Merrill Lynch Kingdom of Saudi Arabia Company

Pillar 3 Disclosure

As at 31 December 2014

Bank of America Merrill Lynch

Contents

1. Introduction

1.1. Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2014 in respect of capital and risk management for Merrill Lynch Kingdom of Saudi Arabia Company ("MLKSA"), a Saudi Arabian Closed Joint Stock Company.

The Basel II framework was implemented by the Capital Market Authority ("CMA") through its Prudential Rules in 2013. The Prudential Rules consist of three Pillars. Pillar 1 is defined as "Minimum Capital Requirements", Pillar 2 "Assessment of All Risks" and Pillar 3 "Disclosure and Reporting". 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 MLKSA ("Capital Resources") and the regulatory defined Pillar 1 minimum capital requirements for MLKSA ("Minimum Capital Requirements"), and demonstrates that MLKSA has Capital Resources in excess of these requirements and robust risk management and controls.

1.1.1. Merrill Lynch Kingdom of Saudi Arabia Company

MLKSA is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010245128 issued in Riyadh on Safar 19, 1429H (corresponding to February 26, 2008), CMA license No. 07066-37 dated 18 Dhul Qa'idah 1429H (corresponding to November 18, 2008) and ministerial resolution number 5/314 dated 1 Dhul Haj 1428H (corresponding to December 11, 2007).

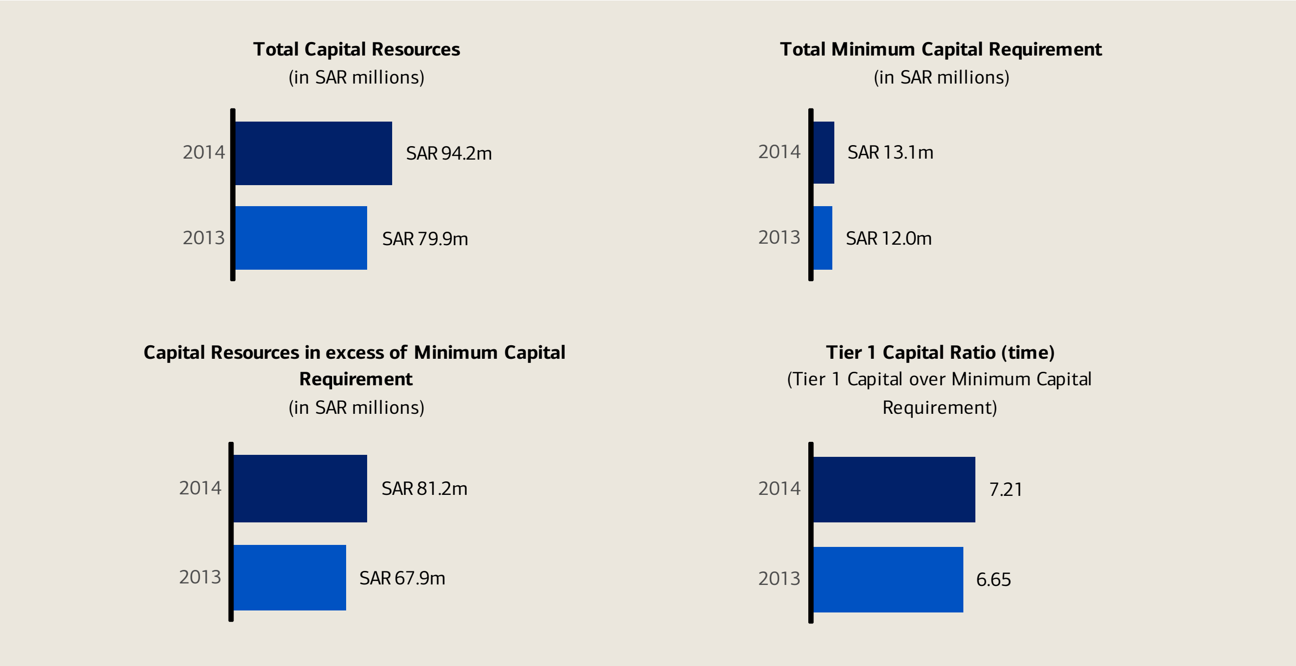
MLKSA is Bank of America's ("BAC" or "the Company") Saudi Arabian broker-dealer. MLKSA is a wholly-owned indirect subsidiary of BAC. MLKSA has its office in Riyadh, in Saudi Arabia, and plays a key role within the wider BAC group, providing access to the Saudi Arabian market for Global Banking and Global Markets clients. MLKSA is BAC's exclusive Global Markets trading entity in Saudi Arabia.

The activities of MLKSA are to engage in dealing activities in its capacity as an agent and principal and to undertake underwriting, management, arranging, advisory and custody services for securities.

1.1.2. MLKSA's Capital Position as at 31st December 2014

MLKSA has Capital Resources of SAR 94.2 million made up exclusively of Tier 1 Capital. MLKSA has a Tier 1 Capital ratio of 7.21 (defined by the CMA as Tier 1 Capital over Total Minimum Capital Requirement) and a surplus over Minimum Capital Requirements of SAR 81.2 million. Figure 1 illustrates MLKSA's key capital metrics.

Figure 1. Summary of Key Metrics as at 31st December 2014



1.2. Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and rules. The information is not directly comparable with the annual financial statements and the disclosures are not required to be audited by the external auditors.

The document has been prepared purely to comply with Pillar 3 disclosure rules, for the purpose of explaining the basis on which MLKSA has prepared and disclosed certain information about the management of risks and regulatory capital adequacy concepts and rules, and for no other purpose. It therefore does not constitute any form of financial statement on MLKSA or of the wider 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 information on a common basis, the information contained in this document may not be directly comparable with the information provided by other banks.

These disclosures are published on BAC's corporate website:
http://investor.bankofamerica.com

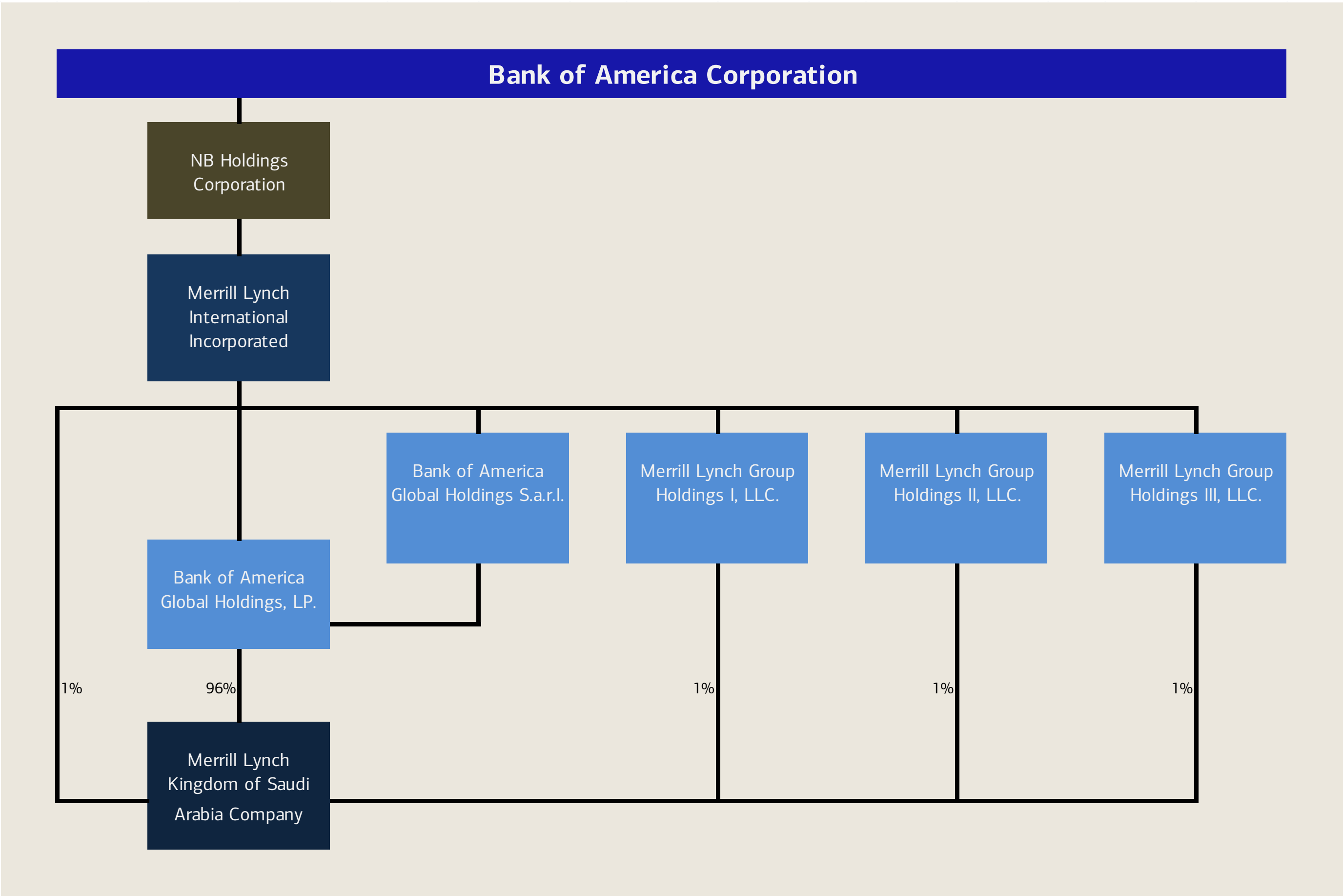
1.3. Operation, Structure and Organisation

MLKSA has a key role within the wider BAC group, by providing Saudi market access for Global Banking and Global Markets clients. MLKSA is BAC's exclusive Global Markets trading entity in Saudi Arabia.

The principal activities of MLKSA are to engage in dealing activities in its capacity as an agent and principal and to undertake underwriting, management, arranging, advisory and custody services for securities.

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

Figure 2. Organisation Chart



2. Capital Resources and Minimum Capital Requirements

2.1. Capital Resources

2.1.1. Summary of Capital Resources in 2014

Capital resources represent the amount of regulatory capital available to an entity in order to cover all risks. Defined under the CMA's Prudential Rules, capital resources are designated into 2 tiers, Tier 1 and Tier 2 Capital. Tier 1 Capital being the highest quality of capital and typically represents equity and audited reserves. Tier 2 Capital typically consists of subordinated debt capital instruments, and capital contributions not meeting the conditions of Tier 1.

MLKSA's Capital Resources are composed entirely of Tier 1 Capital.

Table 1. Capital Resources

(SAR in Thousands)	2014	2013
Fully Paid Up Ordinary Share Capital*	**95,000**	95,000
Statutory Reserve	**3,239**	1,884
Profit and Loss Account and Other Reserves	**176**	(12,024)
Total Tier 1 Capital Before Deductions	**98,415**	84,860
Deferred tax assets	**(4,177)**	(4,971)
Tier 1 Capital	**94,238**	79,889
Tier 2 Capital	**0**	0
Total Capital Resources (net of deductions)	**94,238**	79,889

* As at 31 December 2014, the BAC Group was in the process of increasing the capital base of MLKSA by an additional SAR 48 million. CMA approval for the capital increase was granted on 7th January 2015, as such the proposed capital increase was excluded from the capital base as at the 2014 year end.

2.1.2. Key Movements in 2014

MLKSA's Tier 1 Capital base increased from SAR 79.9 million in 2013 to SAR 94.2 million in 2014 as a result of MLKSA's 2014 positive post tax earnings.

MLKSA's Tier 1 Capital ratio, as defined by the CMA, increased from 6.65 to 7.21 as a result of the increase in Tier 1 Capital.

2.1.3. Transferability of Capital within the Group

MLKSA'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. MLKSA must ensure that its Capital surplus remains above the minimum regulatory capital requirements at all times.

2.2. Minimum Capital Requirements

2.2.1. Summary

MLKSA must ensure that its capital surplus remains above the CMA's Pillar 1 minimum capital requirements at all times. 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 Credit Risk in non-trading book activities, Operational Risk and Market Risk (FX Risk) Requirements. MLKSA does not have risks in the trading book nor any commodity risk.

MLKSA has a Minimum Capital Requirement of SAR 13.1 million including a Credit Risk Requirement SAR 6 million, Operational Risk Requirement SAR 6 million, and Market risk Requirement of SAR 1.1 million.

Table 2 outlines the Minimum Capital Requirements for MLKSA. MLKSA's Capital Resources are significantly in excess of the Pillar 1 Minimum Capital Requirements.

Table 2. Minimum Capital Requirements

(SAR in Thousands)	2014	2013
Total Capital Resources	**94,238**	**79,889**
Market Risk	1,116	79
Credit Risk	5,982	5,512
Operational Risk	5,966	6,428
Total Minimum Capital Requirements	**13,063**	**12,019**
Surplus over Requirements	**81,175**	**67,870**

2.2.2. Key Movements in 2014

MLKSA's Minimum Capital Requirements have increased from SAR 12.0 million to SAR 13.1 million. The increase in capital requirement is a function of an increase in market risk and credit risk as at the 2014 year end offset by a lower operational risk capital requirement derived from a lower operating expense base in 2014. Market and credit risk capital requirements increased as at 31 December 2014, as MLKSA had placed USD 12.8 million associated to a SAR 48 million capital increase that was in progress over the 2014 year end with a Saudi settlement bank. As such, the FX risk and credit risk capital requirements increased accordingly.

2.2.3. Minimum Capital Requirements Approach

MLKSA has adopted the approach specified by the CMA in their Prudential Rules for calculating Credit Risk Capital Requirements and Expenditure Based Approach for calculating Operational Risk Capital Requirements. MLKSA uses 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"), and adheres to the Prudential Rules set out by the CMA.

2.3. Capital Resources vs. Minimum Capital Requirements and Tier 1 Capital Ratio (time)

2.3.1. Capital Resources vs. Minimum Capital Requirements

MLKSA has SAR 81.2 million of Capital Resources in excess of Minimum Capital Requirements, which has increased from SAR 67.9 million in 2013. The increase in the excess is driven by an increase in Capital Resources.

Capital Resources and Minimum Capital Requirements for MLKSA are monitored on a daily basis. MLKSA continuously maintains a surplus over Minimum Capital Requirements.

2.3.2. Tier 1 Capital Ratio (time)

An entity's Tier 1 Capital Ratio (time) is defined by the CMA as Total Tier 1 Capital over Total Minimum Capital Requirement.

MLKSA's Tier 1 Capital Ratio (time) has increased from 6.65 to 7.21 over the year due to the Tier 1 Capital Resources increasing at a greater rate than Minimum Capital Requirements. MLKSA's Tier 1 Capital Ratio (time) is in excess of the CMA ratio requirement of 1.00.

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

(SAR in Thousands)	2014	2013
Total Capital Resources	**94,238**	79,889
Total Minimum Capital Requirements	**13,063**	12,019
Surplus over Requirements	**81,175**	67,870
Tier 1 Capital Resources	**94,238**	79,889
Tier 1 Capital Ratio (time)	**7.21**	6.65

3. Risk Management, Objectives and Policy

3.1. Enterprise Risk Framework

MLKSA 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.

3.2. Enterprise Risk Management

Risk is inherent in all BAC's business activities. Managing risk well is the responsibility of every employee. Sound risk management enables BAC to serve the customers and deliver for the shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to BAC's reputation, each of which may adversely impact BAC's ability to execute its business strategies. It is critical that every employee embraces sound risk management practices as a core component of his or her role and responsibilities.

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries, including MLKSA.

The Risk Framework applies to all BAC employees. It provides an understanding of BAC's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of BAC's risk management approach:

- Risk Culture
- Risk Appetite
- Risk Management Processes
- Risk Data Aggregation and Reporting
- Risk Governance

3.3. Risk Culture

A strong risk culture is fundamental to BAC's core values and operating principles. It requires BAC to focus on risk in all activities and encourages the necessary mindset and behaviour to enable effective risk management and promote sound risk-taking within BAC's risk appetite. Sustaining a strong risk culture throughout the organisation is critical to the success of BAC and is a clear expectation of BAC's executive management team and its boards of directors.

The following principles form the foundation of BAC's risk culture:

- Managing risk well protects BAC and its reputation and enables BAC to deliver on its purpose and strategy.
- BAC treats customers fairly and acts with integrity to support the long-term interests of its employees, customers and shareholders.
- Individual accountability and an ownership mindset are the cornerstones of BAC's Code of Conduct and are at the heart of its risk culture.
- All employees are responsible for proactively managing risk as part of their day-to-day activities through prompt identification, escalation and debate of risks.
- While BAC employs models and methods to assess risk and better inform BAC's decisions, proactive debate and a thorough challenge process lead to the best outcomes.
- Lines of business and other front line units are first and foremost responsible for managing all aspects of their businesses, including all types of risk.

- Independent risk management provides independent oversight and effective challenge, while corporate audit provides independent assessment and validation.
- BAC strives to be best-in-class by continually working to improve BAC's risk management practices and capabilities.

3.4. Risk Appetite

BAC's risk appetite statement clearly defines the amount of capital, earnings or liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring) to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. The risk appetite statement ensures that BAC maintains an acceptable risk profile that is in alignment with its strategic and capital plans. The risk appetite statement includes both quantitative limits and qualitative components that are reviewed and approved by the BAC board of directors at least annually.

The statement is rooted in several principles:

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

3.5. Risk Management Processes

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

BAC approach to Risk Management Processes:

- All employees are responsible for proactively managing risk.
- Risk considerations are part of all daily activities and decision-making.
- BAC encourages a thorough challenge process and maintains processes to identify, escalate and debate risks.
- BAC utilizes timely and effective escalation mechanisms for risk limit breaches

The front line units have primary responsibility for managing risks inherent in their businesses. BAC employs an effective risk management process, referred to as IMMC: Identify, Measure, Monitor and Control as part of its daily activities.

3.6. Risk Data Aggregation and Reporting

Effective risk data aggregation and reporting is critical to provide a clear understanding of current and emerging risks and enable BAC to proactively and effectively manage risk. BAC achieve transparency in its risk reporting by understanding its risk profile (leveraging data, information and analytics) and by reporting actionable insights and recommendations to appropriate levels.

Risk Data Aggregation and Reporting Principles:

- Complete, accurate and timely data
- Use clear and uniform language to articulate risks consistently across the Company
- Maintain an aggregate, accurate and comprehensive view of all material risks
- Complete, robust and consistent risk quantification methods

3.7. Risk Governance

BAC adheres to a risk governance framework that is designed by independent risk management and approved by the BAC board of directors. The risk governance framework includes delegation of authority from BAC board of directors or board committees to management committees and executive officers as well as risk limits established for material activities to ensure BAC operates within risk appetite.

BAC's Risk Governance Principles serve as the cornerstone of its risk governance framework. The Code of Conduct, Risk Framework and risk appetite statements are overarching documents that firmly embed the Company's risk culture in everything BAC does. BAC's Code of Conduct provides basic guidelines for business practices and professional and personal conduct to which employees are expected to adhere. The Risk Framework articulates how the company defines and manages risk. Risk appetite statements clearly indicate the risks BAC are willing to accept. The strategic plans for BAC document strategies for the next three year period.

3.8. Key Risk Types

The Risk Management processes outlined above allow BAC to manage risks across the seven key risk types; strategic, credit, market, liquidity, operational, compliance and reputational. The seven risk types are defined below, and key risk assessments for MLKSA's activities are provided below:

Strategic Risk	**Definition** Strategic risk is the risk that results from incorrect assumptions about external and/or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments, such as business cycles, competitor actions, changing customer preferences, product obsolescence and technology developments in the geographic locations in which the enterprise operates. The strategic risk appetite is translated into MLKSA's operational, earnings, capital and liquidity targets which are embedded into the BAC's strategic and financial operating plans. Senior management is responsible for measuring and assessing strategic risk against these targets. Strategic and financial operating plans are updated, as needed, to balance and optimize between achieving shareholder returns and maintaining the targeted risk appetite and financial profile.

Credit Risk	**Definition** BAC defines credit risk as the loss arising from the inability or failure of a borrower or counterparty to meet its obligations. BAC defines the credit exposure to a borrower or counterparty as the loss potential arising from product classifications, including loans and leases, derivatives and other extensions of credit. **BAC's Credit Process** Credit processes are designed to execute the defined credit strategy (e.g., product-specific underwriting and client selection criteria) and adhere to credit policies (e.g., credit approval limit policies), while remaining compliant with laws and regulations. Corporate and Financial Institutions Credit Risk ("CCR" and "FICR") oversee decisions about how much credit to extend to borrowers such that they are determined by proper analysis and the criteria set by BAC's credit strategy. Borrowers' credit risk is assessed through risk modelling, underwriting, asset analysis, current views on economic, industry and borrower outlooks which drive a forward-looking internal rating and scoring, in order for portfolio asset quality to remain within approved credit risk standards and limits. Once credit has been extended, processes are in place to monitor credit risk exposures at both the individual and portfolio levels, as well as to actively manage the portfolio to achieve risk and return goals. Key credit risk exposures are assessed both in normal and stressed scenarios. **MLKSA Credit Risk** Credit Risk in MLKSA may, but does not ordinarily, arise from its Global Markets Equities business, which provides local clients prefunding facilities to access the local stock market, where an exposure crosses a day end. Credit risk is also derived from placing cash with MLKSA's Saudi settlement banks.

Credit Risk (cont'd)

Application of the Credit Process to MLKSA Credit Facilities

Analysis of the credit risk of the counterparties in MLKSA is primarily undertaken by the Credit Risk Officer in the FICR team. Limits and ratings are approved by the appropriate authority as determined by the Credit Approval Grid. Individual limits applied for cash equities settled free of payment (including extended settlement/pre-payment) can be subject to the Streamlined Tolerance Limit (if eligibility criteria are met), and reference MLKSA's capital base.

The risk management for MLKSA is overseen by the board of directors of MLKSA in collaboration with the different Risk and supervision teams within BAC. Their main objectives are to measure, monitor, and control and report the risks to which MLKSA is, or could be, exposed. The risk management function is proportionate to the scale, diversity and complexity of MLKSA's activities and organization. MLKSA's equity trading employees in conjunction with CFO and Operations are responsible for ensuring that all of the transactions are conducted with approved clients, limits and policies. MLKSA Operations produce daily reporting on positions.

Market Risk

Definition

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions.

MLKSA Market Risk

Market Risk in MLKSA is minimal. It arises from FX and from equity participation in Initial Public Offerings ("IPO's"). FX risk is minimal as the Saudi Riyal is pegged to the US Dollar.

MLKSA does participate in equity IPO's, and this participation can generate market risk. IPO positions are all subject to pre-approval by MLKSA's Investment Committee, and Market Risk also provides input to the approval process. Market Risk has articulated a guideline that restricts the overall subscription size to 25% of MLKSA's capital base. This is a prudent guideline to the amount of market risk that can be incurred due to this type of activity.

MLKSA is not faced with market risks that relate to concentrated, one-way, or illiquid positions.

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.

MLKSA Liquidity Risk

MLKSA has minimal inherent liquidity risk within its business activities, nor does it have any third party contractual or contingent liabilities, as such internal liquidity stress testing is not deemed necessary at present. In line with CMA Prudential Rules requirements, the MLKSA Liquidity Risk Policy articulates the principles for managing liquidity risk within MLKSA. The MLKSA Contingency Funding Plan documented within the Liquidity Risk Policy also 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. Operational risks are 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 through independent functions consisting of: Corporate Operational Risk; Global Banking and Global Markets Operational Risk, with specific legal entity focus; Independent Business Risk; and, Businesses and the GCFs. 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 oversight and challenge from the Global Banking and Global Markets Operational Risk team, and the Technology, Operations and Control Functions Operational Risk team.

Operational Risk Governance Process

MLKSA operational risk is integrated into the BAC governance structure. The Operational risk management framework incorporates and documents the overarching processes for identifying, measuring, mitigating, controlling, monitoring, testing, reviewing and reporting operational risk information to senior management and governance bodies.

Operational Risk Reporting Process

Transparency of operational risks is critical to effective risk management. To achieve transparency, MLKSA reports regularly on operational risk exposures, including operational loss events and Risk and Control Self Assessment ("RCSA") results.

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 MLKSA to comply with requirements of applicable laws, rules and regulations.

Compliance Risk Management

Front line units are responsible for the proactive identification, management and escalation of compliance risks across the Company. Global Compliance is responsible for setting companywide policies and standards and provides independent challenge and oversight to the front line units. The Company's approach to the management of compliance risk is further described in the Global Compliance Policy, which outlines the requirements of the Company's global compliance program and defines roles and responsibilities related to the implementation, execution and management of the compliance program by Global Compliance.

Compliance Risk (cont'd)

Compliance Risk Governance

Global Compliance is a separate function with governance routines and executive reporting distinct from those of the front line units and other control functions. Global Compliance also collaborates with other control functions to provide additional support for specific remediation efforts and shares responsibility with the front line units, Global Risk Management and other control functions for mitigating reputational risk.

Compliance Risk Reporting

The Global Compliance Executive leads the Global Compliance organization, which together with the front line units, also has primary responsibility for the aggregated identification, management and escalation of compliance risks and compliance-related matters across the Company.

Reputational Risk

Definition

Reputational risk is the potential that negative perceptions of BAC's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer/client relationships.

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

Reputational Risk Management Process

At BAC level, reputational risk is reviewed by the Enterprise Risk Committee and the Management Risk Committee, which provide primary oversight of reputational risk. Additionally, the Global Risk Management Leadership team and the Board review the top reputational risks as part of the Summary Risk Report process.

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee ("RRC"), whose charter includes consideration of reputational risk issues and to provide guidance and approvals for activities that present reputational risks which are not addressed by other current control frameworks. The EMEA RRC is a sub-committee of the EMEA Regional Executive Committee and applicable to all key legal operating entities in the region, including MLKSA.

Ultimately, to ensure that reputational risk is mitigated through regular business activity, awareness of reputational risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees. Given the nature of reputational risk BAC do not set quantitative limits for the level of acceptable risk. Through proactive risk management, BAC seeks to minimize both the frequency and impact of reputational events.

3.9. Other Risk Considerations

Wrong-Way Risk

Wrong-way risk is a concentration risk which exists when there is adverse correlation between the counterparty's probability of default and the market value of the underlying transaction and /or the collateral. Examples of wrong-way risk include, but are not limited to situations that involve a counterparty that is a resident and/or incorporated in an emerging market entering into a transaction to sell non-domestic currency in exchange for its local currency; a trade involving the purchase of an equity put option from a counterparty whose shares are the subject of the option; or the purchase of credit protection from a counterparty who is closely associated with the credit default swap reference entity.

BAC uses a range of policies and reporting to detect and monitor wrong-way risk from trade inception until maturity of the transaction. Forums have been established to review potential situations of wrong-way risk and, depending on the type of wrong way risk the risk management ranges from ex-ante approval prior to trade inception to ex-post portfolio limit management.

The nature of MLKSA's business activities are such that MLKSA is not exposed to wrong way risk.

Internal Capital Adequacy Assessment Process ("ICAAP")

MLKSA prepares an ICAAP document which includes the following key elements:

- Description of senior management oversight process including risk management monitoring of risk profile.
- A three year capital plan.
- Analysis of the impact of stress testing. 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 Credit Risk. MLKSA remains sufficiently capitalized throughout the three year planning horizon to support current and future activities.

4. Credit and Counterparty Risk

4. Credit and Counterparty Risk

Counterparty and Credit Risk is the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. Counterparty and Credit Risk Capital Requirements are derived from risk-weighted exposures, determined using the method prescribed by the CMA in its Prudential Rules.

MLKSA uses 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 external credit rating against an exposure is then used to assign a Credit Quality Step according to the classification of the counterparty, and as prescribed by the CMA in the Prudential Rules. The same approach for assigning a credit rating is used for all exposures. MLKSA itself is not externally credit rated.

4.1. Credit Risk Exposures

MLKSA had no 'past due' claims, impaired liabilities or specific provisions as at December 31, 2014. There were events that would give rise to any charges for impairments or specific provisions during the last financial year. Exposures are not covered by collateral, guarantees or credit derivatives. As such, the exposure amounts upon which the Credit Risk Capital Requirement is calculated has not been adjusted for credit risk protection. There were also no off balance sheet or contingent liabilities as at December 31, 2014.

MLKSA has counterparty and credit risk exposure as a result of non-trading book receivables in the form of deposits with local, Saudi Arabian Monetary Agency ("SAMA") regulated settlement banks, inter-affiliate receivables, tangible fixed assets and prepaid expenses. The table below details the risk weighted exposures and credit risk capital requirements for MLKSA by counterparty type.

Table 4. Credit Exposures by counterparty type, non-trading activities

(SAR in Thousands)		2014		2013	
	CQS	RWA	Capital	RWA	Capital
Exposures to local banks	1	**28,752**	**4,025**	16,179	2,265
Exposures to authorised persons and banks	2	**232**	**32**	811	114
Exposures to authorised persons and banks	Unrated	**2,203**	**308**	10,718	1,501
Tangible assets	n.a.	**6,804**	**953**	6,976	977
Prepaid Expenses	n.a.	**4,736**	**663**	4,687	656
		42,727	**5,982**	39,371	5,512

n.a. : Not applicable

Credit Risk in MLKSA may, but does not ordinarily, arise from its Global Markets Equities business, which provides local clients prefunding facilities to access the local stock market, where an exposure crosses a day end.

5. Liquidity Risk

5.1. Liquidity Position

5.1.1. Regulatory Requirements

MLKSA is subject to Minimum Liquidity Requirements set out by the CMA and is required to manage its liquidity risks in accordance with the CMA's Prudential Rules.

MLKSA has a Liquidity Risk Policy that is appropriate and tailored to its business objectives, in which it defines roles and responsibilities in relation to liquidity risk management and monitoring.

5.1.2. Liquidity Position

MLKSA maintains sufficient access to liquidity resources to meet its financial obligations. As of 31 December 2014, MLKSA held SAR 143.8 million in the form of cash and cash equivalents, up from SAR 80.8 million in 2013.

The Current Ratio for the entity as of 31 December 2014 was 2,254%, up from 631% as of 31 December 2013, the increase being attributable to the capital injection that was in progress over the 2014 year end.

5.1.3. Funding Profile

MLKSA has minimal inherent liquidity risk within its business activities, nor does it have any third party contractual or contingent liabilities, as such internal liquidity stress testing is not deemed necessary at present.

MLKSA maintains a Contingency Funding Plan ("CFP"), which represents management's strategy to address potential liquidity shortfalls during periods of stress. The MLKSA contingency funding plan includes two contingency funding levels.

- Level 1: Elevated Liquidity Monitoring
- Level 2: Contingency Actions / Recovery Plan

For each level of heightened management action, the MLKSA CFP describes:

- Potential indicators that may lead to activation
- The governance structure to activate and revoke
- A menu of available funding sources
- Escalation procedures