

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

(SEC ID No. 8-7221)

Consolidated Balance Sheet

June 30, 2013

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Index
June 30, 2013

	Page(s)
Balance Sheet	
Consolidated Balance Sheet	1-2
Notes to Consolidated Balance Sheet	3-42

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

ASSETS

Cash and cash equivalents	\$ 1,046
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	8,119
Securities financing transactions	
Receivables under resale agreements (includes \$35,977 measured at fair value in accordance with the fair value option election)	82,805
Receivables under securities borrowed transactions	58,108
	<u>140,913</u>
Trading assets, at fair value (includes securities pledged as collateral that can be sold or repledged of \$22,027)	
U.S. Government and agencies	36,035
Equities and convertible debentures	9,533
Corporate debt and preferred stock	6,196
Municipals, money markets and other	5,273
Mortgages, mortgage-backed, and asset-backed	3,963
Derivative contracts	3,588
	<u>64,588</u>
Securities received as collateral, at fair value	8,631
Receivables from affiliated companies (includes \$476 measured at fair value in accordance with the fair value option election)	22,531
Other receivables	
Brokers and dealers	16,394
Customers (includes \$267 measured at fair value in accordance with the fair value option election and net of allowance for doubtful accounts of \$2)	14,241
Interest and other	2,534
	<u>33,169</u>
Equipment and facilities (net of accumulated depreciation of \$1,193)	453
Goodwill and intangible assets (net of amortization of \$967)	6,120
Other assets	2,080
	<u>2,080</u>
Total Assets	\$ <u>287,650</u>

**Assets of Consolidated VIEs Included in Total Assets Above (isolated to settle the liabilities
of the VIEs)**

Trading assets	\$ 1,507
Total Assets of Consolidated VIEs	\$ <u>1,507</u>

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

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

LIABILITIES

Securities financing transactions

Payables under repurchase agreements (includes \$1,402 measured at fair value in accordance with the fair value option election)	\$ 121,039
Payables under securities loaned transactions	9,464
	<u>130,503</u>

Short-term borrowings (measured at fair value in accordance with the fair value option election)	544
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Trading liabilities, at fair value

U.S. Government and agencies	19,187
Equities and convertible debentures	13,243
Corporate debt and preferred stock	4,254
Derivative contracts	4,445
Mortgages, mortgage-backed, and asset-backed and other	150
	<u>41,279</u>

Obligation to return securities received as collateral, at fair value	8,631
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Other payables

Customers	32,917
Brokers and dealers	3,568
Compensation and benefits	3,384
Interest and other (includes \$341 measured at fair value in accordance with the fair value option election)	2,370
	<u>42,239</u>

Payables to affiliated companies (includes \$361 measured at fair value in accordance with the fair value option election)	35,948
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Commitments, contingencies, and guarantees (See Note 13)

Subordinated borrowings	12,378
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Total Liabilities	<u>271,522</u>
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STOCKHOLDER'S EQUITY

Common stock, par value \$1 per share; 1,200 shares authorized; 1,000 shares issued and outstanding	-
Paid-in capital	10,367
Accumulated other comprehensive loss (net of tax)	(2)
Retained earnings	5,763
	<u>16,128</u>

Total Stockholder's Equity	<u>16,128</u>
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Total Liabilities and Stockholder's Equity	<u>\$ 287,650</u>
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Liabilities of Consolidated VIEs Included in Total Liabilities Above

Short-term borrowings	\$ 544
Other liabilities	350
Payables to affiliated companies	15
Total Liabilities of Consolidated VIEs	<u>\$ 909</u>

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

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

1. Organization

Description of Business

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), together with its subsidiaries (the “Company”), acts as a broker (i.e., agent) for corporate, institutional, government, and other clients and as a dealer (i.e., principal) in the purchase and sale of corporate debt and equity securities, United States (“U.S.”) Government securities, and U.S. Government agency obligations. The Company also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, high yield bonds, municipal securities, financial futures contracts and options and other financial instruments including collateralized debt obligations (“CDOs”) and collateralized mortgage obligations (“CMOs”). The Company holds memberships and/or has third-party clearing relationships with all major commodity and financial futures exchanges and clearing associations in the U.S. and it also carries positions reflecting trades executed on exchanges outside of the U.S. through affiliates and/or third-party clearing brokers. As an investment banking entity, the Company provides corporate, institutional, and government clients with a wide variety of financial services including underwriting the sale of securities to the public, structured and derivative financing, private placements, mortgage and lease financing and financial advisory services, including advice on mergers and acquisitions. Certain products and services may be provided through affiliates. See Note 3 to the Consolidated Balance Sheet for further information. The Company is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. (the “Parent” or “ML & Co.” and, together with its subsidiaries, “Merrill Lynch”), which is a wholly-owned subsidiary of Bank of America Corporation (“Bank of America”).

As part of Bank of America's efforts to streamline its organizational structure and reduce complexity and costs, it has reduced and intends to continue to reduce the number of its subsidiaries, including through intercompany mergers. In connection with these efforts, Bank of America may merge ML & Co. directly into Bank of America and such a merger may occur as early as the fourth quarter of 2013. Under Delaware law, as a result of such a merger, Bank of America would assume all of ML & Co.'s obligations, including its outstanding U.S. and non-U.S. debt securities, its obligations with respect to outstanding trust preferred securities and ML & Co. guarantees of outstanding non-U.S. debt securities issued by ML & Co. subsidiaries. There can be no assurance that such a merger will occur, and if it does, the timing thereof. Any such merger would be subject to applicable regulatory approvals, consents and other conditions of closing.

The Company also provides securities clearing services for its own account and for unaffiliated broker-dealers through its Broadcort Division and through its largest subsidiary, Merrill Lynch Professional Clearing Corp. (“MLPCC”). MLPCC is involved in the prime brokerage business and is also a market maker in listed option contracts on various options exchanges.

The Company also provides discretionary and non-discretionary investment advisory services. These advisory services include the Merrill Lynch Consults® Service, the Personal Investment Advisory Program, the Merrill Lynch Mutual Fund Advisor® program, the Merrill Lynch Personal Advisor program and the Merrill Lynch Unified Managed Account program. The Company provides financing to clients, including margin lending and other extensions of credit.

Through its retirement group, the Company provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts and small business retirement programs. The Company also provides investment, administration, communications, and consulting services to corporations and their employees for their retirement programs, including 401(k), pension, profit-sharing and nonqualified deferred compensation plans.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

2. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Balance Sheet includes the accounts of the Company and are presented in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). Intercompany transactions and balances have been eliminated. The Consolidated Balance Sheet is presented in U.S. dollars.

Consolidation Accounting

The Company determines whether it is required to consolidate an entity by first evaluating whether the entity qualifies as a voting rights entity (“VRE”) or as a variable interest entity (“VIE”). The Consolidated Balance Sheet includes the accounts of the Company, whose subsidiaries are generally controlled through a majority voting interest or a controlling financial interest.

VREs — VREs are defined to include entities that have both equity at risk that is sufficient to fund future operations and have equity investors that have a controlling financial interest in the entity through their equity investments. In accordance with Accounting Standards Codification (“ASC”) 810, *Consolidation*, (“Consolidation Accounting”), the Company generally consolidates those VREs where it has a majority of the voting rights.

VIEs — Those entities that do not meet the VRE criteria are generally analyzed for consolidation as VIEs. A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The Company consolidates those VIEs for which it is the primary beneficiary. In accordance with Consolidation Accounting guidance, the Company is considered the primary beneficiary when it has a controlling financial interest in a VIE. The Company has a controlling financial interest when it has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company reassesses whether it is the primary beneficiary of a VIE on a quarterly basis. The quarterly reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The reassessment also considers whether the Company has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Refer to Note 8 for further information.

Securitization Activities

In the normal course of business, the Company securitizes pools of residential mortgage-backed securities; municipal, and corporate bonds; and other types of financial assets. The Company may retain interests in the securitized financial assets by holding notes or other debt instruments issued by the securitization vehicle. In accordance with ASC 860, *Transfers and Servicing* (“Financial Transfers and Servicing Accounting”), the Company recognizes transfers of financial assets where it relinquishes control as sales to the extent of cash and any other proceeds received.

Use of Estimates

In presenting the Consolidated Balance Sheet, management makes estimates including the following:

- Valuations of assets and liabilities requiring fair value estimates;
- The ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions;

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

- The carrying amount of goodwill and intangible assets;
- The amortization period of intangible assets with definite lives;
- The outcome of pending litigation;
- Determination of whether VIEs should be consolidated;
- Incentive-based compensation accruals and valuation of share-based payment compensation arrangements; and
- Other matters that affect the reported amounts and disclosure of contingencies.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Balance Sheet, and it is possible that such changes could occur in the near term. A discussion of certain areas in which estimates are a significant component of the amounts reported in the Consolidated Balance Sheet follows:

Fair Value Measurement

The Company accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Company accounts for certain financial assets and liabilities at fair value under various accounting literature, including ASC 815, *Derivatives and Hedging*, (“Derivatives Accounting”), and the fair value option election in accordance with ASC 825-10-25, *Financial Instruments – Recognition*, (“fair value option election”). The Company also accounts for certain assets at fair value under applicable industry guidance, namely ASC 940 *Financial Services – Brokers and Dealers* (“Broker-Dealer Guide”) and ASC 946, *Financial Services – Investment Companies* (“Investment Company Guide”).

ASC 820, *Fair Value Measurements and Disclosures*, (“Fair Value Accounting”) defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

Fair values for over-the-counter (“OTC”) derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a market participant in settlement of these instruments (i.e., the amount the Company would expect to receive in a derivative asset assignment or would expect to pay to have a derivative liability assumed). These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty’s creditworthiness, or the Parent’s own creditworthiness, as appropriate. When external pricing services are used, the methods and assumptions used are reviewed by the Company. Determining the fair value for OTC derivative contracts can require a significant level of estimation and management judgment.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions that market participants would use in pricing the instrument. For instance, on long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables the Company to mark to fair value all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, the Company continually refines its pricing models to correlate more closely to the market price of these instruments.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Certain financial instruments recorded at fair value are initially measured using mid-market prices which results in gross long and short positions valued at the same pricing level prior to the application of position netting. The resulting net positions are then adjusted to fair value, representing the exit price as defined in Fair Value Accounting. The significant adjustments include liquidity and counterparty credit risk.

Liquidity

The Company makes adjustments to bring a position from a mid-market to a bid or offer price, depending upon the net open position. The Company values net long positions at bid prices and net short positions at offer prices. These adjustments are based upon either observable or implied bid-offer prices.

Counterparty Credit Risk

In determining fair value of financial assets and financial liabilities, the Company considers the credit risk of its counterparties, as well as its own creditworthiness. The Company attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and the resultant credit valuation adjustment (“CVA”) is incorporated into the fair value of the respective instruments.

Fair Value Accounting also requires that the Company consider its own creditworthiness when determining the fair value of certain instruments, including OTC derivative instruments (i.e., debit valuation adjustment or “DVA”). The Company’s DVA is measured in the same manner as CVA. The impact of the Company’s DVA is incorporated into the fair value of instruments such as OTC derivatives contracts even when credit risk is not readily observable in the instrument.

Legal Reserves

The Company is a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. Accruals are subject to significant estimation by management, with input from any outside counsel handling the matter. Refer to Note 13 for further information.

Income Taxes

The Company provides for income taxes on all transactions that have been recognized in the Consolidated Balance Sheet in accordance with ASC 740 Income Taxes (“Income Tax Accounting”). Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. Pursuant to Income Tax Accounting, the Company may consider various sources of evidence in assessing the necessity of valuation allowances to reduce deferred tax assets to amounts more-likely-than-not to be realized, including the following: 1) past and projected earnings, including losses, of the Company, the Parent and Bank of America, as certain tax attributes such as U.S. net operating losses (“NOLs”), U.S. capital loss carryforwards and foreign tax credit carryforwards can be utilized by Bank of America in certain income tax returns, 2) tax carryforward periods, and 3) tax planning strategies and other factors of the legal entities, such as the intercompany tax allocation policy. Included within the Company’s net deferred tax assets are carryforward amounts generated in the U.S. that are deductible in the future as NOLs. The Company has concluded that these deferred tax assets are more-likely-than-not to be fully utilized prior to expiration, based on the projected level of future taxable income of the

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Company, the Parent and Bank of America, which is relevant due to the intercompany tax allocation policy. For this purpose, future taxable income was projected based on forecasts, historical earnings after adjusting for the past market disruptions and the anticipated impact of the differences between pre-tax earnings and taxable income.

The Company recognizes and measures its unrecognized tax benefits (“UTB”) in accordance with Income Tax Accounting. The Company estimates the likelihood, based on their technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. The Company adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America’s policy, any new or subsequent change in an unrecognized tax benefit related to Bank of America’s state consolidated, combined or unitary return in which the Company is a member will generally not be reflected in the Company’s balance sheet. However, upon resolution of the item, any significant impact determined to be attributable to the Company will be reflected in the Company’s balance sheet.

Under the intercompany tax allocation policy of Bank of America, tax benefits associated with NOLs (or other tax attributes) of the Company are payable to the Company generally upon utilization in Bank of America’s tax returns. See Note 16 to the Consolidated Balance Sheet for further discussion of income taxes.

Goodwill and Intangible Assets

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested annually (or more frequently under certain conditions) for impairment at the reporting unit level in accordance with ASC 350, *Intangibles - Goodwill and Other* (“Goodwill and Intangible Assets Accounting”).

Intangible assets with definite lives consist primarily of value assigned to customer relationships. Intangible assets with definite lives are tested for impairment in accordance with ASC 360, *Property, Plant and Equipment*, whenever certain conditions exist which would indicate the carrying amount of such assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives. Intangible assets with indefinite lives consist of the Company’s proportion of the value assigned to the Merrill Lynch brand and are tested for impairment in accordance with Goodwill and Intangible Assets Accounting. Intangible assets with indefinite lives are not amortized.

The Company makes certain complex judgments with respect to its goodwill and intangible assets, including assumptions and estimates used to determine fair value. The Company also makes assumptions and estimates in determining the useful lives of its intangible assets with definite lives. Refer to Note 9 for further information.

Balance Sheet Captions

The following are descriptions related to specific balance sheet captions.

Cash and Cash Equivalents

The Company defines cash equivalents as short-term, highly liquid securities, and interest-earning deposits with maturities, when purchased, of 90 days or less, that are not used for trading purposes. The amounts recognized for *Cash and cash equivalents* in the Consolidated Balance Sheet approximate fair value. For purposes of the fair value hierarchy, cash and cash equivalents are classified as Level 1.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations

The Company maintains relationships with clients and therefore it is obligated by rules mandated by its primary regulators, including the Securities Exchange Commission (“SEC”) and the Commodity Futures Trading Commission (“CFTC”) in the U.S., to segregate or set aside cash and/or qualified securities to satisfy these regulations, which have been promulgated to protect customer assets. In addition, the Company is a member of various clearing organizations and exchanges at which it maintains cash and/or securities required for the conduct of its day-to-day clearance activities. The amount recognized for cash and securities segregated for regulatory purposes or deposited with clearing organizations in the Consolidated Balance Sheet approximates fair value. For purposes of the fair value hierarchy, cash is classified as Level 1 and securities segregated for regulatory purposes or deposited with clearing organizations are classified as Level 1 and Level 2.

Securities Financing Transactions

The Company enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers and earn interest rate spreads (also referred to as “matched-book” transactions), obtain securities for settlement and finance inventory positions. Resale and repurchase agreements are accounted for as collateralized financing transactions and may be recorded at their contractual amounts plus accrued interest or at fair value under the fair value option election.

Resale and repurchase agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency. For further information refer to Note 5.

Resale and repurchase agreements recorded at their contractual amounts plus accrued interest approximate fair value, as the fair value of these items is not materially sensitive to shifts in market interest rates because of the short-term nature of these instruments and/or variable interest rates or to credit risk because the resale and repurchase agreements are substantially collateralized. For purposes of the fair value hierarchy these transactions are classified as Level 2.

The Company may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the Securities Exchange Act of 1934.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received plus accrued interest. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions. The carrying value of securities borrowed and loaned transactions approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or variable interest rates or to credit risk because securities borrowed and loaned transactions are substantially collateralized. For the purposes of the fair value hierarchy these transactions are classified as Level 2.

For securities financing transactions, the Company’s policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate. Securities financing agreements give rise to negligible credit risk as a result of these collateral provisions, and no allowance for loan losses is considered necessary.

A significant majority of securities financing activities are transacted under master agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Company offsets certain repurchase and resale transactions with the same

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

counterparty on the Consolidated Balance Sheet where it has such a master agreement, that agreement is legally enforceable and the transactions have the same maturity date.

All Company-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are disclosed parenthetically in *Trading assets* on the Consolidated Balance Sheet.

In transactions where the Company acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the Consolidated Balance Sheet carried at fair value, representing the securities received (*Securities received as collateral*), and a liability for the same amount, representing the obligation to return those securities (*Obligations to return securities received as collateral*). The amounts on the Consolidated Balance Sheet result from non-cash transactions.

Trading Assets and Liabilities

The Company's trading activities consist primarily of securities brokerage and trading; derivatives dealing and brokerage; commodities trading and futures brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (e.g., securities) and derivative instruments.

Trading assets and liabilities are generally recorded on a trade date basis at fair value. Included in trading liabilities are securities that the Company has sold but did not own and will therefore be obligated to purchase at a future date ("short sales").

Derivatives

A derivative is an instrument whose value is derived from an underlying instrument or index, such as interest rates, equity security prices, currencies, commodity prices or credit spreads. Derivatives include futures, forwards, swaps, option contracts and other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies). Refer to Note 6 for further information.

Receivables and Payables from/to Affiliates

The Company enters into securities financing repurchase and resale agreements and securities borrowed and loaned transactions to finance firm inventory positions and obtain securities for settlement and engages in trading activities with other companies affiliated by common ownership. Such trading activities include providing securities brokerage, dealing, financing and underwriting services to affiliated companies. The Company also clears certain derivative transactions and provides loan syndication, loan trading and investment advisory services to Bank of America and affiliate companies. See Note 3 to the Consolidated Balance Sheet for further information.

Other Receivables and Payables

Customers

Customer securities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of the Company's customers. Due to their short-term nature, such amounts approximate fair value. For purposes of the fair value hierarchy, customer receivables and payables are primarily classified as Level 2. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheet.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Customer receivables and broker dealer receivables include margin loan transactions where the Company will typically make a loan to a customer in order to finance the customer's purchase of securities. These transactions are conducted through margin accounts. In these transactions the customer is required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. Collateral is valued daily and must be maintained over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for loan losses are only required in rare circumstances.

Compensation and Benefits

Compensation and benefits payables consists of salaries payable, financial advisor compensation, incentive and deferred compensation, payroll taxes, pension and other employee benefits.

Brokers and Dealers

Receivables from brokers and dealers primarily include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), margin deposits, and commissions. Payables to brokers and dealers primarily include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive"). Brokers and dealers receivables and payables additionally include amounts related to futures contracts transacted on behalf of customers and clearing organizations as well as net receivables or net payables arising from unsettled trades. Due to their short-term nature, the amounts recognized for brokers and dealers receivables and payables approximate fair value. For purposes of the fair value hierarchy, brokers and dealers receivables and payables are primarily classified as Level 2.

Interest and Other

Interest and other receivables includes interest receivable on corporate and governmental obligations, customer or other receivables, and stock-borrowed transactions. Also included are receivables from income taxes, underwriting and advisory fees, commissions and fees, and other receivables. Interest and other payables includes interest payable for stock-loaned transactions. Also included are amounts payable for income taxes, dividends, other reserves, and other payables.

Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost. The cost of certain facilities shared with affiliates is allocated to the Company by Bank of America based on the relative amount of space occupied.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease.

Other Assets

Other assets consist primarily of deferred tax assets, prepaid pension expense, which is allocated to the Company by the Parent related to the excess of the fair value of pension assets over the related pension obligation, other prepaid expenses, deferred deal related expenses and other deferred charges.

Short-Term Borrowings

Short-term borrowings relate to short term debt issued by consolidated municipal bond trusts and are carried at fair value under the fair value option election.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Subordinated Borrowings

The Company's funding needs are generally met by and dependent upon loans principally obtained from the Parent and repurchase agreements. Refer to Note 11 for further information.

New Accounting Pronouncements

Effective January 1, 2013, the Company retrospectively adopted new accounting guidance from the Financial Accounting Standards Board ("FASB") requiring additional disclosures on the effect of netting arrangements on an entity's financial position. The disclosures relate to derivatives and securities financing agreements that are either offset on the balance sheet under existing accounting guidance or are subject to a legally enforceable master netting or similar agreement. This new guidance addresses only disclosures, and accordingly, did not have any impact on the Company's Consolidated Balance Sheet. For the related disclosures, see Note 6 and Note 7.

3. Related Party Transactions

The Company enters into repurchase and resale agreements and securities borrowed and loaned transactions to finance firm inventory positions and obtain securities for settlement with other companies affiliated by common ownership. The Company also provides securities brokerage, dealing, financing and underwriting and investment advisory services to affiliated companies. Further, the Company contracts a variety of services from Bank of America and certain affiliated companies including accounting, legal, regulatory compliance, transaction processing, purchasing, building management and other services.

The Company clears certain securities transactions through or for other affiliated companies on both a fully-disclosed and non-disclosed basis.

Newly hired financial advisors are offered cash upfront in the form of an interest-bearing loan. Financial advisors who receive this loan also receive a monthly service incentive payment that equates to the principal and interest due on the loan for as long as they remain with the Company during the loan term. The outstanding loan balance will become due if employment is terminated before the vesting period. As of June 30, 2013, the Company had loans outstanding from financial advisors of \$999 which are included in *Interest and other receivables* on the Consolidated Balance Sheet.

Receivables from affiliated companies are comprised of:

Receivables under resale agreements	\$	9,897
Cash and securities segregated for regulatory purposes		5,017
Receivables under securities borrowed transactions		3,397
Brokers and dealers		1,714
Cash and cash equivalents		874
Trading assets		811
Customers		119
Other		702
Total	\$	<u>22,531</u>

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

Payables to affiliated companies are comprised of:

Payables under securities loaned transactions	\$	14,244
Payables under repurchase agreements		5,308
Brokers and dealers		7,690
Customers		4,252
Due to Parent, net		2,746
Unsecured revolving line of credit with Bank of America		745
Trading Liabilities		224
Other		739
	<u>\$</u>	<u>35,948</u>

MLPF&S has established the following unsecured borrowing agreement with the Parent in the normal course of business:

- A \$20,000 362-day revolving unsecured line of credit that allows MLPF&S to borrow funds from the Parent. Interest on the line of credit is based on prevailing short-term market rates. The line of credit matures on August 9, 2013. At June 30, 2013, approximately \$4,142 was outstanding on the line of credit. Subsequent to June 30, 2013, a new line of credit was established with a maturity date of February 1, 2014. Refer to Note 17 for further information.

Additionally, the subsidiaries of MLPF&S engage in lending transactions with the Parent in the normal course of business. As of June 30, 2013 the subsidiaries of MLPF&S had a net balance of \$1,396 due from the Parent.

MLPF&S also has the following agreements with Bank of America:

- A \$4,000 one-year revolving unsecured line of credit - Interest on the line of credit is based on prevailing short-term market rates. The credit line will mature on November 1, 2013 and will automatically be extended by one year to the succeeding November 1st unless Bank of America provides written notice not to extend at least 45 days prior to the maturity date. At June 30, 2013, there were no outstanding borrowings under the line of credit.
- A \$15,000 revolving unsecured line of credit - Interest on the line of credit is based on prevailing short-term market rates. The line of credit will mature on February 1, 2014 and will automatically extend every six months. At June 30, 2013, approximately \$745 was outstanding under the line of credit.

4. Trading Activities

The Company's trading activities consist primarily of securities brokerage and trading; derivatives dealing and brokerage; and financing and underwriting services to both affiliated companies and third party clients.

Trading Risk Management

Trading activities subject the Company to market and credit risks. These risks are managed in accordance with Bank of America's established risk management policies and procedures. Bank of America's risk management structure as applicable to the Company is described below.

Bank of America's Global Markets Risk Committee ("GMRC"), chaired by Bank of America's Global Markets Risk Executive, has been designated by the Asset Liability and Market Risk Committee ("ALMRC") as the primary governance authority for its global markets risk management, including trading

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

risk management. The GMRC's focus is to take a forward-looking view of the primary credit and market risks impacting Bank of America's Global Markets business (which includes the Company's sales and trading business) and prioritize those that need a proactive risk mitigation strategy.

Bank of America conducts its business operations through a substantial number of subsidiaries. The subsidiaries are established to fulfill a wide range of legal, regulatory, tax, licensing and other requirements. As such, to ensure a consistent application of minimum levels of controls and processes across its subsidiaries, Bank of America established the Subsidiary Governance Policy in 2010. This policy outlines the minimum required governance, controls, management reporting, financial and regulatory reporting, and risk management practices for Bank of America's subsidiaries.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, and related risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Company.

Liquidity Risk

Liquidity Risk is defined as the potential inability to meet contractual and contingent financial obligations, on- or off- balance sheet, as they come due. The Company maintains excess liquidity, typically in the form of unencumbered U.S. Government securities and U.S. Government agency securities. In addition, the Company is supported through intercompany borrowing arrangements with the Parent and Bank of America.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Currency forwards and options are commonly used to manage currency risk. Currency swaps may also be used in situations where a long-dated forward market is not available or where the client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by the Company to manage equity price risk include equity options, warrants, total return swaps and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Credit Spread Risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (e.g., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative). Certain instruments are used by the Company to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the *Counterparty Credit Risk* section.

Counterparty Credit Risk

The Company is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Company to default risk. Credit risk arising from changes in credit spreads is discussed above.

The Company has established policies and procedures for mitigating counterparty credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining qualifying collateral, purchasing credit protection, and continually assessing the creditworthiness of counterparties.

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

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Derivatives Default Risk

The Company's trading derivatives consist of derivatives provided to customers and affiliates and derivatives entered into for trading strategies or risk management purposes. Default risk exposure varies by type of derivative. Default risk on derivatives can occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of loss is generally limited to a one-day net positive change in fair value. Generally such receivables and payables are recorded in customers' receivables and payables on the Consolidated Balance Sheet. Option contracts can be exchange-traded or OTC. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and typically do not subject the Company to default risk except under circumstances where the option premium is being financed or in cases where the Company is required to post collateral. Refer to Note 6 for further information on credit risk management related to derivatives.

Concentrations of Credit Risk

The Company's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

Concentration of Risk to the U.S. Government and its Agencies

At June 30, 2013, the Company had exposure to the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily includes trading asset positions in instruments issued or guaranteed by the U.S. Government and its agencies amounted to \$41,602 at June 30, 2013. The Company's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. The Company's direct credit exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at June 30, 2013 totaled \$126,099, of which \$11,787 was from affiliated companies.

The Company's significant industry credit concentration is with financial institutions, including both affiliates and third parties. Financial institutions include other brokers and dealers, commercial banks, financing companies, insurance companies, and investment companies. This concentration arises in the normal course of the Company's brokerage, trading, financing, and underwriting activities.

In the normal course of business, the Company purchases, sells, underwrites, and makes markets in non-investment grade instruments. These activities expose the Company to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties.

5. Fair Value of Financial Instruments

Fair Value Hierarchy

In accordance with Fair Value Accounting, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial assets and liabilities recorded on the Consolidated Balance Sheet are categorized based on the observability of inputs to the valuation techniques as follows:

- Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives, U.S. Government securities, and certain other non-U.S. government obligations).
- Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - a. Quoted prices for similar assets or liabilities in active markets (examples include restricted stock and U.S. agency securities);

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

- b. Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which can trade infrequently);
 - c. Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
 - d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including securities and derivatives).
- Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's view about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, certain residential and commercial mortgage-related assets, and long-dated or complex derivatives).

As required by Fair Value Accounting, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3).

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

Valuation Processes and Techniques

The Company has various processes and controls in place to ensure that its fair value measurements are reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models by personnel who are independent of the front office and periodic reassessments to ensure that models are continuing to perform as designed. A price verification group, which is also independent of the front office, utilizes available market information including executed trades, market prices and market observable valuation model inputs to ensure that fair values are reasonably estimated. The Company executes due diligence procedures over third party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

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

During the six months ended June 30, 2013, there were no changes to the Company's valuation techniques that had or are expected to have, a material impact on its Consolidated Balance Sheet.

The following outlines the valuation methodologies for the Company's material categories of assets and liabilities:

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

U.S. Government and agencies

U.S. Treasury securities: U.S. Treasury securities are valued using quoted market prices and are generally classified as Level 1 in the fair value hierarchy.

U.S. agency securities: U.S. agency securities are comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. The fair value of agency issued debt securities is derived using market prices and recent trade activity gathered from independent dealer pricing services or brokers. Generally, the fair value of mortgage pass-throughs is based on market prices of comparable securities. Agency issued debt securities and mortgage pass-throughs are generally classified as Level 2 in the fair value hierarchy.

Municipal debt

Municipal bonds: The fair value of municipal bonds is calculated using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. The majority of these bonds are classified as Level 2 in the fair value hierarchy.

Auction Rate Securities (“ARS”): The Company holds investments in certain ARS, including student loan and municipal ARS. Student loan ARS are comprised of various pools of student loans. Municipal ARS are issued by states and municipalities for a wide variety of purposes, including but not limited to healthcare, industrial development, education and transportation infrastructure. The fair value of the student loan ARS is calculated based upon a number of assumptions including weighted average life, coupon, discount margin and liquidity discounts. The fair value of the municipal ARS is calculated based upon projected refinancing and spread assumptions. In both cases, recent trades and issuer tenders are considered in the valuations. Student loan ARS and municipal ARS are classified as Level 2 or Level 3 in the fair value hierarchy.

Corporate debt

Corporate bonds: Corporate bonds are valued based on either the most recent observable trade and/or external quotes, depending on availability. The most recent observable trade price is given highest priority as the valuation benchmark based on an evaluation of transaction date, size, frequency, and bid-offer. This price may be adjusted by bond or credit default swap spread movement. When credit default swap spreads are referenced, cash-to-synthetic basis magnitude and movement as well as maturity matching are incorporated into the value. When neither external quotes nor a recent trade is available, the bonds are valued using a discounted cash flow approach based on risk parameters of comparable securities. In such cases, the potential pricing difference in spread and/or price terms with the traded comparable is considered. Corporate bonds are generally classified as Level 2 in the fair value hierarchy.

Mortgages, mortgage-backed and asset-backed

Residential Mortgage-Backed Securities (“RMBS”), Commercial Mortgage-Backed Securities (“CMBS”), and other Asset-Backed Securities (“ABS”): RMBS, CMBS and other ABS are valued based on observable price or credit spreads for the particular security or when price or credit spreads are not observable, the valuation is based on prices of comparable bonds or the present value of expected future cash flows. Valuation levels of RMBS and CMBS indices are used as an additional data point for benchmarking purposes or to price outright index positions.

When estimating the fair value based upon the present value of expected future cash flows, the Company uses its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

yield curves and discount rates commensurate with the risks involved, while also taking into account performance of the underlying collateral.

The majority of RMBS, CMBS and other ABS are classified as Level 2 in the fair value hierarchy. If external prices or credit spreads are unobservable or if comparable trades/assets involve significant subjectivity related to property type differences, cash flows, performance and other inputs they are classified as Level 3 in the fair value hierarchy.

Equities

Exchange-traded equity securities: Exchange-traded equity securities are generally valued based on quoted prices from the exchange. These securities are classified as either Level 1 or Level 2 in the fair value hierarchy, primarily based on the exchange on which they are traded.

Convertible debentures: Convertible debentures are valued based on observable trades and/or external quotes, depending on availability. When neither observable trades nor external quotes are available, the instruments are valued using a discounted cash flow approach based on risk parameters of comparable securities. In such cases, the potential pricing difference in spread and/or price terms with the traded comparable is considered. Convertible debentures are generally classified as Level 2 in the fair value hierarchy.

Margin Loans

For certain long-term fixed-rate margin loans within customer receivables that are hedged with derivatives, the Company has elected fair value option. These loans are collateralized by a portfolio of convertible and corporate bonds. For the purpose of fair value hierarchy classification these loans are classified as Level 3. Fair value is estimated based on the use of benchmarks related to underlying collateral.

Derivative contracts

Listed Derivative Contracts: Listed derivatives that are actively traded are generally valued based on quoted prices from the exchange and are classified as Level 1 in the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives; they are generally classified as Level 2 of the fair value hierarchy.

OTC Derivative Contracts: OTC derivatives include forwards, swaps and options related to interest rate, foreign currency, credit, equity or commodity underlyings.

The fair value of OTC derivatives are derived using market prices and other market based pricing parameters such as interest rates, currency rates and volatilities that are observed directly in the market or gathered from independent sources such as dealer consensus pricing services or brokers. Where models are used, they are used consistently and reflect the contractual terms of and specific risks inherent in the contracts. Generally, the models do not require a high level of subjectivity since the valuation techniques used in the models do not require significant judgment and inputs to the models are readily observable in active markets. When appropriate, valuations are adjusted for various factors such as liquidity, and credit considerations based on available market evidence. In addition, for most collateralized interest rate and currency derivatives the requirement to pay interest on the collateral may be considered in the valuation. The majority of OTC derivative contracts are classified as Level 2 in the fair value hierarchy.

CDOs: The fair value of CDOs is derived from a referenced basket of CDS, the CDO's capital structure, and the default correlation, which is an input to a proprietary CDO valuation model. The underlying CDO portfolios typically contain investment grade as well as non-investment grade obligors. After adjusting for differences in risk profile, the correlation parameter for an actual transaction is estimated by benchmarking

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

against observable standardized index tranches and other comparable transactions. CDOs are generally classified as Level 2 in the fair value hierarchy.

Resale and repurchase agreements

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

Short-term borrowings

Short-term borrowings represent floating rate certificates of consolidated municipal bond trusts that can be tendered by the certificate holders at par with as little as seven days notice. These certificates predominantly carry interest rates that reset on a weekly basis. Due to the short-term nature and given the embedded put feature, these instruments are marked at par. Short-term borrowings are classified as Level 2 in the fair value hierarchy.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Fair Value Measurements on a Recurring Basis				
	Level 1	Level 2	Level 3	Netting Adj (1)	Total
Assets:					
Securities segregated for regulatory purposes or deposited with clearing organizations:					
U.S. Government and agencies	\$ 4,994	\$ 573	\$ -	\$ -	\$ 5,567
Total securities segregated for regulatory purposes or deposited with clearing organizations	4,994	573	-	-	5,567
Receivables under resale agreements	-	35,977	-	-	35,977
Trading assets, excluding derivative contracts:					
U.S. Government and agencies	23,943	12,092	-	-	36,035
Equities and convertible debentures	8,658	779	96	-	9,533
Corporate debt	-	5,479	311	-	5,790
Municipals, money markets and other	-	5,046	227	-	5,273
Mortgages, mortgage-backed and asset-backed	-	2,894	1,069	-	3,963
Preferred stock	-	269	137	-	406
Total trading assets, excluding derivative contracts	32,601	26,559	1,840	-	61,000
Derivative contracts	627	2,957	4	-	3,588
Securities received as collateral	8,631	-	-	-	8,631
Other assets	-	-	-	-	-
Customer receivables	-	-	267	-	267
Receivables from affiliated companies ⁽²⁾	-	11,287	-	(10,000)	1,287
Liabilities:					
Payables under repurchase agreements	-	1,402	-	-	1,402
Trading liabilities, excluding derivative contracts:					
U.S. Government and agencies	18,776	411	-	-	19,187
Equities and convertible debentures	13,094	149	-	-	13,243
Corporate debt	-	4,161	8	-	4,169
Mortgages, mortgage-backed and asset-backed and other	-	104	46	-	150
Preferred stock	-	84	1	-	85
Total trading liabilities, excluding derivative contracts	31,870	4,909	55	-	36,834
Derivative contracts	1,175	3,270	-	-	4,445
Obligation to return securities received as collateral	8,631	-	-	-	8,631
Short-term borrowings	-	544	-	-	544
Other Payables	-	335	6	-	341
Payables to affiliated companies ⁽²⁾	-	10,583	-	(9,998)	585

(1) Represents counterparty and cash collateral netting.

(2) Receivables from affiliated companies and Payables to affiliated companies consist of trading assets, trading liabilities, receivables under resale agreements, payables under repurchase agreements and derivative contracts.

There were no transfers between Level 1 and Level 2 assets and liabilities for the six months ended June 30, 2013.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

Level 3 Significant Inputs

The following table presents information about significant unobservable inputs related to material components of the Company's Level 3 financial assets as of June 30, 2013:

Quantitative Information about Level 3 Fair Value Measurements

Financial Instrument	Fair Value	Inputs			
		Valuation Techniques	Significant Unobservable Inputs	Ranges of Inputs	Weighted Average
Instruments backed by residential real estate assets	\$ 328				
Trading assets - Mortgages, mortgage-backed and asset-backed	328	Discounted cash flow	Yield	4% to 25%	10%
Instruments backed by commercial real estate assets	\$ 101				
Trading assets - Mortgages, mortgage-backed and asset-backed	101	Discounted cash flow, Market Comparables	Yield	5% to 10%	7%
Corporate loans, debt securities and other	\$ 1,218				
Trading assets - Corporate Debt	311		Yield	2% to 29%	12%
Trading assets - Mortgages, mortgage-backed and asset-backed	640	Discounted cash flow	Prepayment speed	5% to 40%	20%
Customer Receivables	267		EBITDA multiple/ Enterprise Value	4x to 13x	7x
			Loss Severity	25% to 40%	35%
			Default rates	1% to 4%	4%
Auction Rate Securities	\$ 227				
Trading assets - Municipals, money markets and other	227	Discounted cash flow, Market Comparables	Projected tender price/ re-financing level	50% to 98%	86%

In the table above, instruments backed by residential and commercial real estate assets include RMBS, CMBS and mortgage CDOs. Corporate loans, debt securities and other include corporate collateralized loan obligations ("CLOs") and CDOs, corporate bonds, securities backed by non-real estate assets and long-term fixed-rate margin loans for which the fair value option has been elected.

The Company uses multiple market approaches in valuing certain of its Level 3 financial instruments. For example, market comparables and discounted cash flows are used together. For a given product, such as auction rate securities, market comparables may be used to estimate some of the unobservable inputs and then these inputs are incorporated into a discounted cash flow model. Therefore, the balances disclosed encompass both of these techniques.

Sensitivity of Fair Value Measurements to Changes in Unobservable Inputs

For instruments backed by residential real estate assets, commercial real estate assets and Corporate loans, debt securities and other, a significant increase in market yields, default rates or loss severities would result in a significantly lower fair value for long positions. Short positions would be impacted in a directionally

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

opposite way. The impact of changes in prepayment speeds would have differing impacts depending on the seniority of the instrument and, in the case of CLOs, whether prepayments can be reinvested.

For student loan and municipal ARS, a significant increase in projected tender price/refinancing levels would result in a significantly higher fair value.

Fair Value Option Election

The fair value option election allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. The fair value option election is permitted on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. As discussed above, certain of the Company's financial instruments are required to be accounted for at fair value under Investment Accounting and Derivatives Accounting, as well as industry level guidance. For certain financial instruments that are not accounted for at fair value under other applicable accounting guidance, the fair value option election has been made.

The Company elected the fair value option for certain resale and repurchase agreements. The fair value option election was made based on the tenor of the resale and repurchase agreements, which reflect the magnitude of the interest rate risk. The majority of resale and repurchase agreements collateralized by U.S. Government securities were excluded from the fair value option election as these contracts are generally short-dated and therefore the interest rate risk is not considered significant. Amounts loaned under resale agreements require collateral with a market value equal to or in excess of the principal amount loaned resulting in minimal credit risk for such transactions.

The Company elected the fair value option for certain long-term fixed rate margin loans that are hedged with derivatives.

The Company elected the fair value option for short term debt issued by consolidated municipal bond trusts where the assets are also carried at fair value.

For the period ended June 30, 2013, the difference between fair value and the aggregate contractual principal amount of receivables under resale agreements (with third party and affiliates), fixed-rate margin loans and payables under repurchase agreements (with third party and affiliates) for which the fair value option has been elected, was not material to the Consolidated Balance Sheet.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

6. Derivatives

Derivatives Accounting establishes accounting and reporting standards for derivative instruments. Derivatives Accounting requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The fair value of all derivatives and associated cash collateral is recorded on a net-by-counterparty basis on the Consolidated Balance Sheet where the Company believes a legal right of offset exists under an enforceable netting agreement. All derivatives are reported on the Consolidated Balance Sheet as trading assets and liabilities. The Company enters into derivatives to facilitate client transactions, for trading and financing purposes, and to manage risk exposures arising from trading assets and liabilities.

Derivative Balances by Primary Risk

Derivative instruments contain numerous market risks. In particular, most derivatives have interest rate risk, as they contain an element of financing risk that is affected by changes in interest rates. Additionally, derivatives expose the Company to counterparty credit risk, although this is generally mitigated by collateral margining and netting arrangements. For disclosure purposes below, the primary risk of a derivative is largely determined by the business that is engaging in the derivative activity. For instance, a derivative that is initiated by an equities derivative business will generally have equity price risk as its primary underlying market risk and is classified as such for the purposes of this disclosure, despite the fact that there may be other market risks that affect the value of the instrument.

The following table identifies the primary risk for derivative instruments at June 30, 2013. The primary risk is provided on a gross basis, prior to the application of counterparty and cash collateral netting.

	Contract/ Notional	Derivative Assets Total⁽¹⁾	Contract/ Notional	Derivative Liabilities Total⁽¹⁾
Interest rate contracts	\$ 266,504	\$ 4,346	\$ 294,322	\$ 4,713
Equity contracts	247,680	9,395	251,147	9,677
Credit derivatives				
Purchased protection	795	348	3,982	81
Written protection	2,870	62	371	144
Gross derivative asset/liabilities	<u>\$ 517,849</u>	<u>\$ 14,151</u>	<u>\$ 549,822</u>	<u>\$ 14,615</u>
Less: Legally enforceable master netting	-	(9,619)	-	(9,619)
Less: Cash collateral received/paid	-	(381)	-	(379)
Total derivative assets and liabilities	<u>\$ 517,849</u>	<u>\$ 4,151</u>	<u>\$ 549,822</u>	<u>\$ 4,617</u>

(1) The amounts in the table above include both third party and affiliate trading derivatives. At June 30, 2013 the Company had gross derivative assets with affiliates of \$10,563 (notional of \$258,957), legally enforceable netting with affiliates of \$9,619, and cash collateral received from affiliates of \$381. At June 30, 2013 the Company had gross derivative liabilities with affiliates of \$10,170 (notional of \$255,857), legally enforceable netting with affiliates of \$9,619, and cash collateral paid to affiliates of \$379.

Offsetting of Derivatives

The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give the Company, in the event of default by the counterparty, the right to liquidate securities held as collateral and to offset receivables and payables with the same

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

counterparty. For purposes of the Consolidated Balance Sheet, the Company offsets derivative assets and liabilities and cash collateral held with the same counterparty where it has such a legally enforceable master netting agreement.

The following table presents derivative instruments included in derivative trading assets and liabilities on the Company's Consolidated Balance Sheet at June 30, 2013 by primary risk (e.g., interest rate risk) and the platform, where applicable, on which these derivatives are transacted. Exchange-traded derivatives include listed options transacted on an exchange. Over-the-counter derivatives include bilateral transactions between the Company and a particular counterparty.

Balances are presented on a gross basis, prior to the application of counterparty and cash collateral netting. Total gross derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and have been reduced by the cash collateral received or paid.

Other gross derivative assets and liabilities in the table represents derivatives entered into under master netting agreements where uncertainty exists as to the enforceability of these agreements under bankruptcy laws in some countries or industries and, accordingly, receivables and payables with counterparties in these countries or industries are reported on a gross basis.

For information on the offsetting of securities financing agreements, see Note 7.

Offsetting of Derivatives

	June 30, 2013	
	Trading Assets - Derivative Contracts	Trading Liabilities - Derivative Contracts
Interest rate contracts		
Over-the-counter	\$ 1,540	\$ 2,420
Equity contracts		
Over-the-counter	8,975	8,327
Exchange-traded	420	1,204
Credit contracts		
Over-the-counter	410	225
Total gross derivative assets/liabilities, before netting		
Over-the-counter	\$ 10,925	\$ 10,972
Exchange-traded	\$ 420	\$ 1,204
Less: Legally enforceable master netting	(9,619)	(9,619)
Less: Cash collateral received/paid	(381)	(379)
Derivative assets/liabilities, after netting	1,345	2,178
Other gross derivative assets/liabilities	2,806	2,439
Total net derivative assets/liabilities	\$ 4,151	\$ 4,617

Credit Derivatives

Credit derivatives derive value based on an underlying third party referenced obligation or a portfolio of referenced obligations. The Company is both a seller and a buyer of credit protection. A seller of credit protection is required to make payments to a buyer upon the occurrence of a predefined credit event. Such

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

credit events generally include bankruptcy of the referenced credit entity and failure to pay under their credit obligations, as well as acceleration of indebtedness and payment repudiation or moratorium. For credit derivatives based on a portfolio of referenced credits or credit indices, the Company as a seller of credit protection may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount.

Credit derivatives where the Company is the seller of credit protection are summarized below:

	Maximum Payout/ Notional	Less than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Carrying Value⁽¹⁾
Derivative Contracts:						
Credit derivatives:						
Investment grade ⁽²⁾	\$ 1,533	\$ -	\$ 100	\$ 1,433	\$ -	\$ -
Non-investment grade ⁽²⁾	1,708	-	-	956	752	144
Total credit derivatives	<u>\$ 3,241</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 2,389</u>	<u>\$ 752</u>	<u>\$ 144</u>
Credit related notes:						
Investment grade ⁽²⁾	\$ 175	\$ 32	\$ 11	\$ 17	\$ 115	\$ 175
Non-investment grade ⁽²⁾	914	43	20	94	757	914
Total credit related notes	<u>\$ 1,089</u>	<u>\$ 75</u>	<u>\$ 31</u>	<u>\$ 111</u>	<u>\$ 872</u>	<u>\$ 1,089</u>
Total derivative contracts	<u><u>\$ 4,330</u></u>	<u><u>\$ 75</u></u>	<u><u>\$ 131</u></u>	<u><u>\$ 2,500</u></u>	<u><u>\$ 1,624</u></u>	<u><u>\$ 1,233</u></u>

(1) Derivative contracts are shown on a gross basis prior to counterparty and cash collateral netting.

(2) Refers to the creditworthiness of the underlying reference obligations.

For most credit derivatives, the notional value represents the maximum amount payable by the Company as a seller of credit protection. However, the Company does not exclusively monitor its exposure to credit derivatives based on notional value. Instead, a risk framework is used to define risk tolerances and establish limits to help to ensure that certain credit risk-related losses occur within acceptable, predefined limits. The Company discloses internal categorizations (i.e., investment grade, non-investment grade) consistent with how risk is managed to evaluate the payment status of its freestanding credit derivative instruments.

The Company economically hedges its exposure to credit derivatives by entering into a variety of offsetting derivative contracts and security positions. For example, in certain instances, the Company purchases credit protection with identical underlying referenced names to offset its exposure. At June 30, 2013, the notional value and carrying value of credit protection purchased and credit protection sold by the Company with identical underlying referenced names was:

	Maximum Payout/ Notional	Less than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Carrying Value⁽¹⁾
Credit derivatives sold	\$ 3,111	\$ -	\$ 100	\$ 2,365	\$ 646	\$ 81
Credit derivatives purchased	4,232	-	100	3,250	882	130

(1) Derivative contracts are shown on a gross basis prior to counterparty and cash collateral netting.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Credit Related Notes

Credit related notes in the table above include investments in securities issued by CDO vehicles. These instruments are classified as trading securities. Most of the entities that issue these instruments have either the ability to enter into, or have entered into, credit derivatives.

The carrying value of these instruments equals the Company's maximum exposure to loss. The Company is not obligated to make any payments to the entities under the terms of the securities owned.

The Company discloses internal categorizations (i.e., investment grade, non-investment grade) consistent with how risk is managed for these instruments.

Credit Risk Management of Derivatives

The Company defines counterparty credit risk as the potential for loss that can occur as a result of an individual, counterparty, or issuer being unable to honor its contractual obligations. The Company mitigates its credit risk to counterparties through a variety of techniques, including, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees, and the purchase of credit default protection.

The Company enters into ISDA master netting agreements or similar agreements with substantially all of its derivative counterparties. Netting agreements are generally negotiated bilaterally and can require complex terms. While the Company makes reasonable efforts to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject the Company to additional credit risk. The enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

7. Securities Financing Transactions

The Company enters into secured borrowing and lending transactions to meet customers' needs and to earn interest rate spreads, obtain securities for settlement and finance trading inventory positions.

Under these transactions, the Company either receives or provides collateral, including U.S. Government and agency securities, asset-backed, corporate debt, equity, and non-U.S. Governments and agency securities. The Company receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under most agreements the Company is permitted to sell or repledge the securities received (e.g., use these securities to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions). At June 30, 2013, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$342,944, of which \$17,660 was received from affiliated companies. Included in the securities received from affiliated companies, \$6,062 is segregated in a special reserve account as required by Rule 15c3-3 under the Securities Exchange Act of 1934. The fair value of securities received as collateral that had been sold or repledged was \$237,648, of which \$9,120 have been sold or repledged to affiliated companies.

Additionally, the Company receives securities as collateral in connection with certain securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge securities received, the Company reports the fair value of such securities received as collateral and the related obligation to return securities received as collateral in the Consolidated Balance Sheet.

The Company pledges assets which are included in trading assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

parenthetically disclosed in *trading assets* on the Consolidated Balance Sheet. The carrying value and classification of securities owned by the Company that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at June 30, 2013 are as follows:

Trading asset category		
U.S. Government and agencies	\$	9,510
Equities and convertible debentures		3,877
Corporate debt and preferred stock		1,477
Mortgages, mortgage-backed, and asset-backed securities		1,233
Municipals and money markets		282
Total	\$	<u>16,379</u>

At June 30, 2013, securities loaned or pledged to affiliated companies that can be sold or repledged by the affiliated companies was \$2,967. Securities loaned or pledged where the affiliated companies do not have the right to sell or repledge was \$414.

In certain cases, the Company has transferred assets to consolidated VIEs where those restricted assets serve as collateral for the interests issued by the VIEs. These assets, which are not included in the table above, are disclosed on the Condensed Consolidated Balance Sheet as Assets of Consolidated VIEs. These transactions are also described in Note 8.

Generally, when the Company transfers financial instruments that are not recorded as sales (i.e., secured borrowing transactions), the liability is recorded as either payables under repurchase agreements or payables under securities loaned transactions; however, in instances where the Company transfers financial assets to a consolidated VIE, the liabilities of the consolidated VIE will be reflected in short or long-term borrowings. In either case, at the time of transfer, the related liability is equal to the cash received in the transaction. In most cases the lenders in secured borrowing transactions have full recourse to the Company (i.e., recourse beyond the assets pledged).

Offsetting of Securities Financing Agreements

A significant majority of repurchase and resale activities are transacted under legally enforceable master repurchase agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company offsets repurchase and resale transactions with the same counterparty on the Company's Consolidated Balance Sheet where it has such a legally enforceable master netting agreement and the transactions have the same maturity date.

A significant majority of securities borrowing and lending activities are transacted under legally enforceable master securities lending agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. In certain instances, the Company offsets securities borrowing and lending transactions with the same counterparty on the Company's Consolidated Balance Sheet where it has such a legally enforceable master netting agreement and the transactions have the same maturity date.

The tables below present securities financing agreements included on the Company's Consolidated Balance Sheet at June 30, 2013. Balances are presented on a gross basis, prior to the application of counterparty netting. Gross assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. For information on the offsetting of derivatives, see Note 6.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

The "Other" amount in the tables below relates to transactions where the Company acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral. In these transactions, the Company recognizes an asset on the Consolidated Balance Sheet at fair value, representing the securities received, and a liability for the same amount, representing the obligation to return those securities. The "Other" amount is included on the Company's Consolidated Balance Sheet in securities received as collateral, at fair value and obligation to return securities received as collateral, at fair value.

The column entitled "Financial Instruments" in the tables below includes securities collateral received or pledged under repurchase or securities lending agreements where there is a legally enforceable master netting agreement. These amounts are not offset in the Consolidated Balance Sheet but are shown as a reduction to the net balance sheet amount in the table to derive a net asset or liability. Securities collateral received or pledged where the legal enforceability of the master netting agreements is not certain is not included.

Gross assets and liabilities include activity where uncertainty exists as to the enforceability of certain master netting agreements under bankruptcy laws in some countries or industries and, accordingly, are reported on a gross basis.

Assets					
June 30, 2013					
	Gross Assets	Amounts Offset	Net Balance Sheet Amount	Financial Instruments	Net Asset
Receivables under resale agreements	\$ 128,606	\$ (45,801)	\$ 82,805	\$ (74,247)	\$ 8,558
Receivables under securities borrowed transactions	58,108	-	58,108	(40,663)	17,445
Total	\$ 186,714	\$ (45,801)	\$ 140,913	\$ (114,910)	\$ 26,003

Liabilities					
June 30, 2013					
	Gross Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Instruments	Net Liability
Payables under repurchase agreements	\$ 166,840	\$ (45,801)	\$ 121,039	\$ (97,165)	\$ 23,874
Payables under securities loaned transactions	9,464	-	9,464	(8,583)	881
Other	8,631	-	8,631	(8,631)	-
Total	\$ 184,935	\$ (45,801)	\$ 139,134	\$ (114,379)	\$ 24,755

8. Securitization and Other Variable Interest Entities

The Company utilizes VIEs in the ordinary course of business to support its own and its customers' financing and investing needs. The Company administers, structures or invests in VIEs including municipal bond trusts, repackaging vehicles and resecuritization vehicles, as described in more detail below.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. The Company is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The tables below present the assets and liabilities of consolidated and unconsolidated VIEs if the Company has continuing involvement with transferred assets or it otherwise has a variable interest in the VIE. The

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

tables also present the Company's maximum exposure to loss resulting from its involvement with consolidated VIEs and unconsolidated VIEs in which the Company holds a variable interest as of June 30, 2013. The Company's maximum exposure to loss is based on the unlikely event that all of the assets in the VIEs become worthless and incorporates not only potential losses associated with assets recorded on the Company's Consolidated Balance Sheet but also potential losses associated with off-balance sheet commitments such as unfunded liquidity commitments and other contractual arrangements. The Company's maximum exposure to loss does not include losses previously recognized.

Except as described below, the Company has not provided financial support to consolidated or unconsolidated VIEs that it was not contractually required to provide, nor does it intend to do so.

Municipal Bond Securitizations

The Company sponsors municipal bond trusts that hold highly-rated, long-term, fixed-rate municipal bonds, some of which are callable prior to maturity. The trusts obtain financing by issuing floating-rate trust certificates that reprice on a frequent basis to third party investors. The Company may transfer assets into the trusts and may also serve as remarketing agent for the trusts. The floating-rate investors have the right to tender the certificates at specified dates. Should the Company be unable to remarket the tendered certificates, the Company declares a failed remarketing, and has no further obligation to purchase the certificates. The certificate holder tenders the securities to the Tender agent.

The following table summarizes certain information related to municipal bond trusts in which the Company holds a variable interest as of June 30, 2013.

	Consolidated	Unconsolidated	Total
Maximum Loss Exposure	\$ 761	\$ 56	\$ 817
On-balance sheet assets			
Trading assets	776	56	832
Total Assets	776	56	832
On-balance sheet liabilities			
Short-term borrowings	544	-	544
Payables to affiliated companies	15	-	15
Total Liabilities	559	-	559
Total assets of VIEs	\$ 776	\$ 140	\$ 916

The Company consolidates municipal bond trusts when it has a controlling financial interest. As transferor of assets into a trust, the Company has the power to determine which assets would be held in the trust and to structure the liquidity facilities, default protection and credit enhancement, if applicable. In some instances, the Company retained a residual interest in such trusts and has loss exposure that could potentially be significant to the trust through the residual interest and other arrangements. The Company is also the remarketing agent, through which it has the power to direct the activities that most significantly impact economic performance. Accordingly, the Company is the primary beneficiary of and consolidates these trusts. In other instances, one or more third party investor(s) hold(s) the residual interest and, through that interest, has the unilateral right to liquidate the trust. The Company does not consolidate these trusts.

Other VIEs

The following table summarizes certain information related to other VIEs in which the Company holds a variable interest as of June 30, 2013 which primarily include resecuritization vehicles and repackaging vehicles.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

	Consolidated			Unconsolidated		
	Resecuritization	Other	Total	Resecuritization	Other	Total
Maximum Loss Exposure	\$ 371	\$ 18	\$ 389	\$ 1,506	\$ 22	\$ 1,528
On-balance sheet assets						
Trading assets	616	115	731	1,506	22	1,528
Total Assets	616	115	731	1,506	22	1,528
On-balance sheet liabilities						
Other Liabilities	245	105	350	-	-	-
Total Liabilities	245	105	350	-	-	-
Total assets of VIEs	\$ 616	\$ 115	\$ 731	\$ 19,921	\$ 288	\$ 20,209

The Company transfers existing securities, typically MBS, into securitization vehicles at the request of customers seeking securities with specific characteristics. Generally, there are no significant ongoing activities performed in a securitization trust and no single investor has the unilateral ability to liquidate the trust.

The Company securitized \$11,537 of securities during the period ended June 30, 2013. The Company consolidates a securitization trust if it has sole discretion over the design of the trust, including the identification of securities to be transferred in and the structure of securities to be issued, and also retains a variable interest that could potentially be significant to the trust. If one or a limited number of third-party investors share responsibility for the design of the trust and purchase a significant portion of securities, including subordinated securities issued by non agency trusts, the Company does not consolidate the trust.

Other VIEs include vehicles which are created to pass through economic characteristics of the vehicles holdings through the issuance of multiple tranches of debt and equity securities. Other VIEs also include repackaging vehicles which issue notes that are designed to incorporate risk characteristics desired by customers of the Company. These vehicles hold debt instruments such as corporate bonds, convertible bonds or ABS with the desired credit risk profile. The Company enters into derivatives with the vehicles to change the interest rate or currency profile of the debt instruments.

The Company consolidates other VIEs in which it has a controlling financial interest. The Company typically has control over the initial design of the vehicle and may also have the ability to replace the collateral assets. The Company consolidates these vehicles when it has control over the vehicle from holding a significant portion of the securities issued by the vehicle or has a unilateral right to liquidate the vehicle or sole power to direct the economics that most significantly impact the vehicle. The Company does not consolidate a vehicle if the Company does not have a variable interest that could potentially be significant to the vehicle.

The Company's maximum exposure to loss for unconsolidated VIEs is significantly less than the total assets in the table on the previous page because the Company typically has exposure to only a portion of the total assets.

9. Goodwill and Intangible Assets

Goodwill

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at the acquisition date. Goodwill is tested annually (or more frequently under certain conditions) for impairment at the reporting unit level in accordance with ASC 350, *Intangibles – Goodwill and Other* (“Goodwill and Intangibles Assets Accounting.”) If the fair value of the reporting unit exceeds its carrying value, its goodwill is not deemed to be impaired. If the fair value is less than the carrying value, a further analysis is required to determine the amount of impairment, if any. The Company's next annual impairment test will be performed during the second half of 2013, based on financial information as of June 30, 2013.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

The carrying amount of goodwill was \$3,949 at June 30, 2013.

Intangible Assets

Intangible assets with definite lives at June 30, 2013 consisted primarily of value assigned to customer relationships. Intangible assets with definite lives are tested for impairment in accordance with ASC 360, *Property, Plant and Equipment*, whenever certain conditions exist which would indicate the carrying amounts of such assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives. Intangible assets with indefinite lives consist of the Company's proportion of the value assigned to the Merrill Lynch brand and are tested for impairment in accordance with Goodwill and Intangible Assets Accounting. Intangible assets with indefinite lives are not amortized. The Company's next annual impairment test will be performed during the second half of 2013, based on financial information as of June 30, 2013.

The gross carrying amount of intangible assets with definite lives was \$2,203 at June 30, 2013. Accumulated amortization of intangible assets with definite lives was \$967. The carrying amount of intangible assets with indefinite lives was \$935 as of June 30, 2013.

10. Short-Term Borrowings

As of June 30, 2013, short-term borrowings include short term debt issued by consolidated municipal bond trusts in the amount of \$544. Refer to Note 8 for further information.

11. Subordinated Borrowings and Other Financing

At June 30, 2013, subordinated borrowings and credit committed under agreements with the Parent consisted of the following:

	<u>Maturity</u>	<u>Amount Outstanding</u>	<u>Total Credit Facility</u>
MLPF&S with Parent			
Revolving Subordinated Line of Credit	May 24, 2015	\$ 6,220	\$ 12,000
Cash Equity Subordinated Agreement	May 24, 2015	5,858	5,858
MLPCC with Parent			
Revolving Subordinated Line of Credit	April 30, 2014	300	3,000
Total Subordinated Liabilities		<u>\$ 12,378</u>	<u>\$ 20,858</u>

These borrowings, which have been approved for regulatory capital purposes for each respective company, are U.S. dollar-denominated obligations at variable interest rates based on one-month or three-month LIBOR plus a spread. The spread ranges from 75 basis points to 110 basis points. Each loan agreement contains a provision that automatically extends the loan's maturity by one year unless specified actions are taken prior to maturity date.

The Company obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated \$602 at June 30, 2013.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

12. Stockholder's Equity

MLPF&S is authorized to issue 1,200 shares of \$1.00 par value common stock. At June 30, 2013, there were 1,000 shares issued and outstanding.

MLPF&S is authorized to issue 1,000 shares of \$1.00 par value preferred stock. At June 30, 2013, there were no preferred shares issued.

13. Commitments, Contingencies and Guarantees

Litigation and Regulatory Matters

In the ordinary course of business, the Company is routinely a defendant in or party to many pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings are generally based on alleged violations of securities, employment, contract and other laws. In some of these actions and proceedings, claims for substantial monetary damages are asserted against the Company.

In the ordinary course of business, the Company is also subject to regulatory examinations, information gathering requests, inquiries, investigations, threatened legal actions and proceedings. The Company is a registered broker/dealer or investment advisor and is subject to regulation by the SEC, the Financial Industry Regulatory Authority ("FINRA"), the New York Stock Exchange, and other federal and state securities regulators. In connection with formal and informal inquiries by those agencies, the Company receives numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of its regulated activities.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation or regulatory matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. If, at the time of evaluation, the loss contingency related to a litigation or regulatory matter is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. Once the loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, the Company will establish an accrued liability with respect to such loss. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

In some of the matters described below, loss contingencies are not both probable and estimable in the view of management, and accordingly, an accrued liability has not been established for those matters. Information is provided below regarding the nature of these contingencies and, where specified, the amount of the claim associated with these loss contingencies. Based on current knowledge, management does not believe that loss contingencies arising from pending matters will have a material adverse effect on the Company's

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

consolidated financial position or liquidity. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company for any particular reporting period.

Specific Litigation and Regulatory Matters

Ambac Litigation

On April 16, 2012, Ambac Assurance Corp. and the Segregated Account of Ambac Assurance Corp. (together, "Ambac") sued MLPF&S, First Franklin Financial Corp., Merrill Lynch Mortgage Lending, Inc., Merrill Lynch Mortgage Investors, Inc. and a Bank of America entity in New York Supreme Court, New York County. Plaintiffs' claims relate to guaranty insurance Ambac provided on a First Franklin securitization (Franklin Mortgage Loan Trust, Series 2007-FFC). The securitization was sponsored by a Merrill Lynch entity, and certain certificates in the securitization were insured by Ambac. The complaint alleges that defendants breached representations and warranties concerning the origination of the underlying mortgage loans and asserts claims for fraudulent inducement, breach of contract and indemnification. The complaint does not specify the amount of damages sought.

Defendants moved to dismiss the complaint on July 13, 2012. On July 19, 2013, the court denied defendants' motion to dismiss Ambac's contract and fraud causes of action. In addition, the court denied defendants' motion to dismiss Ambac's claims for attorneys' fees and punitive damages. The court also dismissed Ambac's indemnification cause of action.

European Commission - Credit Default Swaps Antitrust Investigation

On July 1, 2013, the European Commission ("Commission") announced that it had addressed a Statement of Objections ("SO") to Banc of America Securities LLC ("BAS," a predecessor to MLPF&S), Bank of America and a related entity (together, the "Bank of America Entities"); a number of other financial institutions; Markit Group Limited; and the International Swaps and Derivatives Association (together, the "Parties"). The SO sets forth the Commission's preliminary conclusion that the Parties infringed EU competition law by participating in alleged collusion to prevent exchange trading of credit default swaps and futures. According to the SO, the conduct of the Bank of America Entities took place between August 2007 and April 2009. As part of the Commission's procedures, the Parties will be given the opportunity to review the evidence in the investigative file, respond to the Commission's preliminary conclusions, and request a hearing before the Commission. If the Commission is satisfied that its preliminary conclusions are proved, the Commission has stated that it intends to impose a fine and require appropriate remedial measures. However, given the early stage of this matter it is not possible to estimate the amount of any fine or what remedial measures may be required.

"Good Reason" Litigation

Since 2009, the Company and certain affiliates have been named as defendants in lawsuits and arbitrations brought by former Merrill Lynch employees, primarily financial advisors, who participated in certain Merrill Lynch equity and contingent long term incentive compensation plans (the "Plans"). These actions generally allege that the former employees had "good reason" to resign as that term is defined under the change in control provisions of the applicable Plans and, as such, are entitled to immediate vesting and payment of forfeited awards and/or monetary sums under those Plans.

In addition, a putative class action was filed in October 2009, entitled *Chambers, et al. v. Merrill Lynch & Co., et al.* in the U.S. District Court for the Southern District of New York, seeking certification of a putative class of financial advisors and seeking damages and other payments under the good reason provisions of certain contingent incentive compensation plans. On November 26, 2012, the parties entered into an

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

agreement to settle *Chambers*. The settlement amount has been fully accrued. On April 26, 2013, the court granted final approval to the *Chambers* settlement. Other individual actions asserting good reason claims remain pending.

Mortgage-Backed Securities (“MBS”) Litigation

The Parent, the Company and certain of their affiliates have been named as defendants in a number of cases relating to their various roles as issuer, originator, seller, depositor, sponsor, underwriter and/or controlling entity in MBS offerings, pursuant to which the MBS investors were entitled to a portion of the cash flow from the underlying pools of mortgages. These cases generally include actions by individual MBS purchasers. Although the allegations vary by lawsuit, these cases generally allege that the registration statements, prospectuses and prospectus supplements for securities issued by securitization trusts contained material misrepresentations and omissions, in violation of Sections 11, 12, and/or 15 of the Securities Act of 1933, state securities laws and/or other state statutory and/or common laws.

These cases generally involve allegations of false and misleading statements regarding (i) the process by which the properties that served as collateral for the mortgage loans underlying the MBS were appraised; (ii) the percentage of equity that mortgage borrowers had in their homes; (iii) the borrowers’ ability to repay their mortgage loans; (iv) the underwriting practices by which those mortgage loans were originated; (v) the ratings given to the different tranches of MBS by rating agencies; and (vi) the validity of each issuing trusts’ title to the mortgage loans comprising the pool for the securitization (collectively, “MBS Claims”). Plaintiffs in these cases generally seek unspecified compensatory damages, unspecified costs and legal fees and, in some instances, seek rescission. A number of other entities have threatened legal actions against the Company concerning MBS offerings. On March 29, 2013, the Company and the National Credit Union Administration (the “NCUA”) agreed to resolve claims concerning certain MBS offerings that the NCUA had threatened to bring against the Company and certain of its affiliates. The settlement amount was covered by existing reserves.

AIG Litigation

On August 8, 2011, American International Group, Inc. and certain of its affiliates (collectively, “AIG”) filed a complaint in New York Supreme Court, New York County, in a case entitled *American International Group, Inc. et al. v. Bank of America Corporation et al.* AIG has named, among others, the Company and certain related entities as defendants. AIG’s complaint asserts certain MBS Claims pertaining to 142 MBS offerings and two MBS private placements relating to Merrill Lynch entities, in which AIG alleges that it purchased securities between 2005 and 2007. AIG seeks rescission of its purchases or a rescissory measure of damages or, in the alternative, compensatory damages of not less than \$9,000 as to all defendants; punitive damages; and other unspecified relief. Defendants removed the case to the U.S. District Court for the Southern District of New York. On April 19, 2013, the U.S. Court of Appeals for the Second Circuit vacated an order of the district court denying a motion by AIG to remand, and remanded the case to the district court for further proceedings concerning whether the court will exercise its jurisdiction on other grounds. AIG’s motion to remand is currently pending in the district court.

Federal Housing Finance Agency Litigation

On September 2, 2011, the Federal Housing Finance Agency (“FHFA”), as conservator for Fannie Mae (“FNMA”) and Freddie Mac (“FHLMC”), filed complaints in the U.S. District Court for the Southern District of New York against Bank of America, the Company and certain related entities, and certain current and former officers and directors of these entities. The actions are entitled *Federal Housing Finance Agency v. Bank of America Corporation, et al.* (the “FHFA Bank of America Litigation”), and *Federal Housing Finance Agency v. Merrill Lynch & Co., Inc., et al.* (the “FHFA Merrill Lynch Litigation”). The complaints assert certain MBS Claims relating to MBS issued and/or underwritten by Bank of America, the Company

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

and related entities in 23 MBS offerings and in 72 MBS offerings, respectively, between 2005 and 2008 and allegedly purchased by either FNMA or FHLMC. The FHFA seeks, among other relief, rescission of the consideration FNMA and FHLMC paid for the securities or alternatively damages allegedly incurred by FNMA and FHLMC, including consequential damages. The FHFA also seeks recovery of punitive damages in the FHFA Merrill Lynch Litigation.

The FHFA Bank of America Litigation and the FHFA Merrill Lynch Litigation, along with fourteen other cases filed by the FHFA against other financial institutions, have been coordinated before a single judge in the U.S. District Court for the Southern District of New York. One action, *FHFA v. UBS Americas, Inc., et al.* (the "UBS Action"), was designated the lead action with respect to allegations and claims common to the pending FHFA cases. On May 4, 2012, the court denied in part and granted in part a motion to dismiss in the UBS Action. The court subsequently denied motions to dismiss in the FHFA Merrill Lynch Litigation and the FHFA Bank of America Litigation on November 8, 2012 and November 28, 2012, respectively. On August 14, 2012, the U.S. Court of Appeals for the Second Circuit granted the UBS defendants' application for an interlocutory appeal of the district court's ruling pertaining to the statute of repose on the federal and state securities law claims and the statute of limitations on the federal securities law claims asserted in the UBS Action. On April 5, 2013, the U.S. Court of Appeals for the Second Circuit affirmed the district court's ruling. As a result of a settlement, on July 30, 2013, UBS and the FHFA filed a stipulation of dismissal of the UBS Action. The FHFA has asserted similar claims in the FHFA Merrill Lynch Litigation and the FHFA Bank of America Litigation.

Prudential Insurance Litigation

On March 14, 2013, The Prudential Insurance Company of America and certain of its affiliates (collectively "Prudential") filed a complaint in the U.S. District Court for the District of New Jersey, in a case entitled *Prudential Insurance Company of America, et al. v. Bank of America, N.A., et al.* Prudential has named, among others, the Company and certain related entities as defendants. Prudential's complaint asserts certain MBS Claims pertaining to 54 MBS offerings in which Prudential alleges that it purchased securities between 2004 and 2007. Prudential seeks, among other relief, compensatory damages, rescission or a rescissory measure of damages, treble damages, punitive damages, and other unspecified relief.

Regulatory and Governmental Investigations

The Company has received a number of subpoenas and other requests for information from regulators and governmental authorities regarding MBS and other mortgage-related matters, including inquiries, investigations and potential proceedings related to a number of transactions involving the Company's underwriting and issuance of MBS and its participation in certain CDO offerings. These inquiries and investigations include, among others, an investigation by the SEC related to Merrill Lynch's risk control, valuation, structuring, marketing and purchase of CDOs, and investigations by the Department of Justice (the "DOJ"), the SEC, and New York State Attorney General (the "NYAG") concerning the purchase, securitization and underwriting of mortgage loans and RMBS. The Company has provided documents and testimony and continues to cooperate fully with these inquiries and investigations.

The DOJ and SEC have filed civil charges in the U.S. District Court for the Western District of North Carolina, against BAS and other Bank of America entities arising from a single jumbo prime securitization: BOAMS 2008A. The staff of the SEC has advised that they intend to recommend civil charges concerning a securitization. The staff of the NYAG has advised that they intend to recommend filing an action against Merrill Lynch arising from their RMBS investigation. In addition, the staff of the SEC has advised that it is considering recommending civil charges against Merrill Lynch arising from its CDO investigation. The Company has been in active discussions with senior staff of each government entity in connection with the respective investigations to explain why the threatened civil charges are not appropriate.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

Commitments

At June 30, 2013, the Company's commitments had the following expirations:

	Total	Commitment expiration			
		Less than 1 year	1– 3 years	3 – 5 years	Over 5 years
Purchasing commitments	\$ 868	\$ 195	\$ 399	\$ 274	\$ -
Operating leases	2,042	414	629	400	599
Other commitments:					
Commitments to enter into repurchase agreements	6,818	6,818	-	-	-
Commitments to enter into resale agreements	7,667	7,667	-	-	-
Total	<u>\$ 17,395</u>	<u>\$ 15,094</u>	<u>\$ 1,028</u>	<u>\$ 674</u>	<u>\$ 599</u>

Purchasing Commitments

The Company has entered into commitments to purchase service contracts with providers of market data, communications, and systems consulting services.

Further, the Company entered into commitments to purchase loans, which upon settlement of the commitment will be included in trading assets. The Company also has commitments to purchase partnership interests, primarily related to private equity investments.

Operating Leases

The Parent and Bank of America have entered into various non-cancelable long-term lease agreements for premises that expire through 2023 and were allocated to the Company. The Company has also entered into various non-cancelable short-term equipment leases that expire through 2016.

Other Commitments

In connection with trading activities, the Company enters into commitments to enter into resale and repurchase agreements.

Guarantees

The Company provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no liability is carried in the Consolidated Balance Sheet for these arrangements.

In connection with its prime brokerage business, the Company provides to counterparties guarantees of the performance of its prime brokerage clients. Under these arrangements, the Company stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, the Company must fulfill the customer's obligation with the counterparty. The Company is secured by the assets in the customer's account as well as any proceeds received from the securities transaction entered into by the Company on behalf of the customer. No contingent liability is carried in the

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Consolidated Balance Sheet for these transactions as the potential for the Company to be required to make payments under these arrangements is remote.

In connection with its securities clearing business, the Company performs securities execution, clearance and settlement services on behalf of other broker-dealer clients for whom it commits to settle trades submitted for or by such clients, with the applicable clearinghouse; trades are submitted either individually, in groups or series or, if specific arrangements are made with a particular clearinghouse and client, all transactions with such clearing entity by such client. The Company's liability under these arrangements is not quantifiable and could exceed any cash deposit made by a client. However, the potential for the Company to be required to make unreimbursed payments under these arrangements is remote due to the contractual capital requirements associated with clients' activity and the regular review of clients' capital. Accordingly, no liability is carried in the Consolidated Balance Sheet for these transactions.

14. Employee Benefit Plans

The Parent provides pension and other postretirement benefits to its employees worldwide through sponsorship of defined contribution pension, defined benefit pension and other postretirement plans. These plans vary based on the country and local practices.

Bank of America Corporation Corporate Benefits Committee has overall responsibility for the administration of all of the Parent's employee benefit plans. The Parent continues as the plan sponsor.

Bank of America maintains certain qualified retirement and defined contribution plans covering full-time, salaried employees and certain part-time employees. Eligible employees newly hired on or after January 1, 2010 participate in the Bank of America plans with certain exceptions. Employees of certain non-U.S. subsidiaries will continue to participate in the various local plans.

In connection with a redesign of its retirement plans, Bank of America amended its Qualified Pension Plans to freeze benefits earned effective June 30, 2012. Bank of America continues to offer retirement benefits through its defined contribution plans.

The defined benefit pension plans and postretirement benefit plans are accounted for in accordance with ASC 715-20-50, *Compensation – Retirement Benefits, Defined Benefit Plans-General* (“Defined Benefit Plan Accounting”). Postemployment benefits are accounted for in accordance with ASC 712, *Compensation-Nonretirement Postemployment Benefits*. Required disclosures are included in the December 31, 2012 Form 10-K of the Parent.

Defined Contribution Pension Plans

The U.S. defined contribution plan sponsored by the Parent is the 401(k) Savings & Investment Plan (“SIP”). The SIP is closed to new participants with certain exceptions.

Defined Benefit Pension Plans

The Parent previously purchased an annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit pension plan that was terminated (the “U.S. terminated pension plan”) in accordance with the applicable provisions of the Employee Retirement Income Security Act (“ERISA”). The Parent under a supplemental agreement, may be responsible for, or benefit from, actual experience and investment performance of the annuity assets. The Parent made no contribution under this agreement for the period ended June 30, 2013. Additional contributions may be required in the future under this agreement. The

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

Parent also maintains supplemental defined benefit pension plans (i.e., plans not subject to Title IV of ERISA) for certain U.S. participants.

Employees of certain non-U.S. subsidiaries participate in various local defined benefit pension plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. The Parent's funding policy has been to contribute annually at least the amount necessary to satisfy local funding standards.

Postretirement Benefits Other Than Pensions

Health insurance benefits are provided to eligible retired employees and dependents through Bank of America sponsored plans. The health care coverage is contributory, with certain retiree contributions adjusted periodically. The accounting for costs of health care benefits for most eligible employees anticipates future changes in cost-sharing provisions. The Parent also sponsors similar plans that provide health care benefits to eligible retired employees of certain non-U.S. subsidiaries. As of June 30, 2013, none of these plans had been funded.

Postemployment Benefits

The Company provides certain postemployment benefits for employees on extended leave due to injury, illness, or death and for terminated employees. Eligible employees who are disabled due to non-work related illness or injury are entitled to disability income, medical coverage and life insurance. Bank of America also provides severance benefits to terminated employees.

Severance benefits may be provided to eligible terminated employees under the terms of a severance pay plan. All full-time employees are eligible for severance benefits subject to the terms of the severance pay plan.

15. Employee Incentive Plans

Incentive plans are sponsored by Bank of America. Disclosures required by ASC 718, *Compensation- Stock Compensation*, ("Stock Compensation Accounting") are included in the December 31, 2012 Form 10-K of the Parent.

To align the interests of employees with those of stockholders, the Company participates in compensation plans sponsored by Bank of America, which grants eligible employees stock-based awards, including stock options, restricted stock and Restricted Stock Units "RSUs". These plans include the Financial Advisor Capital Accumulation Award Plan ("FACAAP"), and other deferred compensation plans and award programs.

Financial Advisor Capital Accumulation Award Plans ("FACAAP")

The FACAAP is no longer an active plan and no awards were granted in 2013. At June 30, 2013, there were 10 million shares awarded under FACAAP outstanding. Prior to 2009, the FACAAP provided for awards to eligible employees in Merrill Lynch's Global Wealth Management division. Payment for an award was contingent upon continued employment for a period of time and subject to forfeiture during that period. Awards granted in 2003 and thereafter are generally payable eight years from the date of grant in a fixed number of shares of Bank of America common stock.

Other Compensation Arrangements

The Company participates in Bank of America sponsored deferred compensation plans in which employees who meet certain minimum compensation thresholds may participate on either a voluntary or mandatory basis. Contributions to the plans are made on a tax-deferred basis by participants. Participants' returns on

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

these contributions may be indexed to various mutual funds and other funds. The Company also participates in several Bank of America sponsored, cash-based employee award programs, under which certain employees are eligible to receive future cash compensation, generally upon fulfillment of the service and vesting criteria for the particular program. At June 30, 2013, accrued liabilities for these plans and grants totaled \$2,090 and are recorded in *Compensation and benefits* payable on the Consolidated Balance Sheet.

When appropriate, the Company maintains various investments as an economic hedge of its liabilities to participants under these deferred compensation plans and award programs, including a derivative transaction with an affiliate. At June 30, 2013, the Company had such investments totaling \$122 and a derivative transaction with an affiliate effectively hedging an additional \$2,420 of the Company's liabilities.

16. Income Taxes

The reconciliation of the beginning UTB balance to the ending balance is presented in the table below.

Reconciliation of the Change in UTBs

Balance at December 31, 2012	\$	120
Increases related to positions taken during prior years		-
Decreases related to positions taken during prior years		-
Settlements		-
Balance at June 30, 2013	<u>\$</u>	<u>120</u>

As of June 30, 2013, the balance of the Company's UTBs which would, if recognized, affect the Company's effective tax rate was \$38. Included in the UTB balance are some items the recognition of which would not affect the effective tax rate, such as the tax effect of certain temporary differences, the portion of gross state UTBs that would be offset by the tax benefit of the associated federal deduction and the portion of gross non-U.S. UTBs that would be offset by tax reductions in other jurisdictions.

The Company files income tax returns in numerous state, local and non-U.S. jurisdictions each year. The Internal Revenue Service ("IRS") and other tax authorities in states, cities, and countries in which the Company has significant business operations, examine tax returns periodically (continuously in some jurisdictions). The table below summarizes the status of significant tax examinations, by jurisdiction, for the Company as of June 30, 2013.

<u>Jurisdiction</u>	<u>Years Subject to Examination⁽¹⁾</u>	<u>Status at June 30, 2013</u>
U.S. Federal	2004-2009 ⁽²⁾	See below
U.S. Federal	2010-2011 ⁽²⁾	Field examination

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

(2) From the date of its acquisition by Bank of America, the Company has been included in Bank of America's consolidated federal income tax return. Prior to the date of its acquisition by Bank of America, the Company was included in the Parent's consolidated federal income tax return.

During 2013, the Parent, Bank of America and the IRS continued to make progress toward resolving all federal income tax examinations for Bank of America tax years through 2009 and the Parent's tax years through 2008. While subject to final agreement, including review by the Joint Committee on Taxation of the

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

U.S. Congress for certain years, the Company believes that these examinations may be concluded during 2013.

Considering all U.S. federal examinations, it is reasonably possible that the Company's UTB balance will decrease by as much as \$95 during the next twelve months, since resolved items will be removed from the balance whether their resolution resulted in payment or recognition.

At June 30, 2013, the Company's accrual for interest and penalties that related to income taxes, net of taxes and remittances, was \$22.

Significant components of the Company's net deferred tax assets and liabilities at June 30, 2013 included on the Consolidated Balance Sheet within *Other assets* are presented below.

Deferred tax assets

Employee compensation	\$	1,583
Loss carryforwards		747
Securities valuations		252
Contingency reserve		126
Other		406
Gross deferred tax assets		<u>3,114</u>
Valuation allowance		<u>(39)</u>
Total deferred tax assets, net of valuation allowance	\$	<u>3,075</u>

Deferred tax liabilities

Goodwill and intangibles	\$	1,262
Gross deferred tax liabilities	\$	<u>1,262</u>

Net deferred tax asset

\$ 1,813

The table below summarizes the deferred tax assets and the related valuation allowance recognized for the net operating loss carryforwards at June 30, 2013.

	Deferred Tax Asset	Valuation Allowance	Net Deferred Tax Asset	First Year Expiring
Net operating losses - U.S.	\$ 609	\$ -	\$ 609	After 2028
Net operating losses - U.S. states ⁽¹⁾	138	(39)	99	Various

⁽¹⁾ Amounts above include capital losses. The losses and related valuation allowances for U.S. states before considering the benefit of federal deductions were \$212 and \$(60), respectively.

Realization of the deferred tax assets recognized for net operating losses in the table above is dependent on the Company's, the Parent's, or Bank of America's ability to generate sufficient taxable income prior to their expiration. Management concluded that no valuation allowance was necessary to reduce the U.S. federal NOL carryforwards since estimated future taxable income will more-likely-than-not be sufficient to utilize these assets prior to expiration.

The Company and its Parent are included in the consolidated U.S. federal income tax return and certain combined and unitary state income tax returns of Bank of America. At June 30, 2013, the Company had a

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

Notes to Consolidated Balance Sheet

June 30, 2013

(dollars in millions, except share and per share amounts)

current income tax payable due to its Parent of approximately \$32 as a result of its inclusion in consolidated, combined, and unitary tax return filings with Bank of America and Parent.

17. Subsequent Events

ASC 855, *Subsequent Events*, requires the Company to evaluate whether events, occurring after the balance sheet date but before the date the financial statements are available to be issued, require accounting as of the balance sheet date, or disclosure in the financial statements. The Company has evaluated such subsequent events through date of issuance.

Subsequent to June 30, 2012, the \$20,000 362 day revolving unsecured line of credit between MLPF&S and the Parent matured. A new \$20,000 line was established with a maturity date of February 1, 2014 and will automatically extend every six months. Interest on the line of credit is based on prevailing short-term market rates.

On July 19, 2013, MLPCC drew down \$300 and on July 30, 2013 the Company repaid \$300, of its subordinated borrowings to the Parent.

18. Regulatory Requirements

As a registered broker-dealer and futures commission merchant, MLPF&S is subject to the net capital requirements of SEC Rule 15c3-1, and CFTC Regulation 1.17. MLPF&S has elected to compute the minimum capital requirement in accordance with the "Alternative Net Capital Requirement" as permitted by SEC Rule 15c3-1. At June 30, 2013, MLPF&S' regulatory net capital as defined by Rule 15c3-1 was \$11,649 and exceeded the minimum requirement of \$793 by \$10,856.

At July 31, 2013 MLPF&S's regulatory net capital as defined by Rule 15c3-1 was \$12,073, and exceeds the minimum net capital requirement of \$875 by \$11,198.

In accordance with the Alternative Net Capital Requirements, MLPF&S is required to maintain tentative net capital in excess of \$1,000, net capital in excess of \$500, and notify the SEC in the event its tentative net capital is less than \$5,000. As of June 30, 2013, MLPF&S had tentative net capital and net capital in excess of the minimum and notification requirements.

MLPCC, a fully-guaranteed subsidiary of MLPF&S, is subject to the regulatory requirements promulgated by the SEC or other regulatory and exchange authorities. Net capital and excess net capital at June 30, 2013 as defined by these regulatory authorities is \$1,829 and \$1,587 respectively.

At July 31, 2013, MLPCC's regulatory net capital as defined by these regulatory authorities was \$2,010, and exceeds the minimum net capital requirement of \$254 by \$1,756. MLPF&S and MLPCC are also subject to the customer protection requirements of Rule 15c3-3 under the Act.

For the June 30, 2013 customer reserve computation, MLPF&S and MLPCC segregated in a special reserve account, for the exclusive benefit of customers, cash and qualified securities valued \$5,937 and \$2,940, respectively.

MLPF&S and MLPCC are also required to perform a computation of reserve requirements for Proprietary Accounts of Introducing Brokers ("PAIB") pursuant to Rule 15c3-3 of the Act. For the June 30, 2013 PAIB

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Notes to Consolidated Balance Sheet
June 30, 2013

(dollars in millions, except share and per share amounts)

reserve computation, MLPF&S and MLPCC segregated in a special reserve account for the exclusive benefit of PAIB securities with a contract value of \$1,585 and \$3,350, respectively.

As futures commission merchants, MLPF&S and MLPCC are required to perform computations of the requirements of Section 4d(2), Regulation 30.7, and Regulation 22.2 under the Commodity Exchange Act. As of June 30, 2013, assets segregated, secured and sequestered totaled \$11,344 and \$1,616 and exceeded requirements by \$894 and \$801 for MLPF&S and MLPCC, respectively.