

**Merrill Lynch UK Holdings**

# Pillar 3 Disclosures

As at 31 December 2012



## Contents

<b>1. Introduction</b>	<b>5</b>
<b>2. Capital Resources and Minimum Capital Resource Requirements</b>	<b>9</b>
<b>3. Risk Management Objectives and Policies</b>	<b>17</b>
<b>4. Further Detail on Market and Counterparty and Credit Risk Capital Resource Requirements</b>	<b>27</b>
<b>5. Additional Information on Liquidity and Remuneration Disclosure</b>	<b>39</b>

## List of Charts & Tables

Figure 1. Summary of Capital Position	6
Figure 2. High Level Organisation Chart	8
Figure 3. Summary of Capital Resources	10
Figure 4. Summary of Minimum Capital Resource Requirements	12
Figure 5. Capital Surplus and Ratios	13
Figure 6. Counterparty and Credit Risk Exposure Detail	14
Figure 7. Counterparty and Credit Risk Exposure by Credit Quality Step	15
Table 1. Capital Resources by Entity	10
Table 2. Minimum Capital Requirement by Entity	12
Table 3. Capital Surplus over Minimum Resources Requirements and Tier 1 Ratio	13
Table 4. Position Risk Requirement by Entity	28
Table 5. MLUKH 2011 and 2012 VaR	29
Table 6. Counterparty and Credit Risk Minimum Capital Requirement and RWA	30
Table 7. Counterparty and Credit Risk Exposure by Industry Distribution	31
Table 8. Counterparty and Credit Risk Exposure by Geographical Distribution	32
Table 9. Counterparty and Credit Risk Exposure by Residual Maturity and Average Value	33
Table 10. Counterparty and Credit Risk Exposure by Credit Quality Step	34
Table 11. Counterparty and Credit Risk Exposure by Product	36
Table 12. Counterparty and Credit Risk Exposure - Credit Derivatives	37



# 1. Introduction

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

## 1. Introduction

### 1.1. Overview & Purpose of Document

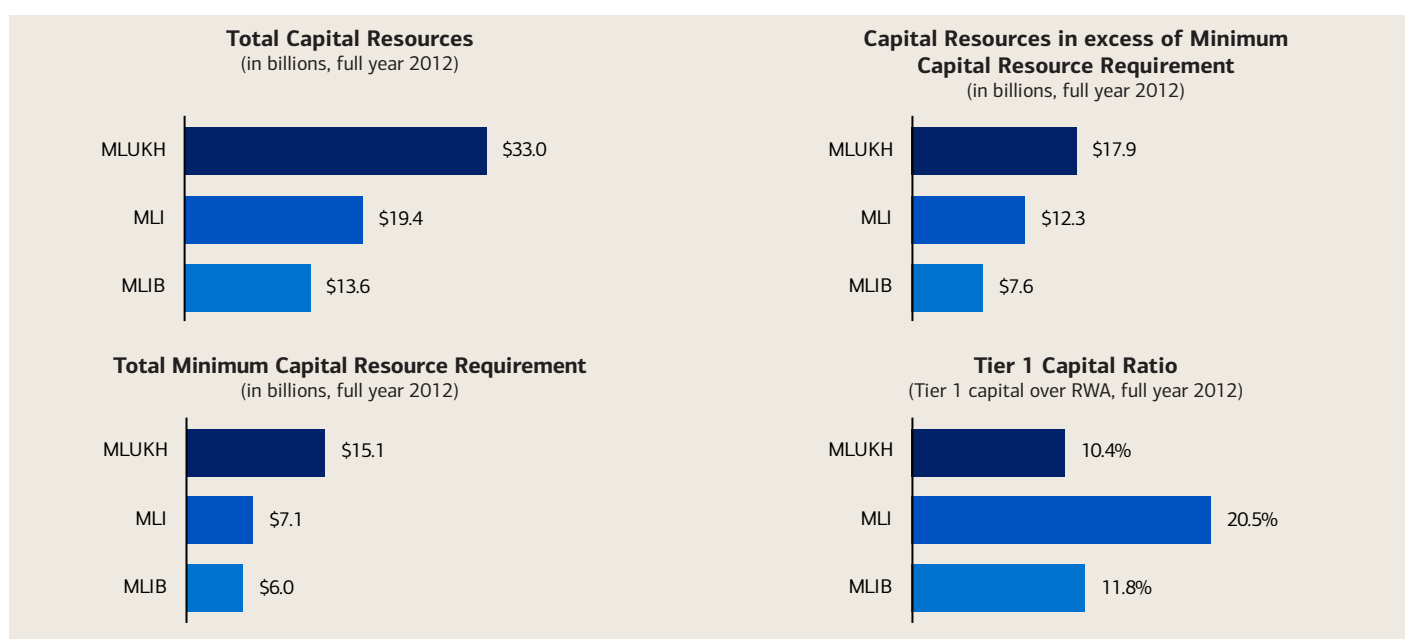
This document contains the Pillar 3 disclosures as at 31 December 2012 in respect of capital and risk management for Merrill Lynch UK Holdings (“MLUKH”) and its operating subsidiaries, including principally Merrill Lynch International (“MLI”) and Merrill Lynch International Bank Limited (“MLIB”) (the “Group”).

The Basel II framework, which was adopted by MLUKH and its subsidiaries in 2008, consists of three Pillars. Pillar 1 is defined as “Minimum Capital Requirements”, Pillar 2 “Supervisory Review Process” and Pillar 3 “Market Discipline”. The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

The document provides detail on the Capital Resources and the regulatory defined Pillar 1 Minimum Capital Requirements for MLUKH, MLI and MLIB, and demonstrates that these entities have Capital Resources significantly in excess of these Requirements (see Figure 1) and robust risk management and controls.

To further increase transparency, this document also includes information on the liquidity position of MLI and MLIB in Section 5.

Figure 1. Summary of Capital Position



### 1.2. Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with Generally Accepted Accounting Principles (“GAAP”). Therefore the information is not directly comparable with information in the annual financial statements. The disclosures are not required to be audited by the external auditors.

The document has been prepared purely for the purpose of explaining the basis on which MLUKH has prepared and disclosed certain information about the management of risks relating to the regulatory capital adequacy concepts and rules, and for no other purpose. It therefore does not constitute any form of financial statement on MLUKH or its subsidiaries, or of Bank of America Corporation (“BAC”, and together with its subsidiaries the “BAC Group” or the “Enterprise”), nor does it constitute any form of contemporary or forward looking record or opinion on the BAC group. Although Pillar 3 disclosures are intended to provide transparent disclosures on a common basis, the information contained in this document may not be comparable with the information provided by other banks.

These disclosures are published on BAC’s corporate website:

<http://investor.bankofamerica.com>

## 1.3. Entities Covered in this Document

### **Merrill Lynch UK Holdings (MLUKH)**

MLUKH is a UK domiciled financial holding company of the BAC Group. As highlighted in Figure 2, MLUKH's two primary subsidiary entities are MLI and MLIB.

As at December 2012, MLUKH was a UK domiciled subsidiary of Merrill Lynch & Co ("ML&Co") whose ultimate parent company and controlling party was BAC. In October 2013 ML&Co fully merged into BAC as part of efforts to streamline legal entity structure and MLUKH now is an indirect subsidiary of NB Holdings Corporation. For further details on the merger, please refer to the 'Bank of America Simplifies Corporate Structure' press release which can be found through the following link:

<http://newsroom.bankofamerica.com>

Ownership of MLIB was transferred to the MLUKH Group in 2012 in line with BAC's firm-wide efforts to streamline legal entity structure and reduce complexity for clients and regulators. In line with this, a transfer of most of the Fixed Income Global Markets activities from MLIB to MLI has commenced during 2013. Much of this transfer is scheduled to complete by 2014 although is highly dependent on counterparty consent within that timeframe.

### **Merrill Lynch International (MLI)**

MLI is BAC's largest broker/dealer entity outside of the United States. It is regulated as an investment firm by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA")<sup>(1)</sup> and is licensed and registered in the UK. The ultimate parent of MLI is BAC. MLI's head office is in the United Kingdom with branches in Milan, Rome, Amsterdam, Stockholm and Dubai.

MLI has a key role within the BAC Group, by providing non-US market access for BAC Group and Global Banking and Global Markets clients. MLI is able to trade across the European Economic Area ("EEA") using a European Union ("EU") passport and is BAC's primary Europe, the Middle East and Africa ("EMEA") Global Markets trading entity.

The principal activities of the entity are to provide a wide range of financial services globally for business originated in EMEA, Asia Pacific and the Americas, to act as a broker and dealer in financial instruments and to provide corporate finance advisory services. The entity also provides a number of post trade related services including settlement and clearing services to third party clients.

### **Merrill Lynch International Bank Limited (MLIB)**

MLIB is incorporated in Ireland and is regulated by the Central Bank of Ireland ("CBI"). MLIB's ultimate parent is BAC. MLIB acts as a principal for debt derivative and foreign exchange transactions and engages in advisory, lending, loan trading and institutional sales activity. It also provides letters of credit, guarantees and foreign exchange services to, and accepts deposits from its clients.

MLIB has a number of subsidiaries all of which are fully consolidated with no exclusions. The most significant subsidiary Merrill Lynch Bank (Suisse) S.A. ("MLBS"), was a Swiss licensed bank that provides a full array of banking, asset management and brokerage products and services to international clients, including securities trading and custody, secured loans and overdrafts, deposits, foreign exchange trading and portfolio management services. MLBS was sold to Julius Baer, a Swiss Private Banking Group, on 1 February 2013. The capital resources of MLBS are consolidated within MLIB but are not separately disclosed on the grounds of materiality.

### **Other Entities**

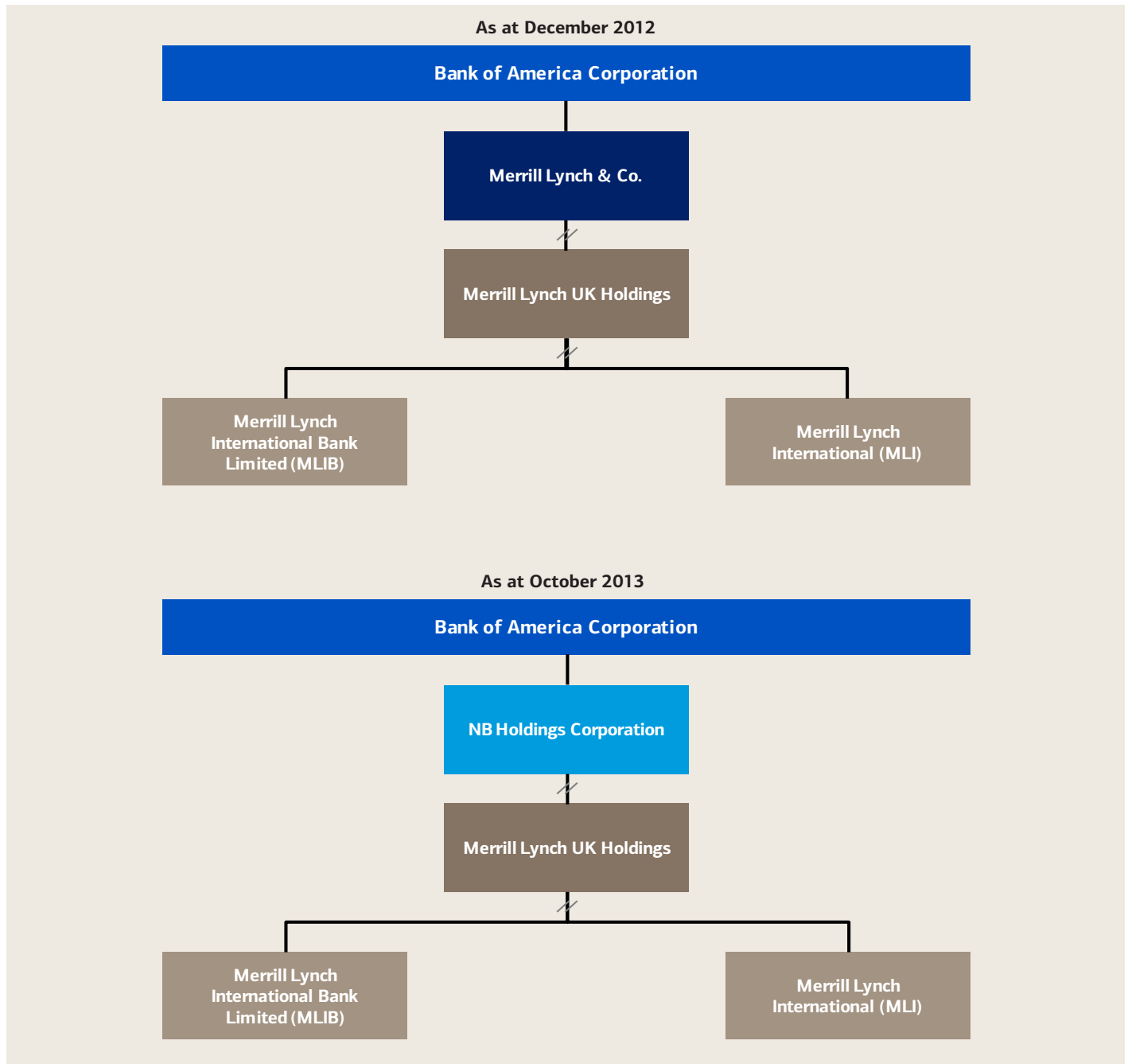
Other entities held by MLUKH include Merrill Lynch Commodities Europe Limited ("MLCE"), which is regulated by the FCA, Merrill Lynch Capital Markets AG ("MLCM AG"), Merrill Lynch Singapore Pte. Limited and Merrill Lynch South Africa Limited. MLUKH also includes a number of other smaller trading entities and a set of intermediate holding companies used for recharging expenses across BAC Group entities.

These entities, although consolidated within MLUKH are not separately disclosed on the grounds of materiality. As MLUKH is a holding company, the qualitative disclosures regarding risk management and governance are relevant to its subsidiaries wherever the business is booked. In this respect, unless otherwise stated, discussion relates to procedures adopted by MLI and MLIB.

<sup>1</sup> As at December 2012 the Group was regulated by the Financial Services Authority ("FSA"), however, this regulation body has since been replaced by the PRA and FCA, which are part of the Bank of England.

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

Figure 2: High Level Organisational Chart





## 2. Capital Resources and Minimum Capital Resource Requirements

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

## 2. Summary of Capital Resources & Minimum Capital Resource Requirements

### 2.1. Capital Resources

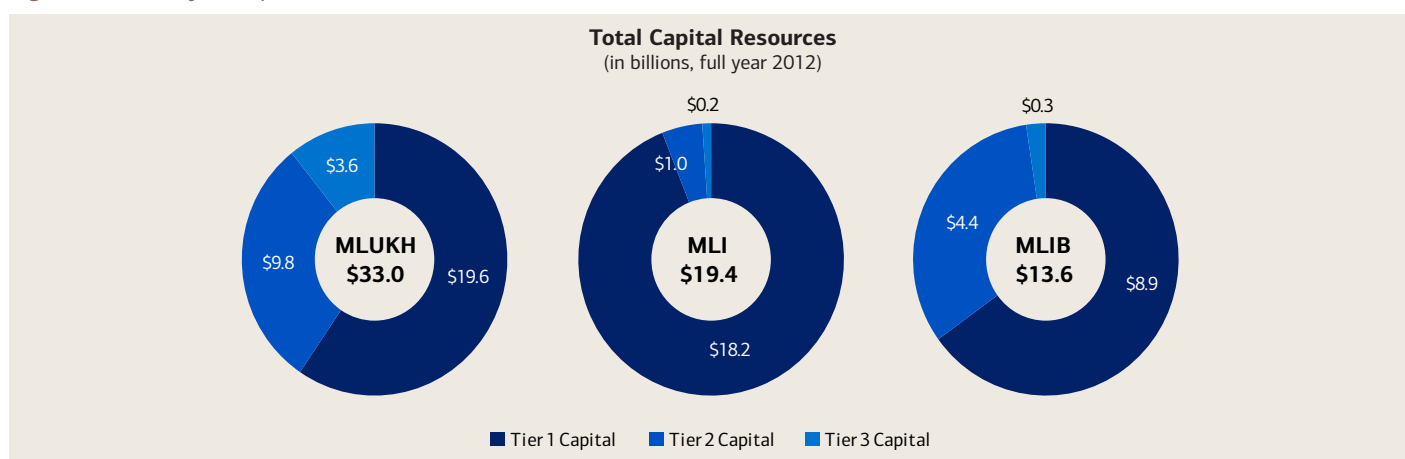
#### 2.1.1 Summary of Capital Resources in 2012

Capital Resources represents the amount of regulatory capital available to the entity in order to cover all risks. Capital Resources are designated into 3 tiers defined under the Basel Framework, with Tier 1 being the highest quality of capital representing equity and reserves and Tiers 2 and 3 representing subordinated debt and unaudited retained earnings. For the purpose of this document MLUKH defines Tier 1 as all equity capital.

Tier 1 capital is the primary component of MLUKH, MLI and MLIB's capital resources (see Figure 3).

MLUKH's capital base of \$33.0bn includes \$19.6bn of Tier 1 capital; this principally consists of the share premium account, audited retained earnings and other reserves (see Table 1).

Figure 3: Summary of Capital Resources



MLI's capital base of \$19.4bn includes \$18.2bn of Tier 1 capital of which \$6.7bn is ordinary share capital with the remainder audited retained earnings and other reserves. MLIB's capital base of \$13.6bn includes \$8.9bn of Tier 1 capital.

MLUKH's Tier 1 capital is less than the combined sum of MLI and MLIB. This reflects subordinated debt issued by holding companies and held by subsidiaries outside of the MLUKH Group and injected as Tier 1 equity capital into MLI and MLIB.

Table 1: Capital Resources by Entity

	MLUKH		MLI		MLIB	
	2012	2011	2012	2011	2012	2011
<i>(Dollars in Millions)</i>						
Ordinary Share Capital	112	64	6,735	22,432	32	32
Non Cumulative Preference Shares	-	-	-	3,110	-	-
Share Premium Account	9,944	397	-	20,580	3,898	3,898
Profit and Loss Account and Other Reserves	10,573	14,188	12,122	(36,001)	4,954	5,349
<b>Total Tier 1 Capital Before Deductions</b>	<b>20,629</b>	<b>14,649</b>	<b>18,857</b>	<b>10,121</b>	<b>8,884</b>	<b>9,279</b>
Goodwill and Other Intangible Assets	(996)	(569)	(333)	(333)	-	-
Deductions re Investment in Credit Institution	(10)	-	(285)	(273)	(10)	(132)
<b>Tier 1 capital</b>	<b>19,623</b>	<b>14,080</b>	<b>18,239</b>	<b>9,515</b>	<b>8,874</b>	<b>9,147</b>
Total Tier 2 Capital Before Deductions	9,822	7,084	1,240	9,788	4,447	4,647
Deduction re Investment in Credit Institution	(10)	0	(285)	(273)	(10)	(132)
<b>Tier 2 capital</b>	<b>9,812</b>	<b>7,084</b>	<b>956</b>	<b>9,515</b>	<b>4,437</b>	<b>4,515</b>
<b>Tier 3 capital</b>	<b>3,540</b>	<b>1,260</b>	<b>207</b>	<b>460</b>	<b>325</b>	<b>-</b>
<b>Total capital resources (net of deductions)</b>	<b>32,975</b>	<b>22,424</b>	<b>19,402</b>	<b>19,490</b>	<b>13,636</b>	<b>13,662</b>

### 2.1.2 Key Movements in 2012

During 2012 \$15.8bn of ordinary shares, \$3.1bn of non-cumulative preference shares and all of the share premium account were converted to reserves within MLI and \$2.1bn of Tier 2 cumulative preference shares were converted to reserves and hence moved into Tier 1. This reorganisation was done to simplify and rationalise MLI's capital base. In addition, equity capital of \$6.7bn treated as Tier 2 was reclassified to Tier 1 as it represents core Tier 1 equity injected into MLI from MLUKH and for the purposes of this document, Tier 1 is defined as all equity capital.

For the purpose of this document Tier 1 capital in MLI is defined as all equity capital and as such \$6.7bn of equity capital previously treated as Tier 2 has been reclassified as Tier 1 as it represents core Tier 1 equity injected into MLI from MLUKH.

Under the new Basel III rules due to be implemented in 2014, Tier 3 capital will no longer be included within Total Capital Resources. As per Table 1, MLUKH had \$3.5bn of Tier 3 capital at the end of 2012. This largely represents Tier 2 capital classified as Tier 3 under Basel II, which will be reclassified as Tier 2 capital from 2014 and thus will have no impact on total capital resources.

MLI had \$207m of Tier 3 capital at the end of 2012. This represents short term subordinated debt which has since been extended and will move into Tier 2 capital as long term subordinated debt and thus will have no impact on total capital resources under Basel III.

### 2.1.3 Transferability of Capital within the Group

MLI and MLIB's capital resources are satisfied by sourcing capital either directly from BAC or from other affiliates.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among MLUKH and its subsidiaries although MLI and MLIB must ensure that they meet the minimum regulatory capital requirements agreed with the PRA/CBI at all times.

There are no subsidiaries excluded from the consolidation and all are individually above the regulatory Minimum Capital Resource Requirements.

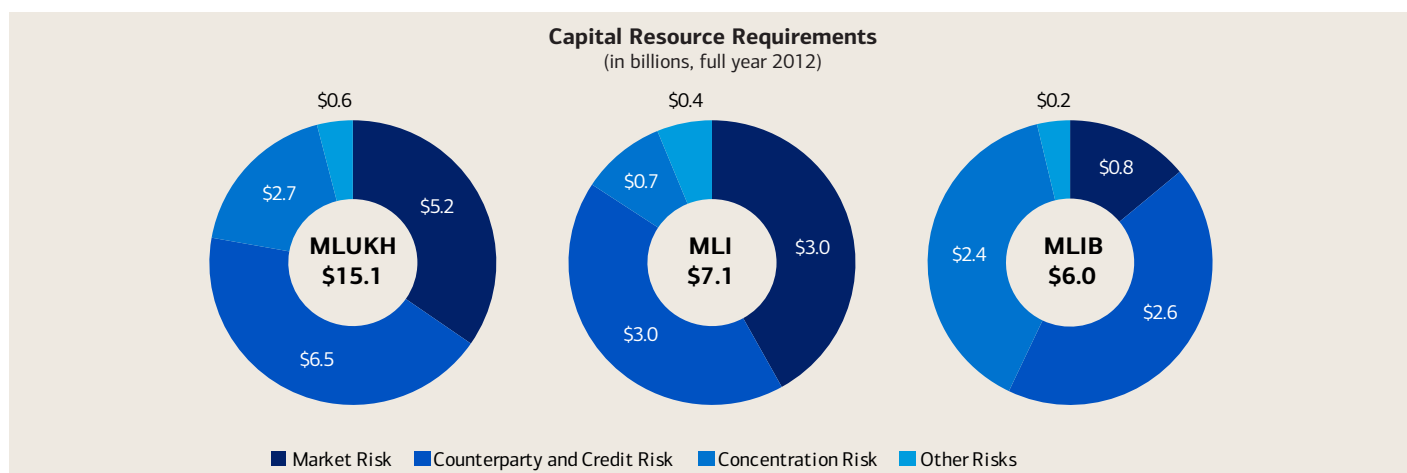
## 2.2. Minimum Capital Resource Requirement

### 2.2.1. Summary

Minimum Capital Resource Requirement is the amount of capital that MLUKH, MLI and MLIB have to hold as required by their respective regulators. Fundamentally, the value of the Pillar 1 requirement must be less than total capital resources, with enough excess to cover any additional requirements, for example, Pillar 2.

Minimum Capital Resource Requirement principally comprises of capital requirements for Market Risk or Position Risk Requirement ("PRR"), Counterparty and Credit Risk, Operational Risk and Concentration Risk.

Figure 4. Summary of Minimum Capital Resource Requirements



# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

MLUKH has a Minimum Capital Resource Requirement of \$15.1bn including Market Risk Capital Requirement of \$5.2bn principally driven by MLI, Counterparty and Credit Risk Capital Requirement of \$6.5bn attributed to both MLI and MLIB and Concentration Risk Requirement of \$2.7bn primarily from MLIB.

Table 2 outlines the Minimum Capital Resource Requirements for MLUKH, MLI and MLIB. When deducting from Capital Resources, all three entities are significantly in excess of the Pillar 1 Regulatory Minimum.

Table 2: Minimum Capital Requirement by Entity

(Dollars in Millions)	MLUKH		MLI		MLIB	
	2012	2011	2012	2011	2012	2011
Model based capital requirement	1,725	1,097	945	1,097	781	1,216
Interest Rate PRR <sup>(1)</sup>	1,656	1,724	1,586	1,715	61	89
Equity PRR	15	20	14	20	-	-
Commodity PRR	550	603	167	162	-	-
Foreign Exchange PRR	410	342	55	35	-	-
Collective Investment Scheme PRR	-	-	-	-	-	-
Option PRR	871	994	146	336	-	-
Other PRR	-	198	74	198	-	-
<b>Total Market Risk</b>	<b>5,227</b>	<b>4,978</b>	<b>2,986</b>	<b>3,563</b>	<b>842</b>	<b>1,305</b>
Counterparty Risk Capital Component	4,818	3,384	2,560	3,052	1,959	2,242
Credit Risk Capital Component	1,714	623	459	525	635	725
<b>Counterparty and Credit Risk Capital Component<sup>(2)</sup></b>	<b>6,532</b>	<b>4,007</b>	<b>3,019</b>	<b>3,576</b>	<b>2,594</b>	<b>2,967</b>
<b>Concentration Risk Capital Component</b>	<b>2,746</b>	<b>1,092</b>	<b>682</b>	<b>1,012</b>	<b>2,360</b>	<b>2,967</b>
<b>Operational Risk Capital Requirement</b>	<b>613</b>	<b>505</b>	<b>446</b>	<b>401</b>	<b>59</b>	<b>139</b>
<b>Other (Settlement/Private Client/Securitisation)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>166</b>	<b>157</b>
<b>Total Capital Resource Requirement</b>	<b>15,118</b>	<b>10,582</b>	<b>7,133</b>	<b>8,553</b>	<b>6,021</b>	<b>7,535</b>

Notes: (1) Securitisation of \$560m (2011: \$624m) is included within MLI's Interest Rate PRR; (2) Analysis by asset class of counterparty and credit risk and private client risk in MLIB of \$39m (2011: \$51m) is shown in section 4.2.

## 2.2.2 Key Movements in 2012

MLI and MLIB's Minimum Capital Resource Requirement have both decreased year-on-year largely due to a fall in the Model based capital requirement, Counterparty and Credit Risk and Concentration Risk Capital Requirements. MLUKH's has increased to \$15.1bn from \$10.6bn due to the inclusion of MLIB in the Group.

## 2.2.3 Minimum Capital Resource Requirement Approach

The calculation of the Minimum Capital Resource Requirement can differ but both MLI and MLIB have adopted the standardised approach for calculating Counterparty and Credit Risk Capital Requirements and Operational Risk Capital Requirements. In order to adhere to the standardised rules set out by the PRA/CBI, MLI and MLIB use external ratings based on a combination of ratings provided by Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings, Inc. ("Fitch").

The approach used for Market Risk is a combination of a Value-at-Risk ("VaR") model approved by the PRA/CBI and the standardised approach.

MLUKH's subsidiary MLCE applies capital requirements for Market and Credit Risk in accordance with FCA's requirements whereby it is currently exempt from the Basel II rules. The other smaller companies within MLUKH use the Basel II standardised method for Credit Risk and collectively, these companies account for less than 1% of the Minimum Capital Requirements of the Group.

## 2.3. Capital Resources Less Minimum Capital Resource Requirement and Tier 1 Capital Ratio

### 2.3.1 Capital Resources Less Minimum Capital Requirement

As at December 2012, MLUKH has \$17.9bn of Capital Resources in excess of Minimum Capital Resource Requirement, which has increased from \$11.8bn in 2011. This is due to the increased Capital Resources available to MLUKH following the transfer of MLIB into MLUKH.

MLI's Capital Resources were \$12.3bn in excess of Minimum Capital Resource Requirement. This has increased from \$10.9bn due to the reduction in Market and Counterparty Risk Capital over the year.

MLIB's Capital Resources were \$7.6bn in excess of Minimum Capital Resource Requirement. This has increased from \$6.1bn in 2011, largely due to the reduction in Market Risk.

Capital Resources and Minimum Capital Resource Requirements for MLI and MLIB are monitored and analysed on a daily basis to ensure that Resources are maintained in excess of Requirement. MLI and MLIB are both subject to additional risk requirements under Pillar 2, which are comfortably covered by the respective Capital Resources.

### 2.3.2 Tier 1 ratio

An entity's Tier 1 ratio is the ratio of the Tier 1 Capital to Risk Weighted Assets ("RWAs").

RWA is calculated from each entity's Pillar 1 Minimum Capital Resource Requirements across risk types including Market, Counterparty, Concentration and Operational Risk.

MLI's Tier 1 ratio has increased from 8.9% to 20.5% over the year due to Tier 1 Capital increasing from the reclassification of equity from Tier 2 to Tier 1 and the conversion of cumulative preference shares to reserves.

All three entities have a Tier 1 ratio in excess of 10%.

Figure 5: Capital Surplus and Ratios



Table 3: Capital Surplus over Minimum Capital Resource Requirements and Tier 1 Ratio

	MLUKH		MLI		MLIB	
	2012	2011	2012	2011	2012	2011
<i>(Dollars in Millions)</i>						
Total Capital Resources	32,974	22,424	19,402	19,490	13,636	13,662
Total Capital Resource Requirements	15,118	10,582	7,133	8,553	6,021	7,535
<b>Surplus over Resource Requirements</b>	<b>17,856</b>	11,842	<b>12,269</b>	10,937	<b>7,615</b>	6,127
Tier 1 Capital Resource	19,623	14,080	18,239	9,515	8,874	9,147
Risk Weighted Assets	188,975	132,275	89,163	106,913	75,263	94,188
<b>Tier 1 Capital Ratio</b>	<b>10.4%</b>	10.6%	<b>20.5%</b>	8.9%	<b>11.8%</b>	9.7%

## 2.4. Counterparty and Credit Risk Capital Resource Requirements

MLI and MLIB measure Counterparty and Credit Risk Exposure using the Current Exposure Method (“CEM”), which is defined as mark-to-market plus a notional add-on. Figure 6 illustrates that MLI and MLIB’s exposure is largely weighted against institutions and corporate clients and mainly in EMEA and the Americas, particularly in MLI, reflecting the global nature of the business activity. Further detail on Counterparty and Credit Risk exposure can be found in Section 4.2.

Figure 6: Counterparty and Credit Risk Exposure Detail

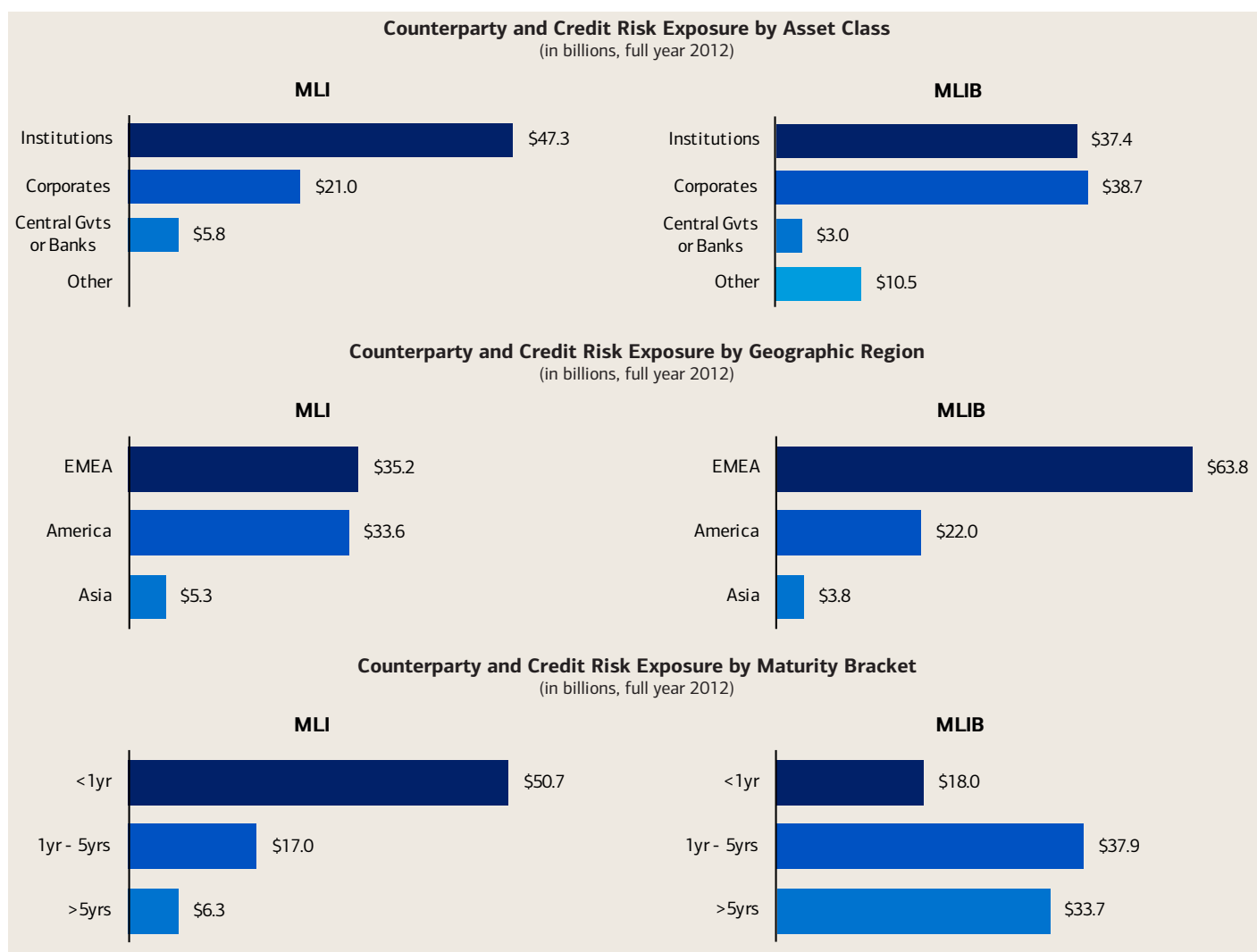


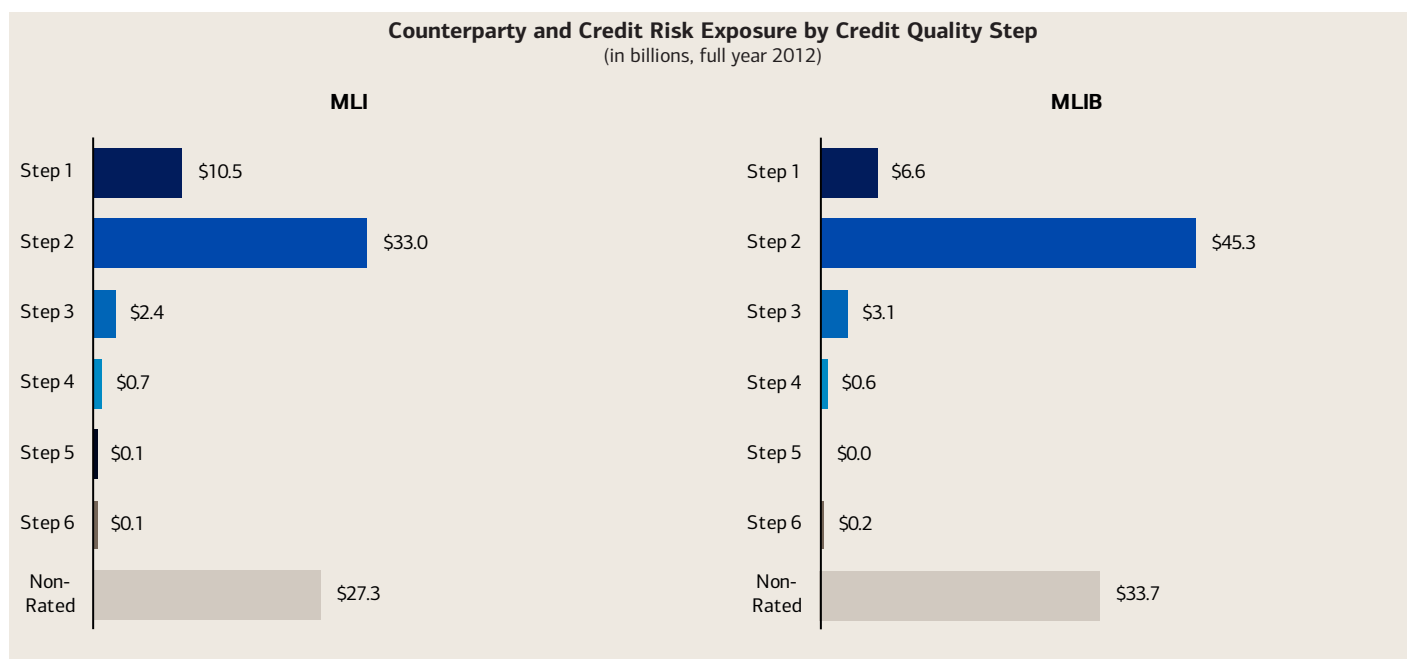
Figure 7 reflects Counterparty and Credit Risk exposure by Credit Quality Step (“CQS”). A CQS is a credit quality assessment scale as set out in BIPRU.

The CQS mapping table is provided by the PRA and can be accessed through the following link. <http://www.bankofengland.co.uk/publications/Documents/other/prapolicy/2013/ecaisstandardised.pdf>

The CQS is derived by referring to External Credit Assessment Institutions (ECAIs) including Moody’s, Fitch and S&P, where available.

MLI and MLIB have the majority of exposures in CQS 2, which means the counterparties are rated between A+ to A- or A1 to A3. In addition, there is a large proportion of exposure under non-rated which means no public rating is available for those counterparties.

Figure 7: Counterparty and Credit Risk Exposure by Credit Quality Step







## 3. Risk Management Objectives and Policies

## 3. Risk Management Objectives and Policies

### 3.1. Framework and Approach

MLUKH, through its principal subsidiaries MLI and MLIB, is integrated into and adheres to the global BAC Group management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements (the “Risk Framework”).

The Risk Framework outlines BAC’s approach to risk management by demonstrating the commitment to maintaining strong, consistent risk management practices across the Enterprise’s lines of business (the “Businesses”), geographies and employees.

### 3.2. Risk Management Approach

BAC takes a comprehensive approach to risk management, fully integrating risk management with strategic, financial and customer / client planning so that goals and responsibilities align across the Enterprise. BAC ensures that risk appetite and risk exposures are aligned. BAC manages risk systematically, with a focus on the Enterprise as a whole and by Businesses, Global Control Function (“GCF”), geography, legal entity (where appropriate), products, services and transactions. This holistic approach promotes the risk versus reward analysis needed to make informed strategic and business decisions. The risk management approach has five components:

- Risk culture;
- Risk appetite and philosophy;
- Risk governance and organization;
- Risk transparency and reporting; and,
- Risk management processes, including the IMMR risk management process which consists of **I**dentify and measure, **M**itigate and control, **M**onitor and test, and **R**eport and review. IMMR underpins all day-to-day risk management activities and is embedded in each part of the risk management approach.

Focusing on these five components allows the Enterprise to effectively manage risks across the seven key risk types identified by the Risk Framework (strategic, credit, market, liquidity, operational, compliance and reputational risks) and across all Businesses and where applicable, control functions.

### 3.3. Risk Appetite

The Enterprise has a structured approach to choosing when and how to take risks. The Enterprise balances the capacity for risk commensurate with capital and liquidity, while seeking to adhere to rules and regulations and protect the brand and reputation, financial flexibility, the value of the assets and the strategic potential of the franchise.

The BAC Risk Appetite Statement collectively defines the risk appetite in both quantitative and qualitative terms for the Enterprise. The BAC Risk Appetite Statement is reviewed and approved by the BAC board of directors at least annually.

Where appropriate, risk appetite is also defined at a legal entity level. MLI and MLIB have established board of directors approved risk appetite frameworks with defined metrics and monitoring in respect of Credit, Market, Operational, and Liquidity risks.

### 3.4. Risk Governance and Organisation

The Enterprise Executive Management Team, with oversight by the BAC board of directors, defines and executes a governance structure that establishes and pursues the Enterprise’s objectives while monitoring performance.

Global Risk Management is led by the BAC Chief Risk Officer, who has the mandate, authority and independence needed to develop and implement meaningful risk management measures and guide management in managing risk.

### 3.5. MLUKH Risk Governance

The MLUKH Group ensures management and controls through the key governance Committees at the operating subsidiary levels. The key operating entities of the Group (MLI and MLIB) ensure suitable management and controls through their Risk Oversight Committees (“ROC”) and the Regional Audit Control Committee (“RACC”). The ROCs are Committees of the respective board of directors of each of MLI and MLIB and are responsible for: the review and approval of risk policies; review and approval of specific limits and utilisation against those limits (including stress); reporting significant risk issues; and overseeing compliance with Enterprise risk requirements and regulatory prudential requirements. The RCC is responsible for reviewing the regional control framework for adequacy and effectiveness.

The independent risk management functions within the EMEA region led by the EMEA Chief Risk Officer (“EMEA CRO”) have operational responsibility for risk management of MLUKH and ensuring appropriate reporting and escalation to the MLUKH board of directors.

## Key Risk Types

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

### Strategic Risk

#### Definition

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

The BAC Group faces significant strategic risks due to the changing regulatory environment and the fast-paced development of new products and technologies in the financial services industry. Strategic risk is embedded in every Business and, to some extent, is part of the other major risk types (credit, market, liquidity, operational, compliance and reputational).

#### Strategic Risk Management

Strategic Risk is managed through setting a strategic risk appetite as part of the overall risk appetite, assessing strategic risk in connection with strategic, financial operating and recovery and resolution plans, and assessing the earnings and risk profile throughout the year.

#### Strategic Risk Reporting and Governance

Transparency of strategic risks is critical to effective risk management. Therefore, the Enterprise produces regular internal reports on strategic issues, including analyses of earnings performance and potential macroeconomic events, the strength of capital and liquidity positions, staffing levels and changes required to support the strategic plan, stress testing results and other factors such as market growth rates and peer analysis.

At the Enterprise level, significant strategic actions, such as material acquisitions, capital actions and recovery and resolution plans are reviewed and approved by the BAC board of directors. At the Business level, Committees exist to discuss the strategic risk and reward implications of new business and product entries, and provide approvals where appropriate. Management routines also play an important role in developing recommendations for Committees and executive management. GCFs provide key input and oversight to Business level strategic assessments.

### Credit Risk

#### Definition

Credit Risk is the risk of potential loss arising from the inability or failure of an obligor (borrower or counterparty) to meet its obligations. The BAC Group defines the credit exposure to a borrower or counterparty as the loss potential arising from product classifications, including loans and leases, derivatives and other extensions of credit.

The main elements of Credit Risk exposures relevant to MLI and MLIB are Credit Risk intensive transactions entered into with clients. These transactions include loans, derivatives, securities financing transactions and financial guarantees.

#### Credit Risk Management Process

The Enterprise manages Credit Risk utilising three processes:

- credit strategy and origination,
- credit portfolio management,
- loss mitigation.

## Credit Risk (Cont'd)

Managing along these processes creates a comprehensive account of Credit Risk activities across the lifecycle of a credit-intensive transaction. Because these processes are intertwined, insights gained in managing one process informs actions across all processes (e.g., the credit concentration insights gained in portfolio management inform credit origination decisions).

### Identification and measurement of risk

Credit Risk is assessed through various techniques including financial modelling, current views on client and industry concentrations and outlooks which helps to drive a forward-looking internal credit rating and scoring to ensure that portfolio asset quality remains within approved credit quality standards.

In addition to lending-based credit exposures, entities have counterparty risk, which arises from the creditworthiness of derivative trading partners and varies by deal type. The main exposure measure for a traded product is potential exposure, which is the maximum amount of exposure the entity has on a derivative contract at a future date given a particular confidence level. It is the portfolio replacement cost if the counterparty fails to meet its obligation.

### Mitigation and control

Credit Risk is managed by reviewing and establishing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties. In respect of derivative transactions, MLI and MLIB enter into Master Netting Agreements with counterparties which permit the netting of all transactional exposures on multi-currency, multi-location basis and, in certain circumstances, across product types. The taking of third party guarantees represents a further form of Credit Risk mitigation. Guarantees are reviewed by the Enterprise's legal department and must conform to certain standards in order to be recognised as a credit mitigant for Credit Risk management purposes.

Under Enterprise policy, MLI and MLIB accept collateral that it is permitted by documentation such as repurchase agreements or Collateral Support Annex to an International Swap and Derivative Agreement ("ISDA"). For derivatives, required collateral levels may vary depending on the credit quality of the party posting collateral based on an external rating based grid. Generally, collateral is accepted in the form of cash and select high grade government securities. Based on provisions contained in legal netting agreements, entities net collateral against the applicable derivative fair value. Entities also pledge collateral on their own derivative positions which can be applied against derivative liabilities.

With Senior Management involvement, Global Risk Management conduct regular portfolio reviews, monitor counterparty creditworthiness, and evaluate potential transaction risks with a view toward early problem identification and protection against unacceptable credit-related losses.

Single name, country and industry concentrations are managed through a comprehensive limit structure.

### Monitoring of risk

Once Credit has been extended to a borrower or counterparty, Credit Risk is monitored at the individual and portfolio levels. At the borrower / counterparty level, the risk inherent in the ongoing business of the borrower / counterparty is reviewed. At the portfolio level, credit concentrations and potential stress scenarios are assessed.

### Risk Reporting and Governance

Credit Risk reporting enables a system of risk escalation, which includes the hierarchy and process to be followed for approvals, policy violations, and standard or limit breaches, exception authorisation, internally identified issues and emerging risks. To ensure that appropriate Credit Risk transparency exists across the Businesses and up through Senior Management and the BAC board of directors, comprehensive and actionable Credit Risk internal reports are produced, which contain the required granularity of content for each level of seniority.

In addition, Credit Risk within MLI and MLIB is reported to and monitored by the respective ROC and boards of directors. Monthly reporting includes monitoring of exposure against agreed limits.

## Market Risk

### Definition

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 or other risks.

The main elements of Market Risk relevant to MLI and MLIB are:

- **Equity Risk:** the potential for loss due to adverse changes in equity markets. Equity shares, futures and options are the instruments used to manage this risk.
- **Interest Rate Risk:** the potential for loss due to adverse changes in interest rates. Interest rate swap agreements, futures and securities are common interest rate risk management tools;
- **Currency Risk:** the potential for loss due to fluctuations in foreign exchange rates. Trading assets and liabilities include both cash instruments in, and derivatives linked to, over 30 currencies including Japanese Yen, Euro, Swiss Franc and Pounds Sterling. Currency forwards, swaps and options are commonly used to manage currency risk associated with these instruments; and
- **Credit Spread Risk:** the potential for loss due to changes in credit spreads. Credit spreads represent the Credit Risk premiums required by market participants for a given credit
- **Commodity Risk:** the potential for loss due to adverse changes in a commodity. Commodity futures and options are the instruments used to manage this risk.

### Market Risk Management Process

Market Risk is identified, analysed, monitored, and controlled by an independent corporate risk governance function.

#### Identification and measurement of risk

The BAC Group assesses key Market Risk exposures at the individual security level as well as in the aggregate, both in day-to-day and stressed scenarios.

The BAC Group uses the Historical Simulation based VaR methodology. This applies historical market movements to the current portfolio, ranking them from worst to best, and then assumes a reoccurrence of these historical moves. The BAC Group uses three years of historical data.

MLI has a VaR waiver from the PRA for Equities (General Market and Specific Risk) while MLIB has a similar VaR waiver from the CBI for its Rates and Currencies Business. As part of the waiver a formal daily backtesting process is in place for both entities. This process compares the Profit and Loss ("P&L") for the day against VaR predictions. This is performed for both "clean" P&L (P&L adjusted by stripping out fees and commissions, brokerage and reserves not related to Market Risk) and "hypothetical" P&L (hypothetical P&L that would have occurred for that business day if the portfolio on which the VaR number for that business day is based remained unchanged). Any losses which exceed the VaR threshold are reported to their respective ROCs and the regulators.

The BAC Group assesses risk in both normal and stressed scenarios. Extreme tail events, or shocks, are assessed using stress tests to uncover exposures to severe but plausible events, both hypothetical and historical for both individual instruments and the aggregate portfolio.

#### Mitigation and control

At the core of the BAC Group's Market Risk approach is the assessment of key exposures and the setting and monitoring of limits, which reflect BAC's risk appetite. Limits provide thresholds that may not be exceeded without appropriate approval. Approval processes are in place to address temporary limit increases or transfers of limit capacity in accordance with delegated authorities.

From an Enterprise perspective, entities employ individual risk factor limits, aggregate risk exposure limits (VaR limits) and stress test limits.

## Market Risk (Cont'd)

### Risk Reporting and Governance

Transparency of Market Risks is critical to effective risk management. MLI and MLIB produce regular reports on exposure, including VaR, Stress, and Risk Factor Sensitivities. To ensure that appropriate Market Risk transparency exists across the Businesses and up through Senior Management and the boards of directors, comprehensive and actionable Market Risk reports are produced, which contain the required granularity of content for each level of management seniority.

In addition, Market Risk within MLI and MLIB is reported to and monitored by the respective ROCs and boards of directors. Monthly reporting includes monitoring of exposure against agreed limits.

### Stress Testing

Stress tests are performed to supplement the risk information derived from position, sensitivity and VaR measurement. They are designed to highlight peculiarities in the profit and loss (P&L) profile of the trading book and provide insight as to the likely P&L outcome under extremely volatile conditions. Stress testing analysis also assists Senior Management in the identification of risk concentrations and better enables the planning or taking of mitigating action.

### Stresses are performed in the following ways:

- Stress Event Scenarios (“SES”) are stylised stress tests performed at the risk factor group level (Equity, Interest Rate, Foreign Exchange, Commodity and Credit Spread)
- Historical Scenario Analysis – Chosen to capture actual legacy market events that were global in nature and affected multiple asset classes.
- Hypothetical Scenario Analysis – Chosen to simulate extreme global market events that are thought to be particularly plausible or to which the BAC Group may be heavily exposed. The scenarios are formulated based on discussions between Risk Managers and Senior Risk and Business Executives. These scenarios are revisited and updated as necessary, in light of changing positions and new economic or political information.
- Maximum Observed Loss (“MOL”) – the maximum loss observed over a 10-day holding period using historical data with start date anchored to 1<sup>st</sup> January 2007.
- In addition to the types of stress above, Point of Weakness analysis may be considered either independently or as a part of scenario analysis to identify potential vulnerabilities that are not always easy to capture or model using VaR.

## Liquidity Risk

### Definition

Liquidity risk is the potential inability to meet contractual and contingent financial obligations both on or off-balance sheet as they come due. The fundamental objective of liquidity risk management is to ensure that all of the Group’s financial obligations can be met, both across market cycles and period of stress. The Group manages this risk by holding cash and unencumbered assets, which can be readily realised for cash, by maintaining committed credit facilities, and by appropriately matching the liquidity profile of its assets and liabilities.

The Group incurs liquidity risk through its operating entities, particularly MLI and MLIB. The respective boards of directors of MLI and MLIB have established a liquidity risk appetite for each entity, defining a required level of liquidity coverage to meet net modelled outflows under internally-developed severe stress events.

### Liquidity Risk Management Process

MLI and MLIB maintain comprehensive Liquidity Risk Policies and formal Contingency Funding Plans. These include detailed actions which may be required depending on the potential nature and severity of a liquidity stress event.

## Liquidity Risk (Cont'd)

The MLI and MLIB boards of directors have ultimate responsibility for the entity's liquidity risk management, with responsibilities for additional liquidity risk oversight delegated to the respective ROCs. Corporate Treasury is responsible for the day to day monitoring and management of liquidity risk and MLI and MLIB's Excess Liquidity.

For further information on Liquidity Risk, please refer to Section 5.

## Operational Risk

### Definition

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

Under the Basel II requirement, an operational loss event is associated with the following seven operational loss event categories: internal fraud; external fraud; employment practices; clients, products and business practices; damage to physical assets; business disruption and systems failures; and execution, delivery and process management.

### Operational Risk Management Process

Operational risk is managed by identifying and measuring operational risk exposures and applying control, monitoring and reporting processes to ensure that operational risks remain within the risk appetite of BAC.

Operational Risk is managed through independent functions consisting of: Corporate Operational Risk; Global Banking and Global Markets Operational Risk, with specific legal entity focus; Independent Business Risk; GCFs and the Businesses. Each has distinct roles and responsibilities, and together they form the foundation for the business environment internal control factors used to manage operational risk.

Operational risk management is approached from the perspectives of the Enterprise, the Businesses, and the legal entity. Corporate Operational Risk develops and guides the strategies, policies, practices, control and monitoring tools for assessing and managing operational risk across the organisation. The Businesses are responsible for all the risks within the Businesses, including operational risks, with independent oversight from the Business / GCF Risk Teams.

### Identification and measurement of risk

To properly manage operational risks, activities are assessed across the people, process and systems dimensions and breakpoints or potential points of exposure to loss are identified. Additionally, exposures based on risks that arise from factors outside of BAC's control are assessed, which include risks associated with vendors and service providers, as well as political, social, cultural and environmental factors.

### Mitigation and control

Mitigation activities are documented once operational risk losses, control gaps or issues are identified.

### Monitoring of risk

A key component of the BAC Group's operational Risk Management Framework is the consistent and comprehensive collection of internal loss data resulting from operational risk events.

### Risk Reporting and Governance

Data generated by Operational Risk program elements inform the Operational Risk Profile for each Business and legal entity. The Operational Risk Profile provides a view across entities, assessing the impact on key business performance drivers, prioritising the most significant risks and issues, and understanding the dynamic risk environment.

Operational Risk Profiles are reported to the appropriate governance Committees in order to support decision making within governance routines such as the Business Controls Committee, ROC, and RACC.

## Compliance Risk

### Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Enterprise arising from the failure of the Enterprise to comply with requirements of applicable banking and financial services laws, rules and regulations, related self-regulatory organisation standards, and codes of conduct.

Global Compliance is separate from the Businesses and other GCFs. While GCFs are collectively responsible for overseeing the Enterprise's overall compliance with applicable laws, rules and regulations, Global Compliance assumes responsibility for monitoring the compliance risks outlined above.

### Compliance Risk Management

The Global Compliance Framework establishes elements, and related high level requirements for Global Compliance, as well as the roles and responsibilities related to implementation, execution and oversight of the Global Compliance Program.

### Compliance Risk Reporting and Governance

Compliance risk governance is accomplished through formal oversight by the BAC board of directors through the BAC Audit Committee. The Compliance and Operational Risk Committee ("CORC") provides oversight of the BAC Group's compliance and operational risk policies and processes to promote sound compliance, operational risk, and reputational risk management. The Global Compliance Committee ("GCC"), a subcommittee of the CORC, provides oversight of Enterprise-wide compliance risk and sets strategic direction for effective compliance program requirements.

The Global Compliance governance structure is supported by executive reporting and is utilised to facilitate the discussion and review of critical information necessary for effective decision making and oversight.

## Reputational Risk

### Definition

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

Reputational risk encompasses many factors, including the BAC Group's scale of operations and resulting visibility in the financial markets and management's ability to develop and sustain appropriately controlled business practices that can withstand adverse situations.

Reputational risk can stem from any of the BAC Group's employees and activities, including the activities related to the management of strategic, operational or other risks, as well as overall financial position. As a result, the BAC Group evaluates the potential impact to reputation within all of the risk categories and throughout the risk management process.

### Reputational Risk Management

Reputational risk is managed through established policies and controls in business and risk management processes, programs and approaches to reacting to reputational risks in a timely manner and proactive monitoring and identification of potential reputational risk events.

### Reputational Risk Reporting and Governance

Transparency of reputational risks is critical to effective risk management. To achieve transparency, key reputational risks are reported to the CORC and Enterprise Risk Committee regularly.

The Enterprise has an appropriate organisational and governance structure in place to provide strong oversight at both the Enterprise and individual Business levels. At the Enterprise level, reputational risk is reviewed by the Enterprise Risk Committee and the CORC, which provide primary oversight of reputational risk.

Ultimately, to protect BAC's reputation, monitoring and oversight of reputational risk is integrated into the overall governance process, as well as the roles and accountabilities of employees.



## 3.6. Other Risk Considerations

### Wrong-Way Risk

Wrong-Way Risk (“WWR”) arises when a counterparty’s probability of default has a strongly positive correlated relationship with the underlying risk exposure in a transaction.

WWR is not created by a counterparty or a product alone, it arises from the potential correlation between the two. This correlation can occur when the underlying product is self referencing, e.g., an equity put option on the seller’s own shares, or when the two are correlated. This also applies to collateral held for both securities financing transactions and OTC collateral (usually posted under a Credit Support Annex (“CSA”). Generally, any company, but especially a financial institution, is exposed to its own or parent’s home country’s economic development, which also drives foreign exchange, credit and equity markets.

The BAC Group has an appropriate policy framework in place to ensure that WWR is managed in a consistent way, within risk appetite tolerances.

### Exposures to interest rate risk in the non-trading book

No detailed disclosures are made in respect of exposures to interest rate risk in the non-trading book as the information provided by such disclosure is not regarded as material.

### Securitisation

Securitisation positions are held by MLI as an Investor only. An Investor is defined as per the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) as an entity which invests in a securitisation transaction directly or provides derivatives or liquidity facilities to a securitisation.

No detailed disclosures are made in respect to securitisations for MLI as the information provided by such disclosure is not regarded as material.

Securitisation positions are held by MLIB as an Investor and an Originator. An Originator is defined as an entity which directly originates the assets being securitised.

MLIB’s securitisation strategy is driven by aggregate funding and capital. MLIB acts as originator, liquidity provider and derivative counterparty to those securitisations it originates as well as those of third party securitisations. For further information on MLIB’s securitisation regulatory treatment, please refer to MLIB Pillar 3 2012 disclosures which can be found at <http://investor.bankofamerica.com/>.

### Policies for Securing Collateral and Dealing with a Downgrade in BAC’s Credit Rating

MLI has developed a Liquidity Risk Policy (“LRP”) which communicates a strategy for managing through liquidity risk events of varying severity, including downgrades in BAC’s credit rating.

A key aspect of the LRP is that MLI maintains and manages a locally held Liquid Asset Buffer (“LAB”) comprising high quality government securities – the size of which is calibrated based on potential cash outflows the entity could endure during such different stress scenarios. The LAB exists to enable MLI to sustain significant cash outflows during liquidity stress shocks without having to rely on other affiliates. In addition to the LAB, MLI has other liquidity resources on hand, including cash placements with banks or other affiliates and monetizable unencumbered assets held on inventory.

MLIB have developed a Contingency Funding Plan (“CFP”) which communicates a strategy for handling a liquidity crisis. For further details on CFP, please refer to MLIB’s Pillar 3 disclosures.

In assessing in particular the impact of the amount of collateral the entities would have to provide given a downgrade in its credit rating, it is important to consider the situation at the parent BAC level as MLI and MLIB liquidity risk would be affected by counterparty concerns with BAC.

On June 20, 2012, Moody’s downgraded BAC’s long-term debt ratings as well as Bank of America N.A.’s long-term and short-term debt ratings as part of its review of financial institutions with global capital markets operations. The Moody’s downgrade has not had a material impact on BAC’s financial condition, results of operations or liquidity.

On December 20, 2012, S&P published a full credit report on BAC, leaving the credit ratings for the company and its subsidiaries unchanged as of that date.

Currently, BAC’s long-term / short-term senior debt ratings and outlooks expressed by the rating agencies are as follows: Baa2 / P-2 (negative) by Moody’s; A- / A-2(negative) by S&P; and A / F1 (stable) by Fitch. The rating agencies could make further adjustments to the credit ratings at any time. There can be no assurance that additional downgrades will not occur.

A further reduction in certain of BAC’s credit ratings may have a material adverse effect on liquidity, access to credit markets, the related cost of funds, BAC’s Businesses and on certain trading revenues, particularly in those Businesses where counterparty creditworthiness is critical. If the short-term credit ratings of the parent company, bank or broker / dealer subsidiaries were downgraded by one or more levels, the potential loss of access to short-term funding sources such as repo financing, and the effect on the incremental cost of funds and earnings could be material. In addition, under the terms of certain OTC derivative contracts and other trading agreements, in the event of a further downgrade of BAC’s credit ratings or certain subsidiaries’ credit ratings, counterparties to those agreements may require BAC or certain subsidiaries to provide additional collateral and / or terminate these contracts or agreements, or provide other remedies.

Based on the portfolio at December 31, 2012, if the rating agencies had downgraded their long-term senior debt ratings

for BAC or certain subsidiaries by one incremental notch, the amount of additional collateral contractually required by derivative contracts and other trading agreements would have been approximately \$3.3 billion comprised of \$2.9 billion for BANA and \$418 million for Merrill Lynch & Co and certain of its subsidiaries. If the agencies had downgraded their long-term senior debt ratings for these entities by a second incremental notch, approximately \$4.4 billion in additional collateral, comprised of \$455 million for BANA and \$4.0 billion for Merrill Lynch & Co and certain of its subsidiaries, would have been required.

### **Internal Capital Adequacy Assessment Process**

MLUKH has prepared an Internal Capital Adequacy Assessment Process (“ICAAP”) document which has been submitted to the PRA.

The ICAAP includes the following key elements:

- Description of Senior Management oversight process including Risk Management monitoring of risk profile.
- Explanation of the daily process to calculate Pillar 1 regulatory capital requirements.
- A three year capital plan.
- Analysis of the impact of stress testing using a scenario consistent with the PRA developed Anchor Scenario. The impact of the stress on both P&L and regulatory Capital Resources and Requirements are analysed.

An output of the ICAAP is to identify those risks which are not included in the Pillar 1 capital adequacy calculation and to assess appropriate additional capital requirement to be included as Pillar 2.

These additional requirements may include increased allocations of capital for Operational, Market and Concentration Risk and will also propose a capital planning buffer which takes account of the impact of stress on the Group’s capital position.

The PRA have reviewed the ICAAP through its Supervisory Review Process (“SREP”) and set an Individual Capital Guidance (“ICG”) level which sets the minimum level of regulatory capital to be held to support Pillar 1 and 2 risks. In addition, the PRA will set a capital planning buffer which should be available to support the Business in a stress situation.

## 4. Further Detail on Market and Counterparty and Credit Risk Capital Resource Requirements

## 4. Further Detail on Market and Credit Risk Capital Resource Requirements

### 4.1. Market Risk

#### Summary

Market Risk is the risk that the value of a position will fall due to changes in market rates or prices.

Table 4 presents a breakdown of MLUKH, MLI and MLIB's Market Risk or Position Risk Requirement ("PRR") which is made up of the following:

- Model based capital requirement which is calculated based on the VaR models approved by the PRA and CBI. The increase in Model based capital requirement for MLUKH in 2012 was due to the inclusion of MLIB into the Group. The reduction in MLI's Model based capital requirement was driven by a reduction in core and stressed VaR partially offset by an increase in Risks Not In VaR add-ons;
- Interest Rate PRR which is split into two components: General Market Risk and Specific Risk;
  - General Market Risk is based on a portfolio by currency basis. Positions are grouped by maturity ranging from <1 month to >20 years, with a corresponding weighting applied depending on the maturity band;
  - Specific risk looks at each security in terms of corporate / government, rating and maturity;

The decrease in Interest Rate PRR for MLI between 2011 and 2012 is due to a decrease in general Market Risk from swaps and forward rate agreements which was partly offset by an increase in specific risk from corporate and government bonds and securitisations;

- Equity PRR is the risk calculated on equity positions that are out of scope of the VaR model;
- Commodity PRR is the risk calculated on the metals Business within MLI. The positions are grouped by maturity with a corresponding weighting applied depending on the maturity band. MLUKH has a larger capital charge due to the inclusion of MLCE;
- Foreign Exchange PRR is the risk calculated on the foreign currency exposure on the balance sheet. MLUKH has a larger capital charge compared to MLI due to the inclusion of MLCM AG;
- Option PRR is the risk calculated on base metal options, interest rate options and foreign exchange options. MLUKH has a larger capital charge compared to MLI due to the inclusion of MLCE.

Table 4: Position Risk Requirement by Entity:

	MLUKH		MLI		MLIB	
	2012	2011	2012	2011	2012	2011
<i>(Dollars in Millions)</i>						
Model based capital requirement	1,725	1,097	945	1,097	781	1,216
Interest Rate PRR	1,656	1,724	1,586	1,715	61	89
Equity PRR	15	20	14	20	-	-
Commodity PRR	550	603	167	162	-	-
Foreign Exchange PRR	410	342	55	35	-	-
Collective Investment Scheme PRR	-	-	-	-	-	-
Option PRR	871	994	146	336	-	-
Other PRR	-	198	74	198	-	-
<b>Total Market Risk</b>	<b>5,227</b>	<b>4,978</b>	<b>2,986</b>	<b>3,563</b>	<b>842</b>	<b>1,305</b>

#### Core VaR

Within the VaR model the methodology used is made up of two components:

- Unweighted time series data, which are updated bi-weekly. For the purposes of daily reporting and VaR backtesting, daily returns are generated from three years of time series data. For the purpose of reporting regulatory capital, rolling actual ten-day returns are generated from three years of time series data.

- P&L scenario data which is generated for a pre-defined range of shocks for each key risk factor. This data is produced by the trading systems and submitted to the scenario capture system, where it is verified and signed off by the relevant risk managers on a daily basis. This data is produced at the most granular level of detail and is then aggregated by risk type and book. For specific price risk on exotics only, multi-asset products within the equity-linked portfolio are expanded into single-stock equivalent positions by apportionment of parallel equity price general Market Risk scenarios, using the partial delta of each underlying and volatility is proxied to index volatility.

Core VaR is calculated using the 7<sup>th</sup> worst P/L vector during the 780 day period.

### Stressed VaR

For Stressed VaR there are some additional methodology components:

- Determination of the Stressed VaR “window”: This is the 261-day period that produces the largest 10 day VaR (defined using the average of the 2<sup>nd</sup> and 3<sup>rd</sup> worst P/L vector) in the period anchored from 15th January 2007. If there are multiple such periods that produce the same maximum VaR, a unique window is determined by selecting the period among these which produces the largest “Normal-equivalent VaR”, defined as the largest negative value of  $\mu - 2.326\sigma$ , where:
  - $\mu$  - average of the ten-day P&Ls
  - $\sigma$  - standard deviation of ten-day P&Ls.
- The Stressed VaR window is updated at least monthly for use in regulatory capital reporting.
- Autocorrelation adjustment. Using historic 10 day P/L vectors over a small time frame of 261 days leads to issues with autocorrelation in the Stressed VaR calculation. To counter for this a fixed multiplier is taken to account for the additional uncertainty in the Stressed VaR output.

In order to manage day-to-day risks, VaR is subject to trading limits both for the overall trading portfolio and within individual businesses. All limit excesses are communicated to management for review.

### Risk Portfolio

Table 5 shows the Group’s average and year-end Management VaR for 2012 and 2011. Additionally, high and low Management VaR is presented independently for each risk category and overall.

Table 5: MLUKH 2011 and 2012 Management VaR

(Dollars in Millions)	2012			
	Year End	High	Daily Average	Low
<b>Total</b>	<b>33</b>	<b>91</b>	<b>41</b>	<b>18</b>
Interest rate risk	6	20	11	4
Currency risk	3	10	3	1
Equity price risk	18	77	29	10
Credit spread risk	31	32	20	13
Commodity risk	9	18	7	3

(Dollars in Millions)	2011			
	Year End	High	Daily Average	Low
<b>Total</b>	<b>58</b>	<b>106</b>	<b>61</b>	<b>30</b>
Interest rate risk	6	28	10	6
Currency risk	2	7	4	1
Equity price risk	50	89	40	11
Credit spread risk	16	57	36	15
Commodity risk	11	14	9	4

## 4.2. Counterparty and Credit Risk

Counterparty and Credit Risk is the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. Counterparty and Credit Risk Capital Requirements are derived from risk-weighted exposures, determined using the standardised approach. MLI and MLIB have Counterparty and Credit Risk exposure, as a result of OTC trades, securities financing transactions and other trading and non-trading book exposures.

The following section provides detailed information on MLI's and MLIB's regulatory Counterparty and Credit Risk exposures using the Current Exposure Method, net of Credit Risk mitigation.

MLIB's standalone Pillar 3 disclosures are reported on a pre Credit Risk mitigation basis. For further details on these, impairments and past due items in MLIB please refer to the MLIB Pillar 3 disclosures, which can be found on the Investor Relations website at <http://investor.bankofamerica.com>. Impairments, past due items, provisions and value adjustments are not applicable in MLI.

MLI and MLIB account for the majority of MLUKH total exposure value.

### 4.2.1 Counterparty and Credit Risk by Type

Table 6 and 7 set out the RWA, Counterparty and Credit Risk Capital Requirement and Counterparty and Credit exposure by industry distribution. The majority of exposures for MLUKH, MLI and MLIB are against corporations and institutions and MLI and MLIB contribute the majority of MLUKH's Risk Weighted Assets and Capital. The ratings of counterparties are derived by referring to external credit ratings provided by Moody's, Fitch and S&P for all exposure classes.

MLI had a reduction in exposure between 2011 and 2012, largely in other financial counterparties and a reduction in Risk Weighted Assets exposure against corporations.

MLUKH exposure has increased between 2011 and 2012, due to the inclusion of MLIB into the Group.

Counterparty and Credit Risk are combined for reporting purposes and Concentration Risk is excluded from the Credit Risk Minimum Capital Requirement.

Table 6: 2012 Counterparty and Credit Risk Minimum Capital Requirement and RWA

(Dollars in Millions)	As at 31 <sup>st</sup> December 2012					
	MLUKH		MLI		MLIB	
	RWA	Capital	RWA	Capital	RWA	Capital
Central & Regional governments or central banks	2,314	185	338	27	1,812	145
Corporates	33,682	2,695	16,485	1,319	10,041	803
Institutions	40,894	3,272	20,917	1,673	18,150	1,392
Other	4,762	381	-	-	3,669	293
<b>Total</b>	<b>81,652</b>	<b>6,532</b>	<b>37,741</b>	<b>3,019</b>	<b>33,671</b>	<b>2,634</b>

(Dollars in Millions)	As at 31 <sup>st</sup> December 2011					
	MLUKH		MLI		MLIB	
	RWA	Capital	RWA	Capital	RWA	Capital
Central & Regional governments or central banks	488	39	488	39	1,539	123
Corporates	33,989	2,719	29,644	2,372	15,860	1,269
Institutions	15,609	1,249	14,574	1,166	19,166	1,534
Other	-	-	-	-	1,148	92
<b>Total</b>	<b>50,086</b>	<b>4,007</b>	<b>44,706</b>	<b>3,576</b>	<b>37,713</b>	<b>3,018</b>

Table 7: 2012 Counterparty and Credit Risk Exposure by Industry Distribution

<i>(Dollars in Millions)</i>	MLI	
	2012	2011
Institutions	47,273	40,718
Insurance	1,002	1,405
Other financial	13,917	33,338
Industrial and commercial companies	5,528	3,252
Energy and commodities	529	354
Central governments and central banks	5,810	3,505
<b>Total Exposure Value</b>	<b>74,059</b>	<b>82,572</b>

<i>(Dollars in Millions)</i>	MLIB	
	2012	2011
Banks	35,864	28,490
Corporate	39,270	42,365
Government	3,043	2,929
Financial	9,002	18,203
Personal	2,386	2,353
<b>Total Exposure Value</b>	<b>89,565</b>	<b>94,341</b>

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

## 4.2.2 Counterparty and Credit Exposure Geographic Distribution and Maturity Profile detail

Further analysis of MLI and MLIB showing the geographical, residual maturity and yearly average distribution of the exposure value is shown in Tables 8 and 9.

The geographical distribution is reported by analysing where the counterparty is based and is further analysed to show the breakdown by counterparty asset types. The majority of MLI's exposure sits within EMEA and Americas, reflecting its global business activities; MLIB's exposure is principally in EMEA.

Table 8: 2012 Counterparty and Credit Risk Exposure by Geographical Distribution

<i>(Dollars in Millions)</i>	MLI			
	2012			
	Asia	Americas	EMEA	Total
Central governments or central banks	1,229	53	4,529	5,810
Corporates	1,565	9,596	9,814	20,976
Institutions	2,468	23,970	20,836	47,273
<b>Total Credit Risk Exposure</b>	<b>5,262</b>	<b>33,619</b>	<b>35,179</b>	<b>74,059</b>

<i>(Dollars in Millions)</i>	2011			
	Asia	Americas	EMEA	Total
	Central governments or central banks	1,040	78	2,388
Corporates	2,038	17,205	19,106	38,349
Institutions	2,357	21,248	17,113	40,718
<b>Total Credit Risk Exposure</b>	<b>5,435</b>	<b>38,531</b>	<b>38,607</b>	<b>82,572</b>

<i>(Dollars in Millions)</i>	MLIB			
	2012			
	Asia	Americas	EMEA	Total
Central governments or central banks	-	12	2,995	3,007
Corporates	21	8,210	30,484	38,715
Institutions	2,719	10,275	24,360	37,355
Other	1,028	3,536	5,924	10,488
<b>Total Credit Risk Exposure</b>	<b>3,768</b>	<b>22,034</b>	<b>63,762</b>	<b>89,565</b>

<i>(Dollars in Millions)</i>	2011			
	Asia	Americas	EMEA	Total
	Central governments or central banks	1	13	2,912
Corporates	66	12,259	30,433	42,757
Institutions	2,802	10,466	29,248	42,516
Other	935	472	4,736	6,142
<b>Total Credit Risk Exposure</b>	<b>3,802</b>	<b>23,210</b>	<b>67,328</b>	<b>94,341</b>



Table 9 splits MLI and MLIB's Counterparty and Credit Risk exposure values at the end of 2012 and 2011 by residual maturity and counterparty industry type. The total average value of the exposures for the years are also provided.

The majority of MLI's Counterparty and Credit Risk exposure sits in the under 1 year bucket.

Table 9: 2012 Counterparty and Credit Risk Exposure by Residual Maturity and Average Value

<b>MLI</b>					
<i>(Dollars in Millions)</i>	<b>As at 31<sup>st</sup> December 2012</b>				<b>2012 Average Value</b>
	<b>Under 1 Year</b>	<b>One – Five Years</b>	<b>Over Five Years</b>	<b>Total</b>	
Central governments or central banks	5,741	31	39	5,810	4,804
Corporates	12,312	5,850	2,814	20,976	27,041
Institutions	32,673	11,109	3,491	47,273	51,232
<b>Total Credit Risk Exposure</b>	<b>50,726</b>	<b>16,990</b>	<b>6,343</b>	<b>74,059</b>	<b>83,077</b>

<b>MLI</b>					
<i>(Dollars in Millions)</i>	<b>As at 31<sup>st</sup> December 2011</b>				<b>2011 Average Value</b>
	<b>Under 1 Year</b>	<b>One – Five Years</b>	<b>Over Five Years</b>	<b>Total</b>	
Central governments or central banks	3,383	70	52	3,505	5,967
Corporates	21,569	8,473	8,308	38,349	50,404
Institutions	24,246	12,408	4,065	40,718	44,054
<b>Total Credit Risk Exposure</b>	<b>49,198</b>	<b>20,950</b>	<b>12,424</b>	<b>82,572</b>	<b>100,425</b>

<b>MLIB</b>					
<i>(Dollars in Millions)</i>	<b>As at 31<sup>st</sup> December 2012</b>				<b>2012 Average Value</b>
	<b>Under 1 Year</b>	<b>One – Five Years</b>	<b>Over Five Years</b>	<b>Total</b>	
Central governments or central banks	671	776	289	1,737	2,816
Corporates	2,106	15,302	21,307	38,715	39,713
Institutions	6,769	21,567	9,019	37,355	40,935
Other	8,473	246	3,038	11,758	8,080
<b>Total Credit Risk Exposure</b>	<b>18,020</b>	<b>37,891</b>	<b>33,653</b>	<b>89,565</b>	<b>91,543</b>

<b>MLIB</b>					
<i>(Dollars in Millions)</i>	<b>As at 31<sup>st</sup> December 2011</b>				<b>2011 Average Value</b>
	<b>Under 1 Year</b>	<b>One – Five Years</b>	<b>Over Five Years</b>	<b>Total</b>	
Central governments or central banks	42	338	2,546	2,926	2,744
Corporates	4,810	15,271	22,679	42,760	47,631
Institutions	10,255	22,549	9,713	42,517	47,962
Other	4,815	90	1,233	6,138	9,887
<b>Total Credit Risk Exposure</b>	<b>19,921</b>	<b>38,249</b>	<b>36,171</b>	<b>94,341</b>	<b>108,224</b>

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

## 4.2.3 Counterparty and Credit Exposure by Credit Quality Step

Table 10 analyses exposure value by asset class and CQS showing the position Pre and Post Credit Risk Mitigation. For MLI, Credit Risk Mitigation comprises of collateral only; for MLIB Credit Risk Mitigation comprises of collateral and guarantees (for further information on MLIB's Credit Risk mitigation, please refer to MLIB Pillar 3 Disclosures at <http://investor.bankofamerica.com>).

A CQS is a credit quality assessment scale as set out in BIPRU. This mapping table is provided by the PRA and can be accessed through the following link. <http://www.bankofengland.co.uk/publications/Documents/other/pr/policy/2013/ecaistandardised.pdf>

The CQS is derived by referring to external credit ratings provided by Moody's, Fitch and S&P, where available.

MLI has had an increase in central and regional governments or central banks in CQS 1, a reduction in non-rated exposure against corporations but an increase in non-rated exposure to institutions.

Table 10: 2012 Counterparty and Credit Risk Exposure by Credit Quality Step

	MLI			
	2012		2011	
	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
<i>(Dollars in Millions)</i>				
<b>Central governments or central banks</b>				
<i>Credit Quality Step</i>				
1	4,909	4,909	2,745	2,745
2	127	127	203	203
3	103	103	29	29
4	8	8	-	-
5	-	-	-	-
6	-	-	-	-
Non Rated	664	664	527	527
	<b>5,810</b>	<b>5,810</b>	<b>3,504</b>	<b>3,504</b>
<b>Corporates</b>				
<i>Credit Quality Step</i>				
1	1,918	1,832	7,053	6,763
2	6,654	1,872	7,925	2,639
3	874	720	693	689
4	182	182	838	838
5	29	29	40	40
6	146	65	311	114
Non Rated	17,499	16,275	30,278	27,266
	<b>27,303</b>	<b>20,976</b>	<b>47,138</b>	<b>38,349</b>
<b>Institutions</b>				
<i>Credit Quality Step</i>				
1	4,353	3,764	4,482	3,499
2	34,223	30,995	37,904	32,907
3	3,043	1,574	1,856	1,424
4	1,150	550	989	513
5	81	53	12	12
6	175	-	2	2
Non Rated	11,329	10,336	2,575	2,362
	<b>54,354</b>	<b>47,273</b>	<b>47,820</b>	<b>40,718</b>
	<b>87,466</b>	<b>74,059</b>	<b>98,462</b>	<b>82,572</b>



MLIB

	2012		2011	
	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
<i>(Dollars in Millions)</i>				
<b>Central governments or central banks</b>				
<i>Credit Quality Step</i>				
1	1,200	1,197	1,032	1,032
2	59	59	736	736
3	549	549	48	48
4	282	282	37	37
5	-	-	3	3
6	-	1	-	-
Non Rated	920	919	1,070	1,070
	<b>3,010</b>	<b>3,007</b>	<b>2,926</b>	<b>2,926</b>
<b>Corporates</b>				
<i>Credit Quality Step</i>				
1	703	703	1,114	813
2	10,794	10,351	13,823	12,777
3	966	960	1,175	989
4	289	271	126	56
5	2	2	-	-
6	-	-	-	-
Non Rated	26,930	26,428	29,371	28,122
	<b>39,684</b>	<b>38,715</b>	<b>45,609</b>	<b>42,757</b>
<b>Institutions</b>				
<i>Credit Quality Step</i>				
1	6,929	3,594	8,576	5,413
2	42,127	28,762	47,160	33,325
3	4,643	1,521	3,684	1,399
4	319	83	448	154
5	39	10	-	-
6	262	199	236	86
Non Rated	3,931	3,186	2,312	2,139
	<b>58,250</b>	<b>37,355</b>	<b>62,416</b>	<b>42,516</b>
<b>Other</b>				
<i>Credit Quality Step</i>				
1	1,107	1,107	-	-
2	6,140	6,140	4	4
3	13	13	-	-
4	7	7	-	-
5	35	27	-	-
6	-	-	-	-
Non Rated	10,482	3,193	12,675	6,138
	<b>17,784</b>	<b>10,487</b>	<b>12,679</b>	<b>6,142</b>
	<b>118,728</b>	<b>89,565</b>	<b>123,630</b>	<b>94,341</b>

# Merrill Lynch UK Holdings – Pillar 3 Disclosures 2012

## 4.2.4 Counterparty Credit Exposure by Product

Measures for exposure value under Counterparty Credit Risk for MLUKH, MLI and MLIB are calculated using the mark to market method. Table 11 analyses this risk by product and before and after Credit Risk mitigation.

Table 11: 2012 Counterparty Credit Risk Exposure Value – By Product

	MLUKH		MLI		MLIB	
	2012	2011	2012	2011	2012	2011
<i>(Dollars in Millions)</i>						
<b>OTC derivatives Counterparty Credit Risk</b>						
Gross positive fair value of contracts	774,806	122,746	89,199	117,883	681,393	796,338
Gross potential future credit exposure	229,938	76,564	60,813	68,626	159,775	174,885
<b>Gross exposure value</b>	<b>1,004,744</b>	<b>199,310</b>	<b>150,012</b>	<b>186,509</b>	<b>841,168</b>	<b>971,223</b>
Netting benefits	(859,169)	(135,005)	(106,174)	(131,475)	(748,175)	(872,784)
Collateral held	(34,800)	(15,890)	(13,407)	(15,890)	(21,393)	(22,142)
<b>Net current credit exposure</b>	<b>110,775</b>	<b>48,415</b>	<b>30,431</b>	<b>39,144</b>	<b>71,600</b>	<b>76,297</b>
<b>Breakdown of Collateral Held</b>						
Cash collateral	(31,736)	(13,074)	(11,121)	(13,074)	(20,615)	(21,458)
Sovereign debt instruments	(28)	(36)	(28)	(36)	-	-
Other	(3,036)	(2,780)	(2,258)	(2,780)	(778)	(684)
<b>Total collateral held</b>	<b>(34,800)</b>	<b>(15,890)</b>	<b>(13,407)</b>	<b>(15,890)</b>	<b>(21,393)</b>	<b>(22,142)</b>
<b>Counterparty Credit Risk By Product</b>						
OTC derivatives	110,775	48,415	30,431	39,144	71,600	76,297
Securities financing transactions	33,056	33,447	33,056	33,447	-	-
Other	23	39	23	339	-	-
<b>Total Counterparty Credit Risk exposure value</b>	<b>143,854</b>	<b>81,901</b>	<b>63,509</b>	<b>72,930</b>	<b>71,600</b>	<b>76,297</b>

#### 4.2.5 Counterparty and Credit Risk – Credit Derivatives

Table 12 analyses the notional value of MLI and MLIB's credit derivative portfolio. This is additionally categorised between MLI's and MLIB's own credit portfolio and products used for intermediation.

Table 12: 2012 Counterparty and Credit Risk Exposure – Credit Derivatives

<i>(Dollars in Millions)</i>	MLI			
	2012		2011	
	Bought	Sold	Bought	Sold
<b>Credit derivative products used for own credit portfolio</b>				
Credit default swaps	5,533	5,960	4,192	3,154
Total return swaps	1,904	4,002	1,858	4,480
<b>Total notional value</b>	<b>7,437</b>	<b>9,962</b>	<b>6,050</b>	<b>7,634</b>
<b>Credit derivative products used for intermediation</b>				
Credit default swaps	387,890	387,890	469,721	469,721
Total return swaps	6,864	6,864	-	-
<b>Total notional value</b>	<b>394,754</b>	<b>394,754</b>	<b>469,721</b>	<b>469,721</b>
<b>Credit derivative products by credit exposure</b>				
Institutions	180,045	196,974	196,804	226,675
Corporate	222,145	207,741	278,967	250,680
<b>Total notional value</b>	<b>402,190</b>	<b>404,715</b>	<b>475,771</b>	<b>477,355</b>

<i>(Dollars in Millions)</i>	MLIB			
	2012		2011	
	Bought	Sold	Bought	Sold
<b>Credit derivative products used for own credit portfolio</b>				
Credit default swaps	13,644	14,556	16,898	13,170
Total return swaps	1,503	1,225	1,673	1,126
<b>Total notional value</b>	<b>15,147</b>	<b>15,781</b>	<b>18,571</b>	<b>14,296</b>
<b>Credit derivative products used for intermediation</b>				
Credit default swaps	1,523	1,523	3,963	3,891
Total return swaps	7	7	71	71
<b>Total notional value</b>	<b>1,530</b>	<b>1,530</b>	<b>4,034</b>	<b>3,962</b>



## 5. Additional Information on Liquidity and Remuneration Disclosure

## 5. Additional Information on Liquidity and Remuneration Disclosure

### 5.1. Liquidity

#### 5.1.1. Liquidity Risk

Liquidity risk is the potential inability to meet contractual and contingent financial obligations both on or off-balance sheet, as they fall due. The fundamental objective of liquidity risk management within MLI and MLIB is to ensure that the entities can meet all their financial obligations across market cycles, through periods of financial stress and liquidity shocks.

MLI and MLIB maintain Excess Liquidity in the form of cash and high-quality unencumbered securities as a primary means of liquidity risk mitigation. The composition of high-quality, liquid, unencumbered assets are limited to U.S. government securities and a selected group of non-U.S. government and agency securities.

#### 5.1.2. Governance, Internal Risk Appetite & Limits

MLI and MLIB utilize the following tools to manage liquidity risk:

- The MLI and MLIB boards of directors have established a liquidity risk appetite that requires sufficient Excess Liquidity to meet net modeled outflows under an internally-developed severe stress scenario and to comply with regulatory requirements
- An integrated liquidity governance framework, involving key functions and lines of business
- A robust framework of limits, guidelines and early warning indicators that is monitored and reported daily to ensure ongoing compliance with internal and regulatory requirements.

The MLI and MLIB boards of directors have ultimate responsibility for the entity's liquidity risk management, with responsibilities for additional liquidity risk oversight delegated to the EMEA ROC and MLIB ROC respectively. Corporate Treasury is responsible for the day to day monitoring and management of liquidity risk and MLI and MLIB Excess Liquidity, including the processes for measurement, reporting, analysis, and control of liquidity risk across each entity.

#### 5.1.3. Regulatory Requirements

MLIB is subject to liquidity oversight by the CBI, including stress testing and liquidity position. MLI and MLIB London branch are subject to BIPRU 12 requirements set out by the PRA and must demonstrate self-sufficiency for liquidity purposes; this is consistent with our internal risk appetite.

Both MLI and MLIB London branch are subject to a PRA Individual Liquidity Guidance ("ILG"), which specifies the level of liquidity MLI and MLIB London branch must maintain to withstand a range of liquidity shocks and safeguard against potential stress events. MLI and MLIB London branch satisfy their ILG primarily through the locally

held and managed Excess Liquidity, which includes BIPRU 12 qualifying government securities.

Consistent with their liquidity risk appetites, MLI and MLIB London branch maintain Excess Liquidity to meet day-to-day funding requirements, withstand a range of liquidity shocks, safeguard against potential stress events and meet internal and regulatory requirements of self-sufficiency.

MLI and MLIB London branch maintain Excess Liquidity to meet day-to-day funding requirements, withstand a range of liquidity shocks, safeguard against potential stress events and meet internal and regulatory requirements of self-sufficiency. Corporate Treasury is responsible for the management and monitoring of MLI and MLIB London branch Excess Liquidity.

#### 5.1.4. Liquidity Position

As of 31 December 2012, MLI's Excess Liquidity was \$11.6bn. MLI was in excess of both regulatory and internal liquidity requirements.

As of 31 December 2012, MLIB's Excess Liquidity was \$10.7bn. MLIB was in excess of both regulatory and internal liquidity requirements.

#### 5.1.5. Funding Profile

MLI primarily funds its balance sheet through wholesale secured funding, intercompany funding and capital; MLIB primarily funds its balance sheet through capital and wholesale deposits.

These funding sources support MLI/MLIB trading and capital market activities. Neither MLI nor MLIB issue debt or other securities to third parties and MLI is not licensed to receive deposits.

### 5.2. Remuneration Disclosure

Remuneration disclosures are reported at a UK level in respect of the Remuneration Code and as required under BIPRU 11.5.18. These remuneration policies include the breakdown of remuneration of staff by line of business collectively for all BAC entities operating in the UK and are not specific to MLUKH.

These remuneration disclosures are therefore separately published on BAC's corporate website ([www.bankofamerica.com](http://www.bankofamerica.com)) and should be deemed part of the Pillar 3 Disclosure for MLUKH.







---

## Disclaimer

"Bank of America Merrill Lynch" is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation ("Investment Banking Affiliates"), including, in the United States, Banc of America Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which are both registered broker dealers and members of FINRA and SIPC, and, in other jurisdictions, locally registered entities. Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured \* May Lose Value \* Are Not Bank Guaranteed. Where this communication constitutes a financial promotion/marketing communication it is issued and approved for distribution in the UK by Merrill Lynch International only to, and directed at, (a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is only available to relevant persons and will be engaged in only with relevant persons. The UK compensation scheme and rules for the protection of retail clients do not apply to the services provided or products sold by non-UK regulated affiliates. The information herein was obtained from various sources. We do not guarantee its accuracy. This information is for your private information and is for discussion purposes only. A variety of market factors and assumptions may affect this analysis, and this analysis does not reflect all possible loss scenarios. Some products may place your capital at risk, yield figures quoted may not display all the short and long term prospects for the investment. There is no certainty that the parameters and assumptions used in this analysis can be duplicated with actual trades. Any historical exchange rates, interest rates or other reference rates or prices which appear above are not necessarily indicative of future exchange rates, interest rates, or other reference rates or prices. Neither the information, recommendations or opinions expressed herein constitutes an offer to buy or sell any securities, futures, options, or investment products. Foreign currency denominated investments are subject to fluctuations in exchange rates that could have a positive or adverse effect on the investor's return. Unless otherwise stated, any pricing information in this message is indicative only, is subject to change and is not an offer to deal. Some investments or services may have complex charging structures and the firm may receive more than one element of remuneration. Where relevant, the price quoted is exclusive of tax and delivery costs. Any reference to the terms of executed transactions should be treated as preliminary and subject to our written confirmation. This information is not a publication of BofA Merrill Lynch Global Research, although a BofA Merrill Lynch Global Research report may be referenced as a link or as an attachment hereto. Any summary of BofA Merrill Lynch Global Research is qualified in its entirety by the views of BofA Merrill Lynch Global Research and the specific disclaimers associated with that report. This information is for discussion purposes and neither the information nor any opinions expressed constitutes a solicitation by us for the purchase or sale of any securities or other financial instruments. BOFAML and any affiliate may trade for its own accounts in any of the securities of issuers mentioned herein or in related investments, or other products, and may also from time to time perform or solicit investment banking or other services for, or from, any entity mentioned herein. Prior to undertaking any trade, you should discuss with your professional tax, accounting or other adviser how such particular trade(s) affect you. All analysis (whether in respect of tax, accounting, law or of any other nature), should be treated as illustrative only and not relied upon as accurate. Bank of America and its affiliates do not operate as a banking entity in all jurisdictions. Some products and services may not be available in all jurisdictions or to all clients. Where products are not regulated by the FSA, this will be made clear. Bank of America reserves the right to monitor electronic communications (subject to and in accordance with local laws).