Registered number: 2312079

Merrill Lynch International

Annual Report and Financial Statements

For the Year Ended 31 December 2015

Bank of America Merrill Lynch

Contents

Merrill Lynch International – Company Information

Directors	S. Schmidt Bies M.P. Basing M. Butler J.A. Gollan C.A.C. Ighodaro B.A. Mensah (appointed 15 June 2015) J.S. Przewozniak J.M. Taylor A.S. Wilmot-Sitwell S. Zaimi (appointed 22 February 2016)
Company Secretary	Merrill Lynch Corporate Services Limited
Registered Number	2312079
Registered Office	2 King Edward Street London EC1A 1HQ
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

A. Strategic Report
For the Year Ended 31 December 2015

A. Strategic Report for the Year Ended 31 December 2015

The directors present their strategic report on Merrill Lynch International ("MLI", the "Company") for the year ended 31 December 2015.

These financial statements are the first that the Company has prepared following the adoption of Financial Reporting Standard 100 'Application of Financial Reporting Requirements' and Financial Reporting Standard 101 'Reduced Disclosure Framework'. Further details can be found in the Accounting Policies (pages 36 - 40).

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

The Company's head office is in the United Kingdom with branches in Milan, Rome, Amsterdam, Stockholm, Dubai and Qatar along with a representative office in Zurich. The Company has the ability to conduct business with international clients and trade throughout the European Economic Area. The Company is authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

As at 31 December 2015, the Company was rated by Fitch (A / F1) and Standard & Poor's (A / A-1).

Market Environment

The Eurozone continued to grow modestly in 2015, as the European Central Bank ("ECB") began a programme of significant purchases of sovereign debt, helping to keep bond yields low and to maintain stability in southern European markets. Core inflation in the Eurozone stabilised early and then edged higher over the year. The Euro/US Dollar exchange rate continued to decline early in the year driven by the differing directions of US and Eurozone monetary policies, further boosting European competitiveness. However, the Eurozone remains vulnerable to economic slowing in emerging markets. Late in the year, the ECB extended its horizon for bond purchases, but failed to increase their size.

The global interest rate environment continues to operate at historically low levels across major economies. At its final meeting of the year, the Federal Open Market Committee ("FOMC") raised its target range for the Federal funds rate by 25 basis points (bps), its first rate tightening in over nine years. At the same time, the Federal Reserve ("Fed") repeated its expectation that policy would be normalised gradually, and would remain accommodative for the foreseeable future.

A weaker euro and the launch of the ECB quantitative easing programme helped improve European benchmarks in a volatile equity market and helped support asset prices. In contrast, the UK stock market fell mostly due to the performance of the mining sector. In 2016 the world stock markets saw their worst opening to a year since 2008.

Capital markets were impacted by the August volatility in the markets with initial public offerings ("IPOs") falling compared to 2014. There is optimism that global issuance will increase in 2016 as 2015 deals have been pushed to 2016.

In the debt-markets, sovereign and agency issuance outpaced investment-grade and high-yield credit, with the latter being impacted by the commodity sell-off and the December Fed increase in the target rate of the fed funds rate.

Risk Management

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 26).

Business Review and Future Developments

The Company's performance during 2015 reflects the continuing efficiencies in the BAC group as well as impacts of the volatile and challenging trading environment that the Company's businesses experienced during the year.

The assets and liabilities of a number of businesses were migrated into the Company from affiliate companies during 2015. Parts of the Asian business were transferred consisting of rates and credit derivatives, and from EMEA the vanilla credit derivative business. Within global commodities the metals, coal, dry freight and liquefied natural gas trading businesses were transferred.

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

The Company's financial statements are no longer required to be consolidated within Merrill Lynch UK Holdings Limited ("MLUKH"), a UK regulated group. The smallest group into which the Company's financial statements are now consolidated is BAC.

The directors expect the principal activities of the Company will continue during 2016.

Divisional Performance

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

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

Fixed Income, Currencies and Commodities ("FICC") net revenue was up $160 million mainly driven by increased rates and financing and futures activity within EMEA.

Equities net revenue was up $134 million driven by increases in client fulfilment within EMEA and Asia.

Investment Banking net revenue was down $101 million driven by lower mergers and acquisitions and underwriting activity.

Income Statement Summary

	2015 $m	2014 $m	$ Change $m	% Change
Net principal trading	2,571	2,216	355	16.02%
Corporate finance fees	579	823	(244)	(29.65)%
Commissions	767	737	30	4.07%
Other income	645	633	12	1.90%
Total net operating income	**4,562**	**4,409**	**153**	**3.47%**
Administrative expenses	3,797	3,911	(114)	(2.91)%
Net interest payable	41	141	(100)	(70.92)%
Profit before tax	**724**	**357**	**367**	**102.80%**

Net principal trading

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

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

Corporate finance fees

This income reflects the fee income as a result of the Company's various advisory services which includes mergers and acquisitions advice, IPOs and other corporate transactions. Year on year the Company has seen a decrease in revenue across all areas, most notably within mergers and acquisitions and underwriting services.

Commissions

Income from commission is a result of our activities in fulfilling client orders for purchases and sales of global equities or traded bonds on global exchanges.

Other income

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

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

Administrative expenses

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

The compensation expense has decreased in line with decreasing employee numbers during 2015.

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

Direct costs relate to the Company's principal trading activities.

In 2015 the Company recognised an impairment of $63 million, due to the systematic weakening of Brazilian Real, on the Fundo de Investimento Financeiro Multimercado Iceberg ("Iceberg") investment. This has reduced the Company's investment balance to the expected recoverable amount of the investment.

Interest receivable / (payable)

Interest reflects the Company's income or expense from subordinated debt and intercompany funding which did not change substantially during 2015.

Capital

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

The Company's Capital Resources increased year on year from $32,489 million in 2014 to $35,082 million. The increase was primarily driven by the Enterprise's ongoing entity simplification strategy, including a capital contribution of $2.1bn from MLUKCH which qualifies as Common Equity Tier 1 capital.

Liquidity

The Company is subject to the Prudential Sourcebook for Bank, Building Societies and Investment Firms ("BIPRU") 12 requirements set out by the PRA and must demonstrate self-sufficiency for liquidity purposes; this is consistent with the internal risk appetite referenced in note 26 of the financial statements.

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

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

As of 31 December 2015, the Company was in excess of its regulatory liquidity requirement. The Company held excess liquidity of $25.3 billion, up from $22.9 billion in 2014.

Key Performance Indicators

The results of the Company were as follows:

The profit on ordinary activities before taxation amounted to $724 million (2014: $357 million)

The profit for the year after tax amounted to $585 million (2014: $187 million)

The net operating income for the year amounted to $4,562 million (2014: $4,409 million)

Return on assets was 0.13% (2014: 0.03%) and return on equity was 1.6% (2014: 0.6%)

The administrative expenses for the year amounted to $3,797 million (2014: $3,911 million)

Net assets at 31 December 2015 are $35,730 million (2014: $32,423 million)

Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: $nil).

This report was approved by the Board on 23 March 2016 and signed on its behalf.

A.S. Wilmot-Sitwell

Director

B. Directors' Report

For the Year Ended 31 December 2015

B. Directors' Report for the Year Ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

Directors' Responsibilities Statement

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgments and acccounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors who served during the year were:

S. Schmidt Bies

M.P. Basing

M. Butler

F. Gallo (resigned 20 January 2016)

J.A. Gollan

C.A.C. Ighodaro

B.A. Mensah (appointed 15 June 2015)

J.S. Przewozniak

J.M. Taylor

A.S. Wilmot-Sitwell

Matters Covered in the Strategic Report

Details regarding a review of the business, including future developments, dividends, and principal risks and uncertainties are provided in the strategic report on pages 5 – 9.

Directors' Third Party Indemnity Provisions

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

Employee Involvement

BAC is committed to ensuring that employees share in its success. Employees participate in performance-based incentive and share purchase schemes and have a substantial sum invested in the shares of BAC, see note 29. They are kept informed of matters of concern to them in a variety of ways including newsletters, the intranet and management briefings. These communications help achieve a common awareness among employees of the financial conduct and economic factors affecting BAC. Employees are also provided with opportunities to share their views and provide feedback on matters that are important to them through, for example, employee surveys and forums.

Disabled Employees

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

Disclosure of Information to Auditors

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

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

Post Balance Sheet Events

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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 23 March 2016 and signed on its behalf.

M. Butler

Director

C. Independent Auditors' Report

To the Members of Merrill Lynch International

Bank of America
Merrill Lynch

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

Report on the Financial Statements

Our Opinion

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

- Give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What We Have Audited

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

- The Income Statement and Statement of Other Comprehensive Income for the year then ended;
- The Statement of Financial Position as at 31 December 2015;
- The Statement of Changes in Equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on Other Matters Prescribed by The Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other Matters on which We are Required to Report by Exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the directors

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

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

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

What an audit of financial statements involves

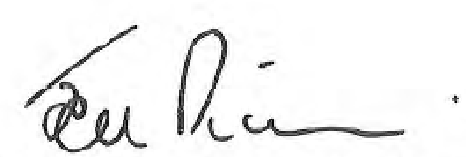
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jeff Picton (Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP

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

23 March 2016

D. Income Statement

For the Year Ended 31 December 2015

D. Income Statement for the Year Ended 31 December 2015

	Note	2015 $m	2014 $m
Net operating income	3	**4,562**	4,409
Administrative expenses	4	**(3,797)**	(3,911)
Operating profit		**765**	498
Interest receivable on financing activities		**-**	7
Interest payable on financing activities		**(41)**	(148)
Profit on ordinary activities before taxation		**724**	357
Income tax expense	8	**(139)**	(170)
Profit for the year after tax		**585**	187

E. Statement of Other Comprehensive Income

For the Year Ended 31 December 2015

E. Statement of Other Comprehensive Income for the Year Ended 31 December 2015

	Note	2015 $m	2014 $m
Profit for the year after tax		**585**	187
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes	7	**(21)**	-
Movement of deferred tax relating to pension surplus	20	**4**	-
Other comprehensive income net of tax		**(17)**	-
Total comprehensive income for the year		**568**	187

F. Statement of Financial Position

As at 31 December 2015

F. Statement of Financial Position as at 31 December 2015

	Note	2015 $m	2014 $m
Non current assets			
Pension	7	**484**	-
Investments	9	**113**	205
Current assets			
Long inventory positions	11	**322,403**	464,464
Trade debtors	12	**127,945**	140,242
Other debtors and prepayments	13	**8,228**	9,080
Cash at bank and in hand	14	**2,736**	2,431
		461,312	616,217
Creditors Amounts falling due within one year			
Bank loans and overdraft		**320**	1,475
Short inventory positions	15	**276,289**	430,321
Trade creditors	16	**138,281**	140,504
Other creditors including taxation and social security	19	**4,532**	4,625
Net current assets		**41,890**	39,292
Total assets less current liabilities		**42,487**	39,497
Creditors: Amounts falling due after more than one year	21	**6,757**	7,074
Net assets		**35,730**	32,423
Capital and reserves			
Called up share capital	22	**7,933**	7,933
Share premium account		**4,499**	4,499
Capital contribution reserve	23	**9,193**	6,419
Profit and loss account	23	**14,105**	13,572
Total Equity		**35,730**	32,423

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 23 March 2016:

M. Butler
Director

G. Statement of Changes in Equity

As at 31 December 2015

Bank of America Merrill Lynch

G. Statement of Changes in Equity as at 31 December 2015

Statement of Changes in Equity as at 31 December 2015

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

For further details see note 23.

Statement of Changes in Equity as at 31 December 2014

	Called up share capital $m	Share premium account $m	Capital contribution reserve $m	Profit and loss account $m	Total equity $m
At 1 January 2014	6,735	-	6,419	13,405	26,559
Profit for the year				187	187
Shares issued during the year	1,198	4,499	-	-	5,697
Group share based payment costs not recharged	-	-	-	(20)	(20)
At 31 December 2014	7,933	4,499	6,419	13,572	32,423

The notes on pages 35 to 79 form part of these financial statements.

H. Notes to the Financial Statements

For the Year Ended 31 December 2015

Bank of America Merrill Lynch

H. Notes to the Financial Statements for the Year Ended 31 December 2015

1. Accounting Policies

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

1.1 Basis of preparation of financial statements

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

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

The change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with UK GAAP. Consequently the principal accounting policies are unchanged from the prior year.

Adoption of FRS 101 has resulted in no opening balance adjustments to the statement of financial position and no restatements of the income statement. As a result no additional reconciliation or comparative disclosure has been provided as a result of the first time adoption.

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

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

1.2 New and amended standards adopted by the Company

There are no FRS 101 standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2015 that have had a material impact on the Company.

1.3 Financial Reporting Standard 101 – reduced disclosure exemptions

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

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

1.4 Going concern

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

1.5 Consolidated financial statements

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

1.6 Foreign currencies

The financial statements are presented in US dollars which is the Company's functional currency.

Transactions in foreign currencies are translated into US dollars at the rate ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange ruling at the reporting date. Exchange gains and losses are recognised in the profit and loss account.

1.7 Net operating income

Net operating income includes:

Net principal trading

Principal trading revenue comprises realised and unrealised profits and losses on trading, including dividend income on cash equities. Unrealised profit, which represents changes in fair value of inventories, are recognised within principal trading revenue as they arise.

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

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

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

Service fee income

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

Corporate finance fees

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

Commissions

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

Net interest income

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

Net other income

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

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

1.8 Segmental reporting

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

1.9 Pensions

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

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

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

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

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

1.10 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

At each reporting date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In the event of impairment, the carrying amount of the asset is reduced accordingly and the amount of the loss recognised in the income statement.

A subsidiary is defined as an entity that is controlled by another entity. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Other investments represent investments in unlisted equity instruments for which the fair value is not reliably measurable. As such these investments are also recorded at cost less provision for impairment.

1.11 Financial assets

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

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

a) Financial assets at fair value through profit or loss

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

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

Long inventory positions are classified as held for trading and measured at fair value through profit or loss. Within trade debtors, some resale agreements and securities borrowed transactions are either designated at fair value through profit or loss or held at amortised cost (see note 1.17). All remaining financial assets are classified as loans and receivables.

b) Loans and receivables

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

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

Loans and receivables are classified within Trade debtors.

1.12 Financial liabilities

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

Short inventory positions are classified as held for trading and are measured at fair value through profit or loss. Gains and losses are recognised through the income statement as they arise. Within trade creditors are repurchase agreements and securities loaned transactions which are either designated at fair value through profit or loss or held at amortised cost (see note 1.17). All remaining financial liabilities are carried at amortised cost using the effective interest rate method.

1.13 Recognition of day one profit or loss

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

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

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

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

1.14 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit or loss. Fair values are obtained from quoted market prices in active markets where available. Where derivatives are not quoted in an active market, appropriate valuation techniques are used including recent market transactions, discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial assets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

1.15 Physical commodities

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

1.16 Current and deferred taxation

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

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

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

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

1.17 Securities financing transactions

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

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

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

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

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

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

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

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

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

1.18 Offsetting

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

1.19 Derecognition of financial assets

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

1.20 Trade and settlement dated transactions

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

1.21 Share based payments

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

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

2. Critical Accounting Estimates and Judgements

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

2.1 Critical accounting estimates and assumptions

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

a) Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees and former employees of the BAC group. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management utilises the valuation provided by actuaries and estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 7 for further information concerning the defined benefit pension scheme.

b) Deferred tax

The Company has recognised a deferred tax asset in its financial statements which requires judgement for determining the extent of its recoverability at each reporting date. The Company assesses recoverability with reference to Board approved forecasts of future taxable profits. These forecasts require the use of assumptions and estimates. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. See note 20 for further information concerning deferred tax.

c) Valuation of financial instruments

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

The Company's policy for valuation of financial instruments is included in note 28. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs.

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

3. Net Operating Income

	2015 $m	2014 $m
Net principal trading	**2,636**	2,257
Losses from financial instruments designated at fair value through profit or loss	**(65)**	(41)
Service fee income	**292**	319
Corporate finance fees	**579**	823
Commissions	**767**	737
Net interest income	**295**	253
Net other income	**58**	61
	4,562	4,409

Net interest income relating to trading activities comprises:

	2015 $m	2014 $m
Interest income		
Due from affiliated companies	**72**	52
Bank deposits, long inventory positions and resale agreements	**1,607**	1,753
	1,679	1,805
Interest expense		
Due to affiliated companies	**(217)**	(176)
Loans, bank overdrafts, short inventory positions and repurchase agreements	**(1,167)**	(1,376)
	(1,384)	(1,552)
Net interest income	**295**	253

4. Operating Profit

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

	2015 $m	2014 $m
Staff costs (see note 5)	**1,176**	1,371
Equipment rental and occupancy charges	**43**	46
Service fee expense	**1,743**	1,669
Foreign exchange gain	**(129)**	(52)
Impairment of investments (see note 9)	**63**	-
Other operating expenses	**901**	877
	3,797	3,911

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

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

	2015 $m	2014 $m
Fees payable to the Company's auditors for the audit of the Company's financial statements	**3.2**	3.1
Fees payable to the Company's auditors for Audit related Assurance services	**0.8**	1.0
	4.0	4.1

5. Staff Costs

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

	2015 $m	2014 $m
Wages and salaries	**1,035**	1,131
Social security costs	**102**	191
Other pension costs	**39**	49
	1,176	1,371

Included within wages and salaries are charges relating to share-based compensation plans, see note 29 for further details.

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

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

	2015 No.	2014 No.
Trading, sales and advisory	**1,212**	1,456
Support, operations and technology	**577**	629
	1,789	2,085

6. Directors' Remuneration

Of the directors that served during the year, 10 (2014: 10) directors were remunerated by the Company and the amounts included are those relating to their services as directors for the Company on a time allocation basis. Emoluments in relation to services performed for other group companies are not disclosed in the Company's financial statements.

Remuneration paid to directors of the Company was:

	2015 $	2014 $
Emoluments	**15,667,546**	16,558,589
Contributions to defined contribution pension schemes	**30,807**	31,963

	2015 No.	2014 No.
Number of directors who:		
Exercised share options	**-**	-
By whom shares are receivable or have been received under long term incentive schemes	**6**	5
Were members of a defined benefit pension scheme	**2**	2
Were members of a defined contribution pension scheme	**6**	6

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

	2015 $	2014 $
Emoluments	**7,527,415**	8,863,389
Contributions to defined contribution pension schemes	**9,455**	13,597

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

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

7. Pension Costs

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

Defined Benefit Scheme

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

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

On 21 December 2015, the Company became the sponsoring entity to the Plan. Prior to 21 December 2015 MLUKH, an affiliated company, was the sponsoring entity. As a result, from 21 December 2015 the Company has recognised the present value of the defined benefit obligation, the fair value of the plan assets, and the associated costs of the Plan.

As the net pension asset was transferred to the Company on 21 December 2015, any comparative amounts shown below are for information purposes only and relate to when the asset was held by an affiliated company.

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

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

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

About 9% of the liabilities are attributable to current employees, 5% to BlackRock members, 63% to former employees and 23% to current pensioners.

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

The significant actuarial assumptions were as follows:

	2015	2014
Discount rate	**3.95%**	3.85%
RPI inflation	**3.25%**	3.25%
CPI inflation	**2.25%**	2.25%
Salary growth rate	**5.25%**	5.25%
Pension growth rate – subject to a 5% cap in any year	**3.25%**	3.00%
Pension growth rate – subject to a 3% cap in any year	**2.00%**	2.00%
Pension growth rate – fixed at 3%	**3.00%**	3.00%
Average life expectancy:		
Life expectancy for male aged 62	**26.8**	26.9
Life expectancy for female aged 62	**29.0**	28.6
Life expectancy at 62 for male currently aged 42	**28.6**	28.7
Life expectancy at 62 for female currently aged 42	**30.9**	30.5

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

The plan assets are invested in the following asset classes:

	2015 $m	2014 $m
Return seeking funds	**640**	672
Bond funds	**1,109**	1,054
Interest rate swaps	**363**	503
Total plan assets	**2,112**	2,229

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

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

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

	Defined benefit obligation $m	Estimated 2016 service cost $m
Current figures as at 31 December 2015	**1,628**	**6.9**
Following a 1.0% decrease in the discount rate		
Change	**390**	**3.1**
New value	**2,018**	**10.0**
Following a 1.0% increase in the inflation assumption		
Change	**241**	**2.4**
New value	**1,869**	**9.3**
Following an increase in life expectancy of one year		
Change	**50**	**0.1**
New value	**1,678**	**7.0**

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

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

History of asset values, defined benefit obligation and surplus:

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

As noted previously, the defined benefit pension asset was transferred into the Company in the current year and therefore comparatives are for information purposes only as the pension surplus was not an asset of the Company at that time.

The latest formal triennial actuarial valuation of the final salary section of the Plan was carried out as at 31 December 2012. That assessment showed that the Plan had a deficit (or shortfall) of £119 million relative to the technical provisions (i.e. the level of assets agreed by the Trustee and the employing companies as being appropriate to meet member benefits, assuming the Plan continues as a going concern). The method and assumptions used to calculate the technical provisions were discussed and agreed by the Trustee and the employing companies.

Following discussions and on the basis of actuarial advice, it was agreed that to fund the Plan the employing companies would pay the following additional contributions:

- £10 million paid in March 2015
- £10 million to be paid by 31 March 2016

In addition to the contributions above, the employing companies will meet the following:

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

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

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

The next formal triennial actuarial valuation is due to take place as at 31 December 2015. This is expected to be completed mid 2016.

The Company's share of defined benefit pension plan costs relating to schemes other than the above which are held by affiliated entities amounted to $6 million.

Defined contribution schemes

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

The Company's pension cost for the year in respect of defined contribution schemes was $33 million (2014: $33 million).

8. Taxation

	2015 $m	2014 $m
UK corporation tax		
UK corporation tax on profit for the year	**(30)**	-
Adjustments in respect of previous periods	**23**	3
Double taxation relief	**25**	-
	18	3
Foreign tax		
Foreign tax on income for the year	**(44)**	(48)
Total current tax	**(26)**	(45)
Deferred tax (see note 20)		
Origination and reversal of temporary differences	**(110)**	(134)
Impact of change in tax rates	**36**	9
Impact of temporary differences recognised on asset transferred from an affiliated entity	**(39)**	-
Total deferred tax	**(113)**	(125)
Income tax expense	**(139)**	(170)

Amounts recognised in other comprehensive income for the year amounted to $4 million (2014: $nil).

Factors affecting tax charge for the year:

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

	2015 $m	2014 $m
Profit on ordinary activities before tax	**724**	357
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	**147**	77
Effects of:		
Non taxable income	**-**	(2)
Expenses not deductible for tax purposes	**25**	2
Movement of previously unrecognised tax losses	**226**	63
Movement of previously unrecognised temporary differences	**(254)**	4
Impact of foreign taxes	**15**	38
Re-measurement of deferred tax – change in the UK tax rate	**(36)**	(9)
Impact of temporary differences recognised on asset transferred from an affiliated entity	**39**	-
Adjustments to tax charge in respect of previous periods	**(23)**	(3)
Total tax charge for the year	**139**	170

Factors that may affect future tax charges

Factors that affect future tax charges are disclosed in note 20.

9. Investments

	Investments in subsidiary companies $m	Other investments $m	Total $m
At 1 January 2015	165	40	205
Additions	24	10	34
Disposals	(63)	-	(63)
Impairment	(63)	-	(63)
At 31 December 2015	63	50	113

Subsidiary undertakings

The following are subsidiary undertakings of the Company:

Merrill Lynch, Pierce, Fenner & Smith Limited ("MLPF&S")

The Company has an investment of $14 million (2014: $14 million). This represents 100% of the issued ordinary share capital of MLPF&S which is incorporated in the UK. MLPF&S is engaged in intercompany funding.

Fundo de Investimento Financeiro Multimercado Iceberg ("Iceberg")

The Company has an investment of $49 million (2014: $151 million). This represents 100% of the quotas of Iceberg which is an investment fund in Brazil. Iceberg operates as a multi-market fund trading in Government bonds, futures and Bovespa index flexible options.

During the year the Company contributed and withdrew capital in line with the capital requirements of the fund.

The Company recognised an impairment of $63 million on the Iceberg investment due to the systematic weakening of Brazilian Real. This has reduced the Company's investment balance to the expected recoverable amount of the investment.

Bank of America Merrill Lynch UK Pension Plan Trustees Limited

During the year the Company acquired an investment from an affiliated company. The investment of $147 represents 100% of the issued ordinary share capital of Bank of America Merrill Lynch UK Pension Plan Trustees Limited, which acts as a trustee of the Bank of America Merrill Lynch UK Pension Plan and the Merrill Lynch (UK) Defined Contribution Plan and is incorporated in the UK.

Other investments

Other investments consist of unlisted equity securities and exchange seats.

During the year the Company received $10 million of other investments from an affiliated company as a capital contribution.

10. Analysis of Financial Assets and Liabilities by Measurement Basis

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

	Designated at fair value through profit and loss $m	Held for trading $m	Loans and receivables $m	Other financial assets / liabilities $m	Total carrying amount $m	Fair value $m
31 December 2015						
Pension	-	-	-	484	484	484
Investments	-	-	-	113	113	113
Long inventory positions	-	322,403	-	-	322,403	322,403
Trade debtors	31,698	-	137	96,110	127,945	127,945
Other debtors and prepayments	-	-	-	8,228	8,228	8,228
Cash at bank and in hand	-	-	-	2,736	2,736	2,736
Financial Assets	31,698	322,403	137	107,671	461,909	461,909
Bank loans and overdrafts	-	-	-	320	320	320
Short inventory positions	-	276,289	-	-	276,289	276,289
Trade creditors	26,991	-	-	111,290	138,281	138,281
Other creditors including taxation and social security	-	-	-	4,532	4,532	4,532
Creditors: amounts falling due after more than one year	-	-	-	6,757	6,757	6,757
Financial Liabilities	26,991	276,289	-	122,899	426,179	426,179

	Designated at fair value through profit and loss $m	Held for trading $m	Loans and receivables $m	Other financial assets / liabilities $m	Total carrying amount $m	Fair value $m
31 December 2014						
Investments	-	-	-	205	205	205
Long inventory positions	-	464,464	-	-	464,464	464,464
Trade debtors	41,185	-	881	98,176	140,242	140,242
Other debtors and prepayments	-	-	-	9,080	9,080	9,080
Cash at bank and in hand	-	-	-	2,431	2,431	2,431
Financial Assets	41,185	464,464	881	109,892	616,422	616,422
Bank loans and overdrafts	-	-	-	1,475	1,475	1,475
Short inventory positions	-	430,321	-	-	430,321	430,321
Trade creditors	35,527	-	-	104,977	140,504	140,504
Other creditors including taxation and social security	-	-	-	4,625	4,625	4,625
Creditors: amounts falling due after more than one year	-	-	-	7,074	7,074	7,074
Financial Liabilities	35,527	430,321	-	118,151	583,999	583,999

11. Long Inventory Positions

	2015 $m	2014 $m
Derivative assets	**262,001**	399,672
Equities and convertible debentures	**37,340**	29,934
Corporate debt and preferred stock	**6,440**	9,891
Mortgages, mortgage-backed and asset-backed securities	**2,183**	3,453
Non-US governments and agencies	**14,420**	21,510
US government and agencies	**-**	4
Commodities	**19**	-
	322,403	464,464

Balances with affiliated companies within long inventory positions were $81,725 million (2014: $184,939 million).

Day one profit / (loss)

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

	2015 $m	2014 $m
At 1 January 2015	**140**	192
Day one profit on new trades not recognised in the income statement	**28**	55
Settlements / disposals	**(16)**	(104)
Released due to subsequent observability of inputs	**(15)**	(3)
At 31 December 2015	**137**	140

12. Trade Debtors

	2015 $m	2014 $m
Customer receivables	**16,835**	21,412
Amounts owed by affiliated companies	**18,233**	24,716
Brokers, dealers and clearing houses	**2,974**	3,542
Resale agreements and securities borrowed transactions	**89,221**	89,922
Other trade debtors	**682**	650
	127,945	140,242

Balances with affiliated companies within resale agreements and securities borrowed transactions were $35,452 million (2014: $33,753 million).

Within resale agreements and securities borrowed transactions, $31,650 million (2014: $41,185 million) and within customer receivables, $48 million (2014: $nil) were designated at fair value through profit and loss (see note 10).

All other trade debtors are measured at amortised cost which, given their short term nature, approximates their fair value.

13. Other Debtors and Prepayments

	2015 $m	2014 $m
Amounts falling due within one year:		
Amounts owed by affiliated companies	**2,505**	2,281
Other debtors and prepayments	**280**	882
Deferred tax asset (see note 20)	**75**	142
	2,860	3,305
Amounts falling due after more than one year:		
Deferred tax asset (see note 20)	**150**	283
Amounts owed by affiliated companies	**5,218**	5,492
	5,368	5,775

On 18 November 2014 the Company entered into an agreement with an affiliated company to lend $5,492 million over a 20 year term. The Company will be repaid at an amount of $275 million per year.

14. Cash at Bank and in Hand

As at 31 December 2015, the Company held client money under FCA's CASS Chapter 7 of $2,658 million (31 December 2014: $2,525 million). The directors believe that the Company has neither access to significant benefits from the asset nor sufficient control to meet the required definition of assets and therefore these amounts are accordingly not recognised on the Company's statement of financial position.

15. Short Inventory Positions

	2015 $m	2014 $m
Derivative liabilities	**248,117**	395,289
Corporate debt and preferred stock	**9,093**	10,342
Equities and convertible debentures	**12,119**	15,840
Non-US governments and agencies	**5,889**	8,846
US government and agencies	**389**	4
Commodities	**682**	-
	276,289	430,321

Balances with affiliated companies within short inventory positions were $89,004 million (2014: $190,584 million).

16. Trade Creditors

	2015 $m	2014 $m
Customer payables	**36,112**	32,700
Amounts owed to affiliates	**7,977**	11,851
Brokers, dealers and clearing houses	**4,049**	5,927
Resale agreements and securities loaned transactions	**84,597**	84,529
Other trade creditors	**5,546**	5,497
	138,281	140,504

Balances with affiliated companies within repurchase agreements and securities loaned transactions were $29,163 million (2014: $21,413 million).

Within repurchase agreements and securities loaned transactions, $26,991 million (2014: $35,527 million) were designated at fair value through profit and loss (see note 10).

All other trade creditors are measured at amortised cost which, given their short term nature, approximates their fair value.

17. Security and Collateral Obtained

At 31 December 2015 the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was $206,921 million (2014: $215,159 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was $174,038 million (2014: $170,262 million). The collateral obtained is composed of cash and various securities positions such as government and agency securities, Eurobonds, and equities. The Company is obliged to return cash or equivalent securities as appropriate.

18. Security and Collateral Pledges

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

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

	2015 $m	2014 $m
Short inventory positions	**28,706**	35,976
Resale agreements and securities loaned transactions	**84,088**	84,135
	112,794	120,111

19. Other Creditors Including Taxation and Social Security

	2015 $m	2014 $m
Amounts falling due within one year:		
Amounts owed to affiliated companies	**3,835**	3,689
Other creditors and accruals	**697**	936
	4,532	4,625

Included within other creditors and accruals is $33 million (2014: $77 million) relating to taxation and social security.

20. Deferred Tax

	2015 $m	2014 $m
Unused tax losses	**137**	425
Other temporary differences	**214**	-
Temporary differences in relation to the defined benefit pension	**(126)**	-
	225	425
Provision at start of year	**425**	550
Liability recognised in respect of asset transferred from an affiliated entity	**(130)**	-
Tax relating to components of other comprehensive income	**4**	-
Deferred tax charged to the income statement	**(110)**	(134)
Re-measurement of deferred tax – change in the UK tax rate	**36**	9
Provision at end of year	**225**	425

The deferred tax asset is recognised on the basis of estimated future taxable profits over the Company's planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset at 31 December 2015 of $225 million (2014: $425 million).

During 2015, the relevant deferred tax balances were re-measured as a result of the changes in the UK main corporation tax rate which were substantively enacted on 26 October 2015, to 19% from 1 April 2017 and to 18% from 1 April 2020; and the imposition of an 8% surcharge on banking profits with effect from 1 January 2016. The re-measurement resulted in a net increase in the recognised deferred tax asset of $36 million (2014: increase of $9 million).

The Company has unrecognised deferred tax assets totalling $6,993 million (2014: $7,256 million), primarily in relation to losses. The re-measurement as a result of changes in the UK corporation tax rate, has resulted in a net reduction of the unrecognised deferred tax asset of $265 million (2014: $5 million).

On 16th March 2016 the UK Government announced proposals to further restrict the ability to offset brought forward losses against taxable profits alongside a further reduction in the corporation tax rate to 17% from 1 April 2020. If this is enacted as proposed the impact would be that brought forward tax losses will take longer to recover which could impact future carrying amount of the deferred tax asset.

21. Creditors: Amounts falling due after more than one year

	2015 $m	2014 $m
Subordinated loans from affiliated entities	**1,539**	1,582
Amounts owed to affiliated companies	**5,218**	5,492
	6,757	7,074

Included within the above are amounts falling due as follows:

	2015 $m	2014 $m
Between two and five years		
Subordinated loans from affiliated entities	**1,539**	1,582
Over five years		
Amounts owed to affiliated companies	**5,218**	5,492

As at 31 December 2015 creditors due after more than 1 year comprised of:

	Drawdown 2015 $m	Drawdown 2014 $m
Between two and five years		
US Dollar denominated loan notes maturing in 2018 and bearing interest at 1 month USD LIBOR plus 328 basis points	**1**	1
US Dollar denominated loan notes maturing in 2019 and bearing interest at 1 month USD LIBOR plus 187 basis points	**1**	1
Sterling denominated loan notes maturing in 2019 and bearing interest at 3 month GBP LIBOR plus 213 basis points	**737**	780
US Dollar denominated loan notes maturing in 2019 and bearing interest at 3 month USD LIBOR plus 221 basis points	**800**	800
	1,539	1,582
After five years		
US Dollar denominated loan notes maturing in 2034 and bearing interest at 3 month USD LIBOR plus 144 basis points	**5,218**	5,492
	5,218	5,492

As at 31 December 2015 the Company had undrawn facilities of:

	2015 $m	2014 $m
Sterling denominated loan notes maturing in 2019 and bearing interest at 3 month GBP LIBOR plus 213 basis points	**516**	546
	516	546

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

22. Called Up Share Capital

	2015 $m	2014 $m
Allotted, called up and fully paid		
7,933,027,945 (2014: 7,933,027,945) Ordinary shares of $1 each	**7,933**	7,933

23. Reserves

Profit and loss account

The difference between equity-settled share scheme awards costs, as calculated in accordance with IFRS 2 Share Based Payments, and the amounts recharged for such awards by BAC is $35 million (2014: $20 million) and is included within profit and loss account.

Capital contribution reserve

	$m
During the year the Company received the following capital contributions:	
From its immediate parent MLUKCH	**2,080**
From MLUKH relating to the transfer of the defined benefit pension plan (see note 7)	**419**
From Merrill Lynch Europe relating to a waiver of intercompany recharges	**265**
From MLUKCH relating to the transfer of investments (see note 9)	**10**
	2,774

24. Commitments and Contingent Liabilities

As part of an industry-wide investigation, public prosecutors in Italy are currently investigating derivative transactions which Merrill Lynch executed with Italian public sector entities. In addition, Merrill Lynch is involved in civil and administrative proceedings in which damages are or may be sought against it for allegedly misselling derivatives to public sector entities. No reliable estimate can be made as to any financial effect.

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

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

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

	2015 $m	2014 $m
Financial guarantees	**677**	56
	677	56

25. Offsetting

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the SOFP, as at 31 December 2015 and 31 December 2014. The column 'net amount' shows the impact on the Company's statement of financial position if all set-off rights were exercised.

As at 31 December 2015

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

As at 31 December 2014

	Gross amounts of recognised financial assets $m	Gross amounts offset in the SOFP $m	Net amount of financial assets presented in the SOFP $m	Financial instruments $m	Cash collateral $m	Net amount $m
Assets						
Derivatives	562,364	(162,692)	399,672	(361,070)	(26,346)	12,256
Reverse repurchase, securities borrowing and similar agreements	135,238	(45,316)	89,922	(89,109)	(27)	786
Liabilities						
Derivatives	557,040	(161,751)	395,289	(361,322)	(21,363)	12,604
Repurchase, securities borrowing and similar agreements	129,845	(45,316)	84,529	(84,108)	(27)	394

Financial instruments

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

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

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

Cash collateral

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

26. Risk Management

Legal Entity Governance

The Company ensures suitable risk management and controls through the MLI Board Risk Committee ("MLI BRC") a sub-committee of the MLI Board of Directors and the MLI Risk Management Committee ("RMC").

The MLI BRC assists the Board in fulfilling its oversight responsibility relating to senior management's responsibilities regarding the identification of, management of, and planning for market risk, credit risk, liquidity risk, operational risk and reputational risk.

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

In addition, the MLI Board has an Audit Committee to assist the Board in fulfilling its oversight responsibilities relating to audit and compliance for the Company.

The MLI Board has a Governance Committee to assist the Board in fulfilling its oversight of compliance with remuneration policies and regulatory requirements and to nominate, for the Board's approval, candidates to fill Board vacancies. The Governance Committee acts as the nomination committee and the remuneration committee of the Board.

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries (including MLI). The Risk Framework applies to all the employees. It provides an understanding of MLI's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of MLI's risk management approach:

- Risk Culture;
- Risk Appetite;
- Risk Management Processes;
- Risk Data Aggregation and Reporting; and
- Risk Governance.

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

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

Market Risk

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

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

VaR is a common statistic used to measure market risk as it allows the aggregation of market risk factors, by including the effects of portfolio diversification. VaR represents the expected loss for a given portfolio, probability and time horizon and produces a value such that there is a set probability that the mark to market ("MTM") loss on the portfolio over the given time horizon does not exceed this value.

The Company uses the historical simulation approach based on a three year window of historical data. The Company's primary VaR statistic is equivalent to a 99% confidence level with a one day holding period.

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

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

The table that follows presents the Company's average and year-end VaR for 2015 and 2014. Additionally, high and low VaR is presented independently for each risk category and overall.

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

	Year end 2014 $000s	High 2014 $000s	Daily average 2014 $000s	Low 2014 $000s
99% Daily VaR				
Total	36,010	52,479	27,190	15,740
Interest rate risk	17,467	24,172	13,454	6,001
Currency risk	15,416	22,214	11,177	1,932
Equity price risk	23,857	34,435	17,283	10,045
Credit spread risk	21,653	35,635	26,710	16,782
Commodity price risk	1,171	4,679	1,847	497

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

Credit Risk

The Company defines credit risk as the loss arising from the inability or failure of a borrower or counterparty to meet its obligations. The Company defines credit exposure to a borrower or counterparty as the loss potential arising from loans, leases, derivatives and other extensions of credit.

Credit risk to a borrower or counterparty is managed based on their risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected impacts of the current and forward-looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

These processes create a comprehensive and consolidated view of companywide credit risks, thus providing executive management with the information required to guide or redirect front line unit and certain legal entity strategic plans, if necessary.

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

Derivatives Trading

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

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

Securities Activities

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

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

	Maximum exposure to credit risk 2015 $m	Mitigated credit risk 2015 $m	Maximum exposure to credit risk 2014 $m	Mitigated credit risk 2014 $m
Investments	**113**	**-**	205	-
Derivatives	**262,001**	**248,585**	399,672	387,870
Convertible debentures	**798**	**-**	1,051	-
Corporate debt and preferred stock	**6,440**	**3,550**	9,891	1,828
Mortgages, mortgage-backed and asset-backed securities	**2,183**	**1,101**	3,453	1,478
Non-US governments and agencies	**14,420**	**9,585**	21,510	13,475
US government and agencies	**-**	**-**	4	-
Commodities	**19**	**-**	-	-
Undrawn portion of irrevocable loan commitments	**17**	**-**	213	-
Trade Debtors	**127,945**	**120,113**	140,242	131,178
Other Debtors	**8,228**	**-**	9,080	-
Cash at bank	**2,736**	**-**	2,431	-
	424,900	**382,934**	587,752	535,829

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

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

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

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

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

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

	AAA to AA- $m	A+ to BBB- $m	BB+ and lower $m	Not rated $m	Total $m
2015					
Derivatives	**5,867**	**247,819**	**8,044**	**271**	**262,001**
Convertible debentures	**18**	**177**	**106**	**497**	**798**
Corporate debt and preferred stock	**818**	**2,691**	**803**	**2,128**	**6,440**
Mortgages, mortgage-backed and asset-backed securities	**1,285**	**283**	**452**	**163**	**2,183**
Non-US governments and agency securities	**3,611**	**7,383**	**1,821**	**1,605**	**14,420**
Commodities	**-**	**13**	**6**	**-**	**19**
	11,599	**258,366**	**11,232**	**4,664**	**285,861**

	AAA to AA- $m	A to BBB- $m	BB+ and lower $m	Not rated $m	Total $m
2014					
Derivatives	2,597	386,055	10,998	22	399,672
Convertible debentures	13	169	129	740	1,051
Corporate debt and preferred stock	2,562	3,003	1,379	2,947	9,891
Mortgages, mortgage-backed and asset-backed securities	2,172	527	455	299	3,453
Non-US governments and agency securities	12,874	4,929	253	3,454	21,510
US governments and agency securities	4	-	-	-	4
	20,222	394,683	13,214	7,462	435,581

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

	0-30 days $m	31-60 days $m	61-90 days $m	91-120 days $m	120 days+ $m	Total $m
2015						
Trade debtors	-	25	-	-	127	152

	0-30 days $m	31-60 days $m	61-90 days $m	91-120 days $m	120 days+ $m	Total $m
2014						
Trade debtors	3,232	25	-	2	7	3,266

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

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

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

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

Liquidity Risk

Liquidity risk is the potential inability to meet contractual and contingent financial obligations, both on or off-balance sheet, as they fall due. The primary objective of liquidity risk management is to ensure the Company can meet expected and unexpected cash flow and collateral needs while continuing to support its businesses and customers with the appropriate funding sources, under a range of economic conditions.

The MLI Board is ultimately responsible for the Company’s liquidity risk management, delegating additional oversight to the MLI BRC and MLI RMC. The Businesses are the first lines of defence in liquidity risk management, partnering with Global Liquidity Risk Management (“GLRM”) and Global Funding, functions within Corporate Treasury, to achieve liquidity risk management objectives. GLRM and Global Funding are responsible for carrying out the day-to-day monitoring and management of MLI liquidity risk and resources, providing timely information to the MLI RMC, MLI BRC, and MLI Board. CFO Risk serve as the second line of defence, providing independent risk management, and Audit serves as the third line of defence. Compliance, another second line of defence, provides independent monitoring and testing of compliance with laws, regulations, and internal Company standards that impact liquidity risk management.

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

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

The Company is subject to the following regulatory liquidity requirements:

- Liquidity Coverage Ratio ("LCR") requires the Company to hold a sufficient buffer of eligible High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first month of a liquidity stress event ("LCR Pillar 1") and a series of prescribed add-ons specific to the Company ("LCR Pillar 2").

Effective from 1 October 2015, the Company is required to comply with a minimum 80% LCR Pillar 1, rising to 100% by 1 January 2018.

- Voluntary Variation of Permission ("VVOP") effectively requires the Company to hold in aggregate $9.8 billion of excess liquidity and unencumbered trading assets.

Effective from 28 May 2015, the PRA increased the Company's VVOP requirement from $9 billion to $9.8 billion, corresponding to the FCA's $0.8 billion reduction in the VVOP requirement applied to Merrill Lynch Commodities Europe ("MLCE").

As legislated by CRR/CRD IV, from 1 January 2018 the Company is expected to comply with the Net Stable Funding Ratio ("NSFR") requiring the Company to maintain sufficient levels of stable funding to support the liquidity profile of its assets. The NSFR remains subject to further consultation in Europe following the publication of the Basel committee's final standard on 31 October 2014. The Basel standard continues to work toward minimum 100% NSFR compliance from 1 January 2018.

As of 31 December 2015, the Company was in excess of both internal and regulatory liquidity requirements.

The tables below analyse the contractual maturity of the Company's liabilities as at 31 December 2015 and 31 December 2014.

	On demand or within 1 year $m	Due between 1 and 5 years $m	Due after 5 years $m
At 31 December 2015			
Derivatives	**248,117**	-	-
Corporate debt and preferred stock	**9,093**	-	-
Equities and convertible debentures	**12,119**	-	-
Non-US governments and agency securities	**5,889**	-	-
US government and agency securities	**389**	-	-
Commodities	**682**	-	-
Customer payables	**36,112**	-	-
Brokers, dealers and clearing houses	**4,049**	-	-
Repurchase agreements and securities loaned transactions	**84,597**	-	-
Other trade creditors	**5,546**	-	-
Amounts owed to affiliated companies	**11,812**	-	**5,218**
Other creditors and accruals	**697**	-	-
Bank loans and overdrafts	**320**	-	-
Subordinated debt	-	**1,539**	-
	419,422	**1,539**	**5,218**

	On demand or within 1 year $m	Due between 1 and 5 years $m	Due after 5 years $m
At 31 December 2014			
Derivatives	395,289	-	-
Corporate debt and preferred stock	10,342	-	-
Equities and convertible debentures	15,840	-	-
Non-US governments and agency securities	8,846	-	-
US government and agency securities	4	-	-
Customer payables	32,700	-	-
Brokers, dealers and clearing houses	5,927	-	-
Repurchase agreements and securities loaned transactions	84,529	-	-
Other trade creditors	5,497	-	-
Amounts owed to affiliated companies	15,540	-	5,492
Other creditors and accruals	936	-	-
Bank loans and overdrafts	1,475	-	-
Subordinated debt		1,582	-
	576,925	1,582	5,492

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

Reputational Risk

Reputational risk is the potential that negative perceptions of BAC’s conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer/client relationships.

BAC manages reputational risk through established policies and controls in the business and risk management processes to mitigate reputational risks in a timely manner and through proactive monitoring and identification of potential reputational risk events. Ultimately, to ensure that Reputational Risk is mitigated through regular business activity, awareness of Reputational Risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees. Given the nature of Reputational Risk, BAC does not set quantitative limits for the level of acceptable risk. Through proactive risk management, BAC seeks to minimise both the frequency and impact of reputational events.

At the enterprise level, Reputational Risk is reviewed by the Enterprise Risk Committee and the Management Risk Committee, which provide primary oversight of Reputational Risk. Additionally, the Global Risk Management Leadership team and the BAC Board review the top reputational risks as part of the Summary Risk Report process. Each front line unit and control function has a committee whose charter includes oversight of reputational risk. That oversight includes providing approval for business activities that present elevated levels of reputational risks.

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee (“RRC”), whose charter includes consideration of Reputational Risk issues and to provide guidance and approvals for activities that present Reputational Risks which are not addressed by other current control frameworks. The EMEA RRC provides updates to the MLI BRC on a quarterly basis.

Strategic Risk

Strategic risk is the risk resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments (such as competitor actions, changing customer preferences, product obsolescence and technology developments). Strategic risk is managed through the following approaches: (1) The strategic planning process specifically addresses many forms of strategic risk. The BAC boards of directors review and approve the strategic plans after considering strategic risks in addition to other types of risk. (2) The strategic plans are consistent with risk appetite and specifically address strategic risks. (3) The executive management team continuously monitors business performance throughout the year to assess strategic risk and find early warning signals so that risks can be proactively managed.

The strategic plan is reviewed and approved annually by the BAC Board alongside the capital plan, financial operating plan and risk appetite. Significant strategic actions, such as capital actions, material acquisitions or divestitures, and recovery and resolution plans are reviewed and approved by the BAC Board as required. Routines exist to discuss the Strategic Risk implications of new business and product entries and other strategic initiatives, and to provide approvals where appropriate. Control Functions provide key input, oversight and challenge to front line unit and regional level strategic assessments.

Front line units present tracking updates to executive management on their business performance. Updates take into account analyses of performance relative to the financial operating plan and risk appetite and performance relative to peers. Topical presentations are made to address any developments or considerations as it relates to strategic planning.

Compliance Risk

Compliance Risk is the risk of legal or regulatory sanctions arising from the failure of BAC and its enterprise subsidiaries (which includes the Company) to comply with requirements of banking and financial services laws, rules and regulations.

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

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

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

Capital Management

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

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

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

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

At 31 December 2015, the Company's regulatory capital resources were $35,082 million (2014: $32,489 million).

Basel III Pillar 3 Disclosures

CRR/CRD IV came into effect on 1st January 2014 implementing the Basel III framework in the European Union. The Pillar 3 disclosures, required under part eight of CRR, can be obtained via http://investor.bankofamerica.com. The 2015 disclosure will be published in conjunction with the publication of these financial statements.

Country by Country Reporting

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

27. Transfers of Financial Assets

The Company enters into transactions in the normal course of business in which it transfers financial assets to third parties and to Special Purpose Vehicles ("SPVs"). These transactions may result in the financial assets either continuing to be recognised or being derecognised. Refer to note 1.19 for the accounting policy that governs derecognition of financial assets.

a) Transferred financial assets that continue to be recognised

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

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

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

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m
2015		
Repurchase agreements	**15,345**	**(13,946)**
Securities financing transactions	**21,017**	**(4,432)**
Derivatives	**639**	**(634)**

	Carrying amount of transferred financial assets $m	Carrying amount of associated financial liabilities $m
2014		
Repurchase agreements	21,866	(20,645)
Securities financing transactions	13,578	(4,476)
Derivatives	794	(774)

For the Company's repurchase agreements and securities financing transactions the counterparties' recourse is not limited to the transferred assets, however recourse is limited to the transferred assets in a number of the derivative transactions. The fair value of the transferred assets and associated liabilities for these derivatives is $639 million (2014: $794 million) and $634 million (2014: $774 million) respectively.

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

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

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

	Carrying amount of continuing involvement		Fair value of continuing involvement		Maximum exposure to loss $m
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	
2015					
Trading inventory	**209**	**(66)**	**209**	**(66)**	**375**
Other debtors and prepayments	**10**	**-**	**10**	**-**	**10**

	Carrying amount of continuing involvement		Fair value of continuing involvement		Maximum exposure to loss $m
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	
2014					
Trading inventory	178	(54)	178	(59)	332
Other debtors and prepayments	21	-	21	-	21

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

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

	Gain or loss recognised at date of transfer $m	Income/(expense) recognised in the year $m	Cumulative income/(expense) $m
2015			
Trading inventory	**-**	**49**	**(421)**
Other debtors and prepayments	**-**	**10**	**120**

	Gain or loss recognised at date of transfer $m	Income/(expense) recognised in the year $m	Cumulative income/(expense) $m
2014			
Trading inventory	-	21	(470)
Other debtors and prepayments	-	16	110

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

	1-5 years $m	More than 5 years $m
2015		
Trading inventory	**138**	**91**

	1-5 years $m	More than 5 years $m
2014		
Trading inventory	168	126

28. Fair Value Disclosures

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

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

Resale and repurchase and securities borrowed and loaned agreements

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

Long inventory positions and short inventory positions

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

Derivative assets and liabilities

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

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

The tables below present the carrying value of financial instruments held at fair value across the three levels of the fair value hierarchy at 31 December 2015 and 31 December 2014.

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

There have been no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2015 and 2014.

	31 December 2014 – Recurring Fair Value Measurement			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				
Resale agreements and securities borrowed transactions	-	41,185	-	41,185
Derivative assets	1,942	394,209	3,521	399,672
Equities and convertible debentures	17,947	11,805	182	29,934
Corporate debt and preferred stock	544	8,742	605	9,891
Mortgages, mortgage-backed and asset-backed securities	-	2,907	546	3,453
Non-US governments and agency securities	17,124	4,386	-	21,510
US governments and agency securities	4	-	-	4
Total assets	37,561	463,234	4,854	505,649
Liabilities				
Repurchase agreements and securities loaned transactions	-	35,527	-	35,527
Derivative liabilities	1,687	389,460	4,142	395,289
Corporate debt and preferred stock	318	9,025	999	10,342
Equities and convertible debentures	10,581	5,259	-	15,840
Non-US governments and agency securities	6,420	2,426	-	8,846
US governments and agency securities	4	-	-	4
Total liabilities	19,010	441,697	5,141	465,848

Fair Values of Level 3 Assets

The Level 3 financial instruments include corporate loans, bonds, derivatives and unlisted equity investments for which there are few transactions and there is little or no observable market data to corroborate inputs to valuation models.

The tables below present a reconciliation of the opening and closing balances for all Level 3 assets measured at fair value at 31 December 2015 and 31 December 2014. Level 3 assets as of 31 December 2015 totalled 3,554 million (2014: $4,854 million) and represented approximately 1 percent (2014: 1 percent) of both total assets and assets measured at fair value. Level 3 liabilities as of 31 December 2015 totalled $3,804 million (2014: $5,141 million) and represented approximately 1 percent (2014: 1 percent) of both total liabilities and liabilities measured at fair value.

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

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

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

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

	Corporate debt and preferred stock $m	Equities and convertible debentures $m	Non-US governments and agency securities $m	Derivatives assets $m	Mortgages, mortgage-backed and asset-backed securities $m
Long Inventory					
At 1 January 2014	640	820	2	3,245	4,532
Total gains/(losses) recognised within principal trading income	6	(2)	-	119	(43)
Purchases	200	3	-	435	389
Sales	(119)	(621)	(1)	19	(2,420)
Settlements	(136)	-	-	(552)	(365)
Transfers out	(201)	(73)	(1)	(1,105)	(2,502)
Transfers in	215	55	-	1,360	955
At 31 December 2014	605	182	-	3,521	546
Unrealised gains/(losses)	(17)	(2)	-	193	4

	Corporate debt and preferred stock $m	Derivatives liabilities $m
Short Inventory		
At 1 January 2014	(879)	(4,225)
Total gains/(losses) recognised within principal trading income	(1)	(436)
Purchases	-	(45)
Sales	(119)	(861)
Settlements	-	849
Transfers out	-	1,326
Transfers in	-	(750)
At 31 December 2014	(999)	(4,142)
Unrealised gains/(losses)	-	(611)

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

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

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the reporting date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at the year end, it could have increased fair value by as much as $390 million (2014: $367 million) or decreased fair value by as much as $461 million (2014: $437 million) with the potential effect impacting profit and loss rather than reserves.

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

29. Share Based Payments

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Corporation's Key Associate Stock Plan ("KASP"). On May 6, 2015, Bank of America shareholders approved the amendment and restatement of the KASP, and renamed it the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, the Corporation grants stock-based awards, including stock options, restricted stock and restricted stock units ("RSUs"). Grants in 2015 comprised RSUs which generally vest in three equal annual instalments beginning one year from the grant date.

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

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

The total pre-tax compensation cost recognised in the income statement for share-based compensation plans for the year ended 31 December 2015 was $241 million (2014: $235 million).

Fair market value was determined using the BAC share price at 31 December 2015 of $16.83 (2014: $17.89).

Other Stock Plans

At 31 December 2015, non-qualified stock options remain outstanding under the legacy Merrill Lynch Long-Term Incentive Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan.

Restricted Stock Units

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

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

	Restricted Stock Units
Outstanding as at 1 January 2015	**38,656,317**
Granted	**16,488,543**
Exercised	**(22,482,616)**
Cancelled, forfeited, or released from contingencies	**(2,245,714)**
Outstanding as at 31 December 2015	**30,416,530**

Non-Qualified Stock Options

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

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

All options outstanding as of 31 December 2015 were vested and exercisable with a weighted-average remaining contractual term of 2.08 years (2014: 3.05 years), and have no aggregate intrinsic value.

The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 31 December 2015 and 2014.

	2015		2014	
Range of exercise prices	Number	Weighted average remaining contractual life in years	Number	Weighted average remaining contractual life in years
\$40.00 – \$50.00	-	-	7,000	0.01
\$50.00 – \$60.00	-	-	8,750	0.02
\$60.00 – \$70.00	**471,193**	**2.08**	814,100	3.02
	471,193	**2.08**	829,850	3.05

30. Related Party Transactions

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

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

31. Ultimate Parent Undertaking and Controlling Party

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

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

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