Merrill Lynch Capital Markets España

Pillar 3 Disclosure

As at 31 December 2015

Bank of America Merrill Lynch

Contents

List of Charts & Tables

Glossary

BAC	Bank of America Corporation
BIA	Basic Indicator Approach
CEO	Chief Executive Officer
CNMV	Comisión Nacional del Mercado de Valores
COR	Corporate Operational Risk
CQS	Credit Quality Steps
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustment
EBA	European Banking Association
ECAI	External Credit Assessment Institutions
ELD	External Operational Loss Event Data
EMEA	Europe, Middle East and Africa
EU	European Union
FOGAIN	Fondo General de Garantía de Inversiones
GLRM	Global Liquidity Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
ILD	Internal Operational Loss Events
IRRBB	Interest Rate Risk in the Banking Book
LCR	Liquidity Coverage Ratio
MLCME	Merrill Lynch Capital Markets España
MRT	Material Risk Takers
OTC	Over the Counter
RCSA	Risk and Control Self-Assessment
RWA	Risk Weighted Assets

1. Introduction

1.1 Overview and Purpose of Document

Merrill Lynch Capital Markets España, S.A., S.V. ("MLCME") is a broker-dealer regulated by Comisión Nacional del Mercado de Valores ("CNMV"). MLCME is wholly owned by NB Holdings Corporation which in turn belongs to Bank of America Corporation ("BAC" or "the Company"), which is registered in the United States.

Capital Requirements Directive IV ("CRD IV"), the European Union ("EU") legislation implementing Basel III, came into effect on 1 January 2014, mandating the quality of capital that firms are required to hold, introducing an EU wide liquidity regime and establishing leverage requirements. The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements. Part Eight of 575/2013 establishes the obligation for Institutions to publicly disclose the information laid down in its Article 431 at least on an annual basis.

This report constitutes the 'Capital Adequacy Disclosure' pursuant to the regulatory requirement of Pillar 3.

The purpose of this document is to periodically disclose to the market, relevant information regarding the entity's capital resources, risk exposures, risk assessment processes and its capital adequacy.

Therefore, this document is submitted in fulfilment of the obligations set out in Part Eight on Disclosure by Institutions of EU Regulation No 575/2013.

Entity: Merrill Lynch Capital Markets España, S.A., S.V. ("MLCME")

Scope of application: Individual

Department responsible for productions and review of report: Finance

Person responsible for report: Joaquín Monje Arroyo

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

Edificio Torre Serrano

C) Marqués de Villamagna, 3

28001 Madrid

Tel: 91 514 3247

Date approved by Board of Directors: 29 April 2016

1.2 Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and rules. The figures presented for the year ended 31 December 2015 have been prepared under the CRD IV framework. This is not an accounting disclosure and as such, is not required to be prepared in accordance with Spanish Generally Accepted Accounting Principles ("Spanish GAAP"). Therefore the information is not directly comparable with the annual financial statements and the disclosure is not required to be audited by external auditors.

This document has been prepared to comply with Pillar 3 disclosure rules, for the purpose of explaining the basis on which MLCME has prepared and disclosed certain information about the management of risks and application of regulatory capital adequacy rules and concepts. It therefore does not constitute any form of financial statement on MLCME, or of the wider enterprise, nor does it constitute any form of contemporary or forward looking record or opinion on Bank of America Corporation ("BAC"). Although Pillar 3 disclosures are intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other entities.

MLCME's Pillar 3 disclosures are prepared and published annually on BAC's corporate website:

http://investor.bankofamerica.com

MLCME does not form part of any consolidated group of investment entities within the meaning of Chapter II of EU Regulation 575/2013. In addition, as at 31 December 2015, MLCME does not hold shares or units in other entities that may be consolidated for accounting purposes, so there are no differences in the scope of consolidation for accounting and capital adequacy purposes.

1.3 Operation, Structure, Organisation and Capital Position

Merrill Lynch Capital Markets España was incorporated in Madrid on 13 June 1996. The registered office is located in Madrid, at Torre Serrano, plantas 8-9-10, Calle Marqués de Villamagna, 3.

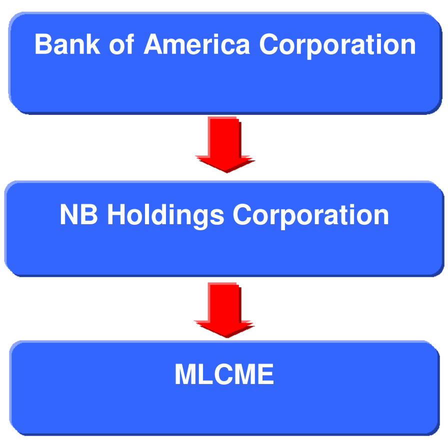
MLCME was entered in the Register of Securities Brokers-Dealers (Registro de Sociedades de Valores) of the Comisión Nacional del Mercado de Valores ("CNMV") on 9 July 1996 under number 161. MLCME is wholly owned by NB Holdings Corporation which in turn belongs to Bank of America Corporation ("BAC" or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

Below is the list of activities undertaken by the registered corporate entities of MLCME:

- Receiving and executing customer orders in relation to one or more financial instruments;
- Investment in securities;
- Custody and administration for the account of customers of the instruments envisaged in article 2 of the Legislative Royal Decree 4/2015, of October 23, 2015, approving the revised Securities Market Law
- Advising companies on capital structures, industrial strategy and related questions, as well as advising and other services in relation to corporate mergers and acquisitions; and
- Foreign exchange services in relation to the provision of investment services.

MLCME's capital position as of 31 December 2015, consisted of common equity tier 1 capital of €207.7 m.

Figure 1: MLCME Ownership Structure



2. Capital Resources and Minimum Capital Requirement

2.1 Capital Resources

2.1.1 Summary of 2015 Capital Resources

For the purposes of calculating total qualifying capital, MLCME classifies its own funds as Common Equity Tier 1 capital according to Part II of EU Regulation 575/2013 on Own Funds.

The table below shows MLCME's total qualifying capital for 2015:

Table 1 – Total Qualifying Capital

	Type of Own Funds	2015 Amount (€ 000s)
1.1	TIER 1 CAPITAL	207,655
1.1.1	COMMON EQUITY TIER 1 CAPITAL	207,655
Total		**207,655**

2.1.2 Transferability of Capital within the Group

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

2.2 Minimum Capital Requirements and Leverage Ratio

2.2.2 Summary of risk exposures and Capital Adequacy Ratio

The table below provides the risk exposures and capital requirements as at December 31, 2015.

Table 2 – MLCME's risk exposures and capital requirements for 2015

2015	RWA (€ 000s)	Capital requirements (€ 000s)
Pillar 1 risk exposures		
- Credit Risk	280,904	22,472
- Counterparty Risk	35,719	2,858
- Market Risk	29,878	2,390
- Operational Risk	115,875	9,270
- Credit Value Adjustment	62,290	4,983
Pillar 1 Total risk exposures	**524,666**	**41,973**

The Minimum Total Capital Requirement is the amount of capital that Capital Requirement Regulations ("CRR") require MLCME to hold at all times. MLCME's total capital resources must be greater than its Minimum Total Capital Requirement, allowing for a capital excess to cover any additional obligations, for example, Pillar 2.

The Minimum Total Capital Requirement principally comprises of Market Risk, Counterparty Credit Risk, Operational Risk and Credit Valuation Adjustment requirements. MLCME follows standardised approach for its Credit and Market Risk calculation and Basic Indicator Approach ("BIA") for operational risk.

At 31 December 2015, MLCME had a capital adequacy ratio of 39.58%, well above the legally required minimum of 8%. The table below provides the details for the Capital Adequacy Ratio calculation:

Table 3 – Capital Adequacy Ratio

	2015
	Amount (€ 000s)
Total Qualifying Capital	207,655
Pillar 1 Risk Weighted Assets	524,666
Capital Adequacy Ratio	**39.58%**

2.2.3 Leverage Ratio

The leverage ratio is a measure of Tier 1 capital as a percentage of exposure as defined under the CRR rules. Full Basel III implementation does not become effective until 2018. The leverage ratio minimum requirement during this transitional phase is 3%. MLCME's ratio as of December 31st 2015 is 8.5%.

3. Unencumbered Assets

3.1 Encumbered and Unencumbered Assets

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

This asset encumbrance disclosure, as at 31st December 2015, is prepared in accordance with European Banking Authority ("EBA") guidelines and is based on financial statement information prepared in accordance with Spanish GAAP.

MLCME's overall level of encumbrance is low. The company enters into collateralised financing with some of the counterparties to secure Over the Counter ("OTC") transactions settlements. Encumbered assets mostly include on/off balance sheet assets that are pledged as collateral against obligations under derivative contracts.

The tables below provide details on MLCME's encumbered and unencumbered assets, collateral received and encumbered assets/collateral received and associated liabilities:

Table 4 - Information on Encumbered and Unencumbered Assets

EUR thousands

		Carrying amount of encumbered assets (€ 000s)	Fair value of encumbered assets (€ 000s)	Carrying amount of unencumbered assets (€ 000s)	Fair value of unencumbered assets (€ 000s)
		010	040	060	090
010	**Assets of the reporting institution**	0		2,526,187	
030	Equity instruments	0	0	1,878,259	1,878,259
040	Debt securities	0	0	0	0
120	Other assets	0		647,928	

Table 5 -Collateral received

		Fair value of encumbered collateral received or own debt securities issued (€ 000s)	Fair value of collateral received or own debt securities issued available for encumbrance (€ 000s)
		010	040
130	**Collateral received by the reporting institution**	0	0
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	0	0

Table 6 -Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent (€ 000s)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered (€ 000s)
		010	030
010	Carrying amount of selected financial liabilities	0	0

Information on importance of encumbrance

MLCME is a broker-dealer part of BAC, a large Corporation, the majority of its funding and deposits come from other Group entities and are available on demand or at short notice. The entity has little requirement to get funding from secured markets, and therefore its overall low level of encumbrance reflects this position. However, given the nature of MLCME's businesses, it enters into collateralised financing with some of the counterparties to secure OTC transactions settlements. The other sources which have contributed to encumbrance during 2015 are securities pledged in derivative transactions, mostly for hedging purposes; even though there was no activity in this segment as of December 31, 2015. Asset encumbrance of the entity is reviewed and reported quarterly to CNMV and any events causing change in the asset encumbrance level are examined.

4. Risk Management, Objectives and Policy

4.1 Enterprise Risk Framework

Risk Statement

MLCME is a Spanish broker-dealer entity within the BAC Group based in Europe, Middle East and Africa ("EMEA") and offers a range of financial services that include, but are not limited to; the reception and execution of customer orders in relation to one or more financial instruments; Investment in securities; Custody and administration for the account of customers of the instruments envisaged in article 2 of the Legislative Royal Decree 4/2015, of October 23, 2015, approving the revised Securities Market Law; and advising companies on capital structures, industrial strategy and related questions, as well as advising and other services in relation to corporate mergers and acquisitions.

As at 31 December 2015, MLCME's total assets, prepared in accordance with Spanish GAAP, are EUR 2.5 billion, and comprised mainly of trading assets EUR 1.9 billion and cash & cash Equivalents EUR 0.5 billion. Net income after tax for the year ended 31 December 2015 is EUR 22.6 million. As at 31 December 2015 MLCME has EUR 230 million of total equity, with Tier 1 capital of EUR 207.7 million. Tier 1 capital ratio is reported at 39.58%.

MLCME's largest exposure as at 31 December 2015 is to credit risk, based on regulatory capital exposures, with Risk Weighted Assets ("RWA") of EUR 316.6 million. MLCME's credit portfolio, based on regulatory credit exposures, is 53.28% concentrated in Europe. The largest industry concentration is to financial institutions which represent 99% of the exposure. Exposures are on demand.

Market risk for MLCME is generated by activity in Indian Equities.

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2015, MLCME has a liquidity ratio of 29.37 % which far exceeds the 10% minimum regulatory requirement. MLCME primarily funds the balance sheet through capital and intercompany funding.

MLCME is integrated into and adheres to the global BAC group management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements (the 'Risk Framework'). BAC Risk Framework describes the five components (Risk Culture, Risk Appetite, Risk Governance, Risk Reporting and Risk Management Processes) of its risk management approach and the seven key risk types (Credit, Market, Operational, Liquidity, Strategic, Compliance and Reputational Risk) faced by its businesses.

MLMCE's risk tolerance is expressed in BAC's risk appetite statement. BAC's risk appetite statement clearly defines the amount of capital, earnings and liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring) to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. The risk appetite statement ensures that BAC maintains an acceptable risk profile that is in alignment with its strategic and capital plans. The risk appetite statement includes both quantitative limits and qualitative components that are reviewed and approved by the BAC Board of Directors at least annually.

The Risk Management Control Report, which is approved quarterly by MLCME's Board of Directors ("the Board") includes a declaration on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to MLCME's profile and strategy.

4.1.1 Enterprise Risk Management Approach

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. BAC adopted a revised Risk Framework in January 2016 with additional enhancements to the original Framework published in 2010.

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

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

Risk is inherent in all business activities. Managing risk well is the responsibility of every employee. Sound risk management enables MLCME to serve customers and deliver for BAC shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to BAC's reputation, each of which may adversely impact MLCME's ability to execute its business strategies. It is critical that every employee embraces sound risk management practices as a core component of his or her role and responsibilities.

The Risk Framework provides an understanding of MLCME's approach to risk management and each employee's responsibilities for managing risk. The following are the five components of BAC's risk management approach:

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

Focusing on these five components allows effective management of risks across the seven key risk types faced by MLCME businesses, namely: Strategic, Credit, Market, Liquidity, Operational, Compliance and Reputational risks.

4.1.2 Risk Culture

A strong risk culture is fundamental to MLCME's core values and operating principles. It requires focus on risk in all activities and encourages the necessary mind-set and behaviour to enable effective risk management and promote sound risk-taking within MLCME's risk appetite. Sustaining a strong risk culture throughout the organization is critical to the success of MLCME and is a clear expectation of MLCME's executive management team and its Boards of Directors.

The following principles form the foundation of MLCME's risk culture:

1. Managing risk well protects MLCME and its reputation and enables it to deliver on its purpose and strategy
2. MLCME treats customers fairly and acts with integrity to support the long-term interests of its employees, customers and shareholders
3. Individual accountability and an ownership mind-set are the cornerstones of BAC's Code of Conduct and this is also applied in MLCME
4. All employees are responsible for proactively managing risk as part of their day-to-day activities through prompt identification, escalation and debate of risks
5. While MLCME employs models and methods to assess risk and better inform its decisions, proactive debate and a thorough challenge process lead to the best outcomes

6. Lines of business and other front line units are first and foremost responsible for managing all aspects of their businesses, including all types of risk
7. Independent risk management provides independent oversight and effective challenge, while Corporate Audit provides independent assessment and validation
8. MLCME strives to be best-in-class by continually working to improve risk management practices and capabilities

4.1.3 Risk Appetite

BAC's and line of business ("LOB") risk appetite statements, which are applied to all BAC entities, including MLCME, clearly define the amount of capital, earnings or liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring) to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. The risk appetite statements ensures that MLCME maintains an acceptable risk profile that is in alignment with its strategic and capital plans. The risk appetite statements include both quantitative limits and qualitative components that are reviewed and approved by the BAC Board of Directors at least annually.

The Risk Appetite Statement is rooted in following principles:

- **Overall risk capacity:** MLCME's overall capacity to take risk is limited; therefore, it prioritizes the risks it takes.
- **Financial strength to absorb adverse outcomes:** MLCME sets objectives and targets for capital and liquidity that permit it to continue to operate in a safe and sound manner at all times, including during periods of stress
- **Risk-reward evaluation:** Risks taken by MLCME must fit BAC's risk appetite and offer acceptable risk-adjusted returns for shareholders
- **Acceptable risks:** MLCME considers all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statement describes MLCME's approach to managing such risks in a manner consistent with its risk culture
- **Skills and capabilities:** MLCME seeks to assume only those risks it has the skills and capabilities to identify, measure, monitor and control

4.1.4 Risk Management Processes

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

MLCME approach to Risk Management Processes:

- All employees are responsible for proactively managing risk
- Risk considerations are part of all daily activities and decision-making
- MLCME encourages a thorough challenge process and maintains processes to identify, escalate and debate risks
- MLCME utilises timely and effective escalation mechanisms for risk limit breaches

The front line units have primary responsibility for managing risks inherent in their businesses. All BAC entities, including MLCME employ an effective risk management process, referred to as IMMC: Identify, Measure, Monitor and Control as part of its daily activities.

4.1.5 Risk Data Aggregation and Reporting

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

Risk Data Management, Aggregation and Reporting Principles:

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

4.1.6 Risk Governance

MLCME adheres to a risk governance framework that is designed by independent risk management and approved by the BAC Board of Directors. The risk governance framework includes delegation of authority from BAC Board of Directors or board committees to management committees and executive officers as well as risk limits established for material activities to ensure BAC entities, including MLCME, operate within risk appetite.

BAC's Risk Governance Principles serve as the cornerstone of its risk governance framework. The BAC Code of Conduct, Risk Framework and risk appetite statements are overarching documents that firmly embed MLCME's risk culture in everything it does.

4.1.7 Key Risk Types

Credit Risk

Description

Credit risk is created when the Company commits to, or enters into, an agreement with a borrower or counterparty. Credit risk is the potential loss to the Company due to a borrower's or counterparty's future inability or failure to repay their contractual obligations; it can have a significant impact on our earnings.

Management of Risk

With respect to the organizational structure, the Board is the governing body with the highest decision making authority and responsible for setting the policies and objectives for all risks that affect MLCME's activity and, in particular, those that affect the management of its credit risk.

MLCME's LOBs are responsible and have ownership in executing the policies and procedures established by the governing bodies for managing and controlling MLCME's credit risk.

MLCME has policies established by its management bodies that define the procedures for identification, measurement and control of credit risk along with limits on the exposure to this risk. MLCME also has tools and resources that allow appropriate monitoring of the risk exposures.

The Risk Management Unit is charged with undertaking regular checks with regards to credit risk to ensure compliance with the internal controls established by MLCME.

Credit risk is monitored and reported through the various regulatory and internal reports produced monthly and quarterly for senior management. The Financial analysis report is produced monthly and reported to Risk Management, the Board and Senior Management.

Market Risk

Description

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. This risk includes exchange rate risk, which is defined as the current or prospective risk to earnings and capital arising from adverse movements in exchange rates for MLCME's investments.

Management of Risk

Risk Management receives the various reports issued by Finance and is responsible for monitoring the risks identified and, if applicable, for undertaking risk mitigation actions.

MLCME has a set of specific limits and procedures that allow it to adequately manage and control both the market risk from its trading portfolio and the exchange rate risk from its activity. Hedging mechanisms are also used by MLCME to mitigate its exposure to market risk.

In addition, MLCME has a set of tools that allow it to manage and control the market risk derived from the pursuit of its activities. The Finance department produces daily reports addressed to Risk Management and Line of Business to monitor Market Risk Limits and Exposures.

Operational Risk

Description

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risks are associated with the following seven Basel operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and systems failures; and execution, delivery and process management.

Management of Risk

The Operational Risk management function is independent of front line unit / control function management, and consists of:

- The Corporate Operational Risk (COR) team, which is responsible for designing the program and overseeing its implementation and execution in accordance with the Policy and its supporting Standards;
- Operational Risk Teams which are responsible for objectively assessing, challenging and advising the front line units / control functions on Operational Risk;

Front line units / control functions may have business oversight or control teams that support business leaders in the implementation of the program.

Operational Risk exists in all business activities conducted by MLCME and is an unavoidable consequence of doing business. Consistent Operational Risk management across all legal entities within BAC is undertaken through Operational Risk policies and standards. MLCME has adopted these and implemented procedures to further monitor and manage operational risk.

Liquidity Risk

Description

Liquidity risk is the potential inability to meet contractual and contingent financial obligations on or off-balance sheet as they come due.

Management of Risk

In order to ensure adequate governance, controls, systems and risk management practices are in place to manage liquidity risk, BAC has established the Bank of America Corporation liquidity risk policy ("BAC Liquidity Risk Policy"), which covers BAC and all of its subsidiaries, including MLCME. In particular, the BAC Liquidity Risk Policy sets out requirements for liquidity reporting and stress modelling, as well as a framework for monitoring liquidity risk based on limits and other liquidity risk metrics.

Legislative Royal Decree 4/2015, of October 23, 2015, approving the revised Securities Market Law enacts MLCME to adhere to a liquidity ratio (the "Liquidity Ratio"), which requires MLCME to hold the equivalent of 10 percent of its short-term (due in less than one year) liabilities in high quality liquid assets (cash, highly-rated sovereign bonds).

MLCME is subject to the Capital Requirements Directive IV ("CRD IV"), which introduced the Basel III liquidity requirements across Europe. The Delegated Acts that brought the Liquidity Coverage Ratio ("LCR") into effect across the EU on 1 October 2015 only apply to credit institutions. Legislation and guidance from regulators relating to the application of LCR to investment firms, including MLCME, continues to be under development and is not expected until 2016.

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 liquidity risk and resources across BAC and maintains the processes for identifying, measuring, monitoring, and analysing liquidity risk.

In certain jurisdictions, such as Spain, certain liquidity risk management responsibilities are undertaken by local finance and management teams, in conjunction with GLRM and Global Funding. For MLCME, this includes:

- Measuring and monitoring MLCME's adherence to the regulatory Liquidity Ratio on an ongoing basis;
- Monitoring MLCME's cash inflows and outflows to ensure sufficient available funds to meet future payment requirements across various time horizons;
- Analysing annual funding needs, revised monthly, as necessary; and
- Monitoring of credit receipts and near-term cash inflows.

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2015, MLCME has a liquidity ratio of 29.37 % which far exceeds the 10% minimum regulatory requirement. During 2015, the liquidity ratio has been in the range of 18% to 32%.

Compliance Risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Company arising from the failure of the Company to comply with requirements of applicable laws, rules and regulations.

Management of Risk

Front line units are responsible for the proactive identification, management and escalation of compliance risks across the Company. Global Compliance is responsible for setting Company-wide policies and standards and provides independent challenge and oversight to the front line units. The Company's approach to the management of compliance risk is further described in the Global Compliance Policy, which outlines the requirements of the Company'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 responsibility for the aggregated identification, management and escalation of compliance risks and compliance-related matters across the Company, including financial crimes compliance risks.

Compliance Risk issues are reported to the Board of Directors of MLCME, the EMEA Executive Committee and the EMEA Regional Controls Committee.

Reputational Risk

Description

Reputational risk is the potential that negative perceptions of the Company's conduct, or business practices, will adversely affect its profitability, operations or customers and clients.

Reputational risk is dependent on the performance of BAC as a whole and, as a result of this risk, capital will be held at the enterprise level. It is, therefore, not appropriate to hold capital in MLCME to cover this risk.

Management of Risk

BAC manages reputational risk through established policies and controls in its business and risk management processes, programs and approaches.

At MLCME's level, another element used as a yardstick for measuring MLCME's reputation is customer complaints, which are channelled through the Customer Service Department.

In accordance with the Spanish Ministry of Economy Order ECO 734/2004 of 11 March 2004 on customer complaints departments and services and the customer ombudsman for financial institutions, and other relevant regulations, MLCME has a Customer Service Department that is completely independent.

Its purpose is to receive and process complaints and claims relating to the legally recognized rights and interests of MLCME's customers and of any other individuals or entities who maintain commercial relations with it, whether arising from specific transactions, or from the regulations on transparency, customer protection or financial good practices, or from customs that apply to entities when their central services have not satisfied the claimant's demands. Complaints and claims are processed free of charge.

The Customer Service Department groups the complaints received from customers to use as a reference in drawing up action plans which are then implemented by management on the basis of those complaints. During 2015, this department received no claims as a consequence of the services provided by MLCME. There are, therefore, from the angle of the customer's complaints no major issues in MLCME that would trigger reputational risk.

Strategic Risk

Description

Strategic risk is the risk that results from adverse business decisions, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the macroeconomic environment, such as business cycles, competitor actions, changing customer preferences, product obsolescence, technology developments and regulatory environment.

For MLCME, this risk is the possibility that losses will materialize as a result of the unexpected evolution of the current strategic plan (business lines, products, scope of action) or the actions of competitors (innovative actions, new products and channels).

This risk also includes the possibility of not having sufficient resources to meet MLCME's short-term business objectives and long-term strategic plans.

MLCME adopts and executes its strategic plan as part of the overall BAC strategy.

Management of Risk

Business or strategic risk is managed by the structured process of initiating, evaluating, reviewing and approving a strategic plan and then ensuring that there are adequate resources to execute the strategic plan. MLCME's control environment together with the strong risk management framework articulated above ensures that this is not a key risk for MLCME.

4.2 Other Risk Considerations

Wrong-Way Risk

Wrong-way risk is a concentration risk which exists when there is adverse correlation between the counterparty's probability of default and the market value of the underlying transaction and/or the collateral. Examples of wrong-way risk include, but are not limited to situations that involve a counterparty that is a resident and/or incorporated in an emerging market entering into a transaction to sell non-domestic currency in exchange for its local currency; a trade involving the purchase of an equity put option from a counterparty whose shares are the subject of the option; or the purchase of credit protection from a counterparty who is closely associated with the credit default swap reference entity.

In keeping with BAC's risk management framework, several processes exist to control and monitor wrong-way risk across the Company including reviews at the Global Markets Risk Committee and Country Credit Risk Committee.

MLCME reviews the correlation between the creditworthiness of its counterparties and the market value of the underlying transactions or the collateral received from them. As of December 31st 2015, MLCME has not identified any transactions that could cause specific or general wrong-way risk.

Securitization

MLCME has not conducted any asset securitizations to date, so no capital is required for these positions according to Title II of EU Regulation 575/2013.

Impact of Risk Reduction Techniques and Positions deducted directly from Own Funds

MLCME neither applies the credit reduction techniques referred to in article 108 of EU Regulation 575/2013 nor does it deduct any positions from own funds.

Exposures to Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book ("IRRBB") is the risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

MLCME has no exposure to interest rate risk in the banking book as it only has short-term credit exposures and therefore no exposure to interest rate fluctuations.

Procedure Applied to Assess Internal Capital Adequacy

MLCME has a set of processes for identifying, measuring and aggregating the risks to which it is exposed. The processes are aimed at establishing a level of own funds adequate to the risks inherent in MLCME's activity and to the conditions of the economic environment in which it does business.

In addition, through the Internal Capital Adequacy Assessment Process ("ICAAP"), MLCME evaluates the risk management, measurement and control systems, its internal governance structure and the adequacy of its total qualifying capital for the risks assumed. MLCME has also made a projection of its future capital needs, together with an estimate of the own funds that will be available in the future, so as to be able at all times to have sufficient capital to pursue its activities.

MLCME thus makes a comprehensive analysis and assessment of all material issues that determine its current and future capital requirements, and the adequacy of its own funds for meeting them. MLCME has estimated its total capital needs based on the Basel III enhanced Pillar 1 and Pillar 2 regulatory requirements following EU Regulation 575/2013 and Royal Decree ("RD") 358/2015, of 8 May, amending royal Decree 217/2008, of 15 February, on the legal framework of investment firms and other entities providing investment services, which completes the implementation of the Capital Requirements Directive ("CRDIV") into Spanish law, which was initiated with the publication of Law 10/2014, of 26 June..

The estimate of total internal capital needed for MLCME is obtained by aggregating the individual capital requirements for each type of risk, using the standardised or simple approach for assessing the capital requirements for each of the risk categories.

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

5.1 Minimum Capital Requirement Summary

This section provides a description of MLCME's risk exposures and capital requirements by type of risk and approach applied as at 31 December 2015.

5.2 Risk Exposures and Capital Requirements for Counterparty and Credit Risk

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

Table 7 –RWA and capital requirements for Credit Risk

2015			
Categories of exposure	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Institutions	312,674	25,014	99%
Companies	173	14	0%
Retail	2	0	0%
Other exposures	3,774	302	1%
Total	**316,623**	**25,330**	**100%**

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

5.2.1 Average and Year end Credit Exposures

The total value of the positions calculated per Title II of EU Regulation 575/2013 as at 31 December 2015, without considering the effects of credit risk mitigation that may apply to those positions, stood at EUR 516.4 million. MLCME does not apply any credit risk mitigation factors to these positions, therefore the original exposure equals the fully adjusted exposure value.

Table 8 – Credit Risk Exposure

Categories of exposure	2015 Exposure (€000s)
Government	9,924
Institutions	502,519
Companies	205
Retail	2
Other exposures	3,774
Total	**516,424**

The following table presents the average value during 2015 of the exposure to credit risk, net of adjustments and of impairment losses recorded, calculated following the standardised approach to estimate the capital requirements for counterparty and credit risk:

Table 9 – Average Exposure

Categories of exposure	2015 (*) Average Exposure (€000s)
Government	8,381
Institutions	555,851
Companies	840
Retail	167
Other exposures	2,962
Total	**568,200**

(*) Value of the position calculated according to Title II of EU Regulation 575/2013. The average value has been obtained as the simple mean of the quarterly positions maintained by MLCME between 1 January 2015 and 31 December 2015 on the basis of the regulatory requirements established in EU Regulation 575/2013.

5.2.2 Distribution of Exposures by Geographical Areas

The table below provides the distribution of credit risk positions, net of adjustments and impairment losses and net of credit risk mitigation techniques, as at 31 December 2015, broken down by geographical areas:

Table 10 – Geographical Distribution

2015	Country					
Categories of Exposure	Spain (€ 000s)	Belgium (€ 000s)	India (€ 000s)	United Kingdom (€ 000s)	United States (€ 000s)	(*) position (€000s)
Government	9,924					9,924
Financial Institutions	30,789		236,057	230,452	5,221	502,519
Companies	205					205
Retail	2					2
Other Exposures	3,774					3,774
Total	**44,694**	**0**	**236,057**	**230,452**	**5,221**	**516,424**

(*) Value of the position taken according to Title II of EU Regulation 575/2013.

5.2.3 Distribution of Exposures by Sector/Type of Counterparty

Given the nature of MLCME's activities, all of the credit risk exposures at 31 December 2015 in the categories of “Government” and “Institutions” relate to positions with financial institutions. “Retail” exposures related to individuals, “Companies” included mostly companies in the Real Estate sector for € 0.14 m. Other Exposures included other items that are considered in terms of Credit Risk Exposure which are weighted at 100%, such as those included in Article 134 (1) of the CRR.

5.2.4 Distribution of Exposures by Residual Maturity

The table below provides the distribution of credit risk exposures by remaining time to maturity as at 31 December 2015, net of the adjustments and impairment losses recorded, and after applying credit risk mitigation techniques:

Table 11 – Maturity Distribution

Categories of Exposures	Remaining Time to Maturity as at 31 December 2015 (€ 000s)					
	On demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than five years	Total
Governments	9,924	-	-	-	-	9,924
Financial Institutions	502,519	-	-	-	-	502,519
Companies	205	-	-	-	-	205
Retail	2	-	-	-	-	2
Other exposures	3,774	-	-		-	3,774
Position at 31 December 2015	**516,424**	**-**	**-**	**-**	**-**	**516,424**

5.2.5 Counterparty and Credit Exposure by Credit Quality Step

The table below analyses exposure value by asset class and Credit Quality Step (“CQS”). A CQS is a credit quality assessment scale as set out in Title II, Chapter II, Section II of the EU Regulation 575/2013. The CQS is derived by referring to approved ECAIs where the rating is available.

Table 12 – Counterparty and Credit Risk Exposure by Credit Quality Step

	2015
Asset Class / Credit Quality Step	(€ 000s)
Central Government	**9,924**
Credit quality step	
1	9,924
2	
3	
4	
5	
6	
Non Rated	
Institutions	**502,519**
Credit quality step	
1	237,303
2	
3	
4	
5	265,216
6	
Non Rated	
Companies	**205**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	205
Retail	**2**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	2
Other exposures	**3,774**
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	3,774

5.2.6 Counterparty Credit Risk Exposure by Product

Measures for exposure value under Counterparty Credit Risk for MLCME are calculated using the mark-to-market method, following Article 274 of EU Regulation 575/2013.

The table below analyses this risk by product:

Table 13 – Counterparty Credit Risk Exposure by Product

	2015	
Product type	**Notional value (€ 000s)**	**Exposure (€ 000s)**
OTC Derivatives Counterparty Credit Risk:		
Gross positive fair value of contracts	**4,033,596**	**178,595**
Netting Benefits		0
Collateral Held		0
Net Current Credit Exposure		**178,595**
Counterparty Credit Risk by Product:		
OTC FX transactions	1,115,758	11,158
OTC Derivatives futures	355,494	3,555
OTC Derivatives options	552,158	33,129
OTC Derivatives swaps	1,999,397	119,964
unsettled OTC transactions	10,789	10,789
Total Counterparty Credit Risk Exposure Value	**4,033,596**	**178,595**

5.2.7 Exposures from “Past due” and “Impaired” Positions

As at 31 December 2015, MLCME did not have past due or impaired positions as per the definition of EU Regulation 575/2013.

In addition, no expense was recorded in MLCME’s 2015 income statement for items transferred directly to failed assets, nor was any amount included in the income statement for the recovery of assets previously written off and failed.

5.2.8 Identification of External Credit Assessment Institutions

Article 135 of EU Regulation 575/2013 provides that investment entities may use an external credit assessment to determine the risk weight of an exposure only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009. The external credit assessment institutions thus used should be recognized as “eligible” for these purposes by EBA.

The external credit assessment institutions (“ECAI”) appointed by MLCME to determine the risk weightings to apply to its positions are the ECAI designated as eligible by the CNMV and communicated as such through Fondo General de Garantía de Inversiones (“FOGAIN”). Specifically, MLCME has used ratings for all exposure classes issued by Standard & Poor’s, Moody’s and Fitch.

FOGAIN is the Investors Compensation Scheme for clients of Spanish investment firms and clients of Spanish UCITS Managers (in this latter case, only where a discretionary portfolio management relationship has been established by the investor with the firm).

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

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

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

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

MLCME determines impairment losses according to the following policies:

- **Debt instruments carried at amortized cost.** The amount of impairment losses suffered by these instruments is equal to the negative difference between their carrying value and the present value of their projected future cash flows and is recorded as a reduction of the balances of the adjusted assets. Possible impairment losses are carried out individually. The calculation of some impairment losses is done using formulas based on ageing that consider the time effect of money, the expected cash flows or the age of the balances.

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

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

5.3 Risk Exposure and Capital Requirement for Market Risk

MLCME calculates its risk exposure for market risk using the Standardised Approach**.** The table below provides the risk exposure and capital requirements for market risk in the trading portfolio positions, foreign exchange risk and for the net gold position.

MLCME's own funds requirement for position risk are calculated as the sum of the own funds requirements for the general and specific risk of its positions equity instruments, as MLCME does not have commodities or fixed income positions. Specific risk is calculated as 8% of the overall gross position in equity instruments. General risk is calculated as 8% of the net position in equity instruments.

In the case of exchange rate risk, MLCME calculates it as the sum of its overall net foreign exchange position multiplied by 8%.

The table below details MLCME's exposure to Market Risk and Foreign Exchange Risk.

Table 14 – Market Risk exposure and capital requirements

2015			
	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Positions in Equity Shares	21,963	1,757	74%
Exchange Rate Risk	7,915	633	26%
Total	**29,878**	**2,390**	**100%**

As at 31 December 2015, MLCME did not have capital requirements for settlement risk on the trading portfolio.

5.4 Risk Exposures and Capital Requirements for Credit Value Adjustment Risk

According to article 381 of EU Regulation 575/2013, credit value adjustment ("CVA") means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.

MLCME calculates CVA risk using the simple approach.

Table 15 – Credit Value Adjustment risk and capital requirements

	2015	
	Risk Exposure (€000s)	Capital Requirements (€000s)
Credit Value Adjustment	62,290	4,983
Total	**62,290**	**4,983**

5.5 Risk Exposures and Capital Requirements for Operational Risk

MLCME calculates its risk exposure for operational risk using the Basic Indicator Approach ("BIA"). The table below provides the risk exposure and capital requirements for operational risk.

Table 16 – Operational Risk exposure and capital requirements

	2015	
	Risk Exposure (€000s)	Capital Requirements (€000s)
Operational risk	115,875	9,270
Total	**115,875**	**9,270**

5.6 Capital Resources

MLCME has Total Tier 1 Capital of € 207.7 m and no Tier 2 Capital. Information required by Article 437 of Regulation 575/2013 has been included in **Table 17 (Capital instruments main features)**, following the templates laid down by EU Regulation 1423/2013.

By way of derogation from Article 4 of EU Regulation 1423/2013 during the period from 31 March 2014 to 31 December 2017 in order to meet the requirements for disclosure of the additional items on own funds as provided for in Article 492(3) of Regulation (EU) No 575/2013, the information related to those items is included in **Table 18 (Common Equity Tier 1 capital: instruments and reserves)**, of the present document.

Table 17 – Capital instruments main features

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

Table 18 – Common Equity Tier 1 capital: instruments and reserves

	Common Equity Tier 1 capital: instruments and reserves	31 Dec 2015 EUR (€ 000s)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	36,061	26 (1), 27, 28, 29, EBA list 26 (3)	N/A
2	Retained earnings	0	26 (1) (c)	N/A
3	Accumulated other comprehensive income (and any other reserves)	171,594	26 (1)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	207,655		N/A
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	0	34, 105	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b) (c)	N/A
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	0		N/A
29	**Common Equity Tier 1 (CET1) capital**	207,655		N/A
Additional Tier 1 (AT1) capital: instruments				
45	**Tier 1 capital (T1 = CET1 + AT1)**	207,655		N/A
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	0	62, 63	N/A
51	**Tier 2 (T2) capital before regulatory adjustment**	0		N/A
Tier 2 (T2) capital: regulatory adjustments				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	0		N/A
58	**Tier 2 (T2) capital**	0		N/A
59	**Total capital (TC = T1 + T2)**	207,655		N/A
60	**Total risk-weighted assets**	524,666		N/A
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	39.58%	92 (2) (a), 465	N/A
62	**Tier 1 (as a percentage of total risk exposure amount**	39.58%	92 (2) (b), 465	N/A
63	**Total capital (as a percentage of total risk exposure amount**	39.58%	92 (2) (c)	N/A
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)**	To be implemented in 2016	CRD 128, 129, 140	N/A
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	To be implemented in 2016	CRD 128	N/A

5.7 Leverage

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

The leverage ratio minimum requirement during 2015 is 3%. MLCME's ratio as of December 31st 2015 is 8.5%.

Table 19 – Leverage Ratio

	LEVERAGE RATIO (Millions of Euros)	31/12/2015 2015
1	**Total consolidated assets as per published financial statements**	2,526
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	131
5	Adjustment for securities financing transactions (SFT) (i.e. repo assets and similar secured lending)	0
6	Adjustments for off-balance sheet items (i.e., credit equivalent amounts of off-balance sheet exposures)	46
7	Other adjustments	-262
8	**Leverage Ratio Exposure - (transitional basis)**	**2,441**
Additional information		
	Leverage ratio exposure - transitional basis	2,441
	Additional asset amounts deducted in determining Basel III all-in Tier 1 capital	0
	Leverage Ratio Exposure - all-in basis	**2,441**

	LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE (Millions of Euros, except percentages)	31/12/2015
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures, but including collateral)	2,217
2	(Asset amounts deducted in determining Basel III transitional Tier 1 capital)	
3	**Total on-balance sheet exposure (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**2,217**
Derivatives exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	179
5	Add-on amounts for PFE associated with all derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP-leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	**179**

Securities financing transaction exposures		
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk (CCR) exposure for SFTs	
15	Agent transaction exposures	
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	459
18	(Adjustments for conversion to credit equivalent amounts)	-413
19	**Off-balance sheet items (sum of lines 17 and 18)**	**46**
Capital and Total Exposures - Transitional Basis		
20	Tier 1 capital	208
21	Total Exposures (sum of lines 3,11,16 and 19)	2,441
Leverage ratio - Transitional Basis		
22	Basel III leverage ratio	**8.51%**
All-in basis (Required by OSFI)		
23	Tier 1 capital - All-in basis	208
24	(Regulatory adjustments)	
25	Total Exposures (sum of lines 21 and 24, less the amount reported in line 2) - All-in basis	2,441
26	**Leverage ratio - All-in basis**	**8.51%**

Total on-balance sheet exposures (excluding derivatives and STFs), of which:	**2,217**
Trading book exposures	1,926
Banking book exposures	
Other exposures	338

Regarding the factors that had an impact on the leverage ratio during 2015, MLCME's on-balance sheet exposure decreased from previous year and continues to be related to MLCME's portfolio of stocks hedged with derivative products. Off-balance sheet exposures also decreased due to lower activity in derivatives. As the entity's Tier 1 capital increased, the leverage ratio has improved when compared to 2014 ratio of 5.9%.

5.8 Equity Holdings and Instruments not included in the Trading Portfolio

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

As at 31 December 2015 the investment portfolio classified as "Available for sale investment assets" was in respect of:

- The holding in the management company of the FOGAIN (the Investors Compensation Scheme for clients of Spanish investment firms), worth 9,400 Euros, consisting of 47 shares.

This holding is carried at cost because they are equity instruments not traded in an active market and because their fair value cannot be estimated with reasonable objectivity.

5.9 Capital Conservation Buffer and Countercyclical Buffer

According to CRDIV, firms must calculate the following buffers:

- A capital conservation buffer of common equity tier 1 capital equal to 2.5% of its total risk exposure amount and (there is a transitional period between 1 January 2016 and 31 December 2018 where the percentages applied will be 0.625% for 2016, 1.25% for 2017 and 1.875% for 2018).
- A countercyclical capital buffer of common equity tier 1 capital equal to its total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the firm's relevant credit exposures are located. The countercyclical capital buffer will be phased in starting in 2016, with the rate increasing in equal increments each year so that it is in full force on 1 January 2019. A systemic risk buffer to supress the systemic risk arising from the potential destabilisation of relevant financial institutions. This buffer will be phased in beginning on January 1, 2016, becoming fully effective on January 1, 2019. This buffer is not applicable to MLCME, as it is not a Systemically Important Institution (G-SII) or Other Systemically Important Institutions (O-SIIs).

These buffers are applicable from January 1st 2016, MLCME was not required to hold additional capital for any of these buffers as of December 31st 2015.

6 Remuneration Disclosures

6.1 Introduction

The following information has been prepared in order to comply with the qualitative and quantitative disclosures required by article 153 bis of CNMV Circular 5/2011 and article 191 of the Royal Decree - Law 4/2015 approving the revised Securities Market Law (“Law 4/2015”).

Law 4/2015 requires that qualitative and quantitative disclosures be made in accordance with terms specified in article 450 of the Capital Requirements Regulation (Regulation (EU) No 575/2013 – the “CRR”). Accordingly, the following information sets forth the qualitative remuneration disclosures required under article 153 bis, section 13, paragraphs (a) to (e) of Circular 5/2011 and paragraphs (a) to (f) of article 450 of the CRR, as in force at 31 December 2015, regarding the incentive compensation programs operated in performance year 2015 by Bank of America Corporation. The quantitative disclosures required under article 153 bis, section 13, paragraphs (f) and (g) of Circular 5/2011 and paragraphs (g) to (i) of article 450 of the CRR appear after this section.

The disclosures relate to staff identified as material risk takers (“MRTs”) at Bank of America’s operations in respect of Merrill Lynch Capital Markets España, S.A., S.V. taking into account the qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution’s risk profile developed by the European Banking Authority contained in Commission Delegated Regulation EU No 604/2014.

The Company applies prudent risk management practices to its incentive compensation programs across the enterprise and is committed to a compensation governance structure that effectively contributes to our company’s overall risk management policies.

In order to provide an appropriate balance of risk and reward, incentive compensation plans will be developed in accordance with the Global Compensation Principles:

Principle 1. Compensation should be comprised of an appropriate mix of salary, benefits and incentives paid over time that properly aligns employee and stockholder interests.

Principle 2. Criteria for payment of incentive compensation should take into account Bank-wide, business unit and individual factors.

Principle 3. Compensation should be determined on the basis of a combination of financial and non-financial factors that reflect both the current period and a longer period.

Principle 4. Compensation programs should incorporate appropriate governance processes and procedures.

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

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

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

(i) the Board of Directors (the "Board"),

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

(iii) the Management Compensation Committee, and

(iv) Governance by Line of Business Management and Independent Control Functions aligned to the Line of Business ("LOB Compensation Governance").

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

The Committee has adopted and annually reviews the Bank of America Compensation Governance Policy to govern incentive compensation decisions and define the framework for design oversight of incentive compensation programs across the Company. The Compensation Governance Policy is designed to be consistent with global regulatory initiatives so that the Company's incentive compensation plans do not encourage excessive risk-taking.

The Committee receives, from time to time, direct feedback from the Independent Control Functions on compensation programs. The Committee also holds periodic meetings with senior risk officers, including the Chief Risk Officer, to review and evaluate employee compensation programs and assess any risk posed by the programs so that the programs appropriately balance risks and rewards in a manner that does not encourage excessive risk-taking and are otherwise consistent with the Company's Compensation Governance Policy.

As authorized under its charter, the Committee has engaged Farient Advisors, LLC as its independent compensation consultant. The independent compensation consultant meets regularly with the Committee outside the presence of management and alone with the Committee chair.

During performance year 2015, the Committee held seven (7) meetings. Additional information regarding the Committee is included in the annual Proxy Statement available on Bank of America's Investor Relations website.

6.3 The Link Between Pay and Performance

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

Each employee's performance is assessed on financial and non-financial metrics as well as specific behaviors, and performance is factored into each employee's incentive compensation award. Depending on the employee, financial performance metrics may be focused on corporate-wide, line of business, or product results. Non-financial performance metrics may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture/adherence to risk framework and other core values and operating principles of the Company.

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

The Company's pay-for-performance program also requires that all employees complete annual mandatory risk and compliance training.

6.4 Risk Management and Incentive Plans

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

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

The Company believes that prudent risk management practices are applied to its incentive remuneration programs across the enterprise. The Company continually evaluates the design of its remuneration programs in accordance with the risk framework. The Committee is committed to a compensation governance structure that effectively contributes to the Company's broader risk management policies.

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

Incentive plan bonus pools are based on profit measures, which inherently recognize certain underlying risk factors and are further adjusted to reflect the use of capital associated with individual lines of business or products and/or the quality and sustainability of earnings over time. The determination of incentive plan bonus pools is also subject to management discretion which operates so proper account is taken of the performance of the overall Company, individual lines of business, products and other factors including the achievement of strategic objectives.

Incentive plan bonus pools may be adjusted to reflect long-term risk arising through line of business and product performance. These pools are tied to the overall performance, inclusive of risk, of Bank of America and/or specific lines of business or products, creating for employees a vested interest in profitable performance across the Company and its businesses.

Long-term risk is also taken into account and managed in connection with the Company's incentive compensation programs through arrangements permitting performance adjustment of deferred variable compensation. Employees in positions where the greatest risk is being taken are subject to higher levels of deferral and potential performance adjustments.

The compensation of the Independent Control Functions is determined independently from the line of business supported. The funding of the incentive pool for these employees is based upon overall Company performance with the actual employee awards determined based upon individual performance against predetermined objectives.

6.5 Employee Pay

Bank of America compensates its employees using a balanced mix of fixed remuneration, annual cash incentives and long-term incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee's management level or amount of incentive compensation award, the greater the proportion of incentive compensation should be (i) subject to deferral and (ii) delivered in the form of equity-based compensation. The Company believes equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. A significant portion of incentive awards is provided as a long-term incentive that generally becomes earned and payable over a period of three years after grant and will be cancelled in case of detrimental conduct or (for certain risk-takers) failure of the Company, line of business or business unit (as applicable) to remain profitable during the vesting period. This approach serves two key objectives, which are to focus employees on long-term sustainable results and to subject compensation awards to risk over an appropriate time horizon that can be easily communicated and understood.

6.6 Material Risk Taker Pay

For performance year 2015, the Company operated an enterprise-wide approach in the identification of MRTs taking into consideration local regulatory requirements. In the EU, the Company layers into its enterprise process the criteria outlined in the European Banking Authority's (the "EBA") Regulatory Technical Standards for the definition of material risk takers. MRTs are determined based on the role and activities of the employee taking into consideration the size, internal organization and nature, scope and complexity of the Company's activities.

In accordance with Article 94(1)(g) of the Capital Requirements Directive 2013/36/EU (“CRD IV”), the Company has set appropriate ratios between the fixed and variable components of the total remuneration package. Where applicable, the Company has obtained approvals from relevant Shareholders for an increase of the approved ratio to not exceed 200% of the fixed component of the total remuneration for each individual.

Variable pay for MRTs for performance year 2015 consisted of a mixture of upfront payments and long-term deferred payments. Long-term deferred awards were delivered in the form of equity awards which become earned and payable over a period of three years after grant with, for MRTs, each tranche being subject to a further six month holding period following vesting. For MRTs with significant incentives, the Company applies deferrals which are no less than, and in many cases in excess of, what is prescribed by the CRD IV and the EBA. Deferred awards will be cancelled in the case of detrimental conduct or failure of the Company, line of business or business unit (as applicable) to remain profitable during the vesting period. If risks taken as part of approved business strategies do not result in sustainable profits, or if the employee fails to behave according to Company standards, the value of the long-term equity award may be impacted. The recommendations for performance year 2015 incentive awards for MRTs were reviewed on a name by name basis by the Committee at its meeting in January 2016.

By combining long-term awards with performance-based cancellation and detrimental conduct clawback, the Company considers that it places a strong focus on sustainable long-term results and appropriate behaviors.

6.7 Quantitative data

This section contains the information required under article 153 bis, section 13, paragraphs (f) and (g) of Circular 5/2011 and paragraphs (g) to (i) of article 450 of the CRR in respect of MLCME. Aggregate quantitative information is regarding remuneration for performance year 2015 including both (i) Board members in MLCME and (ii) MRTs in MLCME. All MRTs in MLCME are part of the Global Banking and Markets line of business, none of which are categorized as Senior Management within the Company’s group structure.

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

Any disclosure of information in respect of the compensation received by a very small number of MRTs and/or Board members in any country may permit those employees to be easily identified. Any disclosure would therefore carry a material risk of disclosing the compensation of individuals to the public, thereby prejudicing their legitimate interests and would be contrary to the EU Data Protection Directive and/or applicable local law. The Company, therefore, makes the quantitative disclosure below which represents aggregate data for the MRTs and Board members of MLCME to protect the data privacy of the employees. In addition, due to a very small number of MRTs and Board members identified for MLCME , the Company is unable to make detailed quantitative disclosures in respect of new sign-on and severance payments made during the financial year or the number of individuals being remunerated EU 1million or more broken into pay bands.

Table 20 – Aggregate Quantitative Information

Category	Total Board members and MRTs (000's)
Amounts of remuneration	
Fixed Remuneration	EUR 3,302
Variable Remuneration	EUR 2,802
Number of Staff	6
Types of Variable remuneration	
Upfront Cash (paid February 2016)	EUR 812
Special Equity (Upfront Equity-linked awards, vested February 2016, 6 month hold)	EUR 156
Long-term Equity-linked awards	EUR 1,834
	EUR 2,802
Deferred remuneration	
Amount unvested at 1 January 2015	EUR 3,048
Amount awarded in 2015	EUR 1,672
Amount vesting in 2015	EUR 1,370
Amount unvested at 31 December 2015	EUR 3,349
Amounts awarded in February 2016	EUR 1,739
Amounts reduced by performance adjustments	EUR 0

Notes for disclosure tables
FX Rate – Frozen rate of 1.1186037
Stock price for Deferred Remuneration calculations (values) -12 Feb 2016 Fair Market Value ($11.95)