

**Merrill Lynch Capital Markets España**

# Pillar 3 Disclosure

As at 31 December 2018

# Merrill Lynch Capital Markets España– Pillar 3 Disclosures 2018

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## Glossary

AT1	Additional Tier 1
BAC	Bank of America Corporation
BIA	Basic Indicator Approach
CCYB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CGP	Compensation Governance Policy
CMU	Collateral Monitoring unit
CNMV	Comisión Nacional del Mercado de Valores
CQS	Credit Quality Steps
CRD IV	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustment
EBA	European Banking Association
ECAI	External Credit Assessment Institutions
EU	European Union
FLUs	Front Line Units
FOGAIN	Fondo General de Garantía de Inversiones
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
MCC	Management Compensation Committee
MLCME	Merrill Lynch Capital Markets España
MRT	Material Risk Takers
RSU	Restricted Stock Units
RWA	Risk Weighted Assets
SPANISH GAAP	Spanish Generally Accepted Accounting Principles

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# 1. Introduction

# Merrill Lynch Capital Markets España– Pillar 3 Disclosures 2018

## 1.1 Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2018 in respect of the capital and risk management of Merrill Lynch Capital Markets España, S.A., S.V. (“MLCME” or “the Firm”), a broker-dealer regulated by Comisión Nacional del Mercado de Valores (“CNMV”). All defined terms are found in the glossary.

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

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

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

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**Scope of Application:** Individual

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**Date Approved by Board of Directors:** 28 March 2019

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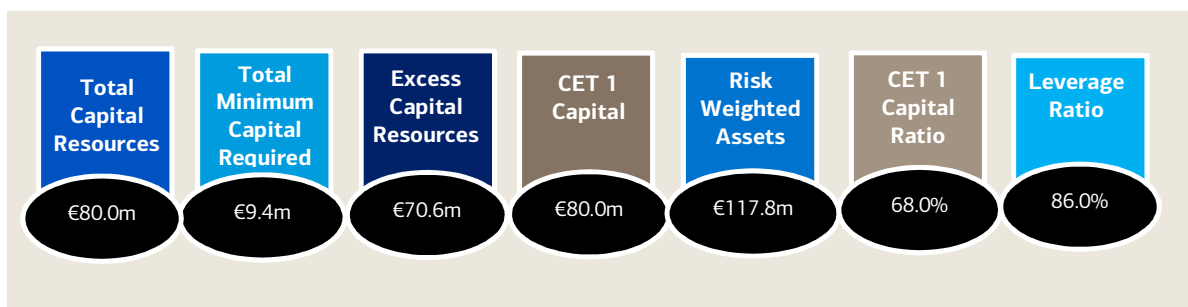
## 1.1.1 Merrill Lynch Capital Markets España, S.A., S.V.

MLCME is wholly owned by NB Holdings Corporation which in turn belongs to Bank of America Corporation (“BAC”, “the Company” or “the Enterprise”), which is registered in the United States. MLCME is authorised and regulated by CNMV.

## 1.1.2 MLCME’s Capital Position at 31 December 2018

MLCME’s Capital Resources of €80.0m consist entirely of Tier 1 capital. MLCME has Risk Weighted Assets (“RWA”) of €117.8m, a Tier 1 to RWA ratio of 68.0%, and a surplus over Pillar 1 Minimum Capital Requirement of €70.6m.

Figure 1 - Summary of MLCME’s Key Metrics as at 31 December 2018



## 1.2 Basis of Preparation

The information contained in these disclosures has been prepared in accordance with the Basel III rule framework, for the purpose of explaining the basis on which MLCME has prepared and disclosed certain information about the management of risks and the application of regulatory and capital adequacy rules and concepts. It therefore does not constitute any form of financial statement on MLCME, or of the wider Enterprise, 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.

In addition, the report does not constitute any form of contemporary or forward looking record or opinion on the Firm. Although the Pillar 3 disclosure is intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other banks.

Part Eight of Regulation (EU) No 575/2013 (the “CRR”) sets the minimum requirements to disclose information on an annual basis and leaves institutions free to assess the need to disclose some or all of the information more frequently. MLCME has assessed that it will not make additional disclosures.

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 CRR Chapter II. In addition, as at 31 December 2018, 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.

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## 1.3 Operation, Structure and Organisation

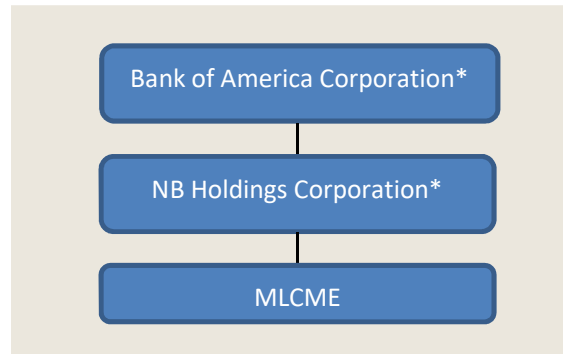
Merrill Lynch Capital Markets España was incorporated in Madrid on 13 June 1996. The registered office is located in Madrid, at Torre Serrano, plantas 8-9-10, Calle Marqués de Villamagna, 3.

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

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

For a full BAC organisation chart, please refer to the investor relations website at <http://investor.bankofamerica.com>

Figure 2 - MLCME Ownership Structure



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





## 2. Capital Resources and Minimum Capital Requirement

## 2.1 Capital Resources

### 2.1.1 Summary of 2018 Capital Resources

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

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

Table 1 – Total Qualifying Capital

<i>(Euro Thousands)</i>		2018	2017
1.1	TIER 1 CAPITAL	80,022	58,792
1.1.1	COMMON EQUITY TIER 1 CAPITAL	80,022	58,792
<b>Total</b>		<b>80,022</b>	<b>58,792</b>

### 2.1.2 Key Movements in 2018

Capital Resources in the period increased by 36.1% due to the inclusion of 2017 retained earnings. MLCME remains well capitalised with a Total Capital Adequacy Ratio of 68.0%.

### 2.1.3 Transferability of Capital within the Group

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

## 2.2 Minimum Capital Requirement

### 2.2.1 Summary of 2018 Capital Requirement

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

MLCME has a Minimum Capital Requirement of €9.4m (2017: €9.5m) comprised of credit risk, market risk and operational risk requirements as outlined in Table 2.

Table 2 - Minimum Total Capital Requirement

<i>(Euro Thousands)</i>	2018	2017
Credit Risk	3,333	1,395
Credit Valuation Adjustment	0	0
Market Risk	179	224
Operational Risk	5,909	7,847
<b>Pillar 1 Capital Requirement</b>	<b>9,420</b>	<b>9,466</b>

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## 2.2.2 Key Movements in 2018

MLCME's Pillar 1 capital requirement has decreased from €9.5m in 2017 to €9.4m in 2018. Credit risk has increased offset by a decrease in operational risk, which follows the Basic Indicator Approach ("BIA").

## 2.2.3 Minimum Total Capital Requirement Approach

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

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

### 2.3.1 Capital Resources vs. Minimum Capital Requirement

MLCME's Capital Resources in excess of its Minimum Total Capital Requirement have increased from €49.3m in 2017 to €70.6m in 2018 as a result of the inclusion of 2017 retained earnings.

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

### 2.3.2 Tier 1 Ratio

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

MLCME's Tier 1 ratio has increased from 49.7% to 68.0% over the year due to the inclusion of 2017 retained earnings.

## 2.4 Leverage Ratio

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

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

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

CRD IV does not currently include a minimum Leverage Ratio requirement. In November 2016 the European Commission published a legislative proposal to amend various elements of CRD IV, which included a binding minimum Leverage Ratio requirement of 3%, as well as a number of changes to the calculation of the exposure measure. Based on the draft text of the proposal, it is currently expected that these amendments will become effective on 1 January 2021. MLCME's transitional and fully-phased in leverage ratios are in excess of this at 86.0%.

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Table 3 - Leverage Ratio

	2018	Minimum Requirement
Transitional Leverage Ratio	86.0%	3%
Fully Phased-In Leverage Ratio	86.0%	3%

	2017	Minimum Requirement
Transitional Leverage Ratio	67.7%	3%
Fully Phased-In Leverage Ratio	67.7%	3%



### 3. Liquidity Position and Encumbered and Unencumbered Assets

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## 3.1 Liquidity Position

### 3.1.1 Regulatory Requirement

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

### 3.1.2 Liquidity Position

MLCME was in compliance with its regulatory and internal liquidity requirements throughout 2018.

### 3.1.3 Funding Profile

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

## 3.2 Encumbered and Unencumbered Assets

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

MLCME has loan agreements with other Group entities to manage its liquidity requirements. As of 31st December 2018, MLCME does not have any encumbered assets on its balance sheet, nor does it hold any collateral.

This asset encumbrance disclosure, as at 31st December 2018, is prepared in accordance with EC (EU) 2017/2295 Regulation and is based on financial statement information prepared in accordance with Spanish GAAP.

Table 4 outlines the carrying and fair value of certain assets of MLCME split between those encumbered and unencumbered.

Table 4 - Analysis of Assets for Asset Encumbrance

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
(Euro Thousands)				
<b>Assets of the reporting institution</b>	<b>0</b>		<b>92,899</b>	
Equity instruments	0	0	1	1
Debt securities	0	0	0	0
Other assets	0		92,898	

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Table 5 provides detail on both the fair value of encumbered collateral received and collateral received that is available for encumbrance.

Table 5 - Analysis of Collateral Received

<i>(Euro Thousands)</i>	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
<b>Collateral received by the reporting institution</b>	<b>0</b>	<b>0</b>
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
<b>Own debt securities issued other than own covered bonds or ABSs</b>	<b>0</b>	<b>0</b>

Table 6 outlines the value of liabilities against which assets have been encumbered and the respective asset values.

Table 6 - Encumbered Assets/Collateral Received and Associated Liabilities

<i>(Euro Thousands)</i>	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
<b>Carrying amount of selected financial liabilities</b>	<b>0</b>	<b>0</b>

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## 4. Risk Management, Objectives and Policy



## 4.1 BAC Risk Framework

BAC has established a risk governance framework (the “Risk Framework”) which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. BAC adopted the 2019 Risk Framework in December 2018. The key enhancements from the 2018 Risk Framework include restructuring the operational risk and compliance risk sections to reflect the combination of compliance and operational risk into the Global Compliance and Operational Risk function and an update to Compliance Risk Appetite.

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

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

## 4.2 Risk Management Approach

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

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

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

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

### 4.2.1 Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC values and operating principles. It ensures appropriate 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 BAC’s risk appetite. Sustaining a culture of managing risk well is critical to the success of BAC and is a clear expectation of BAC executive management and the boards of directors.

### 4.2.2 Risk Appetite

The BAC Risk Appetite Statement clearly defines 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.

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The BAC Risk Appetite Statement is rooted in several principles:

- Overall risk capacity: BAC's overall capacity to take risk is limited; therefore, it prioritizes the risks it takes. BAC's risk capacity informs BAC's risk appetite, which is the level and types of risk BAC is willing to take to achieve its business objectives.
- Financial strength to absorb adverse outcomes: BAC must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of organic growth opportunities. Therefore, BAC set objectives and targets for capital and liquidity that permit BAC to continue to operate in a safe and sound manner at all times, including during periods of stress.
- Risk-reward evaluation: Risks taken must fit BAC's risk appetite and offer acceptable risk-adjusted returns for shareholders.
- Acceptable risks: BAC consider all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statement describes BAC's approach to managing such risks in a manner consistent with its culture. For example, actions considered in a line of business that unduly threaten BAC's reputation should be escalated and restricted appropriately.
- Skills and capabilities: BAC seek to assume only those risks we have the skills and capabilities to identify, measure, monitor and control.

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

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

As at 31 December 2018, MLCME's total assets, prepared in accordance with Spanish GAAP, are €92.9m, and comprised mainly of cash of €7.5m and intercompany loans of €75.9m. Net income after tax for the year ended 31 December 2018 is €7.8m. As at 31 December 2018 MLCME has €87.8m of total equity, with Tier 1 capital of €80.0m. Tier 1 capital ratio is reported at 68.0%.

MLCME's largest exposure as at 31 December 2018 is to operational risk, calculated following the Basic Indicator Approach, with RWAs of €73.9m.

MLCME's second largest exposure is credit risk with RWA of €41.7m. Its credit portfolio, based on regulatory credit exposures, is 97.9% concentrated in Europe. The largest industry concentration is to financial institutions which represent 99.97% of the exposure. Exposures are under 1 year.

MLCME has limited market risk exposure related to FX risk from the positions it maintains in currencies other than Euro.

Based on the liquidity ratio calculation, MLCME has sufficient liquid assets to meet short-term liabilities on its balance sheet. As of 31 December 2018, MLCME has a liquidity ratio of 461% which far exceeds the minimum requirement of 10% of liabilities due within 1 year. MLCME primarily funds the balance sheet through capital and intercompany funding.

The Board has approved risk limits commensurate with MLCME's risk profile including but not limited to credit and liquidity risk limits.

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 BAC Risk Framework

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describes the five components (Risk Culture, Risk Appetite, Risk Management Process, Risk Data Management, Aggregation and Reporting and Risk Governance) of its risk management approach and the seven key risk types (credit, market, operational, liquidity, compliance, reputational and strategic risk) faced by its businesses.

MLCME's risk tolerance is aligned to 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 Board confirms that the risk management systems put in place are adequate with regard to MLCME's profile and strategy.

#### **4.2.3 Risk Management Processes**

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

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

#### **4.2.4 Risk Data Management, Aggregation and Reporting**

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

Risk Data Management, Aggregation and Reporting Principles are:

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

#### **4.2.5 Risk Governance**

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

The Board are responsible for MLCME's governance, management and supervision including establishing effective processes for assessing risk ensuring alignment to BAC's risk appetite.

In order to comply with the internal control requirements of the Spanish Securities Market regulations, the Board has set up the following internal control functions:

- Compliance function with responsibility for regulatory compliance, anti-money laundering and data protection

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

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

## Director Selection and Diversity Policy

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

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

## 4.3 Key Risk Types

The risk management processes outlined above allow BAC to manage risks across the seven key risk types; credit, market, operational, liquidity, compliance, strategic and reputational.

### 4.3.1 Credit Risk

#### **Definition**

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

#### **Credit Risk Management**

MLCME manages credit risk to a borrower or counterparty based on its risk profile, which includes assessing repayment sources, underlying collateral, if any, and the expected effects of the current and forward-looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes. At the front line unit level, Independent Risk oversees credit risk management processes and governance in accordance with BAC requirements and authority levels. In addition the BAC Collateral Monitoring Unit ("CMU") are responsible for the daily monitoring of collateral positions and, when required, initiating variation margin calls on counterparties to maintain collateral coverage in accordance with agreed thresholds.

Credit risk is reported through the various regulatory and internal reports produced monthly and quarterly for senior management and the Board.

### 4.3.2 Market Risk

#### **Definition**

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

#### **Market Risk Management**

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

### 4.3.3 Compliance and Operational Risk

#### Definition

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

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

#### Compliance and Operational Risk Management

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

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

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

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## 4.3.4 Liquidity Risk

### Definition

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

### Liquidity Risk Management

Each of the FLUs are accountable for managing liquidity risk by establishing appropriate processes to identify, measure, monitor and control the risks associated with their activities. Global Risk Management (“GRM”) provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of the MLCME’s liquidity risk management processes.

In certain jurisdictions, such as Spain, liquidity management responsibilities are undertaken by local finance and management teams, who consult with Corporate Treasury and GRM.

The Spanish Securities Market Act 24/1988 requires MLCME to adhere to a liquidity ratio (the “Liquidity Ratio”), which requires MLCME to hold the equivalent of 10% of its short-term (due in less than one year) liabilities in high quality liquid assets (cash, highly-rated sovereign bonds). Throughout 2018, MLCME had sufficient liquid assets to meet short-term liabilities on its balance sheet. As at 31 December 2018, MLCME had a liquidity ratio of 461% which far exceeds the 10% minimum regulatory requirement.

## 4.3.5 Reputational Risk

### Definition

Reputational risk is the potential risk 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 or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

### Reputational Risk Management

Reputational risk is managed 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.

For the EU region there is a dedicated committee, the EU Reputational Risk Committee, whose mandate includes consideration of reputational risk issues and to provide guidance and approvals for activities that represent specific reputational risks which have been referred for discussion by other current control frameworks or lines of business. Reputational risk items relating to MLCME are considered as part of the EU Reputational Risk Committee.

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.

Through the EU, UK & CEEMA Regional Risk Committee and the EU Reputational Risk Committee, BAC has an appropriate organisational and governance structure in place to ensure strong oversight at the entity business level.

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The EU Reputational Risk Committee is a sub-committee of both the EU, UK & CEEMA Regional Risk Committee and the Global Reputational Risk Committee and is applicable to all key legal operating entities in the region.

Items requiring increased attention may be escalated from the EU Reputational Risk Committee to the Global Reputational Risk Committee as appropriate.

Reporting of reputational risk issues is captured as part of management routines for the EU Reputational Risk Committee. Items presented to the EU Reputational Risk Committee are maintained through reporting which includes description of the reputational risk issue, geographical jurisdiction, reason for escalation and decision reached. A summary report of issues discussed at the EU Reputational Risk Committee is provided to the EU, UK & CEEMA Regional Risk Committee on a quarterly basis.

## **4.3.6 Strategic Risk**

### **Definition**

Strategic risk is the risk that results from incorrect assumptions about external or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus, ambiguous), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments in the geographic locations in which BAC operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

### **Strategic Risk Management**

Strategic risk is managed through the assessment of effective delivery of strategy and business performance is monitored by the executive management team to assess strategic risk and find early warning signals so that risks can be proactively managed.

MLCME strategic execution and risk management processes are aligned to the overall BAC strategic plans through a formal planning and approval process and are set within the context of overall risk appetite. The BAC Board is responsible for overseeing the strategic planning process and management's implementation of the resulting strategic plan. BAC's strategic plan is reviewed and approved annually by the BAC Board. Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and MLCME level.

Any strategic decisions relating to MLCME are presented and discussed at MLCME Board. Front line units provide updates to certain members of the MLCME Board on their business performance and management of strategic risk. Updates take into account analyses of performance relative to the strategic plan, financial operating plan, risk appetite and performance relative to peers.

## **4.4 Other Risk Considerations**

### **4.4.1 Wrong-Way Risk**

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

MLCME uses a range of policies and reports to identify and monitor wrong-way risk across the portfolio. Forums have been established to review potential situations of wrong-way risk, and depending on the nature of the wrong way risk, Risk Management may require pre-trade approval or apply various portfolio limits. In keeping with BAC's

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risk management framework, several processes exist to control and monitor wrong-way risk including reviews at the Global Markets Risk Committee and Country Credit Risk Committee.

#### **4.4.2 Interest Rate Risk in the Banking Book**

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

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

#### **4.4.3 Securitisation**

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

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

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

#### **4.4.5 Internal Capital Adequacy Assessment Process (“ICAAP”)**

MLCME prepares an ICAAP at least annually in compliance with Royal Decree 358/2015 of 8 May 2015. The ICAAP assesses the capital adequacy of MLCME in relation to current and future activities and ensures that MLCME maintains an appropriate amount of capital relative to the risks to which they are exposed. The ICAAP forms a key part of the governance framework and covers MLCME’s risk appetite; strategy and financial plans; capital and risk management; and stress testing.





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

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## 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 2018.

## 5.2 Counterparty and Credit Risk

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

Table 7 – RWA and Capital Requirements for Credit Risk

(Euro Thousands)

2018			
Categories of exposure	Risk Weighted Assets (€000s)	Capital Requirements (€000s)	% of Total Capital Requirements
Institutions	41,629	3,331	99.93%
Companies	28	2	0.07%
<b>Total</b>	<b>41,657</b>	<b>3,333</b>	<b>100%</b>

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

### 5.2.1 Average and Year end Credit Exposures

The total value of the positions calculated per CRR Title II as at 31 December 2018, without considering the effects of credit risk mitigation that may apply to those positions, stood at €92.9 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

(Euro Thousands)

Categories of exposure	2018 Exposure
Government	4,869
Institutions	88,001
Companies	28
<b>Total</b>	<b>92,898</b>

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The following table presents the average value during 2018 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

(Euro Thousands)

Categories of exposure	2018 (* Average Exposure)
Government	6,582
Institutions	85,416
Companies	12
Retail	63
<b>Total</b>	<b>92,073</b>

(\*) Value of the position calculated according to CRR Title II. The average value has been obtained as the simple mean of the quarterly positions maintained by MLCME between 1 January 2018 and 31 December 2018 on the basis of the regulatory requirements established in CRR.

## 5.2.2 Distribution of Exposures by Geographical Areas

The table below provides the distribution of credit risk positions, net of adjustments and impairment losses and net of credit risk mitigation techniques, as at 31 December 2018, broken down by geographical areas:

Table 10 – Geographical Distribution

(Euro Thousands)

2018 Categories of Exposure	Country				(*) position
	Spain	India	United Kingdom	United States	
Government	4,869				4,869
Financial Institutions	10,111	1,591	75,925	374	88,001
Companies	28				28
<b>Total</b>	<b>15,008</b>	<b>1,591</b>	<b>75,925</b>	<b>374</b>	<b>92,898</b>

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

## 5.2.3 Distribution of Exposures by Sector/Type of Counterparty

Given the nature of MLCME's activities, all of the credit risk exposures at 31 December 2018 in the categories of "Government" and "Institutions" relate to positions with financial institutions. Exposures to financial institutions amounted to 99.97% of the total risk exposure.

## 5.2.4 Distribution of Exposures by Residual Maturity

The table below provides the distribution of credit risk exposures by remaining time to maturity as at 31 December 2018, net of the adjustments and impairment losses recorded, and after applying credit risk mitigation techniques:

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Table 11 – Maturity Distribution

(Euro Thousands)

Categories of Exposures	Remaining Time to Maturity as at 31 December 2018					Total
	On demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than five years	
Governments	4,869	-	-	-	-	4,869
Financial Institutions	12,076	-	75,795	-	-	88,001
Corporates	28	-	-	-	-	28
<b>Position at 31 December 2018</b>		-	<b>75,795</b>	-	-	<b>92,898</b>

## 5.2.5 Counterparty and Credit Exposure by Credit Quality Step

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

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

Asset Class / Credit Quality Step	2018
	(€ 000s)
<b>Central Government</b>	<b>4,869</b>
Credit quality step	
1	4,869
2	
3	
4	
5	
6	
Non Rated	
<b>Institutions</b>	<b>88,001</b>
Credit quality step	
1	
2	86,410
3	
4	
5	1,591
6	
Non Rated	
<b>Corporates</b>	<b>28</b>
Credit quality step	
1	
2	
3	
4	
5	
6	
Non Rated	28

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## 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 CRR Article 274.

As of 31st December 2018, MLCME does not have any counterparty credit risk exposure.

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

As at 31 December 2018, MLCME did not have past due or impaired positions as per the definition of the CRR.

In addition, no expense was recorded in MLCME’s 2018 income statement for items transferred directly to failed assets, nor was any amount included in the income statement for the recovery of assets previously written off and failed.

## 5.2.8 Identification of External Credit Assessment Institutions

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

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

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

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

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

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

MLCME determines impairment losses according to the following policies:

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

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- Financial assets available for sale.** The impairment loss is equal to the positive difference between their cost of acquisition (net of any amortization of principal, in the case of debt instruments) and their fair value; after deducting any impairment loss previously recognised in the income statement. When there is objective evidence that the negative differences arising in the assessment of these assets is due to impairment, they are no longer presented in the equity chapter “Valuation Adjustments” and are recorded at the full amount accumulated until then in the income statement. If all or part of the impairment losses is subsequently recovered, the recovered amount is recognized in the income statement for the period in which the recovery is made (under “Valuation Adjustments” of the balance sheet, in the case of equity instruments).
- Equity instruments carried at cost.** Impairment losses are equal to the positive difference between their carrying value and the recoverable value, with the latter being understood to be the larger of their fair value less costs to sell and the present value of the expected future cash flows. Unless better evidence is available of the recoverable value, the latter is obtained by considering the equity of the investee company (consolidated, if applicable) adjusted for the unrealized capital gains existing at the valuation date. The impairment losses are recorded in the income statement for the period in which they arise, as a direct reduction of the cost of the instrument. These losses can only be recovered thereafter if the assets are sold.

## 5.3 Credit Value Adjustment

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

MLCME calculates CVA risk using the simple approach. MLCME’s Risk exposure from CVA as of 31st December 2018 was zero.

## 5.4 Market Risk

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

Table 13 – Market Risk Exposure and Capital Requirements

(Euro Thousands)

2018			
	Risk Weighted Assets	Capital Requirements	% of Total Capital Requirements
Foreign Exchange Risk	2,234	179	100%
<b>Total</b>	<b>2,234</b>	<b>179</b>	<b>100%</b>

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## 5.5 Operational Risk

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

Table 14 – Operational Risk Exposure and Capital Requirements

(Euro Thousands)	2018	
	Risk Exposure	Capital Requirements
Operational risk	73,863	5,909
<b>Total</b>	<b>73,863</b>	<b>5,909</b>

## 5.6 Capital Resources

MLCME has Total Capital of €80.0m, all of which is Tier 1. Information required by Article 437 of CRR has been included in Tables 16 Capital Instruments Main Features and Table 17 Common Equity Tier 1 Capital: Instruments and Reserves, following the templates laid down by EU Regulation 1423/2013.

Table 15 – Regulatory Capital Resources Reconciliation to Audited Balance Sheet

(Euro Thousands)	Balance Per Balance Sheet	Adjustment to Balance Sheet Items for Regulatory Capital Resources	Balance per Regulatory Capital Resources
Tier 1 Capital			
Share Capital	36,061	-	36,061
Share Premium	-	-	-
Capital Contribution	-	-	-
Profit and Loss Account and Other Reserves	43,962	-	43,962
<b>Tier 1 Capital After Deductions</b>	<b>80,022</b>	<b>-</b>	<b>80,022</b>
<b>Tier 2 Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Resources</b>	<b>80,022</b>	<b>-</b>	<b>80,022</b>

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Table 16 – Capital instruments Main Features

	Capital instruments main features	Ordinary shares
1	Issuer	Merrill Lynch Capital Markets España, SA
2	Unique identifier	SV
3	Governing law(s) of the instrument	Unlisted RD 1/2010, de 2 de julio. Articles 90-158
<b>Regulatory treatment</b>		
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
<b>Coupons/Dividends</b>		
17	Fixed or floating dividend/coupon	Floating
18	coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 1 instruments
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A



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Table 17 – Common Equity Tier 1 Capital: Instruments and Reserves

	31 December 2018 EUR (000)	(B)	(C)	
		REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
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)	43,962	26 (1)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	80,023		N/A
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
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	80,023		N/A
<b>Additional Tier 1 (AT1) capital: instruments</b>				
45	Tier 1 capital (T1 = CET1 + AT1)	80,023		N/A
<b>Tier 2 (T2) capital: instruments and provisions</b>				
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
<b>Tier 2 (T2) capital: regulatory adjustments</b>				
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)	80,023		N/A
60	Total risk-weighted assets	117,754		N/A
<b>Capital ratios and buffers</b>				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	67.96%	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of total risk exposure amount)	67.96%	92 (2) (b), 465	N/A
63	Total capital (as a percentage of total risk exposure amount)	67.96%	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)	2.20%	CRD 128, 129, 140	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	65.76%	CRD 128	N/A

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## 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 2018 is 3%. MLCME's ratio as of December 31st 2018 is 86.0%.

Table 18 – Leverage Ratio

LEVERAGE RATIO		
(Euro Millions)		2018
1	Total consolidated assets as per published financial statements	93
4	Adjustments for derivative financial instruments	0
7	Other adjustments	0
<b>8</b>	<b>Leverage Ratio Exposure - (transitional basis)</b>	<b>93</b>
Additional information		
	Leverage ratio exposure - transitional basis	93
	Additional asset amounts deducted in determining Basel III all-in Tier 1 capital	0
	<b>Leverage Ratio Exposure - all-in basis</b>	<b>93</b>
LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE		
(Euro Millions, except percentages)		
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures, but including collateral)	93
2	(Asset amounts deducted in determining Basel III transitional Tier 1 capital)	
<b>3</b>	<b>Total on-balance sheet exposure (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	<b>93</b>
<b>Derivatives exposures</b>		
4	Replacement cost associated with all derivatives transactions	0
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>0</b>
<b>Capital and Total Exposures - Transitional Basis</b>		
20	Tier 1 capital	80
21	Total Exposures (sum of lines 3,11,16 and 19)	93
<b>Leverage ratio - Transitional Basis</b>		
22	Basel III leverage ratio	86.0%
<b>All-in basis (Required by OSFI)</b>		
23	Tier 1 capital - All-in basis	80
24	(Regulatory adjustments)	
25	Total Exposures (lines 21+24-2) - All-in basis	93
<b>26</b>	<b>Leverage ratio - All-in basis</b>	<b>86.0%</b>
<b>Total on-balance sheet exposures (excluding derivatives and STFs), of which:</b>		
	Trading book exposures	0
	Banking book exposures	
	Other exposures	93

Regarding the factors that had an impact on the leverage ratio during 2018, MLCME's Tier 1 capital increased after including prior year retained earnings. The leverage ratio of 86.0% continues to be significantly higher than the 3% minimum required.

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## 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 2018 the investment portfolio classified as “Available for sale investment assets” related to the holding in the management company of the FOGAIN (the Investors Compensation Scheme for clients of Spanish investment firms), worth 1,200 Euros, consisting of 6 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 Countercyclical Capital Buffer

The countercyclical capital buffer reflects the geographic composition of an entities credit exposures. Phased in from 1 January 2016, the calculation is based on the total risk exposure amount multiplied by the weighted average of the countercyclical buffers rates that apply to exposures in the jurisdiction where the entities relevant credit exposures are located. MLCME has credit exposures in Spain, U.S.A, U.K and India. Spain and U.S.A. have published a countercyclical buffer rate of 0%, India has not released a buffer rate to date and U.K. published 1% to be applied only from 28 November 2018.

Table 19 – Countercyclical Capital Buffer as at 31 December 2018

MLCME Exposures

	General credit Exposures	Trading book Exposures	Securitisation Exposures
	Exposure value for Standardised Approach	Sum of long and short positions of trading book exposures for Standardised Approach	Exposure value for Standardised Approach
<i>(Euro Thousands)</i>			
United Kingdom	75,925	0	0
United States of America	374	0	0
Spain	15,008	0	0
India	1,591	0	0
<b>Total</b>	<b>92,898</b>	<b>0</b>	<b>0</b>

MLCME Own Funds Requirement

	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
<i>(Euro Thousands)</i>						
United Kingdom	3,035	0	0	3,035	0.91	1%
United States of America	6	0	0	6	0.00	0%
Spain	164	0	0	164	0.05	0%
India	127	0	0	127	0.04	0%
<b>Total</b>	<b>3,333</b>	<b>0</b>	<b>0</b>	<b>3,333</b>	<b>1.00</b>	

Institution Specific Countercyclical Capital Buffer

<i>(Euro Thousands)</i>	
Total risk exposure amount	92,898
Institution specific countercyclical capital buffer rate (%)	0% or 1%
Institution specific countercyclical capital buffer requirement	379



## 6. Additional Information on Remuneration Disclosures

## 6.1 Introduction

The following remuneration disclosure sets forth a summary of the remuneration principles and programs operated by BAC as applicable to MLCME as at 31 December 2018. This document has been prepared in order to comply with the qualitative and quantitative disclosures required by article 191 of the Royal Decree - Law 4/2015 approving the revised Securities Market Law (“Law 4/2015”) and incorporates the qualitative disclosure requirements under paragraphs (a) to (f) of Article 450(1) of the Capital Requirements Regulation (Regulation (EU) No 575/2013 – the “CRR”), and the quantitative disclosure requirements under paragraphs (g) to (i) of Article 450(1) of the CRR.

The disclosures relate to staff identified as material risk takers (“MRTs”) at BAC’s operations in respect of MLCME, taking into account the qualitative and quantitative criteria to identify categories of staff whose professional activities 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 remuneration programs across the enterprise and is committed to a remuneration governance structure that effectively contributes to its overall risk management policies.

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

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

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

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

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

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

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

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

- (i) the 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 (“MCC”), and
- (iv) governance by line of business management and independent control functions aligned to the line of business and local governance (remuneration) committees.

The Committee oversees the establishment, maintenance and administration of the Company’s remuneration programs and employee benefit plans, including approving the remuneration of the direct reports of the Chief Executive Officer (the “CEO”) and approving and recommending the remuneration of the CEO to the Board for its further approval. 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 (most recently in September 2018) the BAC Compensation Governance Policy (“CGP”) to govern incentive remuneration decisions and define the framework for design oversight of incentive remuneration programs across the Company. The CGP is designed to be consistent with global regulatory initiatives so that the Company’s incentive remuneration plans do not encourage excessive risk-taking.

The Committee receives, from time to time, direct feedback from the independent control functions on remuneration programs. For performance year 2018, in addition to reviewing the individual incentive remuneration awards for executive officers and other senior executives who report directly to the CEO, the Committee also reviewed the outcomes of the Company’s robust control function feedback process, conduct reviews and individual incentive remuneration awards for certain highly compensated employees and MRTs. As part of its governance routine, the Committee met with the heads of the Company’s independent control functions (including the Chief Risk Officer (“CRO”)) and business lines to discuss their feedback on the pay-for-performance process, including their experience managing risk and conduct matters. In addition, the Company’s CRO also certifies all incentive plans across the Company as part of the MCC’s governance process.

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

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

During performance year 2018, 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 BAC's remuneration philosophy across all lines of business is to pay for performance – Company, line of business and individual performance. Through the Company's Performance Management process, employees understand performance expectations for their role through ongoing dialogue with their manager. The Performance Management process is designed and monitored by the Leadership Development function in Human Resources. This process is reviewed periodically so that it meets the needs of managers to assess and communicate performance expectations. Throughout the year, employees receive coaching on their performance and ultimately receive a rating for their full year of performance based upon their achievement of goals for their job.

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

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

The 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.

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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 behaviours, 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.

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

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

## 6.5 Employee Pay

Bank of America compensates its employees using a balanced mix of fixed remuneration, annual cash incentives and deferred incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee's management level or amount of incentive compensation award, the greater the proportion of incentive compensation should be (i) subject to deferral and (ii) delivered in the form of equity-based compensation. Fixed remuneration mainly consists of base salary, employer pension and benefits contributions and, for certain employees, role-based allowances. Base salary and role-based allowance levels reflect each employee's scope of responsibility, experience, market pressures and accountability within the Company and are intended to be part of a competitive total remuneration package. Employer pension and benefits contributions align to local market practice and legal requirements. The portion of employees' remuneration that is variable, i.e., cash incentives and deferred incentives, as a percentage of total remuneration, generally increases for more senior positions. The remuneration mix is reviewed annually so that the Company operates a balanced and market-competitive program while in compliance with local regulations.

The Company believes equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. A portion of incentive awards is provided as a deferred incentive that generally becomes earned and payable over a period of three years after grant and will be cancelled in case of detrimental conduct and (for certain risk-takers) may be cancelled if the Company, line of business or business unit (as applicable) fails to remain profitable during the vesting period. Where applicable, the length of deferral is extended to reflect local regulatory requirements. This approach serves two key objectives, which are to focus employees on long-term



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sustainable results and to subject remuneration awards to risk over an appropriate time horizon that can be easily communicated and understood.

Bank of America offers guaranteed bonus payments only in exceptional circumstances to newly hired employees, limited to the first year of employment. Where required, the Bank structures severance payments in accordance with relevant employment law or regulatory requirements.

## 6.6 Material Risk Taker Pay

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

In accordance with Article 94(1)(g) of the Capital Requirements Directive 2013/36/EU ("CRD IV"), the Company has obtained approvals from relevant stockholders to increase the maximum ratio of variable compensation to fixed compensation to 200% for each individual. This was passed unanimously by relevant group holding companies in July 2017. The average variable to total remuneration ratio for MRTs within the scope of this disclosure is 35%, with no MRTs awarded variable remuneration exceeding their fixed remuneration.

Variable pay for MRTs generally consists of a mixture of upfront payments (delivered in cash or restricted stock units ("RSUs")) and deferred payments. Deferred awards are delivered in the form of equity-based awards, typically in the form of RSUs which become earned and payable over a period of three years after grant with, for MRTs, each tranche being subject to a further six or twelve month holding period (as required) following vesting. Deferred awards do not carry dividend equivalents during the deferral period, as required under relevant regulations.

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

Deferred awards will be cancelled in the case of detrimental conduct and may be cancelled if the Company, line of business or business unit (as applicable) fails to remain profitable during the vesting period. If risks taken as part of approved business strategies do not result in sustainable profits, or if the employee fails to behave according to Company standards or fails to meet the criteria set out in CRD IV, the value of the deferred equity award may be impacted or adjusted downwards, and/or vested amounts may be clawed back. The recommendations for performance year 2018 incentive awards for MRTs were reviewed by the Committee in January 2019.

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

## 6.7 Quantitative Data

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

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

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Any disclosure of information in respect of the remuneration 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 remuneration of individuals to the public, thereby prejudicing their legitimate interests and would be contrary to the EU Data Protection Directive and/or applicable local law. The Company, therefore, makes the quantitative disclosures below, representing aggregate data for MRTs and Board members of MLCME, to protect the data privacy of the employees.

Table 20 – Aggregate Quantitative Information<sup>1</sup>

<b>2018 Total Remuneration</b>	
Number of Staff	4
Total Remuneration (000s)	EUR 4,300
Fixed Remuneration <sup>3</sup> (000s)	EUR 2,646
Variable Remuneration <sup>4</sup> (000s)	EUR 1,654

<b>2018 Variable Remuneration</b>	
Upfront Cash (000s)	EUR 145
Vested RSUs (000s)	EUR 75
Deferred Equity-Based Awards (000s)	EUR 1,434

<b>Deferred Remuneration<sup>5</sup></b>	
Unvested at 1 January 2018 (000s)	EUR 6,652
Awarded in 2018 (000s)	EUR 1,876
Vested and Paid in 2018 (000s)	EUR 3,919
Vested and Unpaid in 2018 (000s)	EUR 0
Performance Adjustment Reductions in 2018 (000s)	EUR 0
Unvested at 31 December 2018 (000s)	EUR 4,610
Awarded in February 2019 (000s)	EUR 1,616

<b>Sign on and Severance Payments<sup>6</sup></b>	
Total Sign On Payments (000s)	EUR 0
Number of Payees	0
Total Severance Payments (000s)	EUR 0
Number of Payees	0
Highest Single Severance Payment (000s)	EUR 0

<b>Number of Individuals Awarded 2018 Total Remuneration above EUR 1 Million</b>	
EUR 1 million to EUR 1.5 million	1
EUR 2 million to EUR 2.5 million	1

## Notes

1. EUR: USD: FX Rate 1.1926618.
2. Relevant portions of performance year 2018 remuneration within the scope of this disclosure are shown.
3. Comprises base salaries, role-based allowances, country allowances and an estimate for pensions and benefits as relevant.
4. Awarded in February 2019 for performance year 2018. Comprises upfront awards (cash and RSUs) and deferred equity-based awards. Severance payments are shown separately.
5. Stock price for deferred remuneration value calculations: USD 29.11 as at 15 Feb 2019. All deferred remuneration is subject to performance adjustment provisions.
6. Awarded during 2018. Sign-on figures comprises guarantee payments which are only made in exceptional circumstances to new hires and limited to first year of employment.