

**Merrill Lynch Bank and Trust
Company (Cayman) Limited
and Subsidiaries**

**Consolidated Financial Statements
December 31, 2013 and 2012**

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Index

December 31, 2013 and 2012

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Balance Sheets	2
Statements of Earnings	4
Statements of Comprehensive Income	5
Statements of Changes in Stockholder's Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	7-31



Independent Auditor's Report

To the Board of Directors of
Merrill Lynch Bank and Trust Company (Cayman) Limited:

We have audited the accompanying consolidated financial statements of Merrill Lynch Bank and Trust Company (Cayman) Limited (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of earnings, of comprehensive income, of changes in stockholder's equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merrill Lynch Bank and Trust Company (Cayman) Limited and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 4 and 11 to the consolidated financial statements, the Company, on a recurring basis, enters into significant related party transactions with Merrill Lynch & Company subsidiaries. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "PricewaterhouseCoopers" in a cursive script.

March 28, 2014

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Consolidated Balance Sheets
December 31, 2013 and 2012

(in thousands of United States dollars)

	2013	2012
Assets		
Cash and due from banks	\$ 2,132	\$ 21,729
Investment securities available for sale	1,184	1,228
Loans (net of allowance for loan losses of \$20 in 2013 and \$50 in 2012)	1,666,895	1,739,199
Receivables from affiliates	21,937	59,749
Accrued trust administration fees	11,545	16,640
Accrued interest receivable	2,424	4,318
Other assets	21,233	12,489
Total assets	<u>\$ 1,727,350</u>	<u>\$ 1,855,352</u>
Liabilities and Stockholder's Equity		
Liabilities		
Deposits:		
Demand	\$ 632,005	\$ 837,487
Time	169,105	188,761
Total deposits	801,110	1,026,248
Intercompany borrowings	288,688	201,030
Payables to affiliates	128,715	145,594
Unfunded pension liability	118,134	105,690
Other liabilities	1,922	10,490
Total liabilities	<u>1,338,569</u>	<u>1,489,052</u>
Commitments and contingencies (Note 12)		
Stockholder's equity		
Capital and share premium	337,141	337,141
Retained earnings	74,671	48,666
Accumulated other comprehensive loss	(23,031)	(19,507)
Total stockholder's equity	<u>388,781</u>	<u>366,300</u>
Total liabilities and stockholder's equity	<u>\$ 1,727,350</u>	<u>\$ 1,855,352</u>

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

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Consolidated Statements of Earnings
Years Ended December 31, 2013 and 2012

(in thousands of United States dollars)

	2013	2012
Interest income		
Loans	\$ 23,868	\$ 27,921
Interest income on advances to affiliates	32	34
Interest income (expense) on derivatives, net	417	(135)
Total interest income	<u>24,317</u>	<u>27,820</u>
Interest expense		
Deposits	4,120	5,365
Intercompany borrowings and advances	860	1,025
Total interest expense	<u>4,980</u>	<u>6,390</u>
Net interest income	19,337	21,430
Provision (recovery) for credit losses	(30)	48
Net interest income after provision (recovery) for credit losses	<u>19,367</u>	<u>21,382</u>
Non-interest income		
Service fee income from affiliated companies	45,307	78,061
Trust administration fees	21,890	29,937
Gain from sale of subsidiaries (see Note 4)	21,946	-
Other	(596)	(771)
Total non-interest income	<u>88,547</u>	<u>107,227</u>
Total revenues, net of interest expenses	<u>107,914</u>	<u>128,609</u>
Non-interest expenses		
Compensation and benefits	45,085	72,078
Service fee expense with affiliated companies	9,272	11,912
Occupancy and related depreciation	2,967	4,683
Communication and technology	1,497	3,568
Advertising and market development	845	1,333
Professional fees	2,980	2,066
Other	1,216	1,044
Total non-interest expenses	<u>63,862</u>	<u>96,684</u>
Earnings before income taxes	44,052	31,925
Income tax expense	18,047	13,587
Net earnings	<u>\$ 26,005</u>	<u>\$ 18,338</u>

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

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2013 and 2012

(in thousands of United States dollars)

	2013	2012
Net earnings	<u>\$ 26,005</u>	<u>\$ 18,338</u>
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment ⁽¹⁾	128	(2,094)
Net change in unrealized appreciation on investment securities available for sale ⁽²⁾	(46)	50
Defined pension adjustment ⁽³⁾	<u>(3,606)</u>	<u>(11,600)</u>
Total other comprehensive loss	<u>(3,524)</u>	<u>(13,644)</u>
Comprehensive income	<u>\$ 22,481</u>	<u>\$ 4,694</u>

(1) Net of Tax Benefit of \$623 and \$761 for 2013 and 2012, respectively.

(2) Net of Tax Benefit of \$32 and \$32 for 2013 and 2012, respectively.

(3) Net of Tax Benefit of \$2,454 and \$7,905 for 2013 and 2012, respectively.

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

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 2013 and 2012

(in thousands of United States dollars, except shares and per share amounts)

	Capital and Share Premium ⁽¹⁾	Accumulated Other Comprehensive Loss	Retained Earnings	Total
As of December 31, 2011	\$ 326,735	\$ (5,863)	\$ 30,328	\$ 351,200
Foreign currency translation adjustment, net of tax	-	(2,094)	-	(2,094)
Unrealized adjustment on investment securities available for sale, net of tax	-	50	-	50
Defined pension adjustment, net of tax	-	(11,600)	-	(11,600)
Net earnings	-	-	18,338	18,338
Other, net	10,406	-	-	10,406
As of December 31, 2012	337,141	(19,507)	48,666	366,300
Foreign currency translation adjustment, net of tax	-	128	-	128
Unrealized adjustment on investment securities available for sale, net of tax	-	(46)	-	(46)
Defined pension adjustment, net of tax	-	(3,606)	-	(3,606)
Net earnings	-	-	26,005	26,005
As of December 31, 2013	<u>\$ 337,141</u>	<u>\$ (23,031)</u>	<u>\$ 74,671</u>	<u>\$ 388,781</u>

(1) Includes \$12 of Share Capital (12,000 ordinary shares outstanding with par value \$1) at December 31, 2013 and 2012.

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

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2013 and 2012

(in thousands of United States dollars)

	2013	2012
Cash flows from operating activities		
Net earnings	\$ 26,005	\$ 18,338
Noncash items excluded from earnings		
Depreciation and amortization	122	669
Stock compensation expense	80	164
Deferred taxes	(8,880)	9,878
Provision (recovery) for credit losses	(30)	48
Loss on sale of securities	-	15
Gain from sale of subsidiaries	(21,946)	-
Changes in operating assets and liabilities		
Receivables from affiliates	37,812	(12,721)
Payables to affiliates	(16,959)	(1,810)
Unfunded pension liability	12,444	24,621
Other assets	(23)	(7,749)
Accrued trust administration fees	5,094	2,451
Accrued interest receivable	1,894	248
Other liabilities	(8,568)	(840)
Other, net	(3,556)	(818)
Net cash provided by operating activities	<u>23,489</u>	<u>32,494</u>
Cash flows from investing activities		
Purchases of securities available-for-sale	(2,398)	(1,179)
Maturities of securities available-for-sale	2,383	1,107
Sale of securities available-for-sale	-	151
Cash inflows from sale of subsidiaries	21,946	-
Net increase (decrease) in loans	72,335	(18,883)
Net cash provided by (used in) investing activities	<u>94,266</u>	<u>(18,804)</u>
Cash flows from financing activities		
Proceeds (repayment) from/of intercompany borrowings, net	87,658	(50,359)
Net (decrease) increase in demand deposits	(205,482)	158,441
Net decrease in time deposits	(19,656)	(114,807)
Net cash used in financing activities	<u>(137,480)</u>	<u>(6,725)</u>
Effect of exchange rate changes on cash	128	(2,094)
Net (decrease) increase in cash and due from banks	<u>(19,597)</u>	<u>4,871</u>
Cash and due from banks		
Beginning of year	<u>21,729</u>	<u>16,858</u>
End of year	<u>\$ 2,132</u>	<u>\$ 21,729</u>
Supplemental cash flow information		
Interest paid	\$ 5,399	\$ 6,510
Income taxes paid	\$ 15,076	\$ 29,582

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

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

1. Description of Business

Merrill Lynch Bank and Trust Company (Cayman) Limited (the "Company"), a wholly owned subsidiary of Merrill Lynch Cayman Holdings Incorporated, or ("MLCHI"), which in turn is a wholly owned subsidiary of Merrill Lynch International Holdings, Inc., or ("MLIH"), consists of a banking division (the "Banking Division") and nonbanking division (the "Nonbanking Division"). Prior to October 1, 2013, the Company was a wholly owned subsidiary of Merrill Lynch & Co., Inc ("ML & Co."). On October 1, 2013, Bank of America Corporation ("Bank of America") completed the merger of ML & Co. directly into Bank of America and assumed all of ML & Co.'s assets and obligations. The Company is an indirect wholly- owned subsidiary of Bank of America. The Company is registered under the laws of the Cayman Islands and holds a Category "A" Banking and Trust License subject to the provisions of the Banks and Trust Companies Law.

The Company's most significant business is the Banking Division, which conducts banking and trust operations for customers of its affiliates. The Banking Division conducts business with client corporations, high net worth individuals, and other financial institutions. The Banking Division's principal products include secured loans, interbank placements, deposits from private clients, and foreign exchange transactions. The Banking Division maintains branches in the Isle of Man and Singapore, which perform administration duties associated with the Banking Division's trust business. The branches do not engage in deposit taking, lending, or foreign currency trading activities.

During 2013, the Company sold assets related to its subsidiaries located in Uruguay, Spain and Lebanon to an unaffiliated third party. These subsidiaries were part of the International Wealth Management ("IWM") sale of certain businesses located outside of the United States. See Note 4 to the Consolidated Financial Statements for further information.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are presented in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), which include industry practices. Intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements are presented in U.S. dollars.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Out-of-Period Adjustment

During the preparation of the financial statements, it was determined that during the periods prior to December 31, 2012, a share-based compensation award related to shares granted to eligible employees in 2006 was incorrectly recorded. The Company has evaluated the effects of this error and concluded that it is not material to any of the Company's previously issued consolidated financial statements or to the 2012 consolidated financial statements. Accordingly, the Company recorded an out-of-period adjustment as of December 31, 2012, which resulted in the decrease of other assets by \$787 and payables to affiliates by \$11,603 and an increase to capital and share premium by \$10,816.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

Currency Translation

The consolidated financial statements are presented in U.S. dollars. Non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated using an average of exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency, net of related tax effects, are reported in stockholder's equity as a component of accumulated other comprehensive income (loss). All other translation adjustments are included in earnings. The Banking Division maintains a matched book in its currency position. As such, changes in the foreign exchange rates for money market transactions are covered daily with an affiliate to avoid any significant fluctuations in net earnings.

Use of Estimates

In presenting the consolidated financial statements, management makes estimates including the following:

- The allowance for credit losses;
- Valuations of assets and liabilities requiring fair value estimates;
- Determination of other-than-temporary impairments for investment securities available-for-sale;
- The ability to realize deferred taxes and the recognition and measurement of uncertain tax positions;
- Incentive-based compensation accruals and valuation of share-based payment compensation arrangements; and
- Other matters, including pension liability that affect the reported amounts and disclosure of contingencies in the financial statements.

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 financial statements, and it is possible that such changes could occur in the near term.

Fair Value Measurement

The Company's financial instruments consist of cash and due from banks, investment securities available for sale, loans, deposits, receivables from affiliates, payables to affiliates and intercompany borrowings.

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 and swaps, represent the present value of amounts estimated to be received from or paid to a marketplace 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

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

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 Company'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.

Cash and Due from Banks

The Company defines cash and due from banks as noninterest bearing deposits with banks. The amounts recognized for cash and due from banks approximate fair value. For purposes of the fair value hierarchy, cash and due from banks are classified as Level 1.

Investment Securities Available-for-Sale (AFS)

The Company accounts for all Investment Securities Available-for-Sale at fair value under ASC 320, *Investments – Debt and Equity Securities* ("Investment Accounting"). Securities to be held for unspecified periods of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as available-for-sale ("AFS") and are carried at fair value with net unrealized gains and losses included in accumulated other comprehensive income (loss). The fair value of investment securities is based on quoted market prices or pricing models. Realized gains and losses are reclassified into earnings using the specific identification method upon realization.

The Company, at least annually, evaluates each AFS security whose fair value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. In determining whether an impairment is other than temporary, the Company considers the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer, and other qualitative factors, as well as whether the Company either plans to sell the security or it is more-likely-than-not that it will be required to sell the security before recovery of the amortized cost. If the impairment is credit-related, an other-than-temporary impairment ("OTTI") loss is recorded in earnings. The non-credit related impairment loss is recognized in accumulated other comprehensive income (loss). If the Company intends to sell an AFS security or believes it will more-likely-than-not be required to sell a security, the Corporation records the full amount of the impairment loss as an OTTI.

Loans

The Company's loans consist of secured consumer loans which are classified as held for investment. Such loans are carried at their principal amount outstanding, net of the allowance for credit losses which represents the Company's estimate of probable losses inherent in its lending activities. Interest income and fees from loans are recognized as earned, based upon the principal amount outstanding over the term of the loans. The carrying value of the loans approximates fair value. For purposes of the fair value hierarchy, loans are classified as Level 2.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses inherent in the Company's lending activities. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

The Company's estimate of credit losses includes judgment about collectability based on available information at the balance sheet date, and the uncertainties inherent in those underlying assumptions. While management has based its estimates on the best information available, future adjustments to the allowance for credit losses may be necessary as a result of changes in the economic environment or variances between actual results and the original assumptions.

In general, loans that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, including loans that are individually identified as being impaired, are classified as nonperforming unless well-secured and in the process of collection. Consumer loans, whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered troubled debt restructurings ("TDRs") and are classified as nonperforming until the loans have performed for an adequate period of time under the restructured agreement.

Interest accrued but not collected is reversed when a loan is considered nonperforming. Interest collections on consumer loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to income when received. Consumer loans may be restored to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection. As of December 31, 2013 and 2012, there were no TDRs or nonperforming loans held by the Company.

Accrued Trust Administration Fees

Accrued trust administration fees represent amounts accrued and earned for administration of the Company's customer fiduciary trust accounts.

Accrued Interest Receivable

Accrued interest receivable represents interest earned from the customer loan portfolio.

Receivables and Payables from/to Affiliates

The Company enters into related party transactions, with other affiliates for the benefit of the Company. The carrying value of the receivables from affiliates and payables to affiliates approximates fair value. For purposes of the fair value hierarchy, receivables from affiliates and payables to affiliates are classified as Level 2. See Note 4 to the Consolidated Financial Statements for further information.

Other Assets

Other assets include equipment and facilities, deferred tax assets, other prepaid expenses and other deferred charges.

Equipment and facilities primarily consist of technology hardware, facility and nontechnology equipment, and leasehold improvements. The historical cost for equipment and facilities was \$27 and \$2,565 as of December 31, 2013 and 2012, respectively, and the accumulated depreciation and amortization was \$8 and \$1,469 for 2013 and 2012 respectively. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life (which ranges from three to five years), while leasehold improvements are amortized over the lesser of the improvements estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

Included in the occupancy and related depreciation expense category was depreciation and amortization of \$76 and \$221 for 2013 and 2012, respectively. Depreciation and amortization recognized in the communications and technology expense category was \$46 and \$448 for 2013 and 2012, respectively.

Deposits

Demand deposits are interest-bearing accounts that the depositor is entitled to withdraw at any time without prior notice. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may be required to pay a penalty to do so. The carrying value of the deposits approximates fair value. For purposes of the fair value hierarchy, deposits are classified as Level 2.

Intercompany Borrowings

The Company's enters into intercompany borrowing transactions with Bank of America to meet its lending requirements. The carrying value of the intercompany borrowings approximates fair value. For purposes of the fair value hierarchy, intercompany borrowings are classified as Level 2. See Note 8 to the Consolidated Financial Statements for further information.

Other Liabilities

The Company's other liabilities primarily consist of current income tax payable, incentive compensation and other miscellaneous payables.

Derivatives

The Company enters into derivative contracts with its affiliates only, and accounts for all derivatives as receivables from affiliates and payables to affiliates at fair value under ASC 815, *Derivative and Hedging* ("Derivative Accounting"). The Banking Division enters into interest rate swaps ("IRS") and currency forwards for the purpose of managing its overall interest rate and foreign currency risk. IRSs and currency forwards are valued daily with realized and unrealized gains and losses recorded as interest income (expense) on derivatives, net.

Foreign Currency Transactions

The Banking Division enters into foreign currency contracts to facilitate currency conversions for its customers, as well as to minimize its currency exposure. Foreign currency contracts are valued daily with realized and unrealized gains and losses reflected in noninterest income or expense, as appropriate.

Defined Benefit Pension Plan

The Company accounts for its defined benefit pension plans in accordance with ASC 715-20-50, *Compensation-Retirement Benefits, Defined Benefit Plans-General* ("Defined Benefit Plan Accounting"). This guidance requires the recognition of a plan's overfunded or underfunded status as an asset or liability, measured as the difference between the fair value of plan assets and the benefit obligation, with an offsetting adjustment to accumulated other comprehensive income (loss). This guidance also requires the determination of the fair value of a plan's assets at a company's year end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of accumulated other comprehensive income (loss).

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

Trust Accounts

Funds held by the Banking Division in fiduciary or agency capacities in the amount of \$7,212,629 and \$14,743,111 as of December 31, 2013 and 2012, respectively, are not included in the accompanying consolidated financial statements, as such items are not assets of the Company. The Company earned \$21,890 and \$29,937 in Trust administration fees which is reflected in the Company's consolidated statements of earnings for the years ended December 31, 2013 and 2012, respectively. The Trust administration fees reflected in the financial statements are recognized as earned.

Stock-Based Compensation

The Company accounts for stock-based compensation expense in accordance with ASC 718, *Compensation — Stock Compensation*, ("Stock Compensation Accounting"), under which compensation expense for share-based awards that do not require future service are recorded immediately, while those that do require future service are amortized into expense over the relevant service period. Further, expected forfeitures of share-based compensation awards for nonretirement-eligible employees are included in determining compensation expense.

Income Taxes

The Company is a subsidiary of MLCHI. MLCHI is included in the U.S. Federal income tax return and certain state income tax returns of Bank of America. The Company is treated as a disregarded entity for U.S. tax purposes and as such, all items of the Company's income and expense are treated as the income and expense of MLCHI. Therefore, the Company accrues tax at MLCHI tax rate. During 2007, the Company received approval from the Cayman Islands government exempting it from all local income, profits and capital gains taxes until February 19, 2028.

The Company provides for incomes taxes on all transactions that have been recognized in the consolidated financial statements 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. The effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period during which such changes are enacted. 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 assess various sources of evidence in the conclusion as to 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 and Bank of America, as certain tax attributes such as U.S. net operating losses ("NOLs"), U.S. capital loss carry forwards and foreign tax credit carry forwards can be utilized by Bank of America in certain income tax returns, 2) tax carry forward periods, and 3) tax planning strategies and other factors of the legal entities, such as the intercompany tax-allocation policy.

The Company recognizes and measures its unrecognized tax benefits 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 a Bank of America state consolidated, combined or unitary return in which the

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

Company is a member, generally will not be reflected in the Company's balance sheet. However, upon Bank of America's resolution of the item, any material impact determined to be attributable to the Company will be reflected in the Company's balance sheet. The Company accrues income-tax-related interest and penalties, if applicable, within income tax expense.

The Company's results of operations are included in the U.S. Federal income tax return and certain state income tax returns of Bank of America as described above. The method of allocating income tax expense is determined under the intercompany tax allocation policy of Bank of America. This policy specifies that income tax expense will be computed for all Bank of America subsidiaries generally on a separate company method, taking into account the tax position of the consolidated group and the Company. Under this policy, tax benefits associated with net operating losses (other tax attributes) of the Company are generally payable to the Company upon utilization in the filing of Bank of America's returns. See Note 13 for further discussion of income taxes.

3. New Accounting Pronouncements

Effective January 1, 2013 the Company retrospectively adopted new accounting guidance from the FASB requiring additional disclosures on the effect of netting arrangements on the Company's financial position. The disclosures relate to derivatives and securities financing agreements that are either offset on the balances 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 impact the Company's Consolidated Balance Sheets or Statement of Earnings.

Effective January 1, 2012, the Company adopted amendments from the Financial Accounting Standards Board ("FASB") to Fair Value Accounting guidance. The amendments clarified the application of the highest and best use, and valuation premise concepts, precluded the application of "blockage factors" in the valuation of all financial instruments and included criteria for applying the fair value measurement principles to portfolio of financial instruments. The amendments also prescribed additional disclosures for Level 3 fair value measurements and financial instruments not carried at fair value. The adoption of this guidance did not have any impact on the Company's Consolidated Balance Sheets or Statement of Earnings.

4. Related-Party Transactions

The Company performs services on behalf of certain affiliate entities including the marketing and promotion of products and services for customers of affiliates. The Company receives compensation for performing these activities based on service agreements, recorded as service fee income from affiliated companies. Receivables from affiliates include derivatives and due from affiliated companies. The remaining balances of receivables from affiliates are service fee related and are non-interest bearing. In addition, the Company holds cash on deposits with affiliates. The Company pays service fee expense to affiliates for services provided related to banking, trust, marketing and promoting the Company's products. At December 31, 2013, the Company had a taxes payable of \$19,020 to Bank of America. As of December 31, 2012 the Company had a taxes payable of \$6,891 to ML & Co.

In 2012, Bank of America entered into an agreement to sell the assets of ML & Co.'s IWM businesses based outside of the United States ("U.S."), including the Company's subsidiaries

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

located in Uruguay, Spain and Lebanon (the "Subsidiaries"). The Subsidiaries, whose primary activities consisted of business development for other affiliated entities, were sold in 2013 to an unaffiliated third party. For the years ended December 31, 2013 and 2012, the Company reported Service fee from affiliated companies from the Subsidiaries of \$38,558 and \$72,436, respectively. Net of expenses, pre-tax income for the Subsidiaries was \$2,646 and \$4,454, respectively, for the years ended December 31, 2013 and 2012. The assets and liabilities of the Subsidiaries were sold at their net book value. In addition, the unaffiliated third party agreed to pay Bank of America a premium related to the transfer of separately managed accounts and other investment accounts ("client balances") of retail investors that transferred to the unaffiliated third party. The \$21,946 gain on sale of subsidiaries for the year ended December 31, 2013, represents cash received by the Company for the portion of premium allocated from Bank of America, related to the Subsidiaries' client balances.

Payables to affiliates include amounts due to affiliated companies on which interest is accrued at prevailing short-term rates. Also included are derivative transactions, such as swaps and forwards, with affiliates. As of December 31, 2013 and 2012, the Company reported \$87,169 and \$127,488 of interest bearing advances from affiliates which are included in Payables to affiliates. Interest expense related to interest bearing advances from affiliates in the amounts of \$432 and \$433 as of December 31, 2013 and 2012, respectively, was included in intercompany borrowings and advances.

Merrill Lynch Bank (Suisse), SA ("MLBS"), an affiliate of the Company, has placed deposits with the Company pursuant to a 2006 agreement to accept MLBS deposits on a fiduciary basis, which are held and identified in separate accounts. As of December 31, 2013 and 2012, MLBS demand and time deposits amounted to \$0 and \$345,974, respectively. MLBS was sold on February 1, 2013 as part of the IWM sale of certain businesses located outside of the U.S.

See Note 8 for additional disclosures of intercompany borrowings entered into with affiliated companies.

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

A summary of balances and transactions with affiliated companies as of and for the years ended December 31, 2013 and 2012 follows:

	2013	2012
Receivables from affiliates (1)	\$ 21,937	\$ 59,749
MLBS demand deposit	\$ -	\$ 324,974
MLBS time deposit	-	21,000
Intercompany borrowings	288,688	201,030
Payables to affiliates (1)	128,715	145,594
Total liabilities	<u>\$ 417,403</u>	<u>\$ 692,598</u>
Service fee income from affiliated companies	\$ 45,307	\$ 78,061
Interest income (expense) on derivatives, net	417	(135)
Interest income on advances to affiliates	32	34
Total income	<u>\$ 45,756</u>	<u>\$ 77,960</u>
Interest expense related to intercompany borrowings and advances	\$ 860	\$ 1,025
Interest expense related to MLBS demand deposit	86	1,072
Interest expense related to MLBS time deposit	20	392
Service fee expense with affiliated companies	9,272	11,912
Total expense	<u>\$ 10,238</u>	<u>\$ 14,401</u>

(1) Includes derivative balances. See Note 11 for additional disclosures of foreign currency forward contracts, currency swaps, and interest rate swaps entered into with affiliates.

5. Investment Securities Available-for-Sale

The carrying amount of securities available-for-sale and their fair value as of December 31, 2013 and 2012 are as follows:

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Singapore Govt. Treasury Bills	\$ 1,209	\$ -	\$ 25	\$ 1,184
	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Singapore Govt. Treasury Bills	\$ 1,207	\$ 21	\$ -	\$ 1,228

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

Investment securities available-for-sale as of December 31, 2013 have been in an unrealized loss position for less than 12 months. There was no investment securities available-for-sale in an unrealized loss position as of December 31, 2012.

6. Loans

The Company's secured consumer loan portfolio is comprised of securities-based lending transactions which are re-margined daily. There has been no occurrence of loan charge-off in the Company's consolidated financial statements during the years ending December 31, 2013 and 2012. In the normal course of business, the Banking Division enters into consumer loans with customers. These loans are primarily collateralized by diversified marketable securities (equities and bonds) and other financial assets held by affiliates of the Banking Division. These activities expose the Banking Division to risks arising from the potential that customers may fail to satisfy their obligations. In these situations, the Banking Division may be required to sell financial instruments at unfavorable market prices to satisfy obligations of its customers.

These loans are classified as held for investment. The customer is required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability through daily re-margining over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for credit losses are only required in rare circumstances.

The Company reported \$1,301,345 and \$365,570 in loans outstanding for Domestic Loan Management Account ("LMA") and International, respectively, as of December 31, 2013. The Company reported \$1,300,656 and \$438,593 in loans outstanding for Domestic Loan Management Account ("LMA") and International, respectively, as of December 31, 2012. There were no non-performing loans or TDR's as of December 31, 2013 and 2012.

Loans as of December 31, 2013 and 2012 were all current and consist of the following scheduled maturities:

	2013	2012
Three months or less	\$ 1,513,267	\$ 1,484,594
Less than six months, greater than three months	21,292	93,515
Less than one year, greater than six months	15,811	53,242
Greater than one year	116,545	107,898
Less allowance for loan losses	<u>(20)</u>	<u>(50)</u>
Loans - net	<u>\$ 1,666,895</u>	<u>\$ 1,739,199</u>

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

Activity in the allowance for credit losses is presented below:

	<u>Domestic LMA</u>	<u>International</u>	<u>Total</u>
Ending balances at December 31, 2011	\$ -	\$ 2	\$ 2
Provision (recovery)	<u>50</u>	<u>(2)</u>	<u>48</u>
Ending balances at December 31, 2012	50	-	50
Provision (recovery)	<u>(30)</u>	<u>-</u>	<u>(30)</u>
Ending balances at December 31, 2013	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 20</u>

7. **Deposits**

Substantially all demand and time deposits were in denominations of \$100 or more as of December 31, 2013 and 2012, and their scheduled maturities are as follows:

	2013	2012
Three months or less but not repayable on demand	\$ 119,984	\$ 141,394
One year or less but over three months	49,121	47,367
Repayable on demand	<u>632,005</u>	<u>837,487</u>
	<u>\$ 801,110</u>	<u>\$ 1,026,248</u>

The effective weighted average interest rates for deposits as of December 31, 2013 and 2012 were 0.33% and 0.52%, respectively.

In 2013, the Company and Julius Baer (“JB”) entered into an arrangement that allows the Company to accept deposits from JB on fixed or demand term on a fiduciary basis at the prevailing market rates. The JB fiduciary deposits are expected to continue funding a portion of the Company’s loan portfolio. At the end of December 31, 2013 these deposits included above, were \$527,779.

8. **Debt**

In 2007, the Company entered into a committed credit facility with ML & Co., which provides for maximum available borrowing of up to \$1,000,000. The maximum available borrowing of the credit facility was \$2,000,000 in 2013. As of October 1, 2013, the committed credit facility was assumed by Bank of America.

As of December 31, 2013, the Company has an outstanding borrowing of \$288,688 under the facility which matures on February 24, 2014. The weighted average interest rate was 0.42% on the credit facility. The Company incurred \$428 and \$592 in interest expense during the years ended December 31, 2013 and 2012. This credit facility does not have any financial or nonfinancial covenants. See Note 15 for additional disclosures.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

9. Employee Benefit Plans

Bank of America provides pension and other post-employment benefits to its employees worldwide through sponsorship of defined contribution and defined benefit pension and other post employment plans.

The Company also participates in an employee compensation plan sponsored by Bank of America, which provides eligible employees stock-based compensation or options to purchase stock. Compensation and benefits expense included \$80 and \$164 related to this plan for the years ended December 31, 2013 and 2012, respectively. Payables to affiliates included \$12,624 and \$12,544 in accrued liabilities related to this plan as of December 31, 2013 and 2012, respectively. Included in the payables to affiliates was an out-of-period adjustment of \$11,603 which the Company recorded in 2012. See Note 2 for additional disclosures.

In connection with a redesign of its retirement plans, Bank of America amended its qualified Pension plans to close the Plans to new employees effective June 30, 2012. Bank of America continues to offer retirement benefits through its defined contribution plans.

Defined Contribution Pension Plans

The U.S. defined contribution plans sponsored by Bank of America include the Merrill Lynch 401(k) Savings & Investment Plan ("SIP") and the Bank of America 401 (k) Plan. The SIP is closed to new participants with certain exceptions. Beginning July 1, 2012, an additional annual company contribution was made to the SIP.

Defined Benefit Pension Plans

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. Bank of America's funding policy has been to contribute annually at least the amount necessary to satisfy local funding standards. The Third Country National Defined Benefit Pension Plan (the "TCN Plan") is the responsibility of the Company and serves as the pension plan for various Non-U.S. expatriate employees. The costs of the TCN Plan are ultimately allocated back to affiliates of Bank of America.

Contributions

There were no participant contributions made to the TCN Plan for the years ended December 31, 2013 and 2012. The Company is the sole contributor to the Plan. During 2013 and 2012, the Company made contributions in the amounts of \$1,927 and \$1,992 to pay benefits to participants. The Company expects to make contributions to the TCN Plan in the amount of \$2,332 for expected benefit payments to participants in 2014.

The accumulated benefit obligation for the TCN Plan was \$163,668 and \$155,252 at December 31, 2013 and 2012, respectively.

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

Total net periodic benefit cost for the years ended December 31, 2013 and 2012 included the following components:

	2013	2012
Service costs	\$ 3,103	\$ 3,343
Interest costs	7,574	6,938
Expected return on plan assets	<u>(2,360)</u>	<u>(2,720)</u>
Total net periodic benefit cost	<u>\$ 8,317</u>	<u>\$ 7,561</u>

The weighted average assumptions used in calculating the net periodic cost for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	4.6 %	5.3 %
Rate of compensation increase	3.5	3.5
Expected long-term return on plan assets	5.8	5.8

Pension expense for the Company amounted to \$5,202 and \$4,680 for the years ended December 31, 2013 and 2012, respectively, and was fully reimbursed as service-fee income from Merrill Lynch International Incorporated. The remainder of the net periodic benefit cost was allocated to other Bank of America affiliates.

The following table provides the status of the TCN Plan's projected benefit obligations, fair value of the TCN Plan assets, and funded status for the periods ended December 31, 2013 and 2012 and the amounts recognized in the Company's consolidated balance sheets at year-end 2013 and 2012.

	2013	2012
Projected benefit obligation at beginning of year	\$ 157,456	\$ 129,988
Service cost	3,103	3,343
Interest cost	7,574	6,938
Actuarial (gain) loss	(273)	19,179
Benefits paid	<u>(1,927)</u>	<u>(1,992)</u>
Projected benefit obligation at end of year	<u>165,933</u>	<u>157,456</u>
Fair value of plan assets at beginning of year	51,766	48,919
Actual return on plan assets	(3,967)	2,847
Employer contribution	1,927	1,992
Benefits paid	<u>(1,927)</u>	<u>(1,992)</u>
Fair value of plan assets at end of year	<u>47,799</u>	<u>51,766</u>
Unfunded pension liability at end of year	<u>\$ 118,134</u>	<u>\$ 105,690</u>

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

The weighted average assumptions used in calculating the projected benefit obligation as of December 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	4.6 %	4.8 %
Rate of compensation increase	3.5	3.5

Amounts recognized in accumulated other comprehensive loss, pre-tax, at year-end 2013 and 2012 consisted of \$31,112 and \$25,053 in net actuarial losses, respectively. In order to comply with the intercompany tax allocation policy of Bank of America, the accumulated other comprehensive losses after-tax was \$18,524 and \$14,918 as of December 31, 2013 and 2012, respectively. There are no estimated net (gains) losses or prior service costs (credits) that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year.

The expected long-term rate of return on the TCN Plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The rate reflects estimates by the TCN Plan investment advisors of the expected returns of the asset held by the TCN Plan in light of prevailing economic conditions at the beginning of the fiscal year.

Pension plans can be sensitive to changes in discount rates and expected asset return rates. It is expected that a 25 basis points rate reduction in the discount rate would increase defined benefit plan expenses by approximately \$770 for 2014. A 25 basis point decline in the expected rate of return would result in an expense increase for 2014 of approximately \$119.

The assets of the TCN Plan are invested prudently so that the benefits promised to members are provided, having regard to the nature and duration of the TCN Plan's liabilities. Generally, the planned investment strategy is set following an asset-liability study and advice from the Trustee's investment advisors. The asset allocation strategy selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meet the TCN Plan's liabilities. The table below sets forth the composition of plan assets by asset category:

	Target Allocation	2013	2012
Mutual fund ⁽¹⁾	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

(1) Primarily invested in debt securities – Long Duration Bond Fund which is considered Level 1 in the Fair Value Hierarchy.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

Expected benefit payments associated with the TCN Plan for the next five years, and in the aggregate for five years thereafter are as follows:

Year	Amount
2014	\$ 2,332
2015	2,449
2016	2,520
2017	3,090
2018	3,220
2019 through 2023	18,759

10. Fair Value

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 sheets are categorized based on the inputs to 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.
- 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.
 - b. Quoted prices for identical or similar assets or liabilities in nonactive markets.
 - c. Pricing models whose inputs are observable for substantially the full term of the asset or liability 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.
- 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 own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

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

There were no transfers between levels for the years ended December 31, 2013 and 2012

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 re-assessments to ensure that models are continuing to perform as designed. In addition, detailed reviews of trading gains and losses are analyzed on a daily basis by personnel who are independent of the front office. 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 2013 and 2012, there were no changes to the Company's valuation techniques that had a material impact on its Consolidated Balance Sheet or Consolidated Statement of Earnings.

The following outlines the valuation methodologies for the Company's derivatives and investment securities available-for-sale:

Derivatives

The fair value of these instruments is 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's 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 model 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 consideration based on available market evidence. See Note 11, Financial Instruments, for additional disclosures related to foreign currency forward contracts, currency swaps, and interest rate swaps.

Investment Securities Available-for-Sale

The fair value of AFS debt securities is generally based on quoted market prices or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of AFS.

The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013, is as follows:

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investment securities available for sale	\$ -	\$ 1,184	\$ -	\$ 1,184
Foreign currency forward contracts and currency swaps	-	381	-	381
Interest rate swaps	-	28	-	28
Total assets	<u>-</u>	<u>1,593</u>	<u>-</u>	<u>1,593</u>
Liabilities				
Foreign currency forward contracts and currency swaps	\$ -	\$ 54	\$ -	\$ 54
Interest rate swaps	-	877	-	877
Total liabilities	<u>\$ -</u>	<u>\$ 931</u>	<u>\$ -</u>	<u>\$ 931</u>

The Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investment securities available for sale	\$ -	\$ 1,228	\$ -	\$ 1,228
Foreign currency forward contracts and currency swaps	-	1,447	-	1,447
Interest rate swaps	-	720	-	720
Total assets	<u>-</u>	<u>3,395</u>	<u>-</u>	<u>3,395</u>
Liabilities				
Foreign currency forward contracts and currency swaps	\$ -	\$ 134	\$ -	\$ 134
Interest rate swaps	-	3,882	-	3,882
Total liabilities	<u>\$ -</u>	<u>\$ 4,016</u>	<u>\$ -</u>	<u>\$ 4,016</u>

There were no financial or nonfinancial assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2013 and 2012.

11. Financial Instruments

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, and other 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 uses derivative instruments to mitigate its market exposures. The following discussion describes the types of market risk faced by the Company:

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 are common interest rate risk management

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

tools. The decision to manage interest rate risk using swap contracts, as opposed to buying or selling short other instruments, depends on current market conditions and funding considerations.

Foreign Currency Risk

Foreign currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Currency forwards are commonly used to manage foreign currency risk associated with these instruments. Currency swaps may also be used in situations where a long dated forward contract is not available or where the end user 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.

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"). The Company's consumer loans are collateralized by securities that are re-margined daily. The Company has established policies and procedures for mitigating credit risk on lending transactions, including reviewing and establishing limits for credit exposure, maintaining qualifying collateral, and continually assessing the creditworthiness of counterparties.

For derivatives, default risk is limited to the current cost of replacing contracts in a gain position. Default risk exposure varies by type of derivative. The notional or contractual value of derivatives does not represent default risk exposure.

Concentrations of Credit Risk

The Company's exposure to credit risk, is limited to default risk, and is associated with lending activities which are 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 factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

As of December 31, 2013 and 2012, the Company's most significant concentration of credit risk is with affiliates. This concentration arises in the normal course of business.

Derivative Instruments

Certain of the Banking Division's financial instruments have off-balance sheet risk of loss, which may consist of market and/or credit risk in excess of amounts recorded on the consolidated balance sheets. Financial instruments with off-balance sheet market risk include derivatives and certain commitments.

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). All derivatives are accounted for at fair value. The Banking Division enters into foreign exchange forward contracts and currency

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2013 and 2012

(in thousands of United States dollars)

swaps with affiliates as economic hedges of foreign currency positions including the U.S. dollar costs of future foreign currency requirements. Delayed delivery and forward contracts are transactions in which one party agrees to deliver securities or a currency to counterparty at a specified price on a specified date. The Banking Division is exposed to market risk associated with the possibility of unfavorable changes in currency exchange rates and the market price of the underlying financial instruments.

The Banking Division enters into IRS with affiliates to manage its overall interest rate risk. These agreements generally fix an interest spread between a rate earned and rate paid; any change in actual interest rates results in an amount paid or received under the agreement based on a notional amount. Any amounts paid or received under these rate agreements are recorded as adjustments to interest expense.

Derivative instruments contain numerous market risks. In particular, most derivatives have interest rate risk, as they contain an element of financing risk which is affected by changes in interest rates. Additionally, derivatives expose the Company to counterparty credit risk with affiliates.

The following table identifies the notional and fair value of outstanding derivative instruments at December 31, 2013 and 2012:

	2013		2012	
	Notional	Fair Value	Notional	Fair Value
Assets				
Foreign currency forward contracts and currency swaps	\$ 58,306	\$ 381	\$ 385,131	\$ 1,447
Interest rate swaps	2,220	28	37,543	720
Total assets	<u>\$ 60,526</u>	<u>\$ 409</u>	<u>\$ 422,674</u>	<u>\$ 2,167</u>
Liabilities				
Foreign currency forward contracts and currency swaps	\$ 35,104	\$ 54	\$ 20,725	\$ 134
Interest rate swaps	32,335	877	187,413	3,882
Total liabilities	<u>\$ 67,439</u>	<u>\$ 931</u>	<u>\$ 208,138</u>	<u>\$ 4,016</u>

The fair value of these instruments is recorded in receivable from affiliates and payables to affiliates, as applicable, in the accompanying consolidated balance sheets as of December 31, 2013 and 2012, respectively. The interest income or interest expense impact of these instruments is recorded in the consolidated statement of earnings as interest expense on derivatives, net.

The notional or contractual amounts of these instruments do not represent the Banking Division's exposure to credit risk.

Substantially, all of the above transactions are entered into with the Banking Division's swaps and foreign exchange dealer affiliates, which intermediate the interest rate and foreign currency risk with third parties in the normal course of their trading activities. There are no legally enforceable master netting agreements in place for the above derivative transactions. Offsetting assets and liabilities are represented on the balance sheet at their gross amounts as of December 31, 2013 and 2012, respectively, and are not offset in accordance with ASC 210-20-45. If a default in

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

performance of any obligation of a derivative contract occurs, each party will set-off collateral held in respect of transactions against obligations owing in respect of any other transactions. For each obligation, there is sufficient collateral to offset any potential liability.

The following table, for the years ended December 31, 2013 and 2012, identifies the amount in interest income related to derivative instruments by primary risk:

	<u>Interest Income</u>	
	<u>2013</u>	<u>2012</u>
Foreign currency risk	\$ 575	\$ 1,155
Interest rate risk	(158)	(1,290)
Total, net	<u>\$ 417</u>	<u>\$ (135)</u>

12. Commitments and Contingencies

Litigation

From time to time, the Company is named as a defendant in legal actions and arbitrations, arising in connection with its normal course of business. Although the ultimate outcome of these actions cannot always be ascertained and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements. As of December 31, 2013 and 2012, there was no pending or potentially threatening litigation against the Company.

Leases

The Company has entered into various non-cancelable long-term operating lease agreements for premises and equipment. The Company has also entered into various non-cancelable short-term operating lease agreements that are primarily commitments of less than one year under equipment leases.

As of December 31, 2013, future non-cancelable minimum rental commitments under leases with remaining terms exceeding one year are presented below:

Year	
2014	\$ 344
2015	186
2016	178
2017	178
2018	93
2019 and thereafter	-
	<u>\$ 979</u>

The Company recorded rent expense of \$1,376 and \$2,596 for the years ended December 31, 2013 and 2012, respectively.

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

13. Income Taxes

The income tax provision on earnings for the years ended December 31, 2013 and 2012 consisted of:

	2013	2012
U.S. federal		
Current	\$ 18,833	\$ 1,867
Deferred	(8,879)	9,726
U.S. state, local, and other		
Current	3,534	908
Deferred	(127)	152
Foreign		
Current	4,560	934
Deferred	126	-
Total (1)	<u>\$ 18,047</u>	<u>\$ 13,587</u>

- (1) Total income tax expense does not reflect the deferred tax effects of items included in accumulated other comprehensive income. As a result of the tax effects, accumulated other comprehensive loss increased \$3,109 and \$8,698 in the years ended December 31, 2013 and 2012, respectively.

The income tax expense for the year ended December 31, 2013 varied by the amount computed by applying the statutory income tax rate to income before income taxes. A reconciliation between the expected U.S. federal income tax expense using the U.S. federal statutory rate of 35% to the Company's actual income tax expense and resulting tax rate for 2013 is presented in the table below.

	2013	2012
U.S. federal income tax at statutory rate	\$ 15,418	\$ 11,030
U.S. state and local income taxes, net	2,215	689
Foreign tax differential	-	1,903
Other	414	(35)
Total	<u>\$ 18,047</u>	<u>\$ 13,587</u>

The Company is included in the consolidated U.S. federal income tax return, and certain combined and unitary state tax returns of Bank of America. Bank of America allocates federal income taxes to its subsidiaries in a manner that approximates the separate company method, and state and local tax expense based on a consolidated composite state tax rate with certain state tax adjustments. At December 31, 2013 the Company had a current tax payable to Bank of America of \$19,020. As of December 31, 2012, the Company had a current tax payable to ML & Co. of \$6,891. These amounts are reported as a payable to affiliate. See Note 4 Related Party Transactions.

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amounts in the consolidated balance sheet. These temporary differences result in taxable or deductible amounts in future years.

The Company's deferred tax assets at December 31, 2013 and 2012, which are included in Other Assets, are comprised of:

	2013	2012
Deferred tax asset		
Pension	\$ 14,824	\$ 12,568
Cumulative translation adjustment	3,073	2,894
State tax deduction	1,939	1,694
Deferred income	969	-
Deferred compensation	299	-
Other	-	587
Total deferred tax asset	<u>21,104</u>	<u>17,743</u>
Deferred tax liability		
Deferred income	-	(8,467)
Deferred compensation	-	(182)
Other	(20)	-
Total deferred tax liability	<u>(20)</u>	<u>(8,649)</u>
Net deferred tax asset	<u>\$ 21,084</u>	<u>\$ 9,094</u>

The Company files income tax returns in numerous state, local and non-U.S. jurisdictions each year. The Internal Revenue Service 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 December 31, 2013.

Jurisdiction	Years Under Examination ¹	Status at December 31, 2013
U.S. Federal	2004-2009 ²	See below
U.S. Federal	2010-2012 ²	Field examination
New York City	2010-2011	Field examination

(1) All subsequent tax years in the jurisdiction above 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 ML & Co.'s consolidated federal income tax return.

Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of United States dollars)

During 2013, Bank of America and the Internal Revenue Service continued to make significant progress toward resolving all federal income tax examinations for Bank of America tax years through 2009 and ML & Co. tax years through 2008. While subject to final agreement, including review by the Joint Committee on Taxation of the U.S. Congress for certain years, the Company believes that all these federal examinations in the Tax Examination Status table above may be concluded during 2014.

The Company is subject to examination by local tax authorities in three countries – Spain, Lebanon and Singapore for the 2008 – 2013 tax years.

At December 31, 2013 and 2012, the Company did not have any liabilities for unrecognized tax benefits.

As described in Note 1, any unrecognized tax benefit related to a state consolidated, combined or unitary return in which the Company is a member, is not reflected in the Company's Balance Sheet until such time as the tax position is resolved.

While it is reasonably possible that a significant change in unrecognized tax benefits related to certain state consolidated, combined or unitary returns will occur within twelve months of December 31, 2013, quantification of an estimated range cannot be made at this time due to the uncertainty of the potential outcomes.

In 2013, Bank of America sold ML & Co.'s IWM businesses based outside of the U.S., after obtaining regulatory and other approvals. These businesses include the following foreign subsidiaries:

- Merrill Lynch Espanola Agencia de Valores, S.A.
- Merrill Lynch, Pierce, Fenner & Smith (Middle East) S.A.L.
- Institucion Financiera Externa Merrill Lynch Bank Uruguay S. A.

The earnings from these foreign subsidiaries had previously been deemed to be permanently reinvested in the respective foreign jurisdictions. Due to this potential sale, the earnings of these subsidiaries are no longer considered indefinitely reinvested. As a result of the change in its permanently reinvested position, the Company recorded a deferred tax liability of \$0.

14. Regulatory Capital

The Company is subject to capital requirements of the Basel II framework as defined by the Cayman Islands Monetary Authority ("CIMA"), which came into effect January 1, 2011 in the Cayman Islands. The measure of capital strength established by CIMA for the Company is the risk weighted total capital ratio with a minimum of 12% in 2013 and 2012. At December 31, 2013 and 2012, the risk weighted capital ratios were 170% and 148%, respectively. In 2012, CIMA provided new guidance for the calculation of the operational risk-weighted assets that is used for the calculation of the risk-weighted capital ratio. The calculation of the operational risk-weighted assets under the new guidance is based on pre-tax income. Prior to the adoption of the new guidance, the calculation of the operational risk-weighted assets was based on gross income. The

**Merrill Lynch Bank and Trust Company (Cayman) Limited
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

(in thousands of United States dollars)

risk-weighted capital ratio at December 31, 2012 reflects the impact of the adoption of the new guidance.

15. **Subsequent Events**

The Company evaluated subsequent events through March 28, 2014, the date the financial statements were available to be issued. On and effective January 1, 2014, the Company extended the maturity of the \$2,000,000 committed credit facility agreement with Bank of America to be automatically renewed every six months.
