Merrill Lynch UK Holdings

Pillar 3 Disclosures

As at 31 December 2013

Bank of America
Merrill Lynch

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1. Introduction

1.1 Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2013 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.

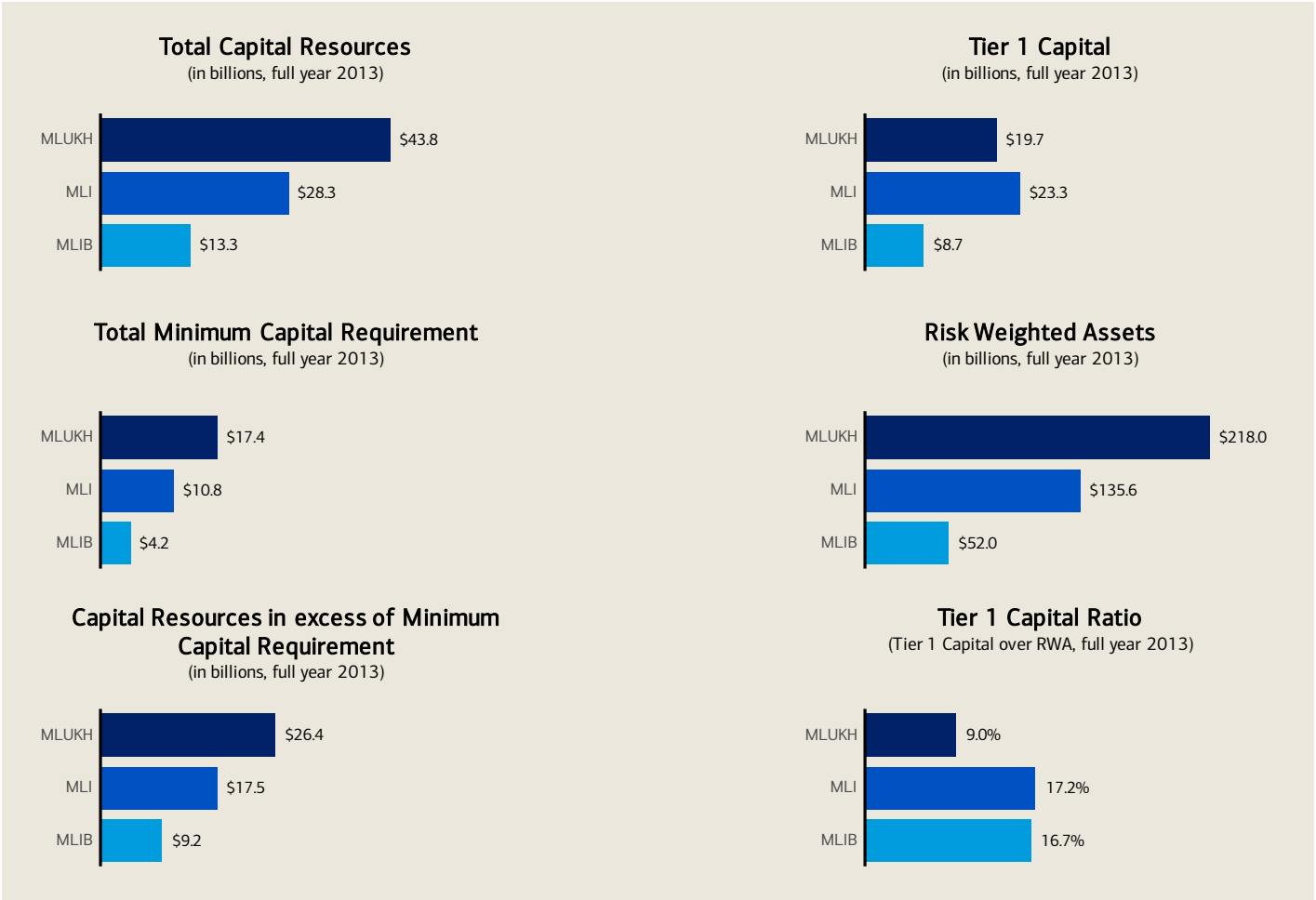
The document provides detail on the Capital Resources available to MLUKH and the regulatory defined Pillar 1 Minimum Capital Requirements for MLUKH, MLI and MLIB, and demonstrates that these entities have Capital Resources significantly in excess of these Requirements (see Figure 1) and robust risk management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

To further increase transparency, this document also includes information on the liquidity position of MLI and MLIB in Section 4.

1.1.1 MLUKH's Capital Position at 31st December 2013

Figure 1 illustrates MLUKH's key capital metrics. MLUKH has Capital Resources of $43.8 billion, which consists of $19.7 billion of Tier 1 Capital, $9.9 billion of Tier 2 Capital and $14.3 billion of Tier 3 Capital. MLUKH has a Tier 1 to Risk Weighted Assets ("RWA") ratio of 9.0% and a surplus over Minimum Capital Requirements of $26.4 billion.

Figure 1. Summary of Capital Position



1.1.2 Key Movements in 2013

Following a review to reduce complexity within BAC's international operations, the transfer of most of the Fixed Income Global Market activities from MLIB to MLI commenced during 2013. As a result of this shift in business activity and in anticipation of increased requirements under Basel III, MLI's Capital Resources have increased from $19.4 billion in 2012 to $28.3 billion in 2013 due to an increase in both Tier 1 and Tier 2 Capital.

MLUKH's Capital Resources have increased from $33.0 billion in 2012 to $43.8 billion in 2013. This is largely due to $10.8 billion of new subordinated debt capital raised in the year, primarily in anticipation of increased requirements under Basel III, which came into effect on 1st January 2014.

The increase in MLUKH's subordinated debt capital in the year was seen in Tier 3 capital. This is due to a gearing rule under Basel II which limits the amount of subordinated debt qualifying as Tier 2 capital to 50% of Tier 1; hence the new subordinated debt is pushed down into Tier 3. Under the new Basel III rules, all of MLUKH's subordinated debt capital qualifies as Tier 2 capital.

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 UK 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 Limited

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

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 commenced during 2013.

Merrill Lynch International

MLI is BAC's largest broker / dealer entity outside of the United States. The Company was authorized and regulated by the Financial Services Authority ("FSA") for the period to 31 March 2013 and with effect from 1 April 2013, was authorized and regulated by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). MLI is licensed and registered in the UK and is a wholly owned subsidiary of Merrill Lynch UK Capital Holdings ("MLUKCH"), which is part of the wider Merrill Lynch UK Holdings ("MLUKH") Group and the ultimate parent of the entity is BAC. MLI has its head office in the United Kingdom with branches in Milan, Rome, Amsterdam, Stockholm and Dubai.

MLI has a key role within the wider BAC group, by providing non-US market access for BAC 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 Global Markets trading entity in Europe, the Middle East and Africa ("EMEA").

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 is incorporated in Ireland and is regulated by the Central Bank of Ireland ("CBI"). The ultimate parent of the entity 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 collateralized lending, letters of credit, guarantees and foreign exchange services to, and accepts deposits from its clients. MLIB provides mortgage lending, administration and servicing in the UK non-conforming residential mortgage market.

The entity 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. This entity was sold to Julius Baer, a Swiss Private Banking Group, on 1 February 2013.

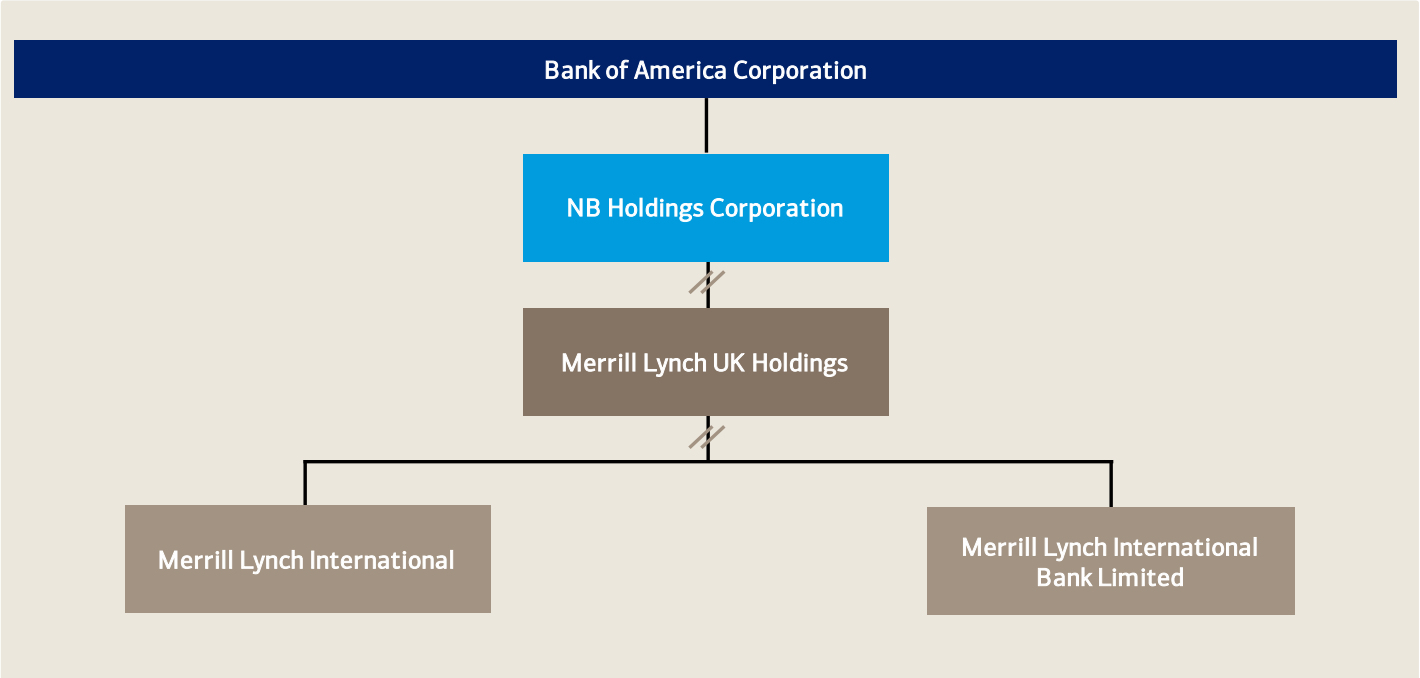
Other Entities

Other entities within 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's 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.

For a BAC organization chart please refer to the investor relations website at http://investor.bankofamerica.com

Figure 2. High Level Organisation Chart



2. Capital Resources and Minimum Capital Requirements

2. Capital Resources and Minimum Capital Requirements

2.1 Capital Resources

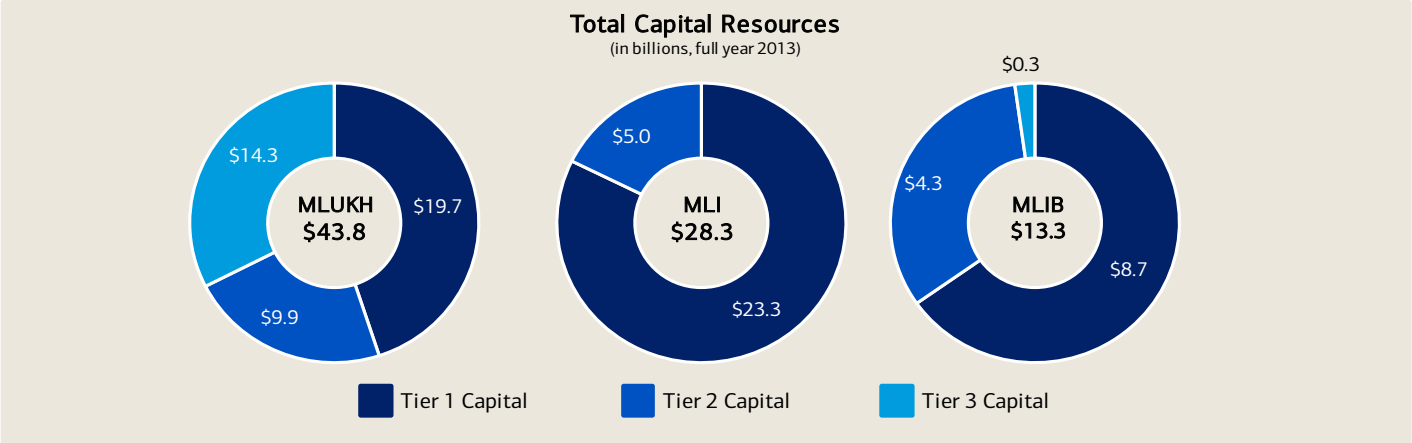
2.1.1 Summary of Capital Resources in 2013

Capital Resources represent 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 $43.8 billion includes $19.7 billion 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 $28.3 billion includes $23.3 billion of Tier 1 capital of which $6.7 billion is ordinary share capital with the remainder audited retained earnings and other reserves. MLIB's capital base of $13.3 billion includes $8.7 billion 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	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
Ordinary Share Capital	112	112	6,735	6,735	32	32
Non Cumulative Preference Shares	-	-	-	-	-	-
Share Premium Account	9,944	9,944	-	-	3,898	3,898
Profit and Loss Account and Other Reserves	10,377	10,573	19,444	12,122	4,764	4,954
Total Tier 1 Capital Before Deductions	**20,433**	**20,629**	**26,179**	**18,857**	**8,694**	**8,884**
Goodwill and Other Intangible Assets	(696)	(996)	(550)	(333)	-	-
Deductions re Investment in Credit Institution	(10)	(10)	(2,324)	(285)	(10)	(10)
Tier 1 capital	**19,727**	**19,623**	**23,305**	**18,239**	**8,684**	**8,874**
Total Tier 2 Capital Before Deductions	9,864	9,822	7,328	1,240	4,352	4,447
Deduction re Investment in Credit Institution	(10)	(10)	(2,324)	(285)	(10)	(10)
Tier 2 capital	**9,854**	**9,812**	**5,004**	**956**	**4,342**	**4,437**
Tier 3 capital	**14,266**	**3,540**	**0**	**207**	**295**	**325**
Total capital resources (net of deductions)	**43,846**	**32,975**	**28,309**	**19,402**	**13,321**	**13,636**

2.1.2 Key Movements in 2013

Following a review to reduce complexity within BAC's international operations, the transfer of most of the Fixed Income Global Market activities from MLI's affiliate, Merrill Lynch International Bank Limited ("MLIB") to MLI commenced during 2013. As a result of this shift in business activity, the Merrill Lynch UK Capital Holdings Group ("MLUKCH"), which includes both MLI and MLIB, required a recalibration of its capital position.

In March 2013, MLUKCH made a $6.4 billion capital contribution to MLI, with no new shares issued, contributing to MLI's increase in Tier 1 Capital from $18.2 billion to $23.3 billion. The deductions regarding investment in credit institution as shown in Table 2, increased in 2013 as a result of MLI's $4.7 billion purchase of MLIB subordinated debt. This net deduction is split equally between Tier 1 and Tier 2 Capital.

Tier 2 Capital (before deductions) increased from $1.2 billion in 2012 to $7.3 billion in 2013 which was driven by a $5.5 billion capital injection in December 2013 in anticipation of increased requirements under Basel III, which came into effect on 1st January 2014.

Under the new Basel III rules, Tier 3 capital is no longer included within total Capital Resources. As per Table 2, MLI no longer holds Tier 3 capital and hence will be unaffected by this change.

MLUKH's Capital Resources have increased from $33.0 billion in 2012 to $43.8 billion in 2013. This is largely due to $10.8 billion of new subordinated debt capital raised in the year, primarily in anticipation of increased requirements under Basel III.

MLUKH has $14.3 billion of Tier 3 capital, however this 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.

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 and CBI at all times.

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

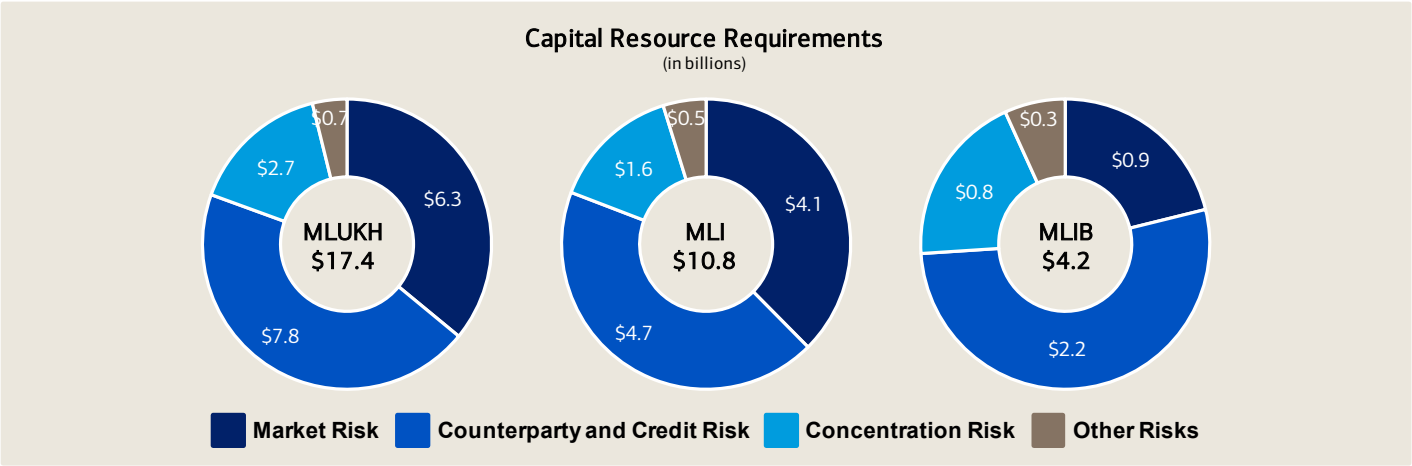
2.2. Minimum Capital Requirements

2.2.1. Summary

Minimum Capital Requirements are the amount of capital that MLUKH, MLI and MLIB have to hold as required by their respective regulators. The value of the Minimum Capital Requirements must be less than the entity's total Capital Resources, in order to hold enough excess to cover any additional requirements, for example, Pillar 2.

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

Figure 4. Summary of Minimum Capital Requirements



MLUKH has a Minimum Capital Requirements of $17.4 billion including Market Risk Capital Requirement of $6.3 billion principally driven by MLI, Counterparty and Credit Risk Capital Requirement of $7.8 billion attributed to both MLI and MLIB and Concentration Risk Requirement of $2.7 billion primarily from MLI.

Table 2 outlines the Minimum Capital 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

	MLUKH		MLI		MLIB	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
Model based capital requirement	**2,668**	1,725	**1,925**	945	**743**	781
Interest Rate PRR [(1)]	**1,705**	1,656	**1,560**	1,586	**137**	61
Equity PRR	**18**	15	**17**	14	**-**	-
Commodity PRR	**425**	550	**128**	167	**-**	-
Foreign Exchange PRR	**458**	410	**65**	55	**-**	-
Collective Investment Scheme PRR	**-**	-	**-**	-	**-**	-
Option PRR	**1,002**	871	**268**	146	**-**	-
Other PRR	**0**	0	**114**	74	**-**	-
Total Market Risk	**6,276**	5,227	**4,077**	2,986	**880**	842
Counterparty Risk	**6,239**	4,818	**4,183**	2,560	**1,536**	1,959
Credit Risk	**1,535**	1,714	**507**	459	**663**	635
Counterparty and Credit Risk	**7,775**	6,532	**4,690**	3,019	**2,199**	2,594
Concentration Risk	**2,720**	2,746	**1,560**	682	**802**	2,360
Operational Risk	**670**	613	**518**	446	**45**	59
Other (Settlement/Private Client/Securitisation)	**0**	0	**-**	-	**237**	166
Total Minimum Capital Requirements	**17,440**	15,118	**10,845**	7,133	**4,163**	6,021

[(1)] *Interest Rate PRR includes $632m (2012: $560m) of Securitisation*

2.2.2 Key Movements in 2013

MLI's Minimum Capital Requirements have increased year-on-year from $7.1 billion to $10.8 billion. The increase in Market Risk is as a result of an increase in scope of risks captured in the model in-line with the transfer of activity from MLIB and an increase in other model based risks. The increase in Counterparty and Credit Risk is principally due to the transfer of activity from MLIB.

MLIB's Minimum Capital Requirements has decreased to $4.2 billion from $6.0 billion due to the transfer of activity to MLI.

2.2.3 Minimum Capital Requirement Approach

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 and CBI, MLI and MLIB use external ratings based on a combination of 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 VaR model approved by the PRA and 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 capital requirements of the Group.

2.3. Capital Resources Less Minimum Capital Requirements and Tier 1 Capital Ratio

2.3.1 Capital Resources Less Minimum Capital Requirements

As at December 2013, MLUKH has $26.4 billion of Capital Resources in excess of Minimum Capital Requirements, which has increased from $17.9 billion in 2012 and MLI has an excess of $17.5 billion, which has increased from $12.3 billion. The increase in both entities is due to the increased Capital Resources available to MLI following the capital re-structure to cover the transfer of activity from MLIB and the anticipated impact of the new Basel III rules.

MLIB's Capital Resources were $9.2 billion in excess of Minimum Capital Requirements. This has increased from $7.6 billion in 2012, largely due to the reduction in Concentration Risk.

Capital Resources and Minimum Capital 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 Requirements across risk types including Market, Counterparty, Credit, Concentration and Operational Risk.

MLI's Tier 1 ratio has decreased from 20.5% to 17.2% over the year due to the increase in Minimum Capital Requirements over and above the increase in Tier 1 Capital. The Tier 1 ratio is expected to further normalise following the implementation of Basel III, but will remain above regulatory guidelines.

MLIB's Tier 1 ratio has increased from 11.8% to 16.7% over the year due to a reduction in minimum capital requirements.

MLUKH's Tier 1 ratio has decreased from 10.4% to 9.0%, driven by an increase in minimum capital requirements, with Tier 1 capital remaining flat over the year.

Figure 5. Capital Surplus and Ratios

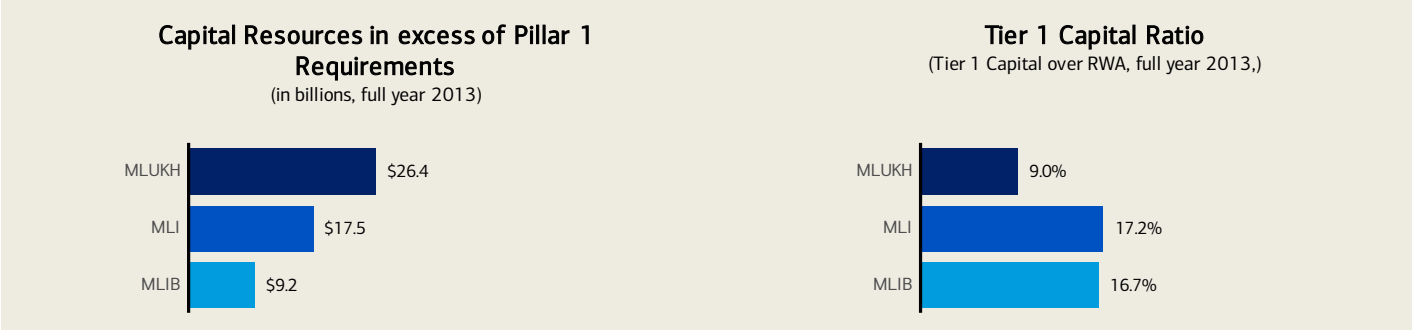


Table 3. Capital Surplus over Minimum Capital Requirements and Tier 1 Ratio

	MLUKH		MLI		MLIB	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
Total Capital Resources	**43,846**	32,975	**28,309**	19,402	**13,321**	13,636
Total Minimum Capital Requirements	**17,440**	15,118	**10,845**	7,133	**4,163**	6,021
Surplus over Requirements	**26,406**	17,856	**17,463**	12,269	**9,158**	7,615
Tier 1 Capital Resources	**19,727**	19,623	**23,305**	18,239	**8,684**	8,874
Risk Weighted Assets	**218,000**	188,975	**135,568**	89,163	**52,038**	75,263
Tier 1 Capital Ratio	**9.0%**	10.4%	**17.2%**	20.5%	**16.7%**	11.8%

3. Risk Management Objectives

3. Risk Management Objectives and Policies

3.1. Risk Management 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 the 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.

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, Governance and Control Function ("GCF"), geography, legal entity (where appropriate), product, service and transaction. 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

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.

3.2. Risk Culture

Consistent adoption of the Risk Framework is essential for a strong, sustainable culture of risk management at Bank of America. A sustainable risk culture is critical to the future success of BAC and is a clear expectation of the Executive Management Team and the BAC board. A strong risk culture provides benefits for the overall performance of BAC and its Businesses.

3.3. Risk Appetite and Philosophy

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.

MLI ensures management and controls through the key governance committees, the MLI Board Risk Committee ("MLI BRC") and the MLI Audit Committee of the MLI board of directors and the MLI Risk Management Committee ("MLI RMC"). The MLI BRC established in November 2013, is responsible for the oversight of senior management's responsibilities regarding the identification of, management of, and planning for, the following key risks of MLI: market risk, credit risk, liquidity risk, operational risk and reputational risk. The MLI RMC reports to the MLI BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the MLI BRC, the MLI Board or other committees, as appropriate) market risk, credit risk, operational risk, balance sheet, capital, liquidity management and stress testing activities. The MLI Audit Committee assists the MLI board in fulfilling its oversight responsibilities relating to audit and compliance.

MLIB ensures suitable risk management and controls through the MLIB Risk Oversight Committee ("MLIB ROC") which is a sub-committee of the MLIB Board of Directors. The MLIB ROC has been delegated responsibility for reviewing MLIB's risk-taking activities; confirming that risk-taking activities are prudently managed within acceptable risk tolerance levels; reviewing the adequacy of the Group's capital, stress testing, risk policies and controls; and, providing reporting and recommendations to the MLIB Board on risk matters. In undertaking these responsibilities, the MLIB ROC is assisted by a number of MLIB management committees including the Asset and Liability Committee ("ALCO"), Credit Committee, Operational Risk Committee and New Products Committee.

3.5. Risk Transparency and Reporting

Effective risk transparency and reporting is critical to provide a clear understanding of current and emerging risks, as well as how these risks align with overall risk appetite and ability to quickly and effectively act upon them. BAC achieve transparency in risk reporting by understanding the current risk profile; leveraging data, information and analytics; and by reporting actionable insights and recommendations to appropriate levels of BAC.

3.6. Risk management processes

BAC's Risk Framework integrates risk management activities in key strategic, capital and financial planning processes, day-to-day business processes and model risk management processes across Businesses and BAC as a whole. The inclusion of these activities helps BAC to proactively prepare for and respond to risks in a timely and efficient manner, thus better protecting the interests of BAC and its shareholders.

BAC employs a simple but effective risk management process, referred to as IMMR: Identify and measure, Mitigate and control, Monitor and test, Report and review. IMMR underpins all day-to-day risk management activities and is embedded in each part of the risk management approach.

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.

BAC 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 BAC's 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.

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. Regional and business level management routines also play an important role in developing recommendations for Committees and executive management. Governance and control functions provide key input and oversight to Business level strategic assessments.

Credit Risk

Definition

The Group defines credit risk as the loss arising from the inability or failure of a borrower, issuer or counterparty (collectively "counterparty") to meet its obligations. Credit risk can also arise from operational failures that result in an erroneous advance, commitment or investment of funds. The credit exposure to a counterparty is defined as the potential loss arising from all product classifications including loans and leases, derivatives and other extensions of credit.

Credit Risk Management Process

The Enterprise manages Credit Risk utilising three processes:

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

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, an insight 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

The Group's credit strategy and origination is focused on its trading, securities activities and commercial lending. 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.

For lending-based credit exposures, credit risk is measured as the amount of binding, advised or guidance limits to a counterparty. 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.

Under Enterprise policy, MLI and MLIB accept collateral permitted by documentation such as repurchase agreements or Credit 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. Generally, collateral is accepted in the form of cash and typically 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.

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 recognized as a credit mitigant for Credit Risk management purposes.

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.

Credit Risk (cont'd)

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, including any watchlist names, 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 authorization, 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 risk management committees, board risk sub-committees and boards of directors. Monthly reporting includes monitoring of credit exposure against board approved risk appetite limits, as well as more detailed credit information covering total outstanding volumes, key counterparty exposures, credit quality trends and concentration analyses.

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 the Group 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. Bonds and CDS on single name corporates and indices are used to manage this risk
- 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 Value at Risk (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 historical data to calculate 3 year and 1 year VaR

MLI has a VaR model permission from the PRA for Equities (General Market and Specific Risk) and Rates and Currencies businesses while MLIB has a similar VaR model permission from the CBI for its Rates and Currencies Businesses. As part of the VaR Model Permission, 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

Market Risk (cont'd)

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 committees 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.

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 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 risk management committees, board risk sub-committees 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 1st 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 operating subsidiaries within the Group can meet their financial obligations across market cycles, through periods of financial stress and liquidity shocks.

The Group incurs liquidity risk through its operating entities, particularly MLI and MLIB. This risk is managed by holding Excess Liquidity within MLI and MLIB in the form of cash and high-quality unencumbered assets 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.

Liquidity Risk Management Process

The respective boards of MLI and MLIB are ultimately responsible for liquidity risk management within each entity, delegating additional oversight to the MLI RMC and MLIB ALCO, respectively. Corporate Treasury is responsible for the day to day monitoring and management of liquidity and Excess Liquidity, including the process for measurement, reporting, analysis, and control of liquidity risk across each entity.

The approach to managing liquidity risk has been established by the respective boards of MLI and MLIB, aligned to BAC processes, but tailored to meet the business mix, strategy, activity profile, risk appetite, and regulatory requirements applicable to each entity. Key components include:

- Entity-specific Liquidity Risk Policies, which formally articulates the principles for managing liquidity risk within each of MLI and MLIB, including requirements for stress testing, limits and guidelines, reporting and monitoring, roles and accountabilities, and regulatory requirements.
- The liquidity risk appetite, established by the respective boards, requiring each entity to maintain sufficient Excess Liquidity to meet net modelled outflows under an internally-developed severe stress scenario and to comply with regulatory requirements.
- A robust framework of limits, guidelines and early warning indicators that are monitored and reported daily to ensure ongoing compliance with internal and regulatory requirements
- Entity-specific Contingency Funding Plans, which details senior management's strategy to address potential liquidity shortfalls during periods of stress.

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 the principal subsidiaries within MLUKH: MLI and MLIB.

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.

Operational Risk (cont'd)	**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 the Group'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 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 risk management committees, board risk sub-committees and boards of directors in order to support decision making within governance routines.
Compliance Risk	**Definition** Compliance risk is the risk of legal or regulatory sanctions arising from the failure of BAC and its enterprise subsidiaries (which includes MLUKH) to comply with requirements of banking and financial services laws, rules and regulations. **Compliance Risk Management** The businesses are the primary risk takers and are responsible for managing risks in their day-to-day activities. They receive support in risk analysis from the Governance and Control Functions including the Global Compliance function ('GC'), which are collectively responsible for overseeing BAC's compliance with applicable laws, rules, and regulations. GC is separate from the Businesses and other Global Control Functions ('GCF') with governance routines and executive reporting distinct from those of the businesses and other control functions. **Reporting and Governance** While GCFs are collectively responsible for overseeing BAC's overall compliance with applicable laws, rules and regulations, GC assumes responsibility for compliance risks. The Global Compliance Executive oversees and manages Corporate Compliance and Business/Enterprise Compliance functions that are responsible for identifying and mitigating compliance risks, escalating compliance awareness items, risks and issues and providing ongoing, objective compliance oversight for BAC globally. The Global Compliance Framework is an addendum to the Risk Framework which describes how GC oversees compliance risk across BAC and its enterprise subsidiaries. The Global Compliance Framework establishes elements, and related high level requirements for GC, as well as the roles and responsibilities related to implementation, execution and oversight of the Global Compliance Program.

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 Process

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.

BAC has established a control environment aimed at preventing reputational risk events before they occur. BAC expect employees to protect BAC's reputation by always acting ethically, legally and in compliance with policies and standards, including those governing conflicts of interest, as outlined in our Code of Ethics.

In the cases where a reputational risk event has occurred, BAC have processes and procedures in place that can be executed at very short notice to manage any negative impacts.

Reporting and Governance

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

The Enterprise has an appropriate organisational and governance structure in place to provide strong oversight at the Enterprise, Regional 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 sellers 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.

Equities Exposures

No detailed disclosures are made in respect of equity exposures as the information provided by such disclosures is not regarded as material.

Securitisation

Securitisation risk is defined as the risks arising from securitisation transactions in relation to which institutions are originator, sponsor or investor, including reputational risks, such as arise in relation to complex structures or products.

MLI undertakes limited trading activity as an investor in securitisations and the risk management of any securitisations is in line with Global Market Risk and Reputational Risk management policies.

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 2013 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 maintains a comprehensive Liquidity Risk Policy and formal Contingency Funding Plan. These include detailed management actions which may be required for managing through liquidity risk events of varying severity, including downgrades in BAC's credit rating.

A key aspect of the liquidity risk management is that MLI maintains excess liquidity in the form of cash and high-quality unencumbered securities as a primary means of liquidity risk mitigation. The size of MLI's excess liquidity is calibrated based on potential cash outflows modelled under an internally-developed severe stress scenario.

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 December 20, 2013, Standard & Poor's Ratings Services (S&P) affirmed the ratings of Bank of America Corporation. S&P continues to evaluate the possible removal of uplift for extraordinary government support in its holding company ratings for the U.S. banks that it views as having high systemic importance. Due to this ongoing evaluation and Corporation-specific factors, S&P maintained its negative outlook on the Corporation's ratings.

On November 14, 2013, Moody's concluded its review of the ratings for Bank of America and certain other systemically important U.S. bank holding companies, affirming our current ratings and noting that those ratings no longer incorporate any uplift for government support. Concurrently, Moody's upgraded Bank of America, N.A.'s senior debt and stand-alone ratings by one notch, citing a number of positive developments at Bank of America. Moody's also moved its outlook for all our ratings to stable.

On May 16, 2013, Fitch Ratings (Fitch) announced the results of its periodic review of its ratings for 12 large, complex securities trading and universal banks, including Bank of America. As part of this action, Fitch affirmed the Corporation's senior credit ratings and upgraded the rating of our stand-alone creditworthiness, as well as the ratings for our subordinated debt, trust preferred and preferred stock, each by one notch.

As at December 2013, BAC's long-term / short-term senior debt ratings and outlooks expressed by the rating agencies are as follows: Baa2 / P-2 (stable) 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 or the ratings of certain asset-backed securitizations may have a material adverse effect on liquidity, potential loss of 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.

In addition, under the terms of certain OTC derivative contracts and other trading agreements, in the event of downgrades of BAC's or BAC's rated subsidiaries' credit ratings, the counterparties to those agreements may require BAC to provide additional collateral, or to terminate these contracts or agreements, which could cause BAC to sustain losses and/or adversely impact liquidity. If the short-term credit ratings of BAC, 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 BAC's incremental cost of funds could be material.

Based on the portfolio at December 31, 2013, 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 $2.2 billion comprised of $1.3 billion for BAC and $881 million for BANA 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 $7.1 billion in additional collateral, comprised of $4.1 billion for BAC and $3.0 billion for BANA and certain of its subsidiaries, would have been required.

Internal Capital Adequacy Assessment Process

MLUKH prepares an Internal Capital Adequacy Assessment Process ("ICAAP") document which 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, Counterparty, Credit and Liquidity Risk

4. Further Detail on Market, Counterparty, Credit and Liquidity Risk

4.1. Minimum Capital Requirements Summary

MLI and MLIB's Minimum Capital Requirements primarily arise from Market, Counterparty and Credit Risk.

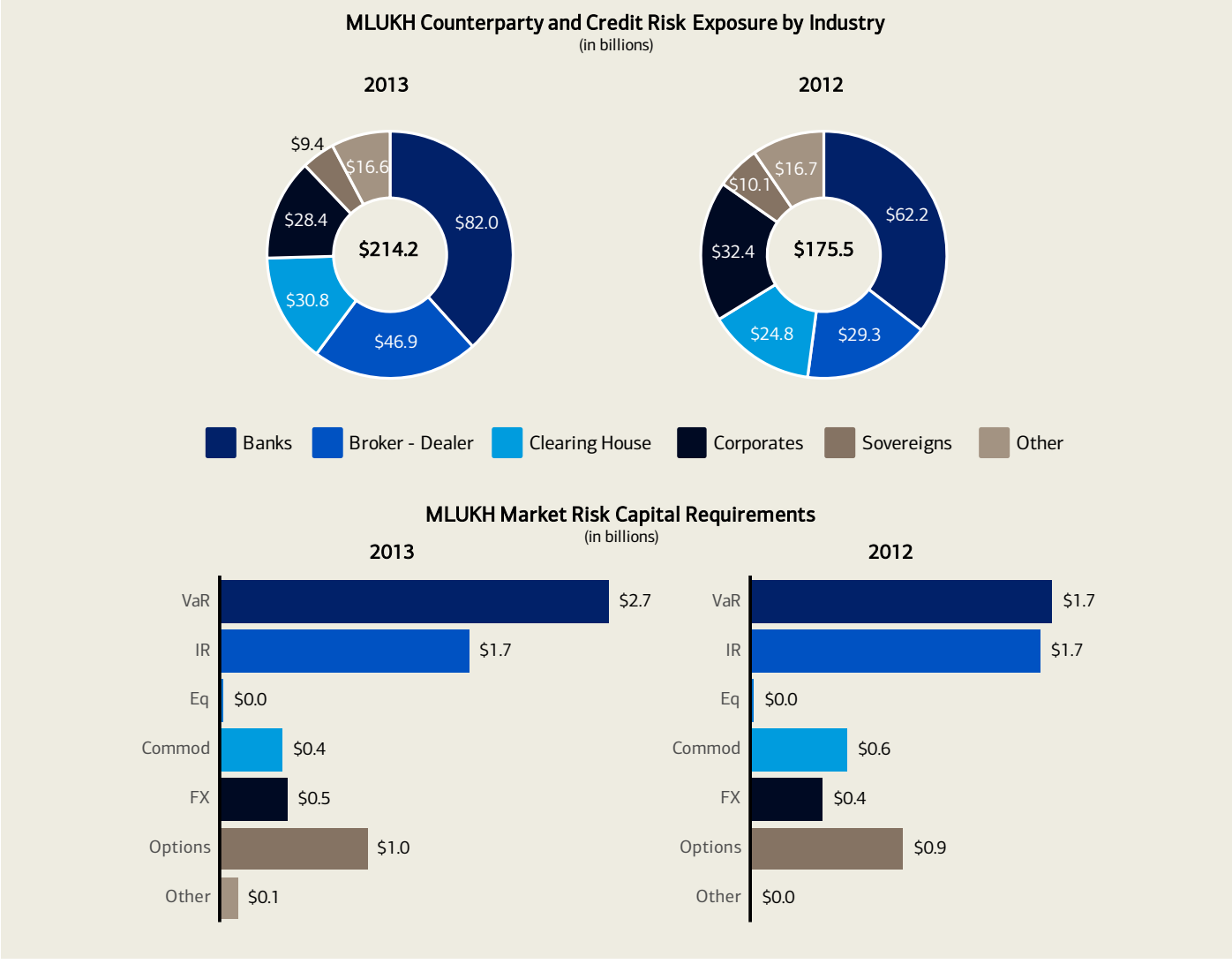
MLI's Counterparty and Credit Risk exposure is largely weighted against banks and clearing houses. Total exposure has increased from $74.1 billion in 2012 to $141.7 billion in 2013 due to the transfer of activity from MLIB.

MLIB's Counterparty and Credit Risk exposure is largely weighted against banks and broker dealers. Total exposure has decreased from $89.6 billion in 2012 to $60.1 billion in 2013 due to the transfer of activity to MLI. Further detail on Counterparty and Credit Risk can be found in Section 4.3.

MLI and MLIB's Market Risk Capital Requirements are principally driven by VaR capital charge and Interest Rate Risk charge. Further detail on Market Risk can be found in Section 4.2.

Figure 6 illustrates MLUKH's Counterparty and Credit Risk Exposure by asset class and Market Risk Capital Requirement by type.

Figure 6. Minimum Capital Requirements Detail



4.2. Market Risk

Summary

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.

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

Model based capital requirement is calculated based on the VaR models approved by the PRA and CBI. The increase in Model based capital requirement in MLI is due to an increase in the scope of risks captured in the model.

Interest Rate PRR

Interest Rate PRR is the risk calculated on interest rate products that are not captured under the VaR waiver and 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

Equity PRR

Equity PRR is the risk calculated on equity positions that are out of scope of the VaR model

Commodity PRR

Commodity PRR is the risk calculated on the commodity 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

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

Option PRR is the risk calculated on options which are not covered under the VaR waiver. 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	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
Model based capital requirement	**2,668**	1,725	**1,925**	945	**743**	781
Interest Rate PRR [(1)]	**1,705**	1,656	**1,560**	1,586	**137**	61
Equity PRR	**18**	15	**17**	14	**-**	-
Commodity PRR	**425**	550	**128**	167	**-**	-
Foreign Exchange PRR	**458**	410	**65**	55	**-**	-
Collective Investment Scheme PRR	**-**	-	**-**	-	**-**	-
Option PRR	**1,002**	871	**268**	146	**-**	-
Other PRR	**0**	0	**114**	74	**-**	-
Total Market Risk	**6,276**	5,227	**4,077**	2,986	**880**	842

[(1)] *Interest Rate PRR includes $632m (2012: $560m) of Securitisation*

Core VaR

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

- Unweighted time series data, which are updated bi-weekly. Daily 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 methodology is different for regulatory reporting or backtesting and management reporting

- Regulatory: Rolling actual ten-day returns are generated from three years of time series data. VaR is calculated using the 7th worst P/L vector during the 780 day period.
- Management: 1 day returns are generated from three years of time series data. VaR is calculated using the average of the worst 19 P/L results 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 2nd and 3rd 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:
  - μ - average of the ten-day P&Ls
  - σ - 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.

Regulatory VaR

Table 5 shows MLI and MLIB's high, low, average and year-end Regulatory Core VaR and Stressed VaR numbers for 2013 and 2012. Both Core and Stressed VaR include the price volatility cross risk add-on.

Table 5. MLI and MLIB 2012 and 2013 Regulatory VaR

	MLI			
	2013		2012	
(Dollars in Millions)	VaR	SVaR	VaR	SVaR
Highest	156	551	218	625
Lowest	26	112	26	62
Mean	65	253	73	242
VaR Measure at Period End	92	401	64	158

	MLIB			
	2013		2012	
(Dollars in Millions)	VaR	SVaR	VaR	SVaR
Highest	138	225	148	338
Lowest	30	43	38	51
Mean	58	94	61	99
VaR Measure at Period End	39	49	55	81

4.3 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 Capital Requirements are derived from risk-weighted exposures, determined using Basel II 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 MLUKH, MLI, and MLIB's regulatory Counterparty and Credit Risk exposures using Basel II Standardised Approach, net of credit risk mitigation.

MLIB's standalone Pillar 3 disclosures are reported on a post 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.

4.3.1 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 RWA 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.

Counterparty and Credit Risk are combined for reporting purposes and Minimum Capital Requirements for Counterpart and Credit Risk excludes Concentration Risk.

Table 6. 2012 and 2013 Counterparty and Credit Risk Minimum Capital Requirement and RWA

	As at 31st December 2013					
	MLUKH		MLI		MLIB	
(Dollars in Millions)	RWA	Capital	RWA	Capital	RWA	Capital
Central governments or central banks	746	60	639	51	107	9
Corporates	32,964	2,637	20,177	1,614	7,430	594
Institutions	59,145	4,732	37,322	2,986	19,537	1,563
Public sector entities	20	2	20	2	-	-
Regional governments or local authorities	1,732	139	287	23	1,446	116
Short-term Claims on institutions and corporate	898	72	175	14	723	58
Retail	158	13	-	-	158	13
Real Estate Property	779	62	-	-	779	62
Past Due Items	227	18	-	-	227	18
Other	513	41	-	-	23	2
Total	**97,183**	**7,775**	**58,620**	**4,690**	**30,428**	**2,434**

	As at 31st December 2012					
	MLUKH		MLI		MLIB	
(Dollars in Millions)	RWA	Capital	RWA	Capital	RWA	Capital
Central governments or central banks	491	39	217	17	110	9
Corporates	33,064	2,645	15,905	1,272	10,041	803
Institutions	41,163	3,293	21,148	1,692	18,150	1,452
Public sector entities	121	10	121	10	0	0
Regional governments or local authorities	1,836	147	134	11	1,702	136
Short-term Claims on institutions and corporate	1,540	123	216	17	1,324	106
Retail	493	39	-	-	493	39
Real Estate Property	2,166	173	-	-	1,073	86
Past Due Items	698	56	-	-	698	56
Other	81	7	-	-	81	7
Total	**81,652**	**6,532**	**37,741**	**3,019**	**33,671**	**2,694**

Notes:

1. *Prior year comparisons restated to enhance industry level disclosure*
2. *RWA and Capital numbers for MLIB include Settlement, Private Client and Securitisation Risk*

Table 7. 2012 and 2013 Counterparty and Credit Risk Exposure by Industry Distribution

	MLUKH		MLI		MLIB	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
Bank	**82,010**	62,180	**58,585**	23,809	**18,739**	35,508
Broker Dealer	**46,918**	29,266	**19,811**	14,986	**27,107**	14,280
Clearing House/Exchange	**30,791**	24,816	**30,788**	3,228	**3**	21,588
Industrial and commercial companies	**14,307**	16,005	**10,015**	6,422	**3,411**	6,783
Energy and commodities	**8,108**	7,782	**521**	574	**804**	1,101
Hedge Fund	**4,838**	5,975	**4,838**	5,975	**-**	-
Insurance	**2,253**	1,158	**2,076**	1,088	**177**	70
Sovereigns	**9,383**	10,106	**4,397**	6,101	**4,986**	3,992
Other financial	**14,128**	16,376	**10,644**	11,875	**3,480**	4,413
Personal	**1,430**	1,830	**-**	-	**1,430**	1,830
Total	**214,166**	**175,494**	**141,675**	**74,059**	**60,137**	**89,565**

Note: Prior year comparisons restated to enhance industry level disclosure

4.3.2 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 and 2013 Counterparty and Credit Risk Exposure by Geographical Distribution

	MLUKH			
	2013			
(Dollars in Millions)	Asia	Americas	EMEA	Total
Central governments or central banks	1,056	162	3,148	4,367
Corporates	235	15,509	55,201	70,945
Institutions	5,155	35,507	87,262	127,923
International organisations	-	-	27	27
Multilateral developments banks	-	3	163	166
Public sector entities	102	-	-	102
Regional governments or local authorities	605	17	2,003	2,625
Short-term Claims on institutions and corporate	394	3,251	2,852	6,497
Retail	-	-	211	211
Real Estate Property	-	-	1,014	1,014
Past Due Items	-	-	249	249
Other	-	23	17	40
Total Exposure Value	**7,547**	**54,473**	**152,146**	**214,166**

Table 8. 2012 and 2013 Counterparty and Credit Risk Exposure by Geographical Distribution (cont'd):

(Dollars in Millions)	2012			
	Asia	Americas	EMEA	Total
Central governments or central banks	807	142	5,344	6,294
Corporates	1,453	19,075	47,280	67,808
Institutions	4,471	37,100	45,712	87,283
International organisations	-	-	-	-
Multilateral developments banks	-	3	168	171
Public sector entities	141	-	-	141
Regional governments or local authorities	439	8	2,116	2,563
Short-term Claims on institutions and corporate	1,025	3,209	3,937	8,171
Retail	-	-	658	658
Real Estate Property	-	-	1,382	1,382
Past Due Items	-	182	679	861
Other	-	58	103	161
Total Exposure Value	**8,335**	**59,778**	**107,380**	**175,493**

Note: Prior year comparisons restated to enhance industry level disclosure

MLI

(Dollars in Millions)	2013			
	Asia	Americas	EMEA	Total
Central governments or central banks	1,056	36	2,177	3,270
Corporates	189	11,486	42,834	54,509
Institutions	4,136	23,807	54,146	82,089
International organisations	-	-	27	27
Multilateral developments banks	-	3	163	166
Public sector entities	102	-	-	102
Regional governments or local authorities	605	17	328	950
Short-term Claims on institutions and corporate	186	7	368	561
Total Exposure Value	**6,276**	**35,356**	**100,042**	**141,675**

(Dollars in Millions)	2012			
	Asia	Americas	EMEA	Total
Central governments or central banks	807	48	4,347	5,203
Corporates	1,401	9,588	9,196	20,186
Institutions	2,350	23,881	20,835	47,066
International organisations	-	-	-	0
Multilateral developments banks	-	3	168	171
Public sector entities	141	-	-	141
Regional governments or local authorities	439	8	188	635
Short-term Claims on institutions and corporate	124	90	443	657
Total Exposure Value	**5,262**	**33,619**	**35,179**	**74,059**

Note: Prior year comparisons restated to enhance industry level disclosure

Table 8. 2012 and 2013 Counterparty and Credit Risk Exposure by Geographical Distribution (cont'd):

	MLIB			
	2013			
(Dollars in Millions)	Asia	Americas	EMEA	Total
Central governments or central banks	-	126	971	1,097
Corporates	45	3,579	5,862	9,486
Institutions	961	9,456	30,012	40,429
Regional governments or local authorities	-	-	1,675	1,675
Short-term Claims on institutions and corporate	208	3,244	2,484	5,936
Retail	-	-	211	211
Real Estate Property	-	-	1,014	1,014
Past Due Items	-	-	249	249
Other	-	23	17	40
Total Exposure Value	**1,214**	**16,428**	**42,495**	**60,137**

	2012			
(Dollars in Millions)	Asia	Americas	EMEA	Total
Central governments or central banks	0	91	987	1,078
Corporates	21	8,074	30,620	38,715
Institutions	2,107	12,566	22,682	37,355
Regional governments or local authorities	-	-	1,928	1,928
Short-term Claims on institutions and corporate	901	3,119	3,494	7,514
Retail	-	-	658	658
Real Estate Property	-	-	1,382	1,382
Past Due Items	-	182	679	861
Other	-	38	36	74
Total Exposure Value	**3,029**	**24,070**	**62,466**	**89,565**

Note: Prior year comparisons restated to enhance industry level disclosure

Table 9 splits MLUKH, MLI and MLIB's Counterparty and Credit Risk exposure values at the end of 2013 and 2012 by residual maturity and asset class. The total average value of the exposures for the years is also provided.

Table 9: 2012 and 2013 Counterparty and Credit Risk Exposure by Residual Maturity and Average Value

MLUKH

(Dollars in Millions)	As at 31st December 2013				2013 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	3,129	716	522	4,367	6,112
Corporates	24,987	21,521	24,172	70,680	62,769
Institutions	74,752	41,060	12,376	128,188	107,901
International organisations	27	0	0	27	38
Multilateral developments banks	49	73	44	166	206
Public sector entities	102	0	0	102	41
Regional governments or local authorities	922	148	1,556	2,626	2,715
Short-term Claims on institutions and corporate	6,497	0	0	6,497	7,253
Retail	211	0	0	211	399
Real Estate Property	0	0	1,014	1,014	1,038
Past Due Items	249	0	0	249	366
Other	0	7	32	39	52
Total Exposure Value	**110,925**	**63,525**	**39,716**	**214,166**	**188,889**

(Dollars in Millions)	As at 31st December 2012				2012 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	5,198	800	296	6,294	5,299
Corporates	17,415	26,101	24,292	67,808	74,422
Institutions	41,500	33,329	12,454	87,283	95,029
International organisations	0	0	0	0	0
Multilateral developments banks	46	79	46	171	218
Public sector entities	141	0	0	141	180
Regional governments or local authorities	650	244	1,670	2,564	2,333
Short-term Claims on institutions and corporate	7,686	449	36	8,171	6,055
Retail	0	658	0	658	689
Real Estate Property	0	0	1,382	1,382	1,297
Past Due Items	861	0	0	861	818
Other	99	37	24	159	148
Total Exposure Value	**73,596**	**61,697**	**40,200**	**175,493**	**186,490**

Note: Prior year comparisons restated to enhance industry level disclosure

Table 9: 2012 and 2013 Counterparty and Credit Risk Exposure by Residual Maturity and Average Value (cont'd):

MLI

(Dollars in Millions)	As at 31st December 2013				2013 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	3,124	138	9	3,271	4,542
Corporates	20,290	15,379	18,840	54,509	38,850
Institutions	54,729	21,556	5,804	82,090	60,623
International organisations	27	0	0	27	38
Multilateral developments banks	49	73	44	166	206
Public sector entities	102	0	0	102	41
Regional governments or local authorities	815	39	96	950	946
Short-term Claims on institutions and corporate	561	0	0	561	619
Total Exposure Value	**79,697**	**37,185**	**24,793**	**141,675**	**105,864**

(Dollars in Millions)	As at 31st December 2012				2012 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	5,177	19	7	5,203	4,281
Corporates	11,535	5,856	2,795	20,186	25,802
Institutions	33,066	10,573	3,426	47,066	51,232
International organisations	-	-	-	-	-
Multilateral developments banks	46	79	46	171	218
Public sector entities	141	-	-	141	180
Regional governments or local authorities	589	13	33	635	523
Short-term Claims on institutions and corporate	172	449	36	657	840
Total Exposure Value	**50,726**	**16,990**	**6,343**	**74,059**	**83,077**

Note: Prior year comparisons restated to enhance industry level disclosure

MLIB

(Dollars in Millions)	As at 31st December 2013				2013 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	6	578	513	1,097	1,570
Corporates	1,325	2,925	5,236	9,486	17,233
Institutions	16,251	17,615	6,563	40,429	41,609
Regional governments or local authorities	107	109	1,459	1,675	1,769
Short-term Claims on institutions and corporate	5,936	-	-	5,936	6,634
Retail	211	-	-	211	399
Real Estate Property	0	-	1,014	1,014	1,038
Past Due Items	249	-	-	249	366
Other	-	7	33	40	52
Total Exposure Value	**24,085**	**21,234**	**14,818**	**60,137**	**70,670**

Table 9: 2012 and 2013 Counterparty and Credit Risk Exposure by Residual Maturity and Average Value (cont'd):

(Dollars in Millions)	As at 31st December 2012				2012 Average Value
	Under 1 Year	One - Five Years	Over Five Years	Total	
Central governments or central banks	13	776	289	1,078	1,005
Corporates	2,126	15,148	21,441	38,715	39,713
Institutions	6,697	21,656	9,002	37,355	40,935
Regional governments or local authorities	61	231	1,636	1,928	1,810
Short-term Claims on institutions and corporate	7,514	-	-	7,514	5,215
Retail	-	658	-	658	689
Real Estate Property	-	-	1,382	1,382	1,297
Past Due Items	861	-	-	861	818
Other	45	4	24	74	61
Total Exposure Value	**17,317**	**38,474**	**33,774**	**89,565**	**91,543**

Note: Prior year comparisons restated to enhance industry level disclosure

4.3.3 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 (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/pra/policy/2013/ecaisstandardised.pdf

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

MLUKH has the majority of exposures in Steps 1 and 2, which means the counterparties are rated between AAA to AA- or A+ to A- . In addition, there is a large proportion of exposure under non-rated which means no public rating is available for the counterparties.

Table 10: 2012 and 2013 Counterparty and Credit Risk Exposure by Credit Quality Step:

	MLUKH			
	2013		2012	
(Dollars in Millions)	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
Central and Regional Governments or Central Banks				
Credit Quality Step				
1	3,841	3,841	6,131	6,128
2	152	152	186	186
3	544	544	651	651
4	319	319	290	290
5	0	0	0	0
6	0	0	0	1
NR-Non Rated	2,372	2,371	1,604	1,603
Total Exposure Value	**7,228**	**7,227**	**8,861**	**8,858**
Corporate				
Credit Quality Step				
1	5,251	5,181	2,733	2,647
2	15,596	8,934	21,537	16,311
3	8,480	8,281	2,890	2,730
4	504	471	499	481
5	226	226	32	32
6	93	87	146	65
NR-Non Rated	49,272	47,764	47,272	45,543
Total Exposure Value	**79,423**	**70,944**	**75,108**	**67,808**
Institutions				
Credit Quality Step				
1	13,234	7,617	11,095	7,171
2	125,944	102,188	77,452	60,960
3	2,688	1,791	7,682	3,091
4	527	212	1,469	633
5	100	28	120	63
6	410	213	436	199
NR-Non Rated	18,572	15,640	16,875	15,165
Total Exposure Value	**161,475**	**127,689**	**115,129**	**87,283**
Other				
Credit Quality Step				
1	2,804	2,804	1,310	1,310
2	5,342	3,672	6,521	6,396
3	19	19	17	17
4	-	-	7	7
5	12	12	35	27
6	-	-	-	-
NR-Non Rated	6,202	1,800	11,075	3,786
Total Exposure Value	**14,379**	**8,307**	**18,965**	**11,543**
	262,505	**214,167**	**218,064**	**175,493**

Note: Prior year comparisons restated to enhance industry level disclosure

Table 10: 2012 and 2013 Counterparty and Credit Risk Exposure by Credit Quality Step (cont'd):

	MLI			
	2013		2012	
(Dollars in Millions)	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
Central and Regional Governments or Central Banks				
Credit Quality Step				
1	2,681	2,681	4,931	4,931
2	58	58	127	127
3	76	76	102	102
4	140	140	8	8
5	0	0	0	0
6	0	0	0	0
NR-Non Rated	1,264	1,264	671	671
Total Exposure Value	**4,219**	**4,219**	**5,838**	**5,838**
Corporate				
Credit Quality Step				
1	4,885	4,818	1,881	1,795
2	10,081	3,715	7,879	3,096
3	3,234	3,118	874	721
4	99	98	182	182
5	64	64	30	30
6	93	87	146	65
NR-Non Rated	44,043	42,608	15,525	14,298
Total Exposure Value	**62,499**	**54,509**	**26,518**	**20,186**
Institutions				
Credit Quality Step				
1	12,250	6,875	4,166	3,577
2	70,141	60,854	32,641	29,514
3	1,833	1,398	3,039	1,570
4	486	209	1,150	550
5	100	28	81	53
6	220	23	174	0
NR-Non Rated	14,639	12,702	12,767	11,802
Total Exposure Value	**99,669**	**82,089**	**54,017**	**47,066**
Other				
Credit Quality Step				
1	361	361	203	203
2	2,000	330	381	256
3	4	4	4	4
4	0	0	0	0
5	0	0	0	0
6	0	0	0	0
NR-Non Rated	162	162	505	505
Total Exposure Value	**2,527**	**857**	**1,094**	**969**
	168,914	**141,675**	**87,466**	**74,059**

Note: Prior year comparisons restated to enhance industry level disclosure

Table 10: 2012 and 2013 Counterparty and Credit Risk Exposure by Credit Quality Step (cont'd):

	MLIB			
	2013		2012	
(Dollars in Millions)	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
Central and Regional Governments or Central Banks				
Credit Quality Step				
1	1,159	1,159	1,200	1,197
2	94	94	59	59
3	468	468	549	549
4	179	179	282	282
5	-	-	-	-
6	-	1	-	1
NR-Non Rated	872	872	920	919
Total Exposure Value	**2,773**	**2,773**	**3,010**	**3,007**
Corporate				
Credit Quality Step				
1	209	206	703	703
2	2,490	2,194	10,794	10,351
3	4,138	4,054	966	960
4	376	343	289	271
5	162	162	2	2
6	-	-	-	-
NR-Non Rated	2,599	2,527	26,930	26,428
Total Exposure Value	**9,974**	**9,486**	**39,684**	**38,715**
Institutions				
Credit Quality Step				
1	984	742	6,929	3,594
2	50,891	36,421	42,127	28,762
3	854	392	4,643	1,521
4	41	3	319	83
5	-	-	39	10
6	190	190	262	199
NR-Non Rated	3,676	2,681	3,931	3,186
Total Exposure Value	**56,636**	**40,429**	**58,250**	**37,355**
Other				
Credit Quality Step				
1	2,443	2,443	1,107	1,107
2	3,342	3,342	6,140	6,140
3	15	15	13	13
4	-	-	7	7
5	12	12	35	27
6	-	-	-	-
NR-Non Rated	6,040	1,638	10,482	3,193
Total Exposure Value	**11,852**	**7,450**	**17,784**	**10,487**
	81,235	**60,138**	**118,728**	**89,564**

Note: Prior year comparisons restated to enhance industry level disclosure

4.3.4 Counterparty Risk 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 and 2013 Counterparty Risk Exposure Value – By Product:

	MLUKH		MLI		MLIB	
(Dollars in Millions)	2013	2012	2013	2012	2013	2012
OTC derivatives counterparty credit risk						
Gross positive fair value of contracts	926,337	774,806	552,620	89,199	369,160	681,393
Gross potential future credit exposure	319,698	229,938	199,513	60,813	103,342	159,775
Gross exposure value	**1,246,035**	**1,004,744**	**752,134**	**150,012**	**472,502**	**841,168**
Netting benefits	(1,059,746)	(859,169)	(634,268)	(106,174)	(415,793)	(748,175)
Collateral held	(43,207)	(34,800)	(27,279)	(13,407)	(15,928)	(21,393)
Net current credit exposure	**143,083**	**110,775**	**90,587**	**30,431**	**40,781**	**71,600**
Breakdown of Collateral Held						
Cash collateral	38,360	31,736	22,725	11,121	15,635	20,615
Sovereign debt instruments	146	28	146	28	-	-
Other	4,701	3,036	4,408	2,258	293	778
Total collateral held	**43,207**	**34,800**	**27,279**	**13,407**	**15,928**	**21,393**
Counterparty Credit Risk By Product						
OTC derivatives	143,083	110,775	90,587	30,431	40,781	71,600
Securities financing transactions	42,443	33,056	42,443	33,056	-	-
Other	20	23	20	23	-	-
Total counterparty credit risk exposure value	**185,545**	**143,854**	**133,049**	**63,509**	**40,781**	**71,600**

4.3.5 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 and 2013 Counterparty and Credit Risk Exposure – Credit Derivatives:

MLUKH

(Dollars in Millions)	2013 Protection Bought	2013 Protection Sold	2012 Protection Bought	2012 Protection Sold
Credit derivative products used for own credit portfolio				
Credit Default Swaps	12,968	14,857	19,177	20,516
Total Return Swaps	4,584	4,716	3,407	5,227
Total Notional Value	**17,552**	**19,574**	**22,584**	**25,743**
Credit derivative products used for intermediation				
Credit Default Swaps	389,928	389,928	389,413	389,413
Total Return Swaps	1,794	1,794	6,871	6,871
Total Notional Value	**391,722**	**391,722**	**396,284**	**396,284**
Credit derivative products by credit exposure				
Institutions	231,343	234,631	192,747	211,435
Corporate	176,834	176,510	225,047	210,403
Regional Government	1,097	155	1,072	188
Total Notional Value	**409,275**	**411,296**	**418,867**	**422,026**

MLI

(Dollars in Millions)	2013 Protection Bought	2013 Protection Sold	2012 Protection Bought	2012 Protection Sold
Credit derivative products used for own credit portfolio				
Credit Default Swaps	1,599	1,408	5,533	5,960
Total Return Swaps	2,958	2,833	1,904	4,002
Total Notional Value	**4,557**	**4,242**	**7,437**	**9,962**
Credit derivative products used for intermediation				
Credit Default Swaps	388,388	388,388	387,890	387,890
Total Return Swaps	1,794	1,794	6,864	6,864
Total Notional Value	**390,182**	**390,182**	**394,754**	**394,754**
Credit derivative products by credit exposure				
Institutions	221,156	219,973	180,045	196,974
Corporate	173,583	174,450	222,145	207,741
Total Notional Value	**394,739**	**394,424**	**402,190**	**404,715**

(Dollars in Millions)	MLIB 2013 Protection Bought	MLIB 2013 Protection Sold	MLIB 2012 Protection Bought	MLIB 2012 Protection Sold
Credit derivative products used for own credit portfolio				
Credit Default Swaps	11,369	13,449	13,644	14,556
Total Return Swaps	1,626	1,883	1,503	1,225
Total Notional Value	**12,995**	**15,332**	**15,147**	**15,781**
Credit derivative products used for intermediation				
Credit Default Swaps	1,540	1,540	1,523	1,523
Total Return Swaps	-	-	7	7
Total Notional Value	**1,540**	**1,540**	**1,530**	**1,530**
Credit derivative products by credit exposure				
Institutions	10,187	14,658	12,702	14,461
Corporate	3,251	2,060	2,902	2,662
Regional Government	1,097	155	1,072	188
Total Notional Value	**14,535**	**16,872**	**16,677**	**17,311**

4.4 Liquidity Risk

MLI

Regulatory Requirements

MLI is subject to BIPRU 12 requirements set out by the PRA and must demonstrate self-sufficiency for liquidity purposes; this is consistent with the internal risk appetite.

MLI is subject to an Individual Liquidity Guidance ("ILG"), which specifies the level of BIPRU 12-qualifying liquid assets that MLI must maintain to cover a PRA-developed stress test plus a series of prescribed add-ons specific to MLI.

Liquidity Position

As of 31 December 2013, MLI was in excess of both internal and regulatory liquidity requirements. MLI held Excess Liquidity of $18.2bn.

Funding Profile

MLI does not issue debt to third parties and is not licensed to receive deposits. MLI primarily funds its balance sheet through wholesale secured funding, capital and intercompany unsecured debt.

These funding sources are used to support MLI trading and capital market activities and maintain sufficient Excess Liquidity.

MLIB

Regulatory Requirements

MLIB is subject to liquidity oversight by the CBI, including stress testing and liquidity position. MLIB London branch is 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.

MLIB London Branch is subject to an Individual Liquidity Guidance ("ILG"), which specifies the level of BIPRU 12-qualifying liquid assets that MLIB London Branch must maintain to cover a PRA-developed stress test plus a series of prescribed add-ons specific to MLIB.

Liquidity Position

As of 31 December 2013, MLIB was in excess of both internal and regulatory liquidity requirements. MLIB held Excess Liquidity of $5.4bn.

Funding Profile

MLIB does not issue debt to third parties. MLIB primarily funds its balance sheet through capital and wholesale deposits. These funding sources are used to support MLIB trading and capital market activities and maintain sufficient Excess Liquidity.

5. Additional Information on Remuneration Disclosure

5. Additional Information on Remuneration Disclosure

5.1. 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 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 (http://investor.bankofamerica.com) and should be deemed part of the Pillar 3 Disclosure for MLUKH.