BofA SECURITIES

Merrill Lynch Capital Markets España, S.A., S.V.
Pillar 3 Disclosures

31 December 2020

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Glossary

AT1	Additional Tier 1
BAC	Bank of America Corporation
BIA	Basic Indicator Approach
BTA	Business Transfer Agreement
CCYB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CGP	Compensation Governance Policy
CHCC	The Board of Directors Compensation and Human Capital Committee
CMU	Collateral Monitoring unit
CNMV	Comisión Nacional del Mercado de Valores
COVID-19	2019 novel coronavirus
CQS	Credit Quality Steps
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustment
EBA	European Banking Association
ECAI	External Credit Assessment Institutions
EMEA	Europe, Middle East and Africa
EU	European Union
Fitch	Fitch Ratings, Inc.
FLUs	Front Line Units
FOGAIN	Fondo General de Garantía de Inversiones
FX	Foreign Exchange
GLM	Global Liquidity Management
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
IMMC	Identify, Measure, Monitor and Control
IRRBB	Interest Rate Risk in the Banking Book
MCC	Management Compensation Committee
MLCME	Merrill Lynch Capital Markets España
MLCME Board	Merrill Lynch Capital Markets España Board of Directors
Moody's	Moody's Investors Service, Inc.
MRT	Material Risk Takers
RAS	Risk Appetite Statement
RSU	Restricted Stock Units
RWA	Risk Weighted Assets
SALM	Strategic Asset & Liability Management
S&P	Standard & Poor’s Financial Services LLC
SPANISH GAAP	Spanish Generally Accepted Accounting Principles

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1. Introduction

1.1. Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2020 in respect of the capital and risk management of Merrill Lynch Capital Markets España, S.A., S.V. (“MLCME” or “the Firm”), a broker-dealer regulated by Comisión Nacional del Mercado de Valores (“CNMV”). All defined terms are found in the glossary.

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

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

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

Entity:	Merrill Lynch Capital Markets España, S.A., S.V.
Scope of Application:	Individual
Department Responsible for Production and Review of Report:	Finance
Report Responsibility:	Joaquín Monje Arroyo Merrill Lynch Capital Markets España, S.A., S.V. Edificio Torre Serrano C) Marqués de Villamagna, 3 28001 Madrid Tel: 91 514 3247
Date Approved by Board of Directors:	26 March 2021

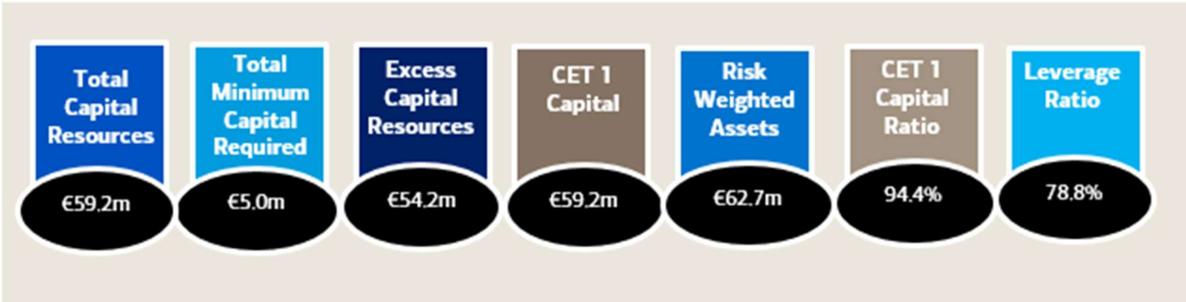
1.1.1. Merrill Lynch Capital Markets España, S.A., S.V.

MLCME is a broker-dealer that is wholly owned by NB Holdings Corporation; its ultimate parent is Bank of America Corporation (“BAC,” “the Company,” "the Group" or “the Enterprise”), which is incorporated in the United States. MLCME is authorised and regulated by CNMV.

1.1.2. MLCME’s Capital Position at 31 December 2020

MLCME’s Capital Resources of €59.2M consist entirely of Tier 1 capital. MLCME has risk weighted assets (“RWA”) of €62.7M, a Tier 1 to RWA ratio of 94.4%, and a surplus over Pillar 1 Minimum Capital Requirement of €54.2M.

Figure 1.1.2.F1. – Summary of MLCME's Key Metrics as at 31 December 2020



1.2. Basis of Preparation

The Basel Capital Accords provides a series of international standards for bank regulation commonly known as Basel I, Basel II and, most recently, Basel III. Basel III was implemented in the European Union ("EU") via the Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR") (collectively known as the Capital Requirements Directive IV ("CRD IV")). These new requirements took effect from 1 January 2014.

This legislation consists of three pillars. Pillar 1 is defined as 'Minimum Capital Requirement,' Pillar 2 'Supervisory Review Process,' and Pillar 3 'Market Discipline.' The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

The information contained in this Pillar 3 disclosure has been prepared in accordance with Part Eight of the EU Capital Requirements Regulation. These disclosures are updated annually in line with the accounting year end as at 31 December, unless otherwise stated. All tables are as at 31 December 2020, with prior year comparatives as at 31 December 2019.

MLCME financial statements are prepared in accordance with Spanish Generally Accepted Accounting Practices.

Therefore, the information contained in these Pillar 3 disclosures may not be directly comparable with the Annual Report and Financial Statements, and the disclosure is not required to be audited by external auditors. Although Pillar 3 disclosure is intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other banks.

These Pillar 3 disclosures are published on the Investor Relations section of BAC's corporate website:

http://investor.bankofamerica.com

1.3. Operation, Structure, and Organisation

Merrill Lynch Capital Markets España was incorporated in Madrid on 13 June 1996. The registered office is located in Madrid, Calle Marqués de Villamagna, 3.

MLCME was entered in the Register of Securities Brokers-Dealers (Registro de Sociedades de Valores) of the CNMV on 9 July 1996 under number 161.

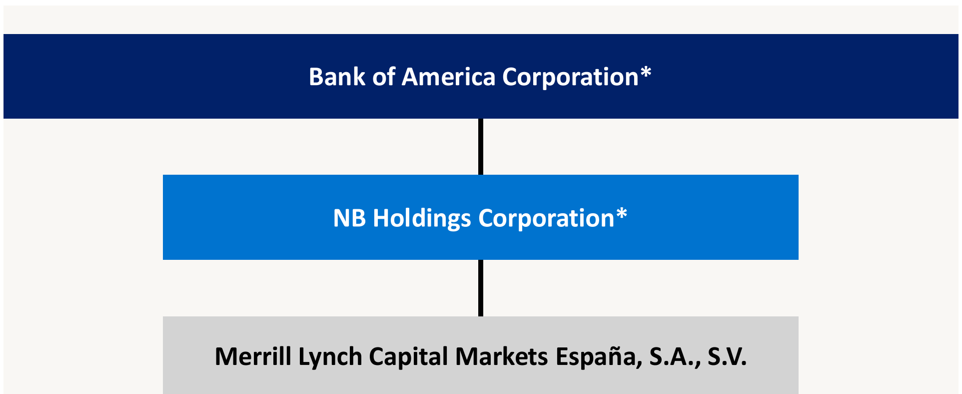
MLCME's activity consists of receiving and executing customer orders in relation to one or more financial instruments.

Bank of America will undertake an internal restructuring transaction to move the exchange membership and cash equity trading to BofA Securities Europe SA and decommission MLCME prior to 26 June 2021. Following the membership switch, a Business Transfer Agreement ("BTA") will be executed between MLCME and Bank of America Europe Designated Activity Company, Sucursal en España, whereby MLCME will transfer its assets and liabilities (including personnel) to the branch.

For a full BAC organisation chart, please refer to the investor relations website:

http://investor.bankofamerica.com

Figure 1.3.F1. – MLCME Ownership Structure



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

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2. Capital Resources and Pillar 1 Minimum Capital Requirement

2.1. Capital Resources

2.1.1. Summary of 2020 Capital Resources

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

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

Table 2.1.1.T1. – Total Qualifying Capital

(€ Thousands)		2020	2019
1.1	TIER 1 CAPITAL	59,176	51,773
1.1.1	COMMON EQUITY TIER 1 CAPITAL	59,176	51,773
Total		**59,176**	**51,773**

2.1.2. Key Movements in 2020

Capital Resources increased by 14.3% during 2020 due to the addition of 2019 profit after tax. MLCME remains well capitalised with a Total Capital Adequacy Ratio of 94.44%.

2.1.3. Transferability of Capital within the Group

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

2.2. Pillar 1 Minimum Capital Requirement

2.2.1. Summary of 2020 Capital Requirement

MLCME is subject to a Pillar 1 Minimum Capital Requirement set out in the CRR and CNMV requirements. MLCME is required to hold capital in addition to the Pillar 1 Minimum Capital Requirement to meet CRD IV buffers and local CNMV obligations.

MLCME had a Pillar 1 Minimum Capital Requirement of €5.0M (2019: €6.5M) comprised of credit risk, market risk, and operational risk requirements as outlined in the table below.

Table 2.2.1.T1. – Pillar 1 Minimum Total Capital Requirement

(€ Thousands)	2020	2019
Credit Risk	1,306	2,140
Credit Valuation Adjustment	—	—
Market Risk	9	11
Operational Risk	3,698	4,344
Pillar 1 Capital Requirement	**5,013**	**6,495**

2.2.2. Key Movements in 2020

MLCME’s Pillar 1 Minimum Capital Requirement decreased from €6.5M in 2019 to €5.0M in 2020. The decrease is mostly due to a decrease in credit risk and operational risk.

2.2.3. Minimum Total Capital Requirement Approach

MLCME has adopted the standardised approach for calculating credit, counterparty and market risk, and basic indicator approach (“BIA”) for operational risk. In order to adhere to the standardised rules set out by the European Banking Authority (“EBA”), MLCME uses external ratings from External Credit Assessment Institutions (“ECAIs”) based on a combination of Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Financial Services LLC (“S&P”) and Fitch Ratings, Inc. (“Fitch”). ECAI ratings are used for all exposure classes.

2.2.4. Internal Capital Adequacy Assessment Process

MLCME prepares an Internal Capital Adequacy Assessment Process (“ICAAP”) at least annually in compliance with Royal Decree 358/2015 of 8 May 2015. The ICAAP assesses the capital adequacy of MLCME in relation to current and future activities and ensures that MLCME maintains an appropriate amount of capital relative to the risks to which they are exposed. The ICAAP forms a key part of the governance framework and covers MLCME’s risk appetite, strategy and financial plans, capital and risk management, and stress testing. The ICAAP is approved by the MLCME Board of Directors ("MLCME Board").

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

2.3.1. Capital Resources vs. Minimum Capital Requirement

MLCME’s Capital Resources in excess of its Minimum Total Capital Requirement have increased from €45.3M in 2019 to €54.2M in 2020 as a result of retained earnings obtained in 2019.

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

2.3.2. Tier 1 Ratio

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

MLCME’s Tier 1 ratio has increased from 63.8% to 94.4% over the year due to retained earnings obtained in 2019.

2.4. Leverage Ratio

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

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

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

CRD IV does not include a minimum Leverage Ratio requirement calculated as Tier 1 capital divided by total exposure. CRD V, which was published on 20 May 2019, will impose a binding leverage ratio of at least 3% from 28 June 2021.

MLCME's leverage ratio is in excess of this at 78.8% as of 31 December 2020.

Table 2.4.T1. – Leverage Ratio

	2020	Minimum Requirement
Transitional Leverage Ratio	78.8 %	3 %
Fully Phased-In Leverage Ratio	78.8 %	3 %

	2019	Minimum Requirement
Transitional Leverage Ratio	81 %	3 %
Fully Phased-In Leverage Ratio	81 %	3 %

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3. Liquidity Position and Encumbered and Unencumbered Assets

3.1. Liquidity Position

3.1.1. Regulatory Requirement

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

3.1.2. Liquidity Position

As of 31 December 2020, MLCME was in compliance with its regulatory and internal liquidity requirements.

3.1.3. Funding Profile

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

3.2. Encumbered and Unencumbered Assets

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

MLCME has loan agreements with other Group entities to manage its liquidity requirements. As of 31 December 2020, MLCME does not have any encumbered assets on its balance sheet, nor does it hold any collateral.

This asset encumbrance disclosure, as at 31 December 2020, is prepared in accordance with EC (EU) 2017/2295 Regulation and is based on financial statement information prepared in accordance with the Spanish Generally Accepted Accounting ("Spanish GAAP").

Table 3.2.T1. outlines the carrying and fair value of certain assets of MLCME split between those encumbered and unencumbered.

Table 3.2.T1. – Analysis of Assets for Asset Encumbrance

(€ Thousands)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**—**		**75,130**	
Equity instruments	—	—	1	1
Debt securities	—	—	—	—
Other assets	—		75,129	

Table 3.2.T2. provides detail on both the fair value of encumbered collateral received and collateral received that is available for encumbrance.

Table 3.2.T2. – Analysis of Collateral Received

(€ Thousands)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	—	—
Equity instruments	—	—
Debt securities	—	—
Other collateral received	—	—
Own debt securities issued other than own covered bonds or ABSs	—	—

Table 3.2.T3. outlines the value of liabilities against which assets have been encumbered and the respective asset values.

Table 3.2.T3. – Encumbered Assets / Collateral Received and Associated Liabilities

(€ Thousands)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	—	—

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4. Risk Management, Objectives, and Policy

4.1. BAC Risk Framework

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. BAC adopted the 2021 Risk Framework in December 2020. The key enhancements from the 2020 Risk Framework include formalisation of legal risk definition and how it is managed within the Legal control function as well as a new section to address how BAC defines and manages climate risk today.

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

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

4.2. Risk Management Approach

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

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

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

Focusing on these five components allows effective management of risks across the seven key risk types faced by the Group's businesses, namely: strategic, credit, market, liquidity, operational, compliance, and reputational risks.

4.2.1. Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC values and its purpose, and how it drives responsible growth. It requires focus on risk in all activities and encourages the necessary mindset and behaviour to enable effective risk management and promote sound risk-taking within BAC's risk appetite. Sustaining a culture of managing risk well throughout the organization is critical to the success of BAC and is a clear expectation of BAC executive management and the MLCME Board of Directors.

4.2.2. Risk Appetite and Risk Statement

Risk Appetite and Limits

The BAC Risk Appetite Statement (“RAS”), together with the BAC Risk Framework, provides MLCME with the basis to establish and execute risk taking activities in a manner consistent with the aggregate risk appetite. The BAC RAS indicates the amount of capital, earnings, and liquidity that it is willing to put at risk to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements.

The BAC Risk Appetite Statement is rooted in several principles:

- Overall risk capacity: BAC’s overall capacity to take risk is limited; therefore, it prioritizes the risks it takes. BAC’s risk capacity informs BAC’s risk appetite, which is the level and types of risk BAC is willing to take to achieve its business objectives

- Financial strength to absorb adverse outcomes: BAC must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of organic growth opportunities. Therefore, BAC set objectives and targets for capital and liquidity that permit BAC to continue to operate in a safe and sound manner at all times, including during periods of stress

- Risk-reward evaluation: Risks taken must fit BAC’s risk appetite and offer acceptable risk-adjusted returns for shareholders

- Acceptable risks: BAC consider all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statement describes BAC’s approach to managing such risks in a manner consistent with its culture. For example, actions considered in a line of business that unduly threaten BAC’s reputation should be escalated and restricted appropriately

- Skills and capabilities: BAC seek to assume only those risks we have the skills and capabilities to Identify, Measure, Monitor and Control

MLCME’s risk tolerance is aligned to BAC’s risk appetite statement. The risk appetite statement ensures that BAC maintains an acceptable risk profile that is in alignment with its strategic and capital plans. The risk appetite statement includes both quantitative limits and qualitative components that are reviewed and approved by the BAC Board of Directors (“BAC Board”) at least annually. The MLCME Board confirms that the risk management systems put in place are adequate with regard to MLCME’s profile and strategy.

The BAC RAS covers the following seven key risk types: Credit, Market, Liquidity, Strategic, Reputational, Compliance, and Operational Risks..

Risk Statement

MLCME is a Spanish broker-dealer within the BAC Group which receives customer orders in relation to one or more financial instruments.

As at 31 December 2020, MLCME’s total assets, prepared in accordance with Spanish GAAP, are €75.1M, and comprised mainly of cash of €64.4M and intercompany loans of €6.6M. Net income after tax for the year ended 31 December 2020 is €9.8M. As at 31 December 2020 MLCME has €69.0M of total equity, with Tier 1 capital of €59.2M. Tier 1 capital ratio is reported at 94.4%.

MLCME’s largest exposure as at 31 December 2020 is to operational risk, calculated following the Basic Indicator Approach, with RWAs of €46.2M.

MLCME’s second largest exposure is credit risk with RWA of €16.3M. Its credit portfolio, based on regulatory credit exposures, is 100% concentrated in Europe. The largest industry concentration is to financial institutions which represent 92.8% of the exposure. Exposures are under one year.

MLCME has limited market risk exposure related to Foreign Exchange (“FX”) risk from the positions it maintains in currencies other than Euro.

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2020, MLCME has a liquidity ratio of 3,046% which far exceeds the minimum requirement of 10% of eligible liabilities due within one year, as required under the Spanish Securities Market Act 24/1988. MLCME primarily funds the balance sheet through capital and intercompany funding.

4.2.3. Risk Management Processes

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

Front line units (“FLUs”) have primary responsibility for managing risk inherent in their businesses. BAC employs an effective risk management process referred to as Identify, Measure, Monitor and Control (“IMMC”) as part of their daily activities.

4.2.4. Risk Data Management, Aggregation and Reporting

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

Risk data management, aggregation, and reporting principles are:

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

4.2.5. Risk Governance

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

The MLCME Board is responsible for MLCME's governance, management and supervision including establishing effective processes for assessing risk ensuring alignment to BAC's risk appetite. The MLCME Board met four times during 2020. As at 31 December 2020, the MLCME Board members were not Directors on any other BAC subsidiaries.

In order to comply with the internal control requirements of the Spanish Securities Market regulations, the MLCME Board can rely on the following internal control functions:

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

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

Director Selection and Diversity Policy

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

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

4.3. Key Risk Types

The Risk Management processes outlined above allow MLCME to manage risks across the seven key risk types; Strategic, Credit, Market, Liquidity, Operational, Compliance, and Reputational. Further details on how risk is managed within MLCME are given below:

4.3.1. Credit Risk

Definition

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

Credit Risk Management

MLCME manages credit risk to a borrower or counterparty based on their 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 credit profile. Underwriting parameters, credit management, and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

MLCME's credit processes align with BAC enterprise wide policies. We believe that MLCME's credit processes are aligned with applicable laws and regulations. MLCME's policy regarding credit risk is to comply at all times with the capital limits established by CNMV while also adhering to the BAC Risk Framework and Risk Appetite.

4.3.2. Market Risk

Definition

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

Market Risk Management

MLCME has minimal market risk arising from foreign exchange risk linked to assets and liabilities in currencies other than Euro.

4.3.3. Compliance and Operational Risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of BAC arising from the failure of BAC to comply with the requirements of applicable laws, rules and regulations, and internal policies and procedures. BAC is committed to the highest level of compliance and has no appetite for violations of legislative or regulatory requirements. BAC seeks to anticipate and assess compliance risks to the core businesses and respond to these risks effectively should they materialize. While BAC strives to prevent compliance violations in everything it does, it cannot fully eliminate compliance risk, but manage it by establishing permissible thresholds to reduce our exposure to financial loss, reputational harm, or regulatory sanctions.

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. BAC has designed an operational risk management program, in compliance with Basel III Advanced Measurement Approach requirements, that incorporates and documents the process for identifying, measuring, monitoring, controlling, and reporting operational risk information to executive management and the MLCME Board or appropriate board-level committees. BAC manages operational risk by establishing permissible thresholds to reduce exposure to financial loss, reputational harm or regulatory sanctions.

Compliance and Operational Risk Management

BAC is committed to maintaining strong compliance and operational risk management practices across all FLUs and control functions. BAC manages compliance and operational risk through an integrated set of controls and processes to address external and internal risks, including a complex and dynamic regulatory environment and the evolving products, services and strategies of the FLUs and control functions. Every employee is responsible to understand these risks and to identify, mitigate, and escalate compliance and operational risks and issues.

FLUs and control functions are first and foremost responsible for managing all aspects of their businesses, including their compliance and operational risk. FLUs and control functions are required to understand their business processes and related risks and controls, including the related regulatory requirements, and monitor and report on the effectiveness of the control environment. In order to actively monitor and assess the performance of their processes and controls, they must conduct comprehensive quality assurance activities and identify issues and risks to remediate control gaps and weaknesses. FLUs and control functions must also adhere to compliance and operational risk appetite limits to meet strategic, capital, and financial planning objectives. Finally, FLUs and control functions are responsible for the proactive identification, management, and escalation of compliance and operational risks across BAC.

BAC-wide policies and standards are set and independent challenge and oversight to the FLUs and control functions are provided. The Compliance and Operational Risk teams are subject matter experts who understand the front to back processes and controls by which products and services are delivered, applicable laws, rules, and regulations are understood and whether processes and controls are operating effectively. These teams independently assess compliance and operational risk, monitor business activities and processes, determine and develop tests and report on the state of the control environment. Compliance and Operational Risk teams also collaborate with other control functions to provide additional support for specific remediation efforts (e.g., high-profile Matters Requiring Attention) and shares responsibility with the FLUs, Risk Management and other control functions for mitigating risks, such as reputational risks and risks associated with improper conduct.

In addition, teams in Compliance and Operational Risk cover areas, such as Financial Crimes and Information Security / Cybersecurity that affect multiple FLUs or control functions. These horizontal teams are responsible for, among other things, reviewing the FLUs and control functions' risk management practices related to these specific areas to gauge the effectiveness and consistency of the controls across business units, monitoring losses and reporting and overseeing processes for accuracy and adherence to compliance and Operational Risk standards.

4.3.4. Liquidity Risk

Definition

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

Liquidity Risk Management

The MLCME Board is ultimately responsible for liquidity risk management, delegating additional oversight to the lines of business. The businesses are the first line of defence in liquidity risk management partnering with Global Liquidity Management ("GLM") and Strategic Asset & Liability Management ("SALM") teams within Treasury to achieve liquidity risk management objectives. The approach to managing liquidity risk has been established by the MLCME Board, aligned to BAC process, but tailored to meet MLCME's business mix, strategy, activity profile, and regulatory requirements.

Liquidity management responsibilities are undertaken by MLCME finance and management teams, who consult with Treasury and Global Risk Management ("GRM").

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

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. Throughout 2020, MLCME had sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2020, MLCME had a liquidity ratio of 3,046% which far exceeds the minimum regulatory requirement of 10% of liabilities due within one year.

4.3.5. Reputational Risk

Definition

Reputational Risk is the risk that negative perceptions of BAC's conduct or business practices may adversely impact its profitability or operations.

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

Reputational Risk Management

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.

Reputational risk items relating to MLCME are considered as part of the Europe, Middle East and Africa (“EMEA”) Reputational Risk Committee (the “Reputational Risk Committee”), whose mandate includes consideration of reputational risk issues and provision of 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.

Ultimately, to ensure that reputational risk is mitigated through regular business activity, monitoring and oversight of reputational risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees.

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

The Reputational Risk Committee is a sub-committee of the Global Reputational Risk Committee and is applicable to all key legal operating entities in the region. Tracking of items presented to the Committee is maintained through reporting protocol, which provides detail such as the description of the reputational risk issue, the geographical jurisdiction of the issues, the reason for escalation and the decision reached by the Committee. A summary report of issues discussed at the Reputational Risk Committee is provided to the Regional Risk Committee on a quarterly basis.

4.3.6. Strategic Risk

Definition

Strategic risk is the risk that results from incorrect assumptions about external and / or internal factors, inappropriate business plans (e.g., too aggressive, wrong focus, and 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 MLCME operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

Strategic Risk Management

Strategic risk is managed through the assessment of effective delivery of strategy and business performance is monitored by the executive management team to assess strategic risk and find early warning signals so that risks can be proactively managed. The MLCME strategic execution and risk management processes are aligned to the overall BAC strategic plans. The BAC Board is responsible for overseeing the strategic planning process and management's implementation of the resulting strategic plan. BAC's strategic plan is reviewed and approved annually by the BAC Board. Strategic planning at BAC level is representative of planning undertaken at the MLCME level. Strategic decisions relating to MLCME are presented and discussed at MLCME Board.

4.4. Other Risk Considerations

4.4.1. Wrong-Way Risk

Wrong-way risk exists when there is adverse correlation between the counterparty's probability of default and the market value of the underlying transaction and / or the collateral.

MLCME is not currently exposed to wrong-way risk.

4.4.2. Interest Rate Risk in the Banking Book

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

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

4.4.3. Securitisation

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

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

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

4.4.5. Impact of COVID-19

The global 2019 novel coronavirus ("COVID-19") outbreak dominated markets, introducing significant volatility and weakening across the asset classes, particularly credit. Additional internal communication protocols were established between Risk and the lines of business to ensure management awareness of credit exposure, market volatility, liquidity, and funding risks. Enhanced reporting was also produced for the MLCME Board committees. There has been enhanced regulatory engagement since the beginning of the COVID-19 period.

The impact of the COVID-19 pandemic on MLCME's operational risk environment has been identified, measured, and monitored through a combination or existing and new activities. FLUs and control functions were required to consider the potential impact of COVID-19 through the quarterly Risk Identification process as well as the Risk Self-Assessment process.

Compliance and Operational Risk, in conjunction with FLU and control function partners, will continue to closely monitor if the pandemic environment is creating additional or elevated compliance or operational risk.

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

5.1. Minimum Capital Requirement Summary

This section provides a description of MLCME's risk exposures and capital requirements by type of risk and approach applied as at 31 December 2020.

5.2. Counterparty and Credit Risk

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

Table 5.2.T1. – RWA and Capital Requirements for Credit Risk

(€ Thousands)

	2020		
Categories of exposure	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Government and Financial Institutions	16,300	1,304	99.9 %
Other exposures	22	2	0.1 %
Total	**16,322**	**1,306**	**100 %**

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

5.2.1. Average and Year end Credit Exposures

The total value of the positions calculated per CRR Title II as at 31 December 2020, without considering the effects of credit risk mitigation that may apply to those positions, stood at €75.1M. MLCME does not apply any credit risk mitigation factors to these positions, therefore the original exposure equals the fully adjusted exposure value.

Table 5.2.1.T1. – Credit Risk Exposure

(€ Thousands)

Categories of exposure	2020 Exposure
Government	3,450
Financial Institutions	71,622
Other exposures	22
Total	**77,195**

The following table presents the average value during 2020 of the exposure to credit risk, net of adjustments and of impairment losses recorded, calculated following the standardised approach to estimate the capital requirements for counterparty and credit risk.

Table 5.2.1.T2. – Average Exposure

(€ Thousands)

Categories of exposure	2020 (*) Average Exposure
Government	4,058
Financial Institutions	67,032
Other Exposures	4
Total	**71,118**

(*) Value of the position calculated according to CRR Title II. The average value has been obtained as the simple mean of the quarterly positions maintained by MLCME between 1 January 2020 and 31 December 2020 on the basis of the regulatory requirements established in CRR.

5.2.2. Distribution of Exposures by Geographical Areas

The table below provides the distribution of credit risk positions, net of adjustments and impairment losses, and net of credit risk mitigation techniques, as at 31 December 2020, broken down by geographical areas:

Table 5.2.2.T1. – Geographical Distribution

(€ Thousands)

2020	Country		
Categories of Exposure	Spain	United Kingdom	(*) position
Government	3,450	—	3,450
Financial Institutions	65,039	6,583	71,622
Companies	22	—	22
Total	**68,511**	**6,583**	**75,094**

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

5.2.3. Distribution of Exposures by Sector / Type of Counterparty

Given the nature of MLCME's activities, all of the credit risk exposures at 31 December 2020 in the categories of “Government” and “Institutions” relate to positions with financial institutions. Exposures to financial institutions amounted to 95.4% of the total risk exposure.

5.2.4. Distribution of Exposures by Residual Maturity

The table below provides the distribution of credit risk exposures by remaining time to maturity as at 31 December 2020, net of the adjustments and impairment losses recorded, and after applying credit risk mitigation techniques.

Table 5.2.4.T1. – Maturity Distribution

(€ Thousands)

Categories of Exposures	Remaining Time to Maturity as at 31 December 2020					
	On demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than five years	Total
Governments	3,450	—	—	—	—	3,450
Financial Institutions	65,039	—	6,583	—	—	71,622
Other Exposures	—	—	—	22	—	22
Position at 31 December 2020	**68,489**	**—**	**6,583**	**22**	**—**	**75,094**

5.2.5. Counterparty and Credit Exposure by Credit Quality Step

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

Table 5.2.5.T1. – Counterparty and Credit Risk Exposure by Credit Quality Step

	2020
Asset Class / Credit Quality Step	(€ Thousands)
Central Government	**3,450**
Credit quality step	
1 (Spain)	3,450
2	
3	
4	
5	
6	
Non Rated	
Financial Institutions	**71,622**
Credit quality step	
1	
2 (Spain and U.K)	71,622
3	
4	
5	
6	
Non Rated	
Other Exposures	**22**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated (Spain)	22

5.2.6. Counterparty Credit Risk Exposure by Product

Measures for exposure value under counterparty credit risk for MLCME are calculated using the mark-to-market method, following the Capital Requirements Regulation Article 274.

As of 31 December 2020, MLCME does not have any counterparty credit risk exposure.

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

As at 31 December 2020, MLCME did not have past due or impaired positions as per the definition of the CRR.

In addition, no expense was recorded in MLCME's 2020 income statement for items transferred directly to failed assets, nor was any amount included in the income statement for the recovery of assets previously written off and failed.

5.2.8. Identification of External Credit Assessment Institutions

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

The ECAIs appointed by MLCME to determine the risk weightings to apply to its positions are the ECAI designated as eligible by the CNMV and communicated as such through Fondo General de Garantía de Inversiones ("FOGAIN"), the Investors Compensation Scheme for clients of Spanish investment firms and clients of Spanish UCITS Managers. Specifically, MLCME has used ratings for all exposure classes issued by Standard & Poor's, Moody's and Fitch.

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

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

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

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

MLCME determines impairment losses according to the following policies:

- **Debt instruments carried at amortized cost:** The amount of impairment losses suffered by these instruments is equal to the negative difference between their carrying value and the present value of their projected future cash flows and is recorded as a reduction of the balances of the adjusted assets

Possible impairment losses are carried out individually. The calculation of some impairment losses is done using formulas based on ageing that consider the time effect of money, the expected cash flows or the age of the balances.

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

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

5.3. Credit Value Adjustment

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

MLCME calculates CVA risk using the simple approach. MLCME's Risk exposure from CVA as of 31 December 2020 was zero.

5.4. Market Risk

MLCME calculates its risk exposure for market risk using the Standardised Approach. The table below provides the risk exposure and capital requirements for market risk.

Table 5.4.T1. – Market Risk Exposure and Capital Requirements

(€ Thousands)	2020	
	Risk Weighted Assets	Capital Requirements
Exchange Rate Risk	110	9
Total	**110**	**9**

5.5. Operational Risk

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

Table 5.5.T1. – Operational Risk Exposure and Capital Requirements

(€ Thousands)	2020	
	Risk Exposure	Capital Requirements
Operational risk	46,225	3,698
Total	**46,225**	**3,698**

5.6. Capital Resources

MLCME has Total Capital of €59.2M, all of which is Tier 1. Information required by Article 437 of CRR has been included in Table 5.6.1.T2. – Capital instruments Main Features and Table 5.6.1.T3. – Common Equity Tier 1 Capital: Instruments and Reserves, following the templates laid down by EU Regulation 1423/2013.

Table 5.6.1.T1. – Regulatory Capital Resources Reconciliation to Audited Balance Sheet

(€ Thousands)	Balance per Audited Financial Statements	Adjustment to Balance Sheet Items for Regulatory Capital Resources	Balance per Regulatory Capital Resources
CET1			
Share Capital	36,061	—	36,061
Share Premium	—	—	—
Capital Contribution	—	—	—
Profit and Loss Account and Other Reserves	23,115	—	23,115
CET1 After Deductions	**59,176**	**—**	**59,176**
AT1	**—**	**—**	**—**
Tiel 1 Capital (CET1+AT1)	**59,176**	**—**	**59,176**
Tier 2 Capital	**—**	**—**	**—**
Total Capital Resources	**59,176**	**—**	**59,176**

All terms and conditions relating to the main features of CET1 issued by MLCME are disclosed in the table below.

Table 5.6.1.T2. – Capital instruments Main Features

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

Table 5.6.1.T3. – Common Equity Tier 1 Capital: Instruments and Reserves

Common Equity Tier 1 capital: instruments and reserves		31/Dec/20	(B)	(C)
		EUR (000)	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	36,061	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
2	Retained earnings	—	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and any other reserves)	23,115	26 (1)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	59,176		N/A
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	—	34, 105	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	—	36 (1) (c), 38, 472 (5)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	—	33 (1) (b) (c)	N/A
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	—		N/A
29	Common Equity Tier 1 (CET1) capital	59,176		N/A
Additional Tier 1 (AT1) capital: instruments				
45	Tier 1 capital (T1 = CET1 + AT1)	59,176		N/A
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	—	62, 63	N/A
51	Tier 2 (T2) capital before regulatory adjustment	—		N/A
Tier 2 (T2) capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 (T2) capital	—		N/A
58	Tier 2 (T2) capital	—		N/A
59	Total capital (TC = T1 + T2)	59,176		N/A
60	Total risk-weighted assets	62,657		N/A
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	94.44 %	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of total risk exposure amount	94.44 %	92 (2) (b), 465	N/A
63	Total capital (as a percentage of total risk exposure amount	94.44 %	92 (2) (c)	N/A
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure	2.5 %	CRD 128, 129, 140	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	91.95 %	CRD 128	N/A

5.7. Leverage

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

The leverage ratio minimum requirement during 2020 was 3%. MLCME’s ratio as of December 31 2020 was 76.7%.

Regarding the factors that had an impact on the leverage ratio during 2020, MLCME’s Tier 1 capital increased due to the addition of 2019 retained earnings, while its on-balance sheet exposures increased in a similar proportion. The leverage ratio of 76.7% is significantly higher than the recommended minimum 3%.

MLCME's Leverage ratio is monitored and reviewed by the MLCME Board through the ICAAP process to ensure it is maintained at an appropriate level above the recommended regulatory minimum (calculated in accordance with CRR Article 429).

Table 5.7.T1. – Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

(€M)	2020
Total Assets as per Balance Sheet	75
Adjustments for Derivative Financial Instruments	—
Adjustments for Securities Financing Transactions	—
Adjustment for Off-Balance Sheet Items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	—
Other Adjustments	—
Leverage Ratio Exposure	**75**

Table 5.7.T2. – Split of On-Balance Sheet Exposures (Excluding Derivatives and SFTs)

(€M)	MLCME
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**75**
Trading Book Exposures	—
Banking Book Exposures, of which:	—
Covered Bonds	—
Exposures treated as Sovereigns	—
Exposures to Regional Governments, MDB, International Organisations and PSE not treated as Sovereigns	—
Institutions	—
Secured by Mortgages of Immovable Properties	—
Corporate	—
Exposures in Default	—
Other Exposures (Eg Equity, Securitisations, and other Non-Credit Obligation Assets)	75

Table 5.7.T3. – Leverage Ratio Common Disclosure

(€M)	2020
On-Balance Sheet Exposures (excluding derivatives and SFTs)	
On-balance Sheet Items (excluding Derivatives, SFTs and fiduciary assets, but including Collateral)	75
Asset Amounts Deducted in Determining Tier 1 Capital	—
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)	**75**
Derivative Exposures	
Replacement Cost Associated with Derivatives Transactions (net of Eligible Cash Variation Margin)	—
Add-on Amounts for PFE Associated with Derivatives Transactions (Mark-to-Market method)	—
Gross-up for Derivatives Collateral provided where deducted from the Balance Sheet Assets pursuant to the Applicable Accounting Framework	—
(Deductions of Receivables Assets for Cash Variation Margin provided in Derivatives Transactions)	—
(Exempted CCP leg of Client-Cleared Trade Exposures)	—
Adjusted Effective Notional Amount of Written Credit Derivatives	—
(Adjusted Effective Notional Offsets and Add-On Deductions for Written Credit Derivatives)	—
Total Derivative Exposure	**—**
Securities Financing Transaction Exposures	
Gross SFT Assets (With No Recognition of Netting), after Adjusting for Sales Accounting Transactions	—
(Netted Amounts of Cash Payables and Cash Receivables of Gross SFT Assets)	—
Counterparty Credit Risk Exposure for SFT Assets	—
Total Securities Financing Transaction Exposures	**—**
Off-Balance Sheet Exposures	
Off-balance Sheet Exposures at Gross Notional Amount	—
Adjustments for Conversion to Credit Equivalent Amounts	—
Total Off-Balance Sheet Exposures	**—**
Exempted Exposures	
Capital and Total Exposures	
Tier 1 Capital	59
Total Leverage Ratio Exposures	**75**
Leverage Ratio	
Leverage Ratio	78.8 %

5.8. Equity Holdings and Instruments not Included in the Trading Portfolio

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

As at 31 December 2020, MLCME did not have any material positions to disclose in equities not included in the trading book.

5.9. Countercyclical Capital Buffer

The countercyclical capital buffer reflects the geographic composition of an entity's credit exposures. Phased in from 1 January 2016, the calculation is based on the total risk exposure amount multiplied by the weighted average of the countercyclical buffers rates that apply to exposures in the jurisdiction where the entities relevant credit exposures are located. MLCME has credit exposures in Spain and the U.K. Both countries have published a countercyclical buffer rate of 0%.

Table 5.9.T1. – Countercyclical Capital Buffer as at 31 December 2020

	General credit Exposures	Trading book Exposures	Securitisation Exposures
(€ Thousands)	Exposure value for Standardised Approach	Sum of long and short positions of trading book exposures for Standardised	Exposure value for Standardised Approach
United Kingdom	6,583	—	—
Spain	68,511	—	—
Total	**75,094**	**—**	**—**

MLCME Own Funds Requirement

	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
(€ Thousands)	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
United Kingdom	263	—	—	263	0.2	— %
Spain	1,043	—	—	1,043	0.8	— %
Total	**1,306**	**—**	**—**	**1,306**	**1**	

Institution Specific Countercyclical Capital Buffer

(€ Thousands)

Total risk exposure amount	75,094
Institution specific countercyclical capital buffer rate (%)	0%
Institution specific countercyclical capital buffer requirement	—

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6. Additional Information on Remuneration Disclosures

6.1. Introduction

The following remuneration disclosure sets forth a summary of the remuneration principles and programs operated by BAC as applicable to MLCME as at 31 December 2020. This document has been prepared in order to comply with the qualitative and quantitative disclosures required by article 191 of the Royal Decree - Law 4/2015 approving the revised Securities Market Law ("Law 4/2015") and incorporates the qualitative disclosure requirements under paragraphs (a) to (f) of Article 450(1) of the Capital Requirements Regulation (Regulation (EU) No 575/2013 – the "CRR"), and the quantitative disclosure requirements under paragraphs (g) to (i) of Article 450(1) of the CRR.

The disclosures relate to staff identified as Material Risk Takers ("MRTs") at BAC's operations in respect of MLCME, taking into account the qualitative and quantitative criteria to identify categories of staff whose professional activities may have a material impact on an institution's risk profile contained in Commission Delegated Regulation (EU) No 604/2014. The Company applies prudent risk management practices to its incentive remuneration programs across the enterprise and is committed to a remuneration governance structure that effectively contributes to its overall risk management policies.

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

- Principle 1. Compensation should be comprised of an appropriate mix of salary, benefits and incentives paid over time that properly aligns employee and stockholder interests
- Principle 2. Criteria for payment of incentive compensation should take into account Company-wide, business unit and individual factors
- Principle 3. Compensation should be determined on the basis of a combination of financial and non-financial factors that reflect both the current period and a longer period
- Principle 4. Compensation programs should incorporate appropriate governance processes and procedures

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

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

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

i. The Company's Board of Directors (the "Company's Board")

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

iii. The Management Compensation Committee ("MCC")

iv. Governance by line of business management and independent control functions aligned to the line of business and local governance (remuneration) committee(s)

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

The CHCC has adopted and annually reviews (most recently in September 2020) the BAC Compensation Governance Policy ("CGP") to govern incentive remuneration decisions and define the framework for design oversight of incentive remuneration programs across the Company. The CGP is designed to be consistent with global regulatory initiatives so that the Company's incentive remuneration plans do not encourage excessive risk-taking.

The CHCC receives, from time to time, direct feedback from the independent control functions on remuneration programs. For performance year 2020, in addition to reviewing the individual incentive remuneration awards for executive officers and other senior executives who report directly to the CEO, the CHCC also reviewed the outcomes of the Company's robust control function feedback process, conduct reviews and individual incentive remuneration awards for certain highly compensated employees and MRTs. As part of its governance routine, the CHCC meets with the heads of the Company's independent control functions (including the Chief Risk Officer ("CRO")) and lines of business to discuss their feedback on the pay-for-performance process, including their experience managing risk and conduct matters. In addition, the Company's CRO also certifies all incentive plans across the Company as part of the MCC's governance process.

As a result of these processes and reviews, and in combination with the risk management and clawback features of the Company's remuneration programs, BAC believes that its remuneration policies and practices appropriately balance risk and reward in a way that does not encourage excessive or imprudent risk-taking or create risks that are reasonably likely to have a material adverse effect on the Company. Moreover, oversight by the CHCC, MCC, independent control functions, and line of business management help the Company maintain a remuneration program that is intended to mitigate the potential for conflicts of interest.

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

During performance year 2020, the CHCC held seven (7) meetings. Additional information regarding the CHCC is included in the annual Proxy Statement available on Bank of America's Investor Relations website.

6.3. The Link Between Pay and Performance

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

In addition, the Company does not remunerate or assess employees' performance in a way that encourages employees to act in a manner that conflicts with the duties owed to the Company's clients. Each employee's performance is assessed on quantitative and qualitative objectives as well as specific behaviours, and performance is factored into each employee's incentive remuneration award. Depending on the employee, quantitative performance objectives may be focused on Company-wide, line of business, or product results. Qualitative performance objectives may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture / adherence to the Risk Framework and operating principles, adherence to the Company's Code of Conduct, and other core values of the Company.

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

The pay-for-performance programme also requires that all employees complete annual mandatory risk and compliance training.

6.4. Risk Management and Incentive Plans

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

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

The Company continually evaluates the design of its remuneration programs in accordance with the Risk Framework. The CHCC is committed to a remuneration governance structure that effectively contributes to the Company's broader risk management policies.

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

Annual budgets for incentive pools are established as part of the overall financial planning process so that planned incentives align to the overall anticipated performance of the Company. Incentive pools are based on a combination of financial, risk and non-financial measures and performance. The determination of incentive pools is also subject to management discretion, taking into account overall performance, inclusive of risk, of the Company and / or specific lines of business and other factors including the achievement of strategic objectives and a qualitative assessment of the quality and sustainability of earnings over time. Incentive pools may be adjusted to reflect long-term risk arising through line of business and product performance.

Risk is also taken into account and managed in connection with incentive remuneration programmes through arrangements permitting performance adjustment of deferred variable remuneration. Employees in positions where the greatest risk is being taken are generally subject to higher levels of deferral and potential performance adjustments.

The remuneration of the independent control functions is determined independently from the line of business supported. The funding of the incentive pool for these employees is based upon overall Company performance with the actual employee awards determined based upon individual performance against predetermined objectives.

6.5. Employee Pay

Bank of America compensates its employees using a balanced mix of fixed remuneration, benefits, annual cash incentives and deferred incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee’s management level or amount of incentive compensation award, the greater the proportion of incentive compensation should be (i) subject to deferral and (ii) delivered in the form of equity-based compensation.

Fixed remuneration mainly consists of base salary, employer pension and benefits contributions and, for certain employees, fixed role-based allowances. Base salary and fixed role-based allowance levels reflect each employee’s scope of responsibility, experience, market pressures and accountability within the Company and are intended to be part of a competitive total remuneration package. Employer pension and benefits contributions align to local market practice and legal requirements.

The portion of employees’ remuneration that is variable (i.e., annual cash incentives and deferred incentives), as a percentage of total remuneration, generally increases for more senior positions. The remuneration mix is reviewed annually so that the Company operates a balanced and market-competitive program whilst in compliance with local regulations.

Equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. This serves two key objectives, which are to focus employees on long-term sustainable results and to subject remuneration awards to risk over an appropriate time horizon that can be easily communicated and understood. For individuals receiving variable compensation above the value of an internally defined threshold, a portion of incentive awards for performance year 2020 is provided as a deferred incentive that generally becomes earned and payable over a period of four years after grant. Deferred incentives will be cancelled in case of detrimental conduct and, where applicable, may be cancelled if the Company, line of business or business unit (as applicable) fails to remain profitable during the vesting period. Where applicable, the length of deferral is extended to reflect local regulatory requirements.

Bank of America offers guaranteed incentive awards only in exceptional circumstances to new hires, limited to the first year of employment. Where required, the Company may offer and structure severance payments in accordance with relevant employment law or regulatory requirements.

6.6. Material Risk Taker Pay

The Company operates an enterprise-wide approach in the identification of MRTs taking into consideration local regulatory requirements. In the EU, the Company layers into its enterprise process the qualitative and quantitative criteria outlined in the European Banking Authority's Regulatory Technical Standards for the identification of EU MRTs as well as additional criteria identified by the Company through internal governance routines. MRTs are determined based on the role and activities of the employee taking into consideration the size, internal organization and nature, scope and complexity of the activities of the relevant EU entities.

MRTs are subject to the remuneration requirements provided in the CRD IV and related guidance as applicable. In accordance with Article 94(1)(g) of CRD IV, the Company has obtained approvals from relevant stockholders to increase the maximum ratio of variable compensation to fixed compensation to 2:1 for each individual. For MLCME, this was passed unanimously by relevant group holding companies in July 2017. The average variable to total remuneration ratio for MRTs within the scope of this disclosure is 29.7%, with no MRTs awarded variable remuneration exceeding their fixed remuneration.

Variable remuneration for MLCME MRTs generally consists of a mixture of upfront payments (delivered in cash or restricted stock units ("RSUs")) and deferred payments. The equity-based component is a minimum of 50% of variable remuneration, made up of deferred and immediately vested remuneration. Deferred awards are delivered in the form of equity-based awards, typically in the form of RSUs which, for performance year 2020, will become earned and payable over a period of four years after grant, and will be at least 40% or 60% of the total incentive award (as required). Variable remuneration delivered in immediately vested or deferred equity-based awards for MLCME MRTs is subject to an appropriate holding period after vesting, which generally will be one year. Deferred awards do not carry dividends or dividend equivalents during the deferral period, as required under relevant regulations.

The Company applies de minimis concessions as appropriate under relevant EU regulations. For EU MRTs, the Company applies deferral percentages which are no less than, and in many cases in excess of, what is required under relevant regulations.

Deferred awards will be cancelled in the case of detrimental conduct and may be cancelled if the Company, line of business or business unit (as applicable) fails to remain profitable during the vesting period. If risks taken as part of approved business strategies do not result in sustainable profits, or if the employee fails to behave according to Company standards or fails to meet the criteria set out in CRD IV and other EU regulation, the value of the deferred equity award may be impacted or adjusted downwards, and / or vested amounts may be clawed back.

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

The recommendations for performance year 2020 incentive awards for MRTs were reviewed by the CHCC in January 2021.

6.7. Quantitative Data

This section contains the aggregated quantitative information required under paragraphs (g) to (i) of Article 450(1) of the CRR, in respect of MLCME, for MRTs of MLCME which includes the current Board members of MLCME. All MRTs of MLCME are part of the Global Banking and Markets line of business.

Paragraph 2 of Article 450 of the CRR states that the disclosure requirements must be complied with in a manner that is appropriate to the size, internal organization and the nature, scope and complexity of the activities of a credit institution and without prejudice to Directive 95/46/EC (the "EU Data Protection Directive") as superseded by the General Data Protection Regulation (EU) 2016/679.

Any disclosure of information in respect of the remuneration received by a very small number of MRTs in any country may permit those employees to be easily identified. Any disclosure would therefore carry a material risk of disclosing the remuneration of individuals to the public, thereby prejudicing their legitimate interests and would be contrary to the EU Data Protection Directive and / or applicable local law. The Company, therefore, makes the quantitative disclosures below, representing aggregate data for MRTs of MLCME, to protect the data privacy of the employees.

Table 6.7.T1. – Aggregate Quantitative Information [1]

2020 Total Remuneration[2]	EUR
Number of Beneficiaries	5
Total Remuneration (000s)	4,984
Fixed Remuneration[3] (000s)	3,230
Variable Remuneration[4] (000s)	1,755
2020 Variable Remuneration[4]	
Upfront Cash (000s)	171
Upfront Equity-Based Awards (000s)	171
Deferred Equity-Based Awards (000s)	1,413
Deferred Remuneration[5]	
Outstanding at 1 January 2020 (000s)	5,212
Awarded in 2020 (000s)	2,141
Vested and Paid in 2020 (000s)	1,935
Performance Adjustment Reductions in 2020 (000s)	0
Outstanding at 31 December 2020 (000s)	5,418
Vested Outstanding	523
Unvested Outstanding	4,895
Awarded in February 2021 (000s)	1,584
Sign on and Severance Payments[6]	
Total Sign On Payments (000s)	0
Number of Payees	—
Total Severance Payments (000s)	0
Number of Payees	—
Highest Single Severance Payment (000s)	0
Number of Individuals Awarded 2020 Total Remuneration [2,3,4] above EUR 1 Million	
EUR 2 million to EUR 2.5 million	1

Notes:

1. EUR:USD: FX Rate 1.1260309.
2. Relevant portions of performance year 2020 remuneration within the scope of this disclosure are shown.
3. Comprises base salaries, role-based allowances, country allowances and an estimate for pensions and benefits as relevant. No fixed remuneration is paid as equity-based awards or other instruments.
4. Variable remuneration in respect of performance year 2020. Comprises upfront awards (cash and equity-based awards) and deferred equity-based awards.
5. Stock price for deferred remuneration value calculations: USD 33.37 as at 12 Feb 2021. All deferred remuneration is subject to performance adjustment and detrimental conduct provisions.
6. Awarded during 2020. Sign-on figures comprises guaranteed payments which are only made in exceptional circumstances to new hires and limited to first year of employment.