were paid into the Plan in the year by the Company. No recharge was made for these costs to the other scheme participants.

	Present value of obligation $m	Fair value of plan assets $m	Total $m
2015			
At 1 January 2015	-	-	-
Transferred in	(1,707)	2,218	511
Current service cost	-	-	-
Interest (expense)/income	-	-	-
Pension (expense)/income recognised in income statement	-	-	-
Remeasurements in OCI:			
Return on plan assets, excluding amounts included in interest (expense)/income	-	(83)	(83)
Gains from change in demographic assumptions	-	-	-
Gains from change in financial assumptions	62	-	62
Total amount recognised in OCI	62	(83)	(21)
Exchange differences	17	(23)	(6)
Contributions:	-	-	-
Employer	-	-	-
Plan participants	-	-	-
Payments from plan:			
Benefit payments	-	-	-
As at 31 December 2015	(1,628)	2,112	484

Approximately 9% of the liabilities are attributable to current employees, 68% to former employees and 23% to current pensioners.

Employer contributions of $16.6 million were paid by Merrill Lynch UK Holdings Limited ("MLUKH") into the plan in the year, however these are already represented in the value of the pension transferred from MLUKH, therefore the Company was not recharged for these costs.

The significant actuarial assumptions were as follows:

	2016	2015
Discount rate	**2.75%**	3.95%
RPI inflation	**3.50%**	3.25%
CPI inflation	**2.40%**	2.25%
Salary growth rate	**5.00%**	5.25%
Pension growth rate – subject to a 5% cap in any year	**3.25%**	3.25%
Pension growth rate – subject to a 3% cap in any year	**2.00%**	2.00%
Pension growth rate – fixed at 3%	**3.00%**	3.00%
Average life expectancy:		
Life expectancy for male aged 62	**26.6**	26.8
Life expectancy for female aged 62	**28.7**	29.0
Life expectancy at 62 for male currently aged 42	**28.3**	28.6
Life expectancy at 62 for female currently aged 42	**30.6**	30.9

The mortality assumptions are based on actuarial advice in accordance with published statistics and past experience and allow for expected future improvements in mortality rates.

The Plan assets are invested in the following asset classes:

	2016 $m	2015 $m
Return seeking funds	**550**	640
Bond funds	**938**	1,109
Interest rate swaps	**672**	363
Total Plan assets	**2,160**	2,112

Of the $2,160 million Plan assets, $802 million (2015: $1,360 million) are quoted within an active market.

The Plan exposes the Company to a number of risks, the most significant of which are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Plan holds a proportion of return seeking assets which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Plan's long term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the Plan's liabilities for accounting purposes. Although the Plan's assets include a swap strategy that is designed to mitigate a fall in swap yields, movements in both "z spread" and credit spread may mean that movements in the yields on corporate bonds and the Plan's swap portfolio do not match each other.

Inflation risk

A significant proportion of the Plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). However, the Plan's swap strategy is also designed to protect the Plan against an increase in inflation.

Life expectancy

The majority of the Plan's liabilities are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Defined benefit obligation $m	Estimated 2017 service cost $m
Current figures as at 31 December 2016	**1,740**	**9**
Following a 1.0% decrease in the discount rate		
Change	**411**	**5**
New value	**2,151**	**14**
Following a 1.0% increase in the inflation assumption		
Change	**243**	**4**
New value	**1,983**	**13**
Following an increase in life expectancy of one year		
Change	**67**	**-**
New value	**1,807**	**9**

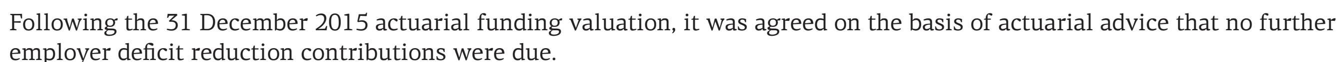
The discount rate and inflation sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the statement of financial position date.

The life expectancy sensitivity information shown above is approximate and has been determined taking into account the duration of the liabilities and the overall profile of the plan membership.

History of asset values, defined benefit obligation and surplus:

	2016 $m	2015 $m	2014 $m	2013 $m
Fair value of scheme assets	**2,160**	2,112	2,229	1,837
Defined benefit obligation	**(1,740)**	(1,628)	(1,712)	(1,672)
Net pension asset value	**420**	484	517	165

The Company became the sponsoring entity of the Plan on 21 December 2015. The asset values for the years prior to this have been disclosed for comparative purposes only.



Following the 31 December 2015 actuarial funding valuation, it was agreed on the basis of actuarial advice that no further employer deficit reduction contributions were due.

The participating companies agreed to continue to meet the following:

- The agreed contributions for members to the Money Purchase Section of the Plan;
- 0.5% of plan salaries in respect of spouses' death in service pensions for relevant members of the Plan and the Merrill Lynch (UK) Defined Contribution Plan;
- Lump sum death in service premiums;
- Any levies due to the Pension Protection Fund; and
- Other expenses.

The contribution requirement is monitored following each annual funding review and any contribution payments may be adjusted accordingly.

The Plan duration is an indicator of the weighted-average time until benefit payments are made. For the Plan as a whole, the duration is around 22 years.

The next formal triennial actuarial valuation is due to take place as at 31 December 2018.

Defined contribution schemes

The major defined contribution schemes are the Merrill Lynch (UK) Defined Contribution Plan and the Bank of America Merrill Lynch UK Pension Plan – Money Purchase Section. The costs of defined contribution schemes are a percentage of each employee's plan salary based on their length of service and are charged to the income statement in the period in which they fall due.

The Company's pension cost for the year in respect of defined contribution schemes was $36 million (2015: $39 million).

9. Investments

	Investments in subsidiary companies $m	Other investments $m	Total $m
Cost or valuation			
At 1 January 2016	63	50	113
Additions	10	-	10
Disposals	-	(5)	(5)
Return of capital	(14)	-	(14)
At 31 December 2016	**59**	**45**	**104**

Investments in subsidiary companies

The Company has an investment of $0.1 million (2015: $13.8 million) in Merrill Lynch, Pierce, Fenner & Smith Limited ("MLPF&S"). In September 2016, the Company received as distribution of $19.7 million from MLPF&S, of which $13.7 million was recorded as a return of capital and $6 million was recorded as a dividend, which is included within income from investments on the income statement.

The Company has an investment of $59 million (2015: $49 million) in Fundo de Investimento Financeiro Multimercado Iceberg ("Iceberg"). Iceberg is disclosed as a subsidiary undertaking in accordance with IFRS 10 – consolidated financial statements. Under its legal form, Iceberg would not be classed as a subsidiary. During the year the Company contributed capital in line with the requirements of the fund.

The Company's remaining investments amount to $381 (2015: $150). The increase during the year represents the transfer of four nominee companies from an affiliated company.

In the prior year the Company had $24 million of additions, $63 million of disposals and recognised an impairment of $63 million.

For further details on the Company's investments in subsidiaries, see note 10.

Other investments

Other investments consist of unlisted equity securities and exchange seats.

During the year the Company made a disposal of an unlisted equity investment recognising a gain of $15 million, which is included within income from investments on the income statement.

In the prior year the Company had $10 million of additions and $nil disposals.

10. Subsidiary Undertakings

The following are subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
MLPF&S	UK	Ordinary	100 %	Intercompany funding
Bank of America Merrill Lynch UK Pension Plan Trustees Limited	UK	Ordinary	100 %	Trustee of the Bank of America Merrill Lynch UK Pension Plan and the Merrill Lynch (UK) Defined Contribution Plan
Merrill Lynch Nominees Limited	UK	Ordinary	100 %	Nominee company for affiliated companies
Citygate Nominees Limited	UK	Ordinary	100 %	Nominee company for affiliated companies
S. N. C. Nominees Limited	UK	Ordinary	100 %	Nominee company for affiliated companies
N.Y. Nominees Limited	UK	Ordinary	100 %	Nominee company for affiliated companies
Chetwynd Nominees Limited	UK	Ordinary	100 %	Nominee company for affiliated companies
Iceberg	Brazil	Quotas	100 %	Multi-market investment fund trading in Government bonds, futures and Bovespa index flexible options.

The registered office of the above UK subsidiaries is 2 King Edward Street, London, EC1A 1HQ.

The registered office of Iceberg is Av. Paulista, 1.111, 12th Floor, Bela Vista, Sao Paulo, 01311-920, Brazil.

The Company also holds the controlling interests in the following special purpose entities ("SPEs") which are included at fair value in long trading inventory.

Name	Country of incorporation
Azusa Limited – Series 433, 471, 473, 482, 485 and 491	Cayman Islands
CLEAR PLC – Series 20, 24 and 29	Ireland
Libra A Limited – Series 81	Cayman Islands
Parcs Master Trust	U.S.A
Parcs-R Master Trust	U.S.A
Pyxis Ltd	Cayman Islands
Stratus Capital Public Limited Company, Series 4	Ireland
Ironwood Trustee (Pty) Ltd	South Africa
Calculus CMBS – Series 2006-1 and 2006-4	U.S.A
Steers High Grade CMBS – Series 2006-2, 2006-5 and 2006-8	U.S.A

The total assets on the Company's statement of financial position relating to controlling interests in SPEs is $254 million (2015: $569 million). The total size of those SPEs, which is calculated as the principal outstanding of the SPE is $476 million (2015: $917 million).

The principal activity of all of the above SPEs is to act as a structured issuance vehicle.

11. Long Inventory Positions

	2016 $m	2015 $m
Derivative assets	**216,421**	262,001
Equities and convertible debentures	**35,554**	37,340
Corporate debt and preferred stock	**5,424**	6,440
Mortgage-backed and asset-backed securities	**1,354**	2,183
Non-US governments and agencies	**14,633**	14,420
Commodities	**13**	19
	273,399	322,403

Balances with affiliated companies within long inventory positions were $49,455 million (2015: $81,725 million).

Day one profit/(loss)

Included in the above is the amount that has yet to be recognised in the income statement relating to the difference between the fair value at recognition (being the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less any subsequent releases. The breakdown is as follows:

	2016 $m	2015 $m
At 1 January 2016	**137**	140
Day one profit on new trades not recognised in income statement	**40**	28
Settlements/disposals	**(82)**	(16)
Released due to subsequent observability of inputs	**(8)**	(15)
At 31 December 2016	**87**	137

12. Debtors

	2016 $m	2015 $m
Debtors due within 1 year:		
Trade debtors		
Customer receivables	**33,966**	28,796
Brokers, dealers and clearing houses	**8,959**	7,354
Resale agreements and securities borrowed transactions	**85,347**	89,221
	128,272	125,371
Other debtors		
Amounts owed from affiliated companies	**1,094**	4,725
Other debtors and prepayments	**415**	634
Deferred tax	**114**	75
	1,623	5,434
Debtors due after 1 year:		
Amounts owed from affiliated companies	**4,943**	5,218
Deferred tax	**229**	150
	5,172	5,368
	135,067	136,173

Trade and other debtor balances have been re-categorised in 2016 to present more relevant information. The 2015 comparatives have been reclassified accordingly. This had no impact on total debtor balances.

Balances with affiliated companies within customer receivables were $12,764 million (2015: $11,904 million), within brokers, dealers and clearing houses were $5,093 million (2015: $4,378 million) and within resale agreements and securities borrowed transactions were $37,339 million (2015: $35,452 million).

Within resale agreements and securities borrowed transactions, $26,832 million (2015: $31,650 million) were designated at fair value through profit and loss.

13. Deferred Tax

	2016 $m	2015 $m
Unused tax losses	**225**	137
Other temporary differences	**223**	214
Temporary differences in relation to the defined benefit pension	**(105)**	(126)
	343	225
Provision at start of year	**225**	425
Liability recognised in respect of asset transferred from an affiliated entity	**-**	(130)
Tax relating to components of other comprehensive income	**3**	4
Deferred tax charged to the income statement	**124**	(110)
Impact of change in UK tax rate	**(32)**	36
Impact of bank surcharge on deferred tax	**4**	-
Foreign exchange differences	**19**	-
Provision at end of year	**343**	225

The deferred tax asset is recognised on the basis of estimated future taxable profits over the Company's planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset at 31 December 2016 of $343 million (2015: $225 million).

During 2016, the relevant deferred tax balances were re-measured as a result of the changes in the UK main corporation tax rate which were substantively enacted on 15 September 2016, to 17% from 1 April 2020. The re-measurement resulted in a net reduction in the recognised deferred tax asset of $32 million (2015: increase of $36 million).

The Company has unrecognised deferred tax assets totalling $6,285 million (2015: $6,993 million), primarily in relation to losses. The re-measurement as a result of changes in the UK corporation tax rate, has resulted in a net reduction of the unrecognised deferred tax asset of $310 million (2015: $265 million).

14. Short Inventory Positions

	2016 $m	2015 $m
Derivative liabilities	**211,669**	248,117
Equities and convertible debentures	**16,246**	12,119
Corporate debt and preferred stock	**9,579**	9,093
Non-US government and agencies	**4,946**	5,889
US governments and agencies	**286**	389
Commodities	**1,117**	682
	243,843	276,289

Balances with affiliated companies within short inventory positions were $58,014 million (2015: $89,004 million).

15. Creditors

	2016 $m	2015 $m
Trade creditors		
Customer payables	**42,990**	43,380
Brokers, dealers and clearing houses	**4,618**	4,438
Resale agreements and securities loaned transactions	**75,953**	84,597
	123,561	132,415
Other creditors		
Amounts owed to affiliated companies	**5,318**	9,628
Other creditors and accruals	**830**	770
	6,148	10,398
	129,709	142,813

Trade and other creditor balances have been re-categorised in 2016 to present more relevant information. The 2015 comparatives have been reclassified accordingly. This had no impact on total creditor balances.

Balances with affiliated companies within customer payables were $2,681 million (2015: $4,648 million), within brokers, dealers and clearing houses were $207 million (2015: $343 million) and within repurchase agreements and securities loaned transactions were $22,578 million (2015: $29,163 million).

Within repurchase agreements and securities loaned transactions, $36,183 million (2015: $26,991 million) were designated at fair value through profit and loss.

Included within other creditors and accruals is $52 million (2015: $33 million) relating to taxation and social security.

During the year an affiliate made available a multi currency credit line of $9,000 million. The undrawn element at 31 December 2016 was $8,863 million (2015: $nil).

16. Creditors: Amounts Falling Due After More Than One Year

	2016 $m	2015 $m
Subordinated loans from affiliated entities	**1,421**	1,539
Amounts owed to affiliated companies	**4,943**	5,218
	6,364	6,757

As at 31 December 2016 creditors due after more than 1 year comprised of:

	2016 $m	2015 $m
Subordinated debt between two and five years		
US Dollar denominated loan notes maturing in 2018 and bearing interest at1 month USD LIBOR plus 328 basis points	**1**	1
US Dollar denominated loan notes maturing in 2019 and bearing interest at 1 month USD LIBOR plus 187 basis points	**1**	1
Sterling denominated loan notes maturing in 2019 and bearing interest at 3 month GBP LIBOR plus 213 basis points	**619**	737
US Dollar denominated loan notes maturing in 2019 and bearing interest at 3 month USD LIBOR plus 221 basis points	**800**	800
	1,421	1,539
Amounts owed to affiliated companies after five years		
US Dollar denominated loan notes maturing in 2034 and bearing interest at 3 month USD LIBOR plus 144 basis points	**4,943**	5,218

As at 31 December 2016 the Company had undrawn facilities of:

	2016 $m	2015 $m
Sterling denominated loan notes maturing in 2019 and bearing interest at 3 month GBP LIBOR plus 213 basis points	**-**	516

All subordinated debt counterparties are affiliated entities and all amounts outstanding are repayable at any time at the Company's option, subject to prior written regulatory notification.

The sterling denominated facility has been reduced during the year, and is now fully drawn down.

17. Called up Share Capital

	2016 $m	2015 $m
Allotted, called up and fully paid		
7,933,027,945 Ordinary shares of $1 each	**7,933**	7,933

18. Reserves

Profit and loss account

The difference between equity-settled share scheme awards costs, as calculated in accordance with IFRS 2 – Share Based Payments, and the amounts recharged for such awards by BAC during the year is $19 million (2015: $35 million) and is included within profit and loss reserves.

Capital contribution reserve

The capital contribution reserve relates to a combination of cash and non-cash contributions received from the Company's parent and other BAC companies.

19. Analysis of Financial Assets and Liabilities by Measurement Basis

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by statement of financial position heading:

	Designated at fair value through profit and loss $m	Held for trading $m	Other financial assets / liabilities $m	Total carrying amount $m
31 December 2016				
Long inventory positions	-	273,399	-	273,399
Debtors	26,832	-	107,892	134,724
Cash at bank and in hand	-	-	7,801	7,801
Financial Assets	**26,832**	**273,399**	**115,693**	**415,924**
Bank loans and overdrafts	-	-	482	482
Short inventory positions	-	243,843	-	243,843
Creditors: amounts falling due within one year	36,183	-	93,526	129,709
Creditors: amounts falling due after more than one year	-	-	6,364	6,364
Financial Liabilities	**36,183**	**243,843**	**100,372**	**380,398**

	Designated at fair value through profit and loss $m	Held for trading $m	Loans and receivables $m	Other financial assets / liabilities $m	Total carrying amount $m
31 December 2015					
Long inventory positions	-	322,403	-	-	322,403
Debtors	31,650	-	137	104,161	135,948
Cash at bank and in hand	-	-	-	2,736	2,736
Financial Assets	31,650	322,403	137	106,897	461,087
Bank loans and overdrafts	-	-	-	320	320
Short inventory positions	-	276,289	-	-	276,289
Creditors: amounts falling due within one year	26,991	-	-	115,822	142,813
Creditors: amounts falling due after more than one year	-	-	-	6,757	6,757
Financial Liabilities	26,991	276,289	-	122,899	426,179

20. Commitments and Contingent Liabilities

The Company is involved in civil and administrative proceedings in which damages are or may be sought against it for allegedly mis-selling derivatives to Italian public sector entities. No reliable estimate can be made as to any financial effect of these investigations.

Certain errors have been identified in the period in respect of non-financial regulatory reporting obligations. Based on the facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact.

The Company is a member of various securities and derivative exchanges and clearinghouses. As a member, the Company may be required to pay a pro-rata share of the losses incurred by some of these organisations as a result of another member default and under other loss scenarios. The Company's potential obligations may be limited to its membership interests in such exchanges and clearinghouses, to the amount (or multiple) of the Company's contribution to the guarantee fund or, in limited instances, to the full pro-rata share of the residual losses after applying the guarantee fund. The Company's maximum potential exposure under these membership agreements is difficult to estimate; however, the potential for the Company to be required to make these payments is remote.

In connection with its prime brokerage and clearing businesses, the Company performs securities clearance and settlement services with other brokerage firms and clearinghouses on behalf of its clients. Under these arrangements, the Company stands ready to meet the obligations of its clients with respect to securities transactions. The Company's obligations in this respect are secured by the assets in the clients' accounts and the accounts of their customers as well as by any proceeds received from the transactions cleared and settled by the firm on behalf of clients or their customers. The Company's maximum potential exposure under these arrangements is difficult to estimate; however, the potential for the Company to incur material losses pursuant to these arrangements is remote.

BAC, as an active participant in the international capital markets, is subject to a number of investigations and/or enquires impacting the global banking industry. It is BAC policy to co-operate fully in relation to these matters. Many of these investigations are still in progress at the time of approval of these financial statements and as a result, the outcomes of these matters cannot be predicted. At this time, the directors do not consider it necessary to make any provisions within the financial statements.

The Company provides financial guarantees to affiliated companies for International Swaps and Derivatives Association ("ISDA") and non-ISDA transactions. The Company also holds irrevocable commitments.

The below table represents the Company's maximum exposure under those guarantees and commitments:

	2016 $m	2015 $m
Financial guarantees	**557**	677
Undrawn portion of irrevocable commitments	**9**	17
	566	694

21. Security and Collateral Obtained

At 31 December 2016 the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was $206,303 million (2015: $206,921 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was $169,174 million (2015: $174,038 million). The collateral obtained is composed of cash and various securities positions such as government and agency securities, Eurobonds, and equities. The Company is obliged to return cash or equivalent securities as appropriate.

22. Security and Collateral Pledges

Security has been provided by the Company by way of specific and general charges in respect of certain contractual commitments. The collateral pledged is composed of cash and various securities positions such as sovereign bonds and equities.

The table below shows the amounts on the statement of financial position for which the Company has pledged collateral.

	2016 $m	2015 $m
Short inventory positions	**33,016**	28,706
Resale agreements and securities loaned transactions	**75,448**	84,088
	108,464	112,794

23. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position ("SOFP") where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set-off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2016 and 31 December 2015. The column 'net amount' shows the impact on the Company's SOFP if all set-off rights were exercised.

As at 31 December 2016

	Gross amounts recognised $m	Gross amounts offset in the SOFP $m	Net amounts presented in the SOFP $m	Financial instruments $m	Cash collateral $m	Net amount $m
Assets						
Derivatives	**295,108**	**(78,687)**	**216,421**	**(182,817)**	**(25,626)**	**7,978**
Reverse repurchase, securities borrowing and similar agreements	**127,262**	**(41,915)**	**85,347**	**(84,422)**	**(289)**	**636**
Liabilities						
Derivatives	**291,173**	**(79,504)**	**211,669**	**(182,278)**	**(20,285)**	**9,106**
Repurchase, securities borrowing and similar agreements	**117,868**	**(41,915)**	**75,953**	**(75,159)**	**(289)**	**505**

As at 31 December 2015

	Gross amounts recognised $m	Gross amounts offset in the SOFP $m	Net amounts presented in the SOFP $m	Financial instruments $m	Cash collateral $m	Net amount $m
Assets						
Derivatives	352,105	(90,104)	262,001	(223,560)	(25,488)	12,953
Reverse repurchase, securities borrowing and similar agreements	136,030	(46,809)	89,221	(87,866)	(105)	1,250
Liabilities						
Derivatives	339,006	(90,889)	248,117	(220,670)	(18,358)	9,089
Repurchase, securities borrowing and similar agreements	131,406	(46,809)	84,597	(83,983)	(105)	509

Financial instruments

The Company can undertake a number of financial instrument transactions with a single counterparty and may enter into a master netting agreement with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These agreements are commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

The Company enters into ISDA master agreements or their equivalent ("master netting agreements") with the Company's major derivative counterparties.

Where there is not an intention to settle on a net basis in the normal course of business, the balances have not been offset in the statement of financial position and have been presented separately in the table above.

Cash collateral

Cash collateral relates to collateral received and pledged against both Derivatives and Repurchase agreements which have not been offset in the statement of financial position.

24. Risk Management

Legal entity governance

The MLI Risk Management Committee (“RMC”) reports to the MLI Board Risk Committee (“BRC”) and is responsible for providing management oversight and approval of (or reviewing and recommending to the MLI BRC, the MLI Board or other committees, as appropriate) market risk, credit risk, operational risk and balance sheet, capital, liquidity management and stress testing activities.

The MLI Audit Committee assists the MLI Board in fulfilling its oversight responsibilities relating to MLI’s internal financial controls; the preparation and integrity of MLI’s financial statements; MLI’s relationship with its External Auditor; and the performance and independence of MLI’s Internal Audit and Compliance functions.

The MLI Governance Committee (the “Governance Committee”) assists the MLI Board in fulfilling its oversight of compliance with remuneration policies and regulatory requirements, and nominates for the Board’s approval candidates to fill Board vacancies. The Governance Committee acts as the nomination committee and the remuneration committee of the MLI Board.

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 (including the Company). The Risk Framework applies to all the employees. It provides an understanding of the Company’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 Company. The following are the five components of the Company’s risk management approach:

- Culture of Managing Risk Well;
- Risk Appetite and Risk Limits;
- Risk Management Processes;
- Risk Data Management, Aggregation and Reporting; and
- Risk Governance

The seven key types of risk faced by BAC Businesses as defined in the Risk Framework are market, credit, operational, liquidity, reputational, strategic and compliance risks.

Set out below is a summary of the Company’s approach to each of the risk types.

Market risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities or otherwise negatively impact earnings.

Trading positions within the Company are subject to various changes in market based risk factors. The majority of this risk is generated by activities in the interest rate, foreign exchange, credit, equity and commodities markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. The Company seeks to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments.

Value at risk ("VaR") is a common statistic used to measure market risk as it allows the aggregation of market risk factors, including the effects of portfolio diversification. VaR represents the loss a portfolio is not statistically expected to exceed more than a certain number of times per period, based on a specified holding period, confidence level and window of historical data.

The Company uses one VaR model consistently across the trading portfolios and it uses a historical simulation approach based on a three-year window of historical data. The primary VaR statistic is equivalent to a 99 percent confidence level. This means that for a VaR with a one day holding period, there should not be losses in excess of VaR, on average, 99 out of 100 trading days.

VaR is also used to identify the amount of capital required to absorb potential losses from adverse market moves. The Company has been granted the Internal Models Approach ("IMA") permission by the PRA, which defines products that are included in the regulatory VaR calculation for businesses in the Company.

A VaR model is an effective tool in estimating ranges of potential gains and losses on the Company's trading portfolios. There are, however, limitations inherent in a VaR model as it utilises historical results over a defined time period to estimate future performance. Historical results may not always be indicative of future results and changes in market conditions and the composition of the underlying portfolio could have a material impact on the accuracy of the VaR model. To ensure that the VaR model reflects current market conditions, the historical data underlying the Company's VaR model is updated on a weekly basis, and the assumptions underlying the model are regularly reviewed.

The table that follows presents the Company's average and year-end VaR for 2016 and 2015. Additionally, high and low VaR is presented independently for each risk category and overall.

	Year end 2016 $000's	High 2016 $000's	Daily average 2016 $000's	Low 2016 $000's
99% Daily VaR				
Total	**20,542**	**30,129**	**22,194**	**14,623**
Interest rate risk	**11,317**	**20,840**	**13,053**	**9,127**
Currency risk	**7,593**	**17,595**	**8,452**	**4,888**
Equity price risk	**14,710**	**26,786**	**15,044**	**8,530**
Credit spread risk	**10,008**	**25,418**	**14,655**	**9,444**
Commodity price risk	**1,227**	**5,663**	**1,303**	**242**

	Year end 2015 $000's	High 2015 $000's	Daily average 2015 $000's	Low 2015 $000's
99% Daily VaR				
Total	23,280	47,027	29,781	13,994
Interest rate risk	9,411	34,687	16,740	5,735
Currency risk	13,108	43,989	12,132	5,195
Equity price risk	15,761	31,844	17,365	10,187
Credit spread risk	16,406	22,796	15,674	9,143
Commodity price risk	918	3,491	1,674	795

In addition to VAR measures, the market risk department utilises a range of other risk measures including sensitivity analysis and stress testing to monitor exposures, and manages them using a robust set of limits.

Credit risk

Credit risk is created when the Company commits to, or enters into, an agreement with a borrower or counterparty. The Company defines credit exposure to a borrower or counterparty as the loss potential arising from loans, leases, derivatives and other extensions of credit.

The Company 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.

Credit risk management includes the following processes:

- Credit origination;
- Portfolio management; and
- Loss mitigation activities

These processes create a comprehensive and consolidated view of companywide credit risks, thus providing executive management with the information required to guide or redirect front line units.

The primary credit risks of the Company relate to its derivatives trading and securities activities.

Derivatives Trading

The Company enters into ISDA master agreements or their equivalent ("master netting agreements") with its major derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

In addition, to reduce the risk of loss, the Company usually requires collateral that it is permitted by documentation such as repurchase agreements or Credit Support Annex to an ISDA. From an economic standpoint, the Company evaluates risk exposures net of related collateral that meets specified standards. The Company also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable it to terminate or reset the terms of the derivative contracts under certain defined conditions.

Securities Activities

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to default risk arising from the failure of customers or counterparties to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavourable market prices to satisfy obligations to other customers or counterparties. In addition, the Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

The following table reflects by asset class of financial instrument the amount that best represents the Company's maximum exposure to credit risk and a quantification of the extent to which collateral and other credit enhancements mitigate credit risk as viewed by management.

	2016		2015	
	Maximum exposure to credit risk $m	Mitigated credit risk $m	Maximum exposure to credit risk $m	Mitigated credit risk $m
Derivatives	216,421	207,922	262,001	248,585
Convertible debentures	1,492	-	798	-
Corporate debt and preferred stock	5,424	5,162	6,440	3,550
Mortgage-backed and asset-backed securities	1,354	623	2,183	1,101
Non-US governments and agencies	14,633	11,068	14,420	9,585
Commodities	13	-	19	-
Financial guarantees	557	-	677	-
Undrawn portion of irrevocable commitments	9	-	17	-
Debtors	134,724	124,536	135,948	120,113
Cash at bank	7,801	-	2,736	-
	382,428	**349,311**	425,239	382,934

For all asset classes, where credit risk mitigation exceeds the maximum exposure to credit risk, the credit risk mitigation balance is limited to 100% of the maximum exposure to credit risk.

As detailed in note 11, long inventory positions include corporate debt, preferred stock, convertible debentures, non-US Government and agency securities, derivative assets, commodities, mortgages and mortgages-backed and asset-backed securities. For credit risk management purposes, inventory exposure is monitored across lines of business, and at a net issuer level. The credit risk of long inventory positions is mitigated through the netting of long and short positions for each issuer. The credit risk mitigation amount reflects the market value of any netting available, including short positions, and the market value of any single-name Credit Default Swap ("CDS") protection purchased on a specific issuer.

As noted above, derivative trading activity is generally documented under a legally enforceable ISDA or similar master netting agreement, which binds both parties to apply close-out netting across all transactions covered by the agreement if either party defaults or if another pre-agreed termination event occurs. Therefore, risk is managed on a net basis, taking into consideration the effects of legally enforceable master netting agreements and collateral. However, if there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

Debtors include amounts due from brokers, dealers and clearing houses, resale agreements and securities borrowed transactions, intercompany loans, third party loans and other trade debtors. These balances are generally mitigated through the use of collateral and netting agreements as outlined above.

The Company's off balance sheet exposure to credit risk is principally comprised of undrawn loan commitments, securities pledged as collateral for derivative trading activities, guarantees, letters of credit and similar arrangements. Depending on the terms of the arrangement, the Company may also have recourse to additional credit risk mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults. However, the valuation of such credit mitigating measures is less certain and their financial effect has not been quantified in the analysis of mitigated credit risk.

The below tables reflect the Company's assessment of its credit exposure, based on Credit Rating Agency ratings or the internal equivalent thereof. Where there is no rating, the balances are classified as not rated. Although the table reflects the Company's gross exposure, the Company manages its credit exposures on a net basis.

	AAA to AA- $m	A+ to BBB- $m	BB+ and lower $m	Not rated $m	Total $m
As at 31 December 2016					
Derivatives	5,413	202,848	7,149	1,011	216,421
Convertible debentures	64	129	19	1,280	1,492
Corporate debt and preferred stock	1,440	2,070	695	1,219	5,424
Mortgage-backed and asset-backed securities	740	180	311	123	1,354
Non-US governments and agency securities	4,218	7,978	2,230	207	14,633
Commodities	-	10	-	3	13
Financial guarantees	-	557	-	-	557
Undrawn portion of irrevocable commitments	-	-	-	9	9
	11,875	**213,772**	**10,404**	**3,852**	**239,903**

	AAA to AA- $m	A+ to BBB- $m	BB+ and lower $m	Not rated $m	Total $m
As at 31 December 2015					
Derivatives	5,867	247,819	8,044	271	262,001
Convertible debentures	18	177	106	497	798
Corporate debt and preferred stock	818	2,691	803	2,128	6,440
Mortgage-backed and asset-backed securities	1,285	283	452	163	2,183
Non-US governments and agency securities	3,611	7,383	1,821	1,605	14,420
Commodities	-	13	6	-	19
Financial guarantees	-	677	-	-	677
Undrawn portion of irrevocable commitments	-	-	-	17	17
	11,599	259,043	11,232	4,681	286,555

The following table details third party credit exposures that are past due, but not impaired:

	0-30 days $m	31-60 days $m	61-90 days $m	91-120 days $m	120 days+ $m	Total $m
As at 31 December 2016						
Debtors	-	37	6	2	3	48

	0-30 days $m	31-60 days $m	61-90 days $m	91-120 days $m	120 days+ $m	Total $m
As at 31 December 2015						
Debtors	-	25	-	-	127	152

Operational Risk

BAC has adopted the Basel Committee definition of operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk may occur anywhere in the Company, including third party business processes, and is not limited to operations functions. Effects may extend beyond financial losses and may result in reputational risk impacts. An operational loss event can be associated with any of the following seven operational loss event categories as outlined by the Basel Committee for Banking Supervision: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures; and execution, delivery and process management.

Since operational risk is inherent in every activity across the Company, the Company relies on all employees to conduct themselves properly, contribute to an effective internal control environment and manage operational risk within their roles. The Company manages operational risk by designing and implementing internal controls to identify, measure, monitor and control risks.

Operational risk must be managed by all employees as part of their day-to-day activities. Business and control functions are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. The independent risk management teams actively oversee the businesses and control functions to monitor adherence to the operational risk management program and to advise and challenge operational risk exposures.

Liquidity Risk

Liquidity risk is the potential 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.

The MLI Board is ultimately responsible for the Company's liquidity risk management, delegating additional oversight to the MLI BRC and MLI RMC. The businesses are the first lines of defence in liquidity risk management, partnering with Global Liquidity Management ("GLM") and Global Funding functions within Corporate Treasury, to achieve liquidity risk management objectives. GLM and Global Funding are responsible for carrying out the day-to-day monitoring and management of MLI liquidity risk and resources, providing timely information to the MLI RMC, MLI BRC and MLI Board.

CFO Risk serve as the second line of defence, providing independent risk management, and Audit serves as the third line of defence. Compliance, another second line of defence, provides independent monitoring and testing of compliance with laws, regulations, and internal Company standards that impact liquidity risk management.

The approach to managing the Company's liquidity risk has been established by the MLI Board, aligned to BAC processes, but tailored to meet the Company's business mix, strategy, activity profile, risk appetite, and regulatory requirements. Key components include:

- The MLI Liquidity Risk Policy, which is approved annually by the MLI Board and formally articulates the principles for managing liquidity risk within the Company, including requirements for internal stress testing, limits and guidelines, reporting and monitoring, roles and accountabilities, and regulatory requirements.
- The MLI liquidity risk appetite, established by the MLI Board, requiring the Company to maintain sufficient excess liquidity resources to meet net modelled outflows under an internally developed combined stress scenario and to comply with regulatory requirements.
- A robust framework of limits, guidelines and metrics that are monitored and reported daily to ensure ongoing compliance with internal and regulatory requirements.
- The MLI Contingency Funding Plan, which is approved annually by the MLI Board and details senior management's strategy to address potential liquidity shortfalls during periods of stress.

The Company is subject to the following PRA liquidity requirements:

- LCR requires the Company to hold a sufficient buffer of eligible High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first month of a liquidity stress event. The Company is required to comply with a minimum 90% LCR, rising to 100% by 1 January 2018.
- VVOP effectively requires the Company to maintain sufficient liquid assets. These liquid assets are to be held in the Company's sole name, unencumbered, readily accessible, and readily realisable by the Company at all times.

As legislated by CRR/CRD IV, the Company is expected to comply with the Net Stable Funding Ratio ("NSFR") requiring it to maintain sufficient levels of stable funding to support the liquidity profile of its assets. The NSFR remains subject to further consultation in Europe following the publication by the European Commission on 23 November 2016 of an extensive package of proposed legislative amendments to the EU prudential framework. The aim of the package is to implement a number of important globally agreed standards, including NSFR. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms two years after the date of entry into force of the proposed Regulation.

As of 31 December 2016, the Company was in excess of both internal and regulatory liquidity requirements.

The tables below represent the undiscounted cash flows of the Company's financial liabilities as at 31 December 2016 and 31 December 2015, with the exception of those held for trading or designated at fair value through profit and loss.

The fair values of financial liabilities held for trading and financial liabilities designated at fair value through profit and loss have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments.

	On demand or within 1 year $m	Due between 1 and 5 years $m	Due after 5 years $m
As at 31 December 2016			
Derivatives	211,669	-	-
Equities and convertible debentures	16,246	-	-
Corporate debt and preferred stock	9,579	-	-
Non-US Governments and agency securities	4,946	-	-
US Governments and agency securities	286	-	-
Commodities	1,117	-	-
Customer payables	42,990	-	-
Brokers, dealers and clearing houses	4,618	-	-
Repurchase agreements and securities loaned transactions	75,953	-	-
Amounts owed to affiliated companies	5,447	634	7,630
Other creditors and accruals	830	-	-
Bank loans and overdrafts	482	-	-
Subordinated debt	43	1,488	-
Financial guarantees	557	-	-
Irrevocable commitments	9	-	-
	374,772	**2,112**	**7,630**

	On demand or within 1 year $m	Due between 1 and 5 years $m	Due after 5 years $m
At 31 December 2015			
Derivatives	248,117	-	-
Equities and convertible debentures	12,119	-	-
Corporate debt and preferred stock	9,093	-	-
Non-US Government and agency securities	5,889	-	-
US Government and agency securities	389	-	-
Commodities	682	-	-
Customer payables	43,380	-	-
Brokers, dealers and clearing houses	4,438	-	-
Repurchase agreements and securities loaned transactions	84,597	-	-
Amounts owed to affiliated companies	9,741	591	8,078
Other creditors and accruals	770	-	-
Bank loans and overdrafts	320	-	-
Subordinated debt	43	1,649	-
Financial guarantees	677	-	-
Irrevocable commitments	17	-	-
	420,272	2,240	8,078

The Company has recorded all derivative liabilities in the 'on demand' category to reflect the common market practice of terminating derivative contracts at fair value upon a client's request, although the Company is generally not contractually obliged to do so.

Reputational Risk

Reputational risk is the potential 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.

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.

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.

At the enterprise level, reputational risk is reviewed by the Enterprise Risk Committee and the Management Risk Committee, which provide primary oversight of reputational risk. Additionally, top reputational risks are reviewed by the Global Risk Management Leadership team and the BAC board.

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 the Company are considered as part of the EMEA Reputational Risk Committee. The EMEA Reputational Risk Committee provides updates to the MLI BRC on a quarterly basis.

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. The EMEA Reputational Risk Committee and MLI BRC are informed of such matters.

Strategic Risk

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 the Company operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

Strategic risk is managed through the following approaches: (1) The strategic planning process specifically addresses many forms of strategic risk. The BAC board review and approve the strategic plans after considering strategic risks in addition to other types of risk. (2) The strategic plans are consistent with risk appetite and specifically address strategic risks. (3) The executive management team continuously monitors business performance throughout the year to assess strategic risk and find early warning signals so that risks can be proactively managed.

BAC's strategic plan is reviewed and approved annually by the BAC board alongside the capital plan, financial operating plan and risk appetite. Significant strategic actions, such as capital actions, material acquisitions or divestitures, and recovery and resolution plans are reviewed and approved by the BAC board as required. Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and company level.

At the business unit, regional and company level, strategic planning processes are consistent with each other and their output is incorporated as part of the BAC planning process. The Company's strategy is reviewed and approved by the MLI Board on an annual basis. Strategic decisions relating to the Company are presented and discussed at MLI BRC and Board level. Routines exist to discuss the strategic risk implications of new business and product entries and other strategic initiatives, and to

provide approvals where appropriate. Independent risk management, Corporate Audit and other control functions provide input, challenge and oversight to front line unit and regional level strategic plans and initiatives.

Individual business units provide regular tracking updates to both global and regional management on their business performance. Updates take into account analysis of performance relative to the financial operating plan and risk appetite and performance relative to peers. Topical presentations are made to address any developments or considerations as it relates to strategic planning.

Focused regional performance updates are provided to executive leadership and the BAC board on a periodic basis. The Company's performance updates are provided to the MLI board.

Compliance Risk

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.

Front line units are responsible for the proactive identification, management and escalation of compliance risks across the Company. Global Compliance is responsible for setting BAC-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 Global Compliance Policy, which outlines the requirements of BAC's global compliance program and defines roles and responsibilities related to the implementation, execution and management of the global compliance risk management 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 to the MLI Audit Committee.

Capital Management

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements of the PRA, the UK regulator. The Company must at all times meet the minimum capital requirements set by the PRA, and is required to make a quarterly regulatory submission of its capital position to the regulator.

The Company considers regulatory capital to be capital as presented in the statement of financial position after adjustments. The Company has established processes and controls to monitor and manage its capital adequacy position. As part of this, the Company maintains an excess of total capital resources over its capital resources requirements, and complied with the minimum capital requirements throughout the current and prior year.

The Company's regulatory capital resources comprise two distinct elements:

- Tier one capital, which includes ordinary share capital, share premium, audited retained earnings and capital reserves.
- Tier two capital, which includes qualifying long-term subordinated liabilities.

At 31 December 2016, the Company's regulatory capital resources were $35,482 million (2015: $35,082 million).

Basel III Pillar 3 Disclosures

CRR/CRD IV came into effect on 1 January 2014 implementing the Basel III framework in the European Union. The Pillar 3 disclosures for the Company, required under part eight of CRR, are included in the Pillar 3 disclosures of its parent and can be obtained via http://investor.bankofamerica.com.

Country by Country Reporting

The Company makes Country by Country reporting disclosures as required under CRD IV – these disclosures can be obtained via http://investor.bankofamerica.com.

25. Structured Entities and Transfers of Financial Assets

Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The most common type of structured entity is a SPE. The party that has power to direct the most significant activities of the entity is exposed to the risks of the entity (together constituting control of the entity) and is required to consolidate the assets and liabilities of the structured entity. The structured entities in which the Company has control are consolidated into the financial statements of the ultimate parent undertaking of the Company, BAC.

Interest in Unconsolidated Structured Entities

The Company's interest in an unconsolidated structured entity is considered as the contractual and non-contractual involvement that exposes the Company to variability of returns from the performance of the structured entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

The Company has involvement with various structured entities, originated within the BAC Group or by third parties. These typically include equity funds and credit vehicles.

Credit vehicles are typically created on behalf of customers who wish to obtain market or credit exposure to a specific company, index, commodity or financial instrument. The Company may transfer assets to and on occasion finance securities issued by these vehicles. The Company typically enters into credit, equity, interest rate, commodity or foreign currency derivatives to synthetically create or alter the investment profile of the issued securities.

As the Company does not prepare consolidated financial statements, all interests in structured entities are considered as unconsolidated in this disclosure. SPEs for which the Company also has control are listed in note 10. The Company typically has either an interest or control over sponsored SPEs, and instances where it has neither are rare.

Where the Company's interest in an SPE involves the transfer of an asset, these have been disclosed in the transfer of financial assets section below.

The total size of SPEs disclosed in the transfer of financial assets section below is calculated as the principal outstanding of the SPEs.

Interest rate swaps and foreign exchange derivatives that are not complex and which expose the Company to insignificant credit risk by being senior in the payment waterfall of a securitisation and derivatives that are determined to introduce risk or variability to a structured entity are not considered to be an interest in an entity and have been excluded from the disclosures below where this is the only involvement with the SPE.

Short term traded interests in unconsolidated structured entities

The Company invests in asset backed securities issued by third party SPEs, with which it has no other form of involvement, as part of its trading activities. An example of this would be mortgage backed securities, other asset backed securities and similar interests. Such interests are typically held individually or as part of a larger portfolio for no more than 90 days. In such cases, the Company's maximum exposure to loss is restricted to the carrying value of the asset. These SPEs are not controlled by the Company and are not included in the tables below. The carrying value of these assets is included within note 11 of these financial statements.

Interests in unconsolidated SPEs where the Company is not the transferor

Interests in unconsolidated SPEs where the Company is not the transferor of an asset are as follows:

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m	Maximum exposure to loss $m
As at 31 December 2016			
Trading inventory	123	(67)	123
Other debtors and prepayments	4	-	4
	127	**(67)**	**127**

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m	Maximum exposure to loss $m
As at 31 December 2015			
Trading inventory	165	(32)	165
Other debtors and prepayments	10	-	10
	175	(32)	175

The total size of the SPEs for the transactions in the above table is $9,480 million (2015: $14,358 million).

Sponsored entities

The Company considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity; and further where the Company transfers assets to the structured entity; markets products associated with the structured entity in its own name; provides operational support to ensure the SPEs continue operation and/or provides guarantees regarding the structured entity's performance.

During the year the Company has not provided any non-contractual financial or other support to unconsolidated structured entities.

Transfers of Financial Assets

The Company enters into transactions in the normal course of business in which it transfers financial assets to third parties and to SPEs. These transactions may result in the financial assets either continuing to be recognised or being derecognised. Refer to note 1.20 for the accounting policy governing derecognition of financial assets.

The maximum exposure to loss disclosed in the below tables, typically includes the carrying value of any retained interest and derivative balances held on the statement of financial position as well as the value of any undrawn liquidity facilities provided. Where there is a potential obligation for further payouts (such as a potential requirement to repurchase the transferred assets) this has been incorporated such that for certain trades the maximum exposure to loss has been set equal to the value of the charged assets.

a) Transferred financial assets that continue to be recognised

Where substantially all the risks and rewards of a transferred financial asset are retained the transaction is, in substance, a secured borrowing. The financial asset continues to be recognised in full and a corresponding liability is recognised in borrowings to the extent of any cash consideration received. Transactions of this nature include repurchase agreements, securities financing (both cash and securities collateral) and derivative transactions including total return swaps and call options; and primarily involves trading inventory positions including non-US government and agency securities, corporate debt and equities.

As a result of these transactions, the Company is unable to pledge, sell or use the assets for the duration of the transaction. The Company remains exposed to substantially all of the relevant market risks on these transferred assets.

Assets are transferred under repurchase and securities lending agreements with other banks and financial institutions. In substance, these transactions constitute secured borrowings and therefore the assets are not derecognised from the statement of financial position. The recipient is generally able to use, sell or pledge the transferred assets for the duration of the transaction. The Company remains exposed to interest and credit risk on these instruments which they are contractually required to repurchase at a later date. However due to the nature of these arrangements, especially the transfer of collateral and ongoing margining, the Company has minimal exposure to the performance of the counterparty. The counterparty's recourse is generally not limited to the transferred assets.

The fair value of the collateral and the carrying amounts of the liabilities is disclosed in notes 21 and 15 respectively.

The table below reflects balances associated with transactions for which transferred financial assets continue to be recognised in full.

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m	Maximum exposure to loss $m
As at 31 December 2016			
Trading inventory	84	(75)	9

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m	Maximum exposure to loss $m
As at 31 December 2015			
Trading inventory	663	(657)	257

All of the amounts in the table above relate to transfers to SPEs, other than one transaction which has total assets of $nil (2015: $12 million) and total liabilities of $nil (2015: $12 million) on the Company's statement of financial position.

The total size of the SPEs for the transactions in the above table is $79 million (2015: $4,376 million).

The carrying amounts do not necessarily reflect the risks faced by the Company, as factors such as economic hedges and effect of collateral held by the Company are not included.

For the above transfers recourse is limited to the transferred assets in a number of the derivative transactions. The fair value of the transferred assets and associated liabilities for these positions is $84 million (2015: $663 million) and $75 million (2015: $657 million) respectively.

b) Continuing involvement in financial assets that have been derecognised in full

The Company has also entered into transactions where it has continuing involvement in transferred assets that have been derecognised in full. Continuing involvement normally involves derivative transactions, retained interest in notes and the provision of liquidity facilities.

The table below reflects the Company's continuing involvement in transactions where it has transferred financial assets that were derecognised in full.

	Carrying amount of continuing involvement		Fair value of continuing involvement		Maximum exposure to loss $m
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	
31 December 2016					
Trading inventory	159	(79)	159	(79)	276

	Carrying amount of continuing involvement		Fair value of continuing involvement		Maximum exposure to loss $m
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	
31 December 2015					
Trading inventory	246	(65)	248	(65)	414
Other debtors and prepayments	2	-	2	-	-
	248	(65)	250	(65)	414

All of the amounts in the table above relate to interests in SPEs.

The total size of the SPEs for the transactions in the above table is $15,209 million (2015: $20,606 million).

The table below reflects information about profit and loss associated with the above transactions:

	Gain or loss recognised at date of transfer $m	Income/(expense) recognised in the year $m	Cumulative income/(expense) $m
31 December 2016			
Trading inventory	-	(30)	(50)
Other debtors and prepayments	-	-	10

	Gain or loss recognised at date of transfer $m	Income/(expense) recognised in the year $m	Cumulative income/(expense) $m
31 December 2015			
Trading inventory	-	27	(35)
Other debtors and prepayments	-	-	25

Certain transferred assets that have been derecognised may be required to be repurchased subject to contingencies. The contractual undiscounted cash flows that may be required are set out in the table below:

	Less than one year $m	1-5 years $m	More than 5 years $m
31 December 2016			
Trading inventory	92	65	12
Other debtors and prepayments	-	-	33
	92	**65**	**45**

	1-5 years $m	More than 5 years $m
31 December 2015		
Trading inventory	138	51
Other debtors and prepayments	-	40
	138	91

26. Fair Value Disclosures

In accordance with IFRS 13 – Fair Value Measurement, financial instruments carried at fair value have been categorised into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial instruments are considered Level 1 when their valuation is based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Resale and repurchase and securities borrowed and loaned agreements

The fair value for certain resale and repurchase agreements and securities borrowed and loaned agreements is estimated using a discounted cash flow model which incorporates inputs such as interest rate yield curves. Resale and repurchase agreements and securities borrowed and loaned agreements for which the fair value option has been elected are generally classified as Level 2 in the fair value hierarchy.

Long inventory positions and short inventory positions

The fair values of long and short inventory positions are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair values of long and short inventory positions. In less liquid markets, market price quotes may not be readily available. Some of these instruments are valued using a net asset value approach, which considers the value of the underlying assets. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial statements and changes in credit ratings made by one or more rating agencies.

Derivative assets and liabilities

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third party pricing services. When third party pricing services are used, the methods and assumptions are reviewed by the Company. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available, or are unobservable, in which case, quantitative-based extrapolations of rate, price or index scenarios are used in determining fair values. The fair value of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate.

In addition, the Company incorporates within its fair value measurements of OTC derivatives a valuation adjustment to reflect the credit risk associated with the net position. Positions are netted by counterparty, and the fair value for net long exposures is adjusted for counterparty credit risk whilst the fair value for net short exposures is adjusted for the Company's own credit risk. The Company also incorporates a Funding Valuation Adjustment ("FVA") within its fair value measurements to include funding costs on uncollateralised derivatives and derivatives where the Company is not permitted to use the collateral it receives. An estimate of severity of loss is also used in the determination of fair value, primarily based on market data.

In June 2016 the FVA model was enhanced to better reflect the current market conditions. The re-enhancements were driven by:

- An increased number of competitively bid trades, providing improved market clarity
- External pricing survey
- Ongoing industry developments

The tables below presents the carrying value of financial instruments held at fair value across the three levels of the fair value hierarchy at 31 December 2016 and 31 December 2015.

	31 December 2016 – Recurring Fair Value Measurement			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				
Resale agreements and securities borrowed transactions	-	26,832	-	26,832
Derivatives	4,801	209,664	1,956	216,421
Equities and convertible debentures	23,850	11,625	79	35,554
Corporate debt and preferred stock	108	5,049	267	5,424
Mortgage-backed and asset-backed securities	-	1,046	308	1,354
Non-US governments and agency securities	11,676	2,957	-	14,633
Commodities	-	13	-	13
Total assets	**40,435**	**257,186**	**2,610**	**300,231**
Liabilities				
Repurchase agreements and securities loaned transactions	-	36,183	-	36,183
Derivative liabilities	5,071	204,067	2,531	211,669
Equities and convertible debentures	12,169	4,077	-	16,246
Corporate debt and preferred stock	86	9,493	-	9,579
Non-US governments and agency securities	3,700	1,246	-	4,946
US governments and agency securities	286	-	-	286
Commodities	-	1,117	-	1,117
Total liabilities	**21,312**	**256,183**	**2,531**	**280,026**

There have been no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2016 and 2015.

	31 December 2015 – Recurring Fair Value Measurement			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				
Resale agreements and securities borrowed transactions	1,121	30,529	-	31,650
Derivative assets	3,532	255,740	2,729	262,001
Equities and convertible debentures	27,448	9,766	126	37,340
Corporate debt and preferred stock	249	5,977	214	6,440
Mortgage-backed and asset-backed securities	-	1,698	485	2,183
Non-US governments and agency securities	12,202	2,218	-	14,420
Commodities	-	19	-	19
Customer receivables	-	48	-	48
Total assets	44,552	305,995	3,554	354,101
Liabilities				
Repurchase agreements and securities loaned transactions	1,121	25,870	-	26,991
Derivative liabilities	3,661	241,588	2,868	248,117
Equities and convertible debentures	8,967	3,152	-	12,119
Corporate debt and preferred stock	183	7,974	936	9,093
Non-US governments and agency securities	4,996	893	-	5,889
US governments and agency securities	389	-	-	389
Commodities	-	682	-	682
Total liabilities	19,317	280,159	3,804	303,280

Fair Values of Level 3 Assets and Liabilities

The Level 3 financial instruments include corporate loans, bonds, derivatives and unlisted equity investments.

By definition Level 3 inputs relate to mark-to-model financial instruments having unobservable model inputs that have an overall significant impact on the financial instrument fair value. This is true whether the financial instrument is considered a cash security, securitised product or structured derivative. Classification on Level 3 is essentially a result of failure to be classified on either Levels 1 or 2. It is important to note some key points regarding the use of Level 3 inputs for the purposes of estimating fair value:

- Unobservable inputs can only be used in the absence of reliable observable market data.
- If unobservable inputs are used, they must reflect the assumptions market participants would use when pricing the asset or liability, including assumptions about risk. If the Company's own data is used to develop unobservable inputs, this should be adjusted if reasonably available information suggests other market participants would use different data.
- Assumptions about risk include the risk or uncertainty inherent in a particular valuation model used to estimate fair value, as well as the inputs used by the valuation model. A fair value estimate produced from a valuation model must be adjusted for these risks if a market participant would do so in their pricing of an asset or liability.

The tables below present a reconciliation of the opening and closing balances for all Level 3 assets measured at fair value at 31 December 2016 and 31 December 2015. Level 3 assets as of 31 December 2016 totalled $2,610 million (2015: $3,554 million) and represented approximately 1 percent (2015: 1 percent) of both total assets and assets measured at fair value. Level 3 liabilities as of 31 December 2016 totalled $2,531 million (2015: $3,804 million) and represented approximately 1 percent (2015: 1 percent) of both total liabilities and liabilities measured at fair value.

The following tables provide a summary of changes in Level 3 financial assets and liabilities.

	Derivative assets $m	Equities and convertible debentures $m	Corporate debt and preferred stock $m	Mortgage-backed and asset-backed securities $m
Long Inventory				
At 1 January 2016	2,729	126	214	485
Total gains/(losses) recognised within principal trading income	(84)	29	(85)	100
Purchases	224	20	181	226
Sales	(32)	(40)	(68)	(470)
Settlements	(712)	(8)	(42)	(101)
Transfers out	(279)	(62)	(14)	(39)
Transfers in	110	14	81	107
At 31 December 2016	**1,956**	**79**	**267**	**308**
Unrealised gains/(losses)	63	2	3	54

	Derivative liabilities $m	Corporate debt and preferred stock $m
Short Inventory		
At 1 January 2016	(2,868)	(936)
Total gains/(losses) recognised within principal trading income	(306)	1
Purchases	-	-
Sales	(595)	-
Settlements	1,089	157
Transfers out	250	778
Transfers in	(101)	-
At 31 December 2016	**(2,531)**	**-**
Unrealised gains/(losses)	(400)	-

Unrealised gains/(losses) relate to profit or loss from positions still held at year end and is included within principal trading income.

The transfers into Level 3 from Level 2 during the year were due to lack of observable market pricing data subsequent to purchase. The transfers out of Level 3 to Level 2 during the year were due to increased availability of observable pricing data on underlying positions.

	Derivative assets $m	Equities and convertible debentures $m	Corporate debt and preferred stock $m	Mortgage-backed and asset-backed securities $m
Long Inventory				
At 1 January 2015	3,521	182	605	546
Total gains/(losses) recognised within principal trading income	82	(3)	(12)	76
Purchases	119	45	36	361
Sales	(44)	(123)	(167)	(359)
Settlements	(708)	-	(235)	(169)
Transfers out	(470)	(16)	(68)	(12)
Transfers in	229	41	55	42
At 31 December 2015	2,729	126	214	485
Unrealised gains/(losses)	338	(1)	(28)	(11)

	Derivative liabilities $m	Corporate debt and preferred stock $m
Short Inventory		
At 1 January 2015	(4,142)	(999)
Total gains/(losses) recognised within principal trading income	385	1
Purchases	16	63
Sales	(262)	-
Settlements	1,006	-
Transfers out	309	-
Transfers in	(180)	(1)
At 31 December 2015	(2,868)	(936)
Unrealised gains/(losses)	(128)	-

Unrealised gains/(losses) relate to profit or loss from positions still held at year end and is included within principal trading income.

The transfers into Level 3 from Level 2 during the year were due to lack of observable market pricing data subsequent to purchase. The transfers out of Level 3 to Level 2 during the year were due to increased availability of observable pricing data on underlying positions.

The table below provides information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory.

	Valuation technique	Significant unobservable inputs	Ranges of input
Long Inventory			
Equities and convertible debentures	Discounted cash flow, market comparables	Yield	1% to 37%
Corporate debt and preferred stock		Prepayment speed	5% to 20%
Mortgage-backed and asset-backed securities		Default rate	3% to 4%
		Loss severity	0% to 50%
		Price	$0 to $292
		Duration	0 to 5 years
		Enterprise value/EBITDA multiple	34x
Derivative assets and liabilities			
Equity derivatives	Industry standard derivative pricing	Equity Correlation	13% to 100%
		Long dated equity volatilities	4% to 76%
Credit derivatives	Discounted cash flow, Stochastic recovery correlation model	Yield	0% to 24%
		Upfront points	0 points to 100 points
		Credit spreads	17bps to 814bps
		Credit correlation	21% to 80%
		Prepayment speed	10% to 20% constant prepayment rate
		Default rate	1% to 4% constant default rate
		Loss severity	35%
Commodity derivatives	Discounted cash flow, Industry standard derivative pricing	Natural gas forward price	$2/MMBtu to $6/ MMBtu (Million British thermal units)
		Correlation	66% to 95%
		Volatilities	23% to 96%
Interest rate derivatives	Industry standard derivative pricing	Interest rate correlation	15% to 99%
		Foreign exchange correlation	0% to 40%
		Illiquid interest rate and long dated inflation rates	-12% to 35%
		Long dated inflation volatilities	0% to 2%

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the reporting date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at the year end, it could have increased fair value by as much as $375 million (2015: $390 million) or decreased fair value by as much as $432 million (2015: $461 million) with the potential effect impacting profit and loss rather than reserves.

This disclosure is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable inputs and is not predictive or indicative of future movements in fair value. Furthermore, it is unlikely in practice that all unobservable parameters would be simultaneously at the extremes of their ranges of reasonable possible alternatives.

Financial assets and liabilities carried at amortised cost

The below summarises the fair value of the company's financial assets and liabilities which are carried at amortised cost.

Reverse repurchase agreements and repurchase agreements are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value, given the short-term nature of these instruments. See notes 12 and 15 for further details.

The fair value of subordinated liabilities and other long term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities and other long term funding are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value.

All other debtors and creditors in the statement of financial position are classified as level 2. The carrying amounts are a reasonable approximation of their fair value, due to the short term nature of these instruments.

27. Share Based Payments

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, BAC grants stock-based awards, including stock options, restricted stock and restricted stock units ("RSUs"). In 2016 the RSUs are authorised to settle predominantly in shares of common stock of BAC which generally vest in three equal annual instalments beginning one year from the grant date. Awards granted in prior years were predominantly cash settled.

For most awards, expense is generally recognised proportionally over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, BAC records the expense upon grant. For employees that become retirement eligible during the vesting period, BAC recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

RSUs may be settled in cash or in shares of common stock depending on the terms of the applicable award. Certain awards contain claim back provisions which permit BAC to cancel all or a portion of the award under specified circumstances.

The total pre-tax compensation cost recognised in the income statement for share-based compensation plans for the year ended 31 December 2016 was $285 million (2015: $241 million).

Fair market value was determined using the BAC share price at 31 December 2016 of $22.10 (2015: $16.83).

Other stock plans

At 31 December 2016, non-qualified stock options remain outstanding under the legacy Merrill Lynch Long-Term Incentive Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan.

Restricted stock units

A RSU is deemed equivalent in fair market value to one share of BAC common stock. Awards of RSUs may be settled in common stock or cash. Recipients of RSU awards may receive cash payments equivalent to dividends.

The table below presents the status at 31 December 2016 and 31 December 2015 of the RSUs and changes during 2016 and 2015.

	Restricted Stock Units 2016 Number	Restricted Stock Units 2015 Number
Outstanding as at 1 January	**30,416,530**	38,656,317
Granted	17,670,934	16,488,543
Exercised	(17,090,496)	(22,482,616)
Cancelled, forfeited or released from contingencies	(926,626)	(2,245,714)
Outstanding as at 31 December	**30,070,342**	30,416,530

Non-qualified Stock Options

The table below presents the status of all option plans at 31 December 2016 and 31 December 2015 and changes during 2016 and 2015.

	2016		2015	
	Options outstanding Number	Weighted average exercise price $	Options outstanding Number	Weighted average exercise price $
Outstanding as at 1 January	**471,193**	**64.7**	829,850	64.4
Granted	-	-	-	
Exercised	-	-	-	
Cancelled, forfeited or released from contingencies	(23,979)	(64.7)	(358,657)	(64.7)
Outstanding as at 31 December	**447,214**	**64.7**	471,193	64.7
Exercisable as at 31 December	**447,214**	**64.7**	471,193	64.7

All options outstanding as of 31 December 2016 were vested and exercisable, and have no aggregate intrinsic value.

The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 31 December 2016 and 2015.

	2016		2015	
Range of exercise prices	Number	Weighted average remaining contractual life in years	Number	Weighted average remaining contractual life in years
$60.00 – $70.00	**447,214**	**1.08**	471,193	2.08

28. Related Party Transactions

As detailed in note 1.3, the Company has elected to take advantage of the exemption available under FRS 101 for the requirements in IAS 24 – Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Management consider key management personnel to be represented by the Board of directors of the Company. Details of the remuneration of the directors are included in note 6.

29. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent is MLUKCH, a company incorporated in the United Kingdom. The Company's ultimate parent company and controlling party is BAC, a company organised and existing under the laws of the State of Delaware in the United States of America.

The parent company of the largest, and smallest, group into which the Company's financial statements are consolidated is BAC. Copies of BAC's financial statements can be obtained from either of the following website locations: http://investor.bankofamerica.com or www.sec.gov/

Bank of America Merrill Lynch

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