Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of Merrill Lynch Bank and Trust Company (Cayman) Limited

We have audited the accompanying consolidated financial statements of Merrill Lynch Bank and Trust Company (Cayman) Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, of comprehensive income, of changes in stockholder's equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merrill Lynch Bank and Trust Company (Cayman) Limited and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 4 and 11 to the consolidated financial statements, the Company, on a recurring basis, enters into significant related party transactions with Bank of America Corporation subsidiaries. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers

March 31, 2017

PricewaterhouseCoopers, 18 Forum Lane, Camana Bay, Grand Cayman KY1-1104, Cayman Islands
T: +1 (345) 949 7000, F: +1 (345) 949 7352, www.pwc.com/ky

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015

(in thousands of dollars)		**2016**		**2015**
Assets				
Cash and cash equivalents	$	5,271	$	10,514
Investment securities available for sale		828		777
Loans (net of allowance for loan losses of $29 in 2016 and $185 in 2015)		4,168,823		4,571,210
Derivative assets		12,032		4,539
Accrued interest receivable		6,842		6,671
Accrued trust administration fees		6,303		8,476
Receivables from affiliates		2,697		28,254
Other assets		36,920		25,009
Total assets	$	4,239,716	$	4,655,450
Liabilities and Stockholder’s Equity				
Liabilities				
Deposits				
Demand	$	1,929,001	$	2,165,188
Time		97,301		62,038
Total deposits		2,026,302		2,227,226
Intercompany borrowings		1,645,009		1,829,107
Unfunded pension liability		217,813		162,517
Payables to affiliates		24,944		21,421
Derivative liabilities		11,570		2,613
Other liabilities		1,981		1,456
Total liabilities		3,927,619		4,244,340
Commitments and contingencies (Note 13)				
Stockholder’s equity				
Capital and share premium		336,716		337,141
Retained earnings		42,462		110,961
Accumulated other comprehensive loss		(67,081)		(36,992)
Total stockholder’s equity		312,097		411,110
Total liabilities and stockholder’s equity	$	4,239,716	$	4,655,450

The accompanying notes are an integral part of these consolidated financial statements.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Interest income		
Loans	$ 74,335	$ 45,752
Interest income on advances to affiliates and Other	3,700	756
Total interest income	78,035	46,508
Interest expense		
Deposits	5,219	4,085
Intercompany borrowings and advances	14,623	7,892
Total interest expense	19,842	11,977
Net interest income before provision for credit losses	58,193	34,531
(Recovery of) provision for credit losses	(156)	30
Net interest income after provision for credit losses	58,349	34,501
Non-interest income		
Trust administration fees	8,837	11,058
Service fee income from affiliated companies	8,156	9,052
Gain on derivatives	4,025	1,001
Transaction gain (loss) on foreign currency	152	(2,641)
(Loss) Gain from sale of subsidiaries (see Note 4)	(17)	8,427
Total non-interest income	21,153	26,897
Total revenues, net of interest expenses	79,502	61,398
Non-interest expenses		
Compensation and benefits	13,182	13,610
Service fee expense with affiliated companies	11,944	9,259
Occupancy and related depreciation	1,080	1,176
Professional fees	752	1,226
Communication and technology	308	289
Advertising and market development	102	168
Other	567	504
Total non-interest expenses	27,935	26,232
Net income before income taxes	51,567	35,166
Income tax expense	20,066	13,763
Net income	$ 31,501	$ 21,403

The accompanying notes are an integral part of these consolidated financial statements.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Net income	$ 31,501	$ 21,403
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment [1]	(1,113)	1,697
Net change in unrealized gains on investment securities available for sale [2]	(30)	35
Defined benefit pension adjustment [3] (Note 9)	(28,946)	(123)
Total other comprehensive (loss) income	(30,089)	1,609
Comprehensive income	$ 1,412	$ 23,012

(1) Net of Tax (Benefit)/Expense of $(720) and $1,221 for 2016 and 2015, respectively.

(2) Net of Tax Expense/(Benefit) of $0 and $(5) for 2016 and 2015, respectively.

(3) Net of Tax (Benefit)/Expense of $(17,367) and $2,111 for 2016 and 2015, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2016 and 2015

(in thousands of dollars, except shares and per share amounts)	**Capital and Share Premium [1]**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
As of December 31, 2014	$ 337,141	$ (38,601)	$ 89,558	$ 388,098
Foreign currency translation adjustment, net of tax	-	1,697	-	1,697
Unrealized gains on investment securities available for sale, net of tax	-	35	-	35
Defined benefit pension adjustment, net of tax	-	(123)	-	(123)
Net income	-	-	21,403	21,403
As of December 31, 2015	337,141	(36,992)	110,961	411,110
Foreign currency translation adjustment, net of tax	-	(1,113)	-	(1,113)
Unrealized gains on investment securities available for sale, net of tax	-	(30)	-	(30)
Defined benefit pension adjustment, net of tax	-	(28,946)	-	(28,946)
Dividends paid	-	-	(100,000)	(100,000)
Contribution of non-controlling interest to parent	(425)	-	-	(425)
Net income	-	-	31,501	31,501
As of December 31, 2016	$ 336,716	$ (67,081)	$ 42,462	$ 312,097

(1) Includes $12 of Share Capital (12,000 ordinary shares outstanding with par value $1) at December 31, 2016 and 2015.

The accompanying notes are an integral part of these consolidated financial statements.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016	2015
Cash flows from operating activities		
Net income	$ 31,501	$ 21,403
Noncash items excluded from earnings		
Depreciation and amortization	9	10
Deferred tax expense	5,816	1,190
(Recovery of) provision for credit losses	(156)	30
Loss (gain) from sale of subsidiaries	17	(8,427)
Changes in operating assets and liabilities		
Receivables from affiliates	25,557	(6,043)
Payables to affiliates	3,523	(20,981)
Unfunded pension liability	55,296	8,315
Other assets	(18,161)	3,393
Accrued trust administration fees	2,173	1,561
Accrued interest receivable	(171)	(3,693)
Other liabilities	525	(190)
Defined benefit pension adjustment	(28,946)	99
Net cash provided by (used in) operating activities	76,983	(3,333)
Cash flows from investing activities		
Purchases of securities available-for-sale	(1,822)	(782)
Maturities of securities available-for-sale	1,741	774
Net increase in derivative assets	(7,493)	(4,457)
Net increase in derivative liabilities	8,957	1,805
Net cash (outflow) inflow from sale of subsidiaries	(17)	8,427
Net increase (decrease) in loans	402,543	(2,452,579)
Net cash provided by (used in) investing activities	403,909	(2,446,812)
Cash flows from financing activities		
Dividend distributed from retained earnings	(100,000)	-
Net cash (outflow) inflow from intercompany borrowings, net	(184,098)	1,432,197
Net (decrease) increase in demand deposits	(236,187)	1,088,010
Net increase (decrease) in time deposits	35,263	(63,542)
Net cash (used in) provided by financing activities	(485,022)	2,456,665
Effect of exchange rate changes on cash	(1,113)	1,697
Net (decrease) increase in cash and due from banks	(5,243)	8,217
Cash and due from banks		
Beginning of year	10,514	2,297
End of year	$ 5,271	$ 10,514
Supplemental cash flow information		
Interest paid	$ 19,413	$ 11,931
Income taxes paid	9,392	18,315

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1. Description of Business

Merrill Lynch Bank and Trust Company (Cayman) Limited (the "Company"), is a wholly owned subsidiary of Merrill Lynch Cayman Holdings Incorporated, or ("MLCHI"), which in turn is a wholly-owned subsidiary of Merrill Lynch International Holdings, Inc., or ("MLIHI"). The Company is an indirect wholly-owned subsidiary of Bank of America Corporation ("Bank of America"). The Company is registered under the laws of the Cayman Islands and holds a Category "A" Banking and Trust License subject to the provisions of the Banks and Trust Companies Law. The Company is regulated and supervised by the Cayman Island Monetary Authority ("CIMA"). The Company holds a Securities Investment Business License pursuant to Section 6 (1) of the Securities Investment Business Law, to act as a Broker-Dealer and Securities Arranger.

The Company conducts banking and trust operations for customers of its affiliates. The Company conducts business with corporations, high net worth individuals, and other financial institutions. The Company's principal products include secured loans, interbank placements, deposits from private clients, and foreign exchange transactions. The Company maintains branches in the Isle of Man and Singapore, which perform administration duties associated with the Company's trust business. The branches do not engage in deposit taking, lending, or foreign currency trading activities.

During 2013, the Company sold assets related to its subsidiaries located in Uruguay, Spain and Lebanon to an unaffiliated third party. These subsidiaries were part of the International Wealth Management ("IWM") sale of certain businesses located outside of the United States. See Note 4 to the Consolidated Financial Statements for further information.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are presented in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), which include industry practices. Intercompany transactions and balances have been eliminated in consolidation.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Currency Translation

The consolidated financial statements are presented in U.S. dollars. Non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated using an average of exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency, net of related tax effects, are reported in stockholder's equity as a component of accumulated other comprehensive income (loss). All other foreign currency adjustments are included in earnings. The Company maintains a matched book in its currency position. As such, changes in the foreign exchange rates for money market transactions are covered daily with an affiliate to avoid any significant fluctuations in net earnings.

(in thousands of dollars)

Use of Estimates
In presenting the consolidated financial statements, management makes estimates including the following:

- The allowance for credit losses;
- Valuations of assets and liabilities requiring fair value estimates;
- Determination of other-than-temporary impairments for investment securities available-for-sale;
- The ability to realize deferred taxes and the recognition and measurement of uncertain tax positions;
- Incentive-based compensation accruals and valuation of share-based payment compensation arrangements; and
- Other matters, including the pension liability, that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements, and it is possible that such changes could occur in the near term.

Fair Value Measurement
The Company accounts for investment securities available for sale and derivative instruments at fair value.

ASC 820, *Fair Value Measurements and Disclosures* ("Fair Value Accounting") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. See Note 10 to the Consolidated Financial Statements for further information.

Cash and Cash Equivalents
The Company defines cash and cash equivalents as noninterest bearing deposits with banks. The amounts recognized for cash and cash equivalents approximate fair value. For purposes of the fair value hierarchy, cash and cash equivalents are classified as Level 1.

Investment Securities Available-for-Sale
The Company accounts for all Investment Securities Available-for-Sale ("AFS") at fair value under ASC 320, *Investments – Debt and Equity Securities* ("Investment Accounting"). Securities to be held for unspecified periods of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as available-for-sale and are carried at fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss). The fair value of investment AFS securities is based on quoted market prices or pricing models. Realized gains and losses are reclassified into earnings using the specific identification method upon realization.

(in thousands of dollars)

The Company, at least annually, evaluates each AFS security whose fair value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. In determining whether an impairment is other than temporary, the Company considers the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, and other qualitative factors, as well as whether the Company either plans to sell the security or it is more-likely-than-not that it will be required to sell the security before recovery of the amortized cost. If the impairment is credit-related, an other-than-temporary impairment ("OTTI") loss is recorded in earnings. The non-credit related impairment loss is recognized in accumulated other comprehensive income (loss). If the Company intends to sell an AFS security or believes it will more-likely-than-not be required to sell a security, the Corporation records the full amount of the impairment loss as an OTTI.

Loans
The Company's loans consist of secured consumer loans which are classified as held for investment. Such loans are carried at their principal amount outstanding, net of the allowance for credit losses which represents the Company's estimate of probable losses inherent in its lending activities. Interest income and fees from loans are recognized as earned, based upon the principal amount outstanding over the term of the loans. The carrying value of the loans approximates fair value. For purposes of the fair value hierarchy, loans are classified as Level 2.

Loan Commitments and Letters of Credit
The Company enters into commitments to extend credit such as loan commitments and commercial and standby letters of credit to meet customer's financing needs. Such commitments are recorded as loans when funded.

Allowance for Credit Losses
The allowance for credit losses represents management's estimate of probable losses inherent in the Company's lending activities. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability.

The Company's estimate of credit losses includes judgment about collectability based on available information at the balance sheet date, and the uncertainties inherent in those underlying assumptions. While management has based its estimates on the best information available, future adjustments to the allowance for credit losses may be necessary as a result of changes in the economic environment or variances between actual results and the original assumptions.

In general, loans that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, including loans that are individually identified as being impaired, are classified as nonperforming unless well-secured and in the process of collection. Consumer loans, whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered troubled debt restructurings ("TDRs") and are classified as nonperforming until the loans have performed for an adequate period of time under the restructured agreement.

Interest accrued but not collected is reversed when a loan is considered nonperforming and the loan is placed on non-accrual status. Interest collections on consumer loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to income when received. Consumer loans may be restored to performing status

(in thousands of dollars)

when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection. As of December 31, 2016 and 2015, there were no TDRs or nonperforming loans held by the Company.

Accrued Trust Administration Fees
Accrued trust administration fees represent amounts accrued and earned for administration of the Company's customer fiduciary trust accounts.

Accrued Interest Receivable
Accrued interest receivable represents interest earned from the customer loan portfolio.

Derivatives
The Company enters into derivative contracts with its customers and affiliates, and accounts for all derivatives at fair value under ASC 815, *Derivative and Hedging* ("Derivative Accounting"). Derivative contracts with customers and affiliates are reported as derivative assets and derivative liabilities. The Company enters into currency forwards for the purpose of managing its overall interest rate and foreign currency risk. IRSs and currency forwards are valued daily with realized and unrealized gains and losses recorded as gain (losses) on derivatives, net.

The Company enters into foreign currency contracts to facilitate currency conversions for its customers, as well as to minimize its currency exposure. Foreign currency contracts are valued daily with realized and unrealized gains and losses reflected in noninterest income or expense, as appropriate.

Receivables and Payables from/to Affiliates
The Company's enters into related party transactions, with other affiliates for the benefit of the Company. The carrying value of the receivables from affiliates and payables to affiliates approximates fair value. For purposes of the fair value hierarchy, receivables from affiliates and payables to affiliates are classified as Level 2. See Note 4 to the Consolidated Financial Statements for further information.

Other Assets
Other assets include equipment and facilities, deferred tax assets, other prepaid expenses and other deferred charges.

Equipment and facilities primarily consist of technology hardware, facility and non-technology equipment, and leasehold improvements. The historical cost for equipment and facilities was $43 and $51 as of December 31, 2016 and 2015, respectively, and the accumulated depreciation and amortization was $32 and $29 for 2016 and 2015, respectively. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life (which ranges from three to five years), while leasehold improvements are amortized over the lesser of the improvements estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the occupancy and related depreciation expense category was depreciation and amortization of $9 and $10 for 2016 and 2015, respectively.

(in thousands of dollars)

Deposits
Demand deposits are interest-bearing accounts that the depositor is entitled to withdraw at any time without prior notice. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may be required to pay a penalty to do so. The carrying value of the deposits approximates fair value. For purposes of the fair value hierarchy, deposits are classified as Level 2.

Intercompany Borrowings
The Company's enters into intercompany borrowing transactions with Bank of America to meet its lending requirements. The carrying value of the intercompany borrowings approximates fair value. For purposes of the fair value hierarchy, intercompany borrowings are classified as Level 2. See Note 8 to the Consolidated Financial Statements for further information.

Other Liabilities
The Company's other liabilities primarily consist of current income tax payable, incentive compensation and other miscellaneous payables.

Defined Benefit Pension Plan
The Company accounts for its defined benefit pension plans in accordance with ASC 715-20-50, Compensation-Retirement Benefits, Defined Benefit Plans-General ("Defined Benefit Plan Accounting"). This guidance requires the recognition of a plan's overfunded or underfunded status as an asset or liability, measured as the difference between the fair value of plan assets and the benefit obligation, with an offsetting adjustment to accumulated other comprehensive income. This guidance also requires determination of the fair value of a plan's assets at a company's year end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of accumulated other comprehensive income.

Trust Accounts
Funds held by the Company in fiduciary or agency capacities in the amount of $2,337,701 and $4,155,011 as of December 31, 2016 and 2015, respectively, are not included in the accompanying consolidated financial statements, as such items are not assets of the Company. The Company earned $8,837 and $11,058 in Trust administration fees which is reflected in the Company's consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively. The Trust administration fees reflected in the financial statements are recognized as earned.

Stock-Based Compensation
The Company accounts for stock-based compensation expense in accordance with ASC 718, *Compensation — Stock Compensation*, ("Stock Compensation Accounting"), under which compensation expense for share-based awards that do not require future service are recorded immediately, while those that do require future service are amortized into expense over the relevant service period. Further, expected forfeitures of share-based compensation awards for nonretirement-eligible employees are included in determining compensation expense.

Income Taxes
The Company is a subsidiary of MLCHI. MLCHI is included in the U.S. Federal income tax return and certain state income tax returns of Bank of America. The Company is treated as a disregarded entity for U.S. tax purposes and as such, all items of the Company's income and expense are

(in thousands of dollars)

treated as the income and expense of MLCHI. Therefore, the Company accrues tax at the MLCHI tax rate. During 2007, the Company received approval from the Cayman Islands government exempting it from all local income, profits and capital gains taxes until February 19, 2028.

The Company provides for incomes taxes on all transactions that have been recognized in the consolidated financial statements in accordance with ASC 740, *Income Taxes* ("Income Tax Accounting"). Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are generally recognized in net earnings in the period during which such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. Pursuant to Income Tax Accounting, the Company may assess various sources of evidence in the conclusion as to the necessity of valuation allowances to reduce deferred tax assets to amounts more-likely-than-not to be realized, including the following: 1) past and projected earnings, including losses of the Company and Bank of America, as certain tax attributes such as U.S. net operating losses ("NOLs"), U.S. capital loss carry forwards and foreign tax credit carry forwards can be utilized by Bank of America in certain income tax returns, 2) tax carry forward periods, and 3) tax planning strategies and other factors of the legal entities, such as the intercompany tax-allocation agreement. The Company has concluded that these deferred tax assets are more likely than not to be fully utilized prior to expiration, based on the projected level of future taxable income of the Company and Bank of America, which is relevant due to the intercompany tax allocation agreement. For this purpose, future taxable income was estimated base on forecast, historical earnings after adjusting for past market disruptions and the anticipated impact of the differences between pre-tax earnings and taxable income.

The Company recognizes and measures its unrecognized tax benefits ("UTB") in accordance with Income Tax Accounting. The Company estimates the likelihood, based on their technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. The Company adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America's intercompany tax allocation agreement, any new or subsequent change in an unrecognized tax benefit related to a Bank of America state consolidated, combined or unitary return in which the Company is a member, generally will not be reflected in the Company's Consolidated Balance Sheet. However, upon Bank of America's resolution of the item, any material impact determined to be attributable to the Company will be reflected in the Company's Consolidated Balance Sheet. The Company accrues income tax-related interest and penalties, if applicable, within income tax expense.

The Company's results of operations are included in the U.S. Federal income tax return and certain combined and unitary state and city income tax returns of Bank of America as described above. The method of allocating income tax expense is determined under the intercompany tax allocation agreement of Bank of America. This agreement specifies that income tax expense will be computed for all Bank of America subsidiaries generally on a separate company method, taking into account the tax position of the consolidated group and the Company. Under this agreement, tax benefits associated with NOLs and other tax attributes of the Company are generally payable to the Company upon utilization in the filing of Bank of America's returns. See Note 14 for further discussion of income taxes.

(in thousands of dollars)

3. New Accounting Pronouncements

In May 2014, the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

In August 2014, the FASB amended existing guidance related to the disclosures about an entity's ability to continue as a going concern. These amendments are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. These amendments provide guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content and disclosures that are commonly provided by organizations in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016. Early application is permitted. The Company's adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In January 2016, the FASB issued new accounting guidance on recognition and measurement of financial instruments. The new guidance makes targeted changes to existing GAAP including, among other provisions, requiring certain equity investments to be measured at fair value with changes in fair value reported in earnings and requiring changes in instrument-specific credit risk (i.e., debit valuation adjustments (DVA)) for financial liabilities recorded at fair value under the fair value option to be reported in other comprehensive income (OCI). The accounting for DVA related to other financial liabilities, for example, derivatives, does not change. The new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for the provisions related to DVA. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

In February 2016, the FASB issued new accounting guidance that requires substantially all leases to be recorded as assets and liabilities on the balance sheet. Upon adoption, for leases where the Company is lessee, the Company will record a right of use asset and a lease payment obligation associated with arrangements previously accounted for as operating leases. Lessor accounting is largely unchanged from existing GAAP. This new accounting guidance is effective on January 1, 2019 using a modified retrospective transition that will be applied to all prior periods presented. The Company is in the process of reviewing its existing lease portfolios, as well as other service contracts for embedded leases, to evaluate the impact of the new accounting guidance on the consolidated financial statements, as well as the impact to regulatory capital and risk-weighted assets. The effect of the adoption will depend on its lease portfolio at the time of transition; however, the Company does not expect the new accounting guidance to have a material impact on its consolidated results of operations. Upon completion of the inventory review and consideration of system requirements, the Company will evaluate the impacts of adopting the new accounting guidance on its disclosures.

(in thousands of dollars)

In June 2016, the FASB issued new accounting guidance that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecast. The expected loss model will apply to financial assets measured at amortized costs, including loan and debt securities. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The Company is in the process of evaluating the impact of the provisions of this new accounting guidance.

In August 2016 and November 2016, the FASB issued new accounting guidance that addresses classification of certain cash receipts and cash payments, including changes in restricted cash in the statement of cash flows. The new accounting guidance will result in some changes in classification in the Consolidated Statement of Cash Flows, which the Company does not expect will be significant, and will not have any impact on its consolidated financial position or results of operations. The new guidance is effective on January 1, 2018, on a retrospective basis, with early adoption permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

4. Related-Party Transactions

The Company performs services on behalf of certain affiliate entities including the marketing and promotion of products and services for customers of affiliates. The Company receives compensation for performing these activities based on service agreements, recorded as service fee income from affiliated companies. Receivables from affiliates include derivatives and due from affiliated companies. Service fee related balances are non-interest bearing. In addition, the Company holds cash on deposits with affiliates. The Company pays service fee expense to affiliates for services provided related to banking, trust, marketing and promoting the Company's products. As of December 31, 2016 and 2015 the Company had taxes payable to Bank of America of $16,563 and $11,721, respectively.

In 2012, Bank of America entered into an agreement to sell the assets of ML & Co.'s IWM businesses based outside of the United States ("U.S."), including the Company's subsidiaries located in Uruguay, Spain and Lebanon (the "Subsidiaries"). The Subsidiaries, whose primary activities consisted of business development for other affiliated entities, were sold in 2013 to an unaffiliated third party. The assets and liabilities of the Subsidiaries were sold at their net book value. In addition, the unaffiliated third party agreed to pay Bank of America a premium related to the transfer of separately managed accounts and other investment accounts ("client balances") of retail investors that transferred to the unaffiliated third party. The $(17) and $8,427 (loss)/gain on sale of subsidiaries for the years ended December 31, 2016 and December 2015, represents cash (paid)/received by the Company for the portion of premium allocated from Bank of America, related to the Subsidiaries' client balances.

The Company reported payables to affiliates as of December 31, 2016 and 2015, of $24,944 and $21,421. Interest bearing advances from affiliates are included with intercompany borrowings and are further discussed in Note 8 – Debt.

(in thousands of dollars)

A summary of balances and transactions with affiliated companies as of and for the years ended December 31, 2016 and 2015 follows:

	2016	2015
Receivables from affiliates	$ 2,697	$ 28,254
Derivative assets [(1)]	7,455	2,430
Total assets	$ 10,152	$ 30,684
Intercompany borrowings	$ 1,645,009	$ 1,829,107
Payables to affiliates	24,944	21,421
Derivative liabilities [(1)]	4,230	1,679
Total liabilities	$ 1,674,183	$ 1,852,207
Service fee income from affiliated companies	$ 8,156	$ 9,052
Interest income on advances to affiliates	3,523	756
Total income	$ 11,679	$ 9,808
Interest expense related to intercompany borrowings and advances	$ 14,623	$ 7,892
Service fee expense with affiliated companies	11,944	9,259
Total expense	$ 26,567	$ 17,151

[(1)] See Note 12 for additional disclosures of derivative transactions entered into with affiliates.

5. Investment Securities Available-for-Sale

The carrying amount of securities available-for-sale and their fair value as of December 31, 2016 and 2015 are as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Singapore Gov't. Treasury Bills	$ 798	$ 30	$ -	$ 828

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Singapore Gov't. Treasury Bills	$ 769	$ 8	$ -	$ 777

(in thousands of dollars)

Investment securities available-for-sale as of December 31, 2016 and December 31, 2015 were in an unrealized gain position.

6. Loans

The Company's secured consumer loan portfolio is comprised of securities-based lending transactions which are re-margined daily. In the normal course of business, the Company enters into consumer loans with customers. These loans are primarily collateralized by diversified marketable securities (equities and bonds) and other financial assets held by affiliates of the Company. These activities expose the Company to risks arising from the potential that customers may fail to satisfy their obligations. In these situations, the Company may be required to sell financial instruments at unfavorable market prices to satisfy obligations of its customers.

These loans are classified as held for investment. The customer is required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability through daily re-margining over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for credit losses are only required in rare circumstances.

The Company reported $2,955,606 and $1,213,247 in loans outstanding for International and Domestic Loan Management Account ("LMA"), respectively, as of December 31, 2016. The Company reported $3,233,380 and $1,338,015 in loans outstanding for International and Domestic Loan Management Account ("LMA"), respectively, as of December 31, 2015. There were no charge-offs recognized in the Company's consolidated financial statements during the years ending December 31, 2016 and 2015. There were no non-performing loans or TDR's as of December 31, 2016 and 2015.

Loans as of December 31, 2016 and 2015 were all current and consist of the following scheduled maturities:

	2016	**2015**
Three months or less	$ 3,709,211	$ 4,095,878
Less than six months, greater than three months	144,905	125,876
Less than one year, greater than six months	82,170	128,685
Greater than one year	232,566	220,956
Less allowance for loan losses	(29)	(185)
Loans - net	$ 4,168,823	$ 4,571,210

Activity in the allowance for credit losses is presented below:

(in thousands of dollars)

		LMA
Ending balances at December 31, 2014	$	155
Provision		30
Ending balances at December 31, 2015		185
Recovery		(156)
Ending balances at December 31, 2016	$	29

During the years ended December 31, 2016 and 2015 there was no provision for loan losses required for international loans.

7. Deposits

Substantially all demand and time deposits were in denominations of $100 or more as of December 31, 2016 and 2015, and their scheduled maturities are as follows:

		2016		2015
Three months or less but not repayable on demand	$	64,735	$	49,181
One year or less but over three months		32,566		12,857
Repayable on demand		1,929,001		2,165,188
Total Deposits	$	2,026,302	$	2,227,226

The effective weighted average interest rates for deposits as of December 31, 2016 and 2015 were 0.24% and 0.33%, respectively.

The Company had an agreement with third party Julius Baer (“JB”) that allowed the Company to accept deposits from JB on fixed or demand term on a fiduciary basis at prevailing market rates. The agreement was terminated in February 2016. At the end of December 31, 2016 and 2015 these deposits included above, were $0 and $978.

8. Debt

As of December 31, 2016, the Company had uncommitted credit facilities with NB Holdings, Bank of America and Merrill Lynch International which provide for maximum available borrowing of up to $3,331,150, $3,000,000 and $35,000, respectively. As of December 31, 2015, the Company had an uncommitted credit facility with Bank of America which provide for maximum available borrowing of up to $3,000,000. The Company has an outstanding borrowing of $1,645,009 and $1,829,107 respectively under the facilities which are automatically renewed every six months. The weighted average interest rate during 2016 and 2015 was 0.61% and 0.55% respectively on the credit facility. The Company incurred $10,973 and $7,368 in interest expense during the years ended December 31, 2016 and 2015. This credit facility does not have any financial or nonfinancial covenants.

(in thousands of dollars)

9. Employee Benefit Plans

Bank of America provides pension and other post-employment benefits to its employees worldwide through sponsorship of defined contribution and defined benefit pension and other post-employment plans.

The Company also participates in an employee compensation plan sponsored by Bank of America, which provides eligible employees stock-based compensation or options to purchase stock. The compensation costs related to this plan was $70 and $0 in 2016 and 2015 respectively, and is included in payables to affiliates.

Defined Contribution Pension Plans
The U.S. defined contribution plans sponsored by Bank of America include the Merrill Lynch 401(k) Savings & Investment Plan ("SIP") and the Bank of America 401 (k) Plan. The SIP is closed to new participants with certain exceptions.

Defined Benefit Pension Plans
Employees of certain Non-U.S. subsidiaries participate in various local defined benefit pension plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. Bank of America's funding policy has been to contribute annually at least the amount necessary to satisfy local funding standards. The Third Country National Defined Benefit Pension Plan (the "TCN Plan") is the responsibility of the Company and serves as the pension plan for various Non-U.S. expatriate employees. The costs of the TCN Plan are ultimately allocated back to affiliates of Bank of America.

Contributions
There were no participant contributions made to the TCN Plan for the years ended December 31, 2016 and 2015. The Company is the sole contributor to the Plan. During 2016 and 2015, the Company made contributions in the amounts of $2,451 and $2,431 to pay benefits to participants. The Company expects to make contributions to the TCN Plan in the amount of $3,214 for expected benefit payments to participants in 2017.

The accumulated benefit obligation for the TCN Plan was $258,470 and $209,728 at December 31, 2016 and 2015, respectively.

Total net periodic benefit cost for the years ended December 31, 2016 and 2015 included the following components:

	2016	2015
Service costs	$ 2,041	$ 3,293
Interest costs	8,380	7,959
Amortization of actuarial loss	2,613	2,774
Expected return on plan assets	(1,600)	(1,764)
Total net periodic benefit cost	$ 11,434	$ 12,262

(in thousands of dollars)

The weighted average assumptions used in calculating the net periodic cost for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	4.0 %	3.9 %
Rate of compensation increase	3.5 %	3.5 %
Expected long-term return on plan assets	3.3 %	3.5 %

Pension expense for the Company amounted to $6,187 and $6,191 for the years ended December 31, 2016 and 2015, respectively, and was fully reimbursed as service-fee income from Merrill Lynch International Incorporated. The remainder of the net periodic benefit cost was allocated to other Bank of America affiliates.

The following table provides the status of the TCN Plan's projected benefit obligations, fair value of the TCN Plan assets, and funded status for the periods ended December 31, 2016 and 2015 and the amounts recognized in the Company's consolidated balance sheets at year-end 2016 and 2015.

	2016	2015
Projected benefit obligation at beginning of year	$ 211,762	$ 204,616
Service cost	2,041	3,293
Interest cost	8,380	7,959
Actuarial loss (gain)	51,562	(1,675)
Benefits paid	(2,451)	(2,431)
Projected benefit obligation at end of year	271,294	211,762
Fair value of plan assets at beginning of year	49,245	50,414
Actual return on plan assets	4,236	(1,169)
Employer contribution	2,451	2,431
Benefits paid	(2,451)	(2,431)
Fair value of plan assets at end of year	53,481	49,245
Unfunded pension liability at end of year	$ 217,813	$ 162,517

The weighted average assumptions used in calculating the projected benefit obligation as of December 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	2.8 %	4.0 %
Rate of compensation increase	3.5 %	3.5 %

(in thousands of dollars)

Amounts recognized in accumulated other comprehensive loss, pre-tax, at year-end 2016 and 2015 consisted of $105,081 and $58,768 in net actuarial losses, respectively. In order to comply with the intercompany tax allocation agreement of Bank of America, the accumulated other comprehensive losses after-tax was $65,676 and $36,730 as of December 31, 2016 and 2015, respectively. There are $5,444 estimated net losses that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year.

The expected long-term rate of return on the TCN Plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The rate reflects estimates by the TCN Plan investment advisors of the expected returns of the asset held by the TCN Plan in light of prevailing economic conditions at the beginning of the fiscal year.

Pension plans can be sensitive to changes in discount rates and expected asset return rates. It is expected that a 25 basis points rate reduction in the discount rate would increase defined benefit plan expenses by approximately $825 for 2017. A 25 basis point decline in the expected rate of return would result in an expense increase for 2017 of approximately $130.

The assets of the TCN Plan are invested prudently so that the benefits promised to members are provided, having regard to the nature and duration of the TCN Plan's liabilities. Generally, the planned investment strategy is set following an asset-liability study and advice from the Trustee's investment advisors. The asset allocation strategy selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meet the TCN Plan's liabilities.

The TCN Plan assets are solely invested in a Managed Income Mutual Fund which primarily holds debt securities and is considered a Level 1 asset in the fair value hierarchy.

Expected benefit payments associated with the TCN Plan for the next five years, and in the aggregate for five years thereafter are as follows:

Year	**Amount**
2017	$ 3,214
2018	3,339
2019	3,447
2020	3,614
2021	3,823
2022 through 2025	24,656

10. Fair Value

Fair Value Hierarchy

In accordance with Fair Value Accounting, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical

(in thousands of dollars)

assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Financial assets and liabilities recorded on the consolidated balance sheets are categorized based on the inputs to valuation techniques as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets.

b. Quoted prices for identical or similar assets or liabilities in non-active markets.

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability and,

d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As required by Fair Value Accounting, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety.

A review of fair value hierarchy classifications is conducted at least on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

There were no transfers between levels for the years ended December 31, 2016 and 2015.

Valuation Processes and Techniques
The Company has various processes and controls in place so that its fair value measurements are reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models by personnel who are independent of the front office and periodic re-assessments so that models are continuing to perform as designed. In addition, detailed reviews of trading gains and losses are analyzed on a daily basis by personnel who are independent of the front office. A price verification group, which is also independent of the front office, utilizes available market information including executed trades, market prices and market observable valuation model inputs so that fair values are reasonably estimated. The Company executes due diligence procedures over third party pricing

(in thousands of dollars)

service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During 2016 and 2015, there were no changes to the Company's valuation approaches or techniques that had, or are expected to have, a material impact on its Consolidated Balance Sheet or Consolidated Statement of Operations.

The following outlines the valuation methodologies for the Company's derivatives and investment securities available-for-sale:

Derivatives

The fair value of these instruments is derived using market prices and other market based pricing parameters such as interest rates, currency rates and volatilities that are observed directly in the market or gathered from independent sources such as dealer's consensus pricing services or brokers. When third-party pricing services are used, the methods and assumptions are reviewed by the Company. Where models are used, they are used consistently and reflect the contractual terms of and specific risks inherent in the contracts. Generally, the models do not require a high level of subjectivity since the valuation techniques used in the model do not require significant judgment and inputs to the models are readily observable in active markets. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other instrument-specific factors, where appropriate. See Note 12, Financial Instruments, for additional disclosures related to foreign currency forward contracts, currency swaps, and interest rate swaps.

Investment Securities Available-for-Sale

The fair value of AFS debt securities is generally based on quoted market prices or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of AFS.

The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, is as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	$ -	$ 828	$ -	$ 828
Foreign currency forward contracts	-	12,032	-	12,032
Total assets	$ -	$ 12,860	$ -	$ 12,860
Liabilities				
Foreign currency forward contracts	$ -	$ 11,570	$ -	$ 11,570
Total liabilities	$ -	$ 11,570	$ -	$ 11,570

(in thousands of dollars)

The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 were as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale	$ -	$ 777	$ -	$ 777
Foreign currency forward contracts	-	4,539	-	4,539
Total assets	$ -	$ 5,316	$ -	$ 5,316
Liabilities				
Foreign currency forward contracts	$ -	$ 2,613	$ -	$ 2,613
Total liabilities	$ -	$ 2,613	$ -	$ 2,613

There were no financial or nonfinancial assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2016 and 2015.

11. Market Risk

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.

Derivative positions are reported at fair value with changes reflected in income. Derivative positions are subject to various changes in market-based risk factors. The majority of the risk is generated by the Company's activity in the interest rate, foreign exchange and credit markets. In addition, the value of assets and liabilities could change due to market liquidity, correlations across the markets and expectations of market volatility.

The Company uses derivative instruments to mitigate its market exposures. The following discussion describes the types of market risk faced by the Company.

Liquidity Risk
Liquidity Risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support the Company's business and customer needs, under a range of economic conditions. The Company's primary liquidity risk management objective is to meet all contractual and contingent financial obligations at all times, including during periods of stress. To achieve that objective, the Company analyzes and monitors its liquidity risk under expected and stressed conditions, maintain liquidity and access to diverse funding sources and seeks to align liquidity-related incentives and risks. In addition, the Company is supported through unsecured borrowing arrangements with Bank of America.

Interest Rate Risk
Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to, debt securities, borrowings and derivatives. Hedging instruments used to mitigate these risks include derivatives such as forwards and swaps.

(in thousands of dollars)

Foreign Exchange Risk
Foreign currency risk represents exposures to changes in the values of current holdings and future cash flows denominated in currencies other than the U.S. dollar. The types of instruments exposed to this risk include future cash flows in foreign currencies arising from foreign exchange transactions and various foreign exchange derivatives whose values fluctuate with changes in the level or volatility of foreign exchange rates or non-U.S. interest rates. Hedging instruments used to mitigate this risk include currency forwards and swaps.

Counterparty Credit Risk
The Company is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). The Company’s consumer loans are collateralized by securities that are re-margined daily. The Company has established policies and procedures for mitigating credit risk on lending transactions, including reviewing and establishing limits for credit exposure, maintaining qualifying collateral, and continually assessing the creditworthiness of counterparties.

For derivatives, default risk is limited to the current cost of replacing contracts in a gain position. Default risk exposure varies by type of derivative. The notional or contractual value of derivatives does not represent default risk exposure.

Concentrations of Credit Risk
The Company’s exposure to credit risk, is limited to default risk, and is associated with lending activities which are measured on an individual counterparty basis as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

As of December 31, 2016 and 2015, the Company’s most significant concentration of credit risk is with affiliates. This concentration arises in the normal course of business.

12. Derivatives

A derivative is an instrument whose value is derived from an underlying instrument or index, such as interest rates, equity security prices, currencies, commodity prices or credit spreads. Derivatives include futures, forwards, swaps, option contracts and other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards,) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies). All derivatives are accounted for at fair value. The Company enters into foreign exchange forward contracts and currency swaps with affiliates as economic hedges of foreign currency positions including the U.S. dollar costs of future foreign currency requirements. Delayed delivery and forward contracts are transactions in which one party agrees to deliver securities or a currency to a counterparty at a specified price on a specified date. The Company is exposed to market risk associated with the possibility of unfavorable changes in currency exchange rates and the market price of the underlying financial instruments.

(in thousands of dollars)

Derivative instruments contain numerous market risks. In particular, most derivatives have interest rate risk, as they contain an element of financing risk which is affected by changes in interest rates. Additionally, derivatives expose the Company to counterparty credit risk with affiliates.

The following table identifies the notional and fair value of outstanding over-the-counter derivative instruments at December 31, 2016 and 2015:

	2016		2015	
	Notional	**Fair Value**	**Notional**	**Fair Value**
Assets				
Foreign currency forward contracts	$ 181,450	$ 12,032	$ 458,374	$ 4,539
Total assets	$ 181,450	$ 12,032	$ 458,374	$ 4,539
Liabilities				
Foreign currency forward contracts	$ 182,763	$ 11,570	$ 223,656	$ 2,613
Total liabilities	$ 182,763	$ 11,570	$ 223,656	$ 2,613

The fair value of these instruments that are with affiliates are reported within receivables from affiliates and payables to affiliates while the fair value of these instruments with customers are reported within derivative assets and derivative liabilities. The gain or loss impact of these instruments is recorded in the consolidated statement of earnings as gain (loss) on derivatives, net.

The notional or contractual amounts of these instruments do not represent the Company's exposure under these contracts.

There are no legally enforceable master netting agreements in place for the above derivative transactions. Derivative assets and liabilities are reported on the balance sheet at their gross amounts as of December 31, 2016 and 2015, and are not offset. For each obligation, there is sufficient collateral.

The following table, for the years ended December 31, 2016 and 2015, identifies the amount of gain (loss) related to derivative instruments by primary risk:

	Gain (loss) on derivatives	
	2016	**2015**
Foreign currency risk	$ 4,025	$ 1,001
Total, net	$ 4,025	$ 1,001

(in thousands of dollars)

13. Commitments and Contingencies

Litigation

In the ordinary course of business, the Company is routinely a defendant in or party to many pending and threatened legal, regulatory and governmental actions and proceedings. In view of the inherent difficulty of predicting the outcome of such matters, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with applicable accounting guidance, the Company establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency related to a matter is deemed to be both probable and estimable, the Company will establish an accrued liability and record a corresponding amount of litigation-related expense. The Company continues to monitor the matter for further developments. As of December 31, 2016 and 2015, there was no pending or potential threatening litigation against the Company.

Leases

The Company has entered into various non-cancelable long-term operating lease agreements for premises and equipment. The Company has also entered into various non-cancelable short-term operating lease agreements that are primarily commitments of less than one year under equipment leases. As of December 31, 2016, future non-cancelable minimum rental commitments under leases with remaining terms exceeding one year are presented below:

Year		
2017	$	327
2018		96
	$	423

The Company recorded rent expense of $320 and $339 for the years ended December 31, 2016 and 2015, respectively.

Credit Extension Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments, standby and commercial letters of credit. These instruments expose the Company to varying degrees of credit and market risk and are subject to the same credit policies as on-balance-sheet instruments.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company had approximately $34,532 and $34,243 in irrevocable letters of credit outstanding at December 31,

(in thousands of dollars)

2016 and 2015, respectively. The Company holds collateral supporting these commitments, as deemed necessary.

Legally binding commitments to extend credit generally have specified rates and maturities. Certain of these commitments have adverse changes clauses that help to protect the Company against deterioration in the borrower's ability to pay.

14. Income Taxes

The component of income tax expense for the years ended December 31, 2016 and 2015 consisted of:

	2016	2015
U.S. federal		
Current	$ 12,655	$ 11,204
Deferred	5,560	1,173
U.S. state, local, and other		
Current	1,592	1,438
Deferred	251	14
Foreign		
Current	3	(68)
Deferred	5	2
Total	$ 20,066	$ 13,763

Total income tax expense does not reflect the deferred tax effects of items included in accumulated other comprehensive loss. As a result of the tax effects, accumulated other comprehensive loss (decreased)/increased $(18,076) and $3,328 in the years ended December 31, 2016 and 2015, respectively.

Income tax expense for 2016 and 2015 varied from the amount computed by applying the statutory income tax rate to income before income taxes. A reconciliation of the expected U.S. federal income tax expense, calculated by applying the U.S. statutory rate of 35 percent, to the Company's actual income tax expense and resulting tax rate for 2016 and 2015 are presented in the table below:

	2016	2015
U.S. federal income tax at statutory rate	$ 18,051	$ 12,308
U.S. state and local income taxes, net	1,198	944
Other	817	511
Total	$ 20,066	$ 13,763

(in thousands of dollars)

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amounts in the Consolidated Balance Sheet. These temporary differences result in taxable or deductible amounts in future years.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2016 and 2015, which are included on the Consolidated Balance Sheet within *Other assets*, are presented below:

	2016	**2015**
Deferred tax asset		
Pension	$ 39,405	$ 22,038
State tax deduction	-	1,468
Deferred compensation	81	564
Other	24	2,656
Total deferred tax asset	39,510	26,726
Deferred tax liability		
Foreign currency	(1,484)	(2,073)
Other	(1,113)	-
Total deferred tax liability	(2,597)	(2,073)
Net deferred tax asset	$ 36,913	$ 24,653

The Company files income tax returns in numerous state, local and non-U.S. jurisdictions each year. The Internal Revenue Service and other tax authorities in states, cities and countries in which the Company has significant business operations, examine tax returns periodically (continuously in some jurisdictions). The table below summarizes the status of significant tax examinations, by jurisdiction, for the Company as of December 31, 2016. During 2016, the Company settled U.S. federal examinations for multiple years including New York State and New York City through 2014. Also, field work for the U.S. federal 2012 through 2013 examinations were substantially completed during 2016.

Jurisdiction	**Years Under Examination** [1]	**Status at December 31, 2016**
U.S. Federal	2012-2013	Field examination
New York State	2015	To begin in 2017
New York City	2015	To begin in 2017

(1) All tax years subsequent to the above years remain open to examination

At December 31, 2016 and 2015, the Company did not have any liabilities for unrecognized tax benefits.

As described in Note 1, any unrecognized tax benefit related to a state consolidated, combined or unitary return in which the Company is a member, is not reflected in the Company's Consolidated Balance Sheet until such time as the tax position is resolved.

(in thousands of dollars)

While it is reasonably possible that a significant change in unrecognized tax benefits related to certain state consolidated, combined or unitary returns will occur within twelve months of December 31, 2016, quantification of an estimated range cannot be made at this time due to the uncertainty of the potential outcomes.

The Company is included in the consolidated U.S. federal income tax return, and certain combined and unitary state tax returns of Bank of America. At December 31, 2016 and 2015 the Company had a current tax payable to Bank of America of $16,570 and $11,721, respectively, as a result of its inclusion in consolidated, combined, and unitary tax return filings with Bank of America. These amounts are recorded as a *Payable to affiliate*. See Note 4 Related-Party Transactions. During the years ended December 31, 2016 and 2015, the Company made approximately $9,387 and $15,732 of income tax payments to Bank of America.

15. Regulatory Capital

The Company is subject to capital requirements of the Basel II framework as defined by CIMA, which came into effect January 1, 2011 in the Cayman Islands. The measure of capital strength established by CIMA for the Company is the risk weighted total capital ratio with a minimum of 12% in 2016 and 2015. At December 31, 2016 and 2015, the risk weighted capital ratios were 83% and 110%, respectively.

16. Subsequent Events

ASC 855, Subsequent Events, requires the Company to evaluate whether events, occurring after the Balance Sheet date but before the date the financial statements are available to be issued, require accounting as of the Balance Sheet date, or disclosure in the financial statements. The Company evaluated subsequent events through March 31, 2017, the date the financial statements were available to be issued.

There were not material subsequent events which affected the amounts or disclosures in the Consolidated Financial Statements.