Merrill Lynch UK Holdings

Pillar 3 Disclosures

As at 31 December 2014

Bank of America
Merrill Lynch

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Glossary

AT1	Additional Tier 1
BAC	Bank of America Corporation / the Enterprise
BAMLI	Bank of America Merrill Lynch International
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
BRC	Board Risk Committee
CBI	Central Bank of Ireland
CCR	Counterparty and Credit Risk
CET1	Common Equity Tier 1
CQS	Credit Quality Steps
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECAIs	External Credit Assessment Institutions
EEA	European Economic Area
EMEA	Europe, Middle East and Africa
EU	European Union
FCA	Financial Conduct Authority
Fitch	Fitch Ratings, Inc.
GCFs	Governance and Control Functions
IMA	Internal Models Approach
ISDA	International Swap and Derivative Agreement
LCR	Liquidity Coverage Ratio
LOB	Line of Business
MLCE	Merrill Lynch Commodities Europe Limited
MLI	Merrill Lynch International
MLIB	Merrill Lynch International Bank Limited
MLPF&S	Merrill Lynch, Pierce, Fenner & Smith Limited
MLUKH	Merrill Lynch UK Holdings Group / the Company
Moody’s	Moody’s Investors Service, Inc.
PRA	Prudential Regulation Authority
PRR	Position / Market Risk Requirement
RCSA	Risk and Control Self Assessment
RMC	Risk Management Committee
RRC	Reputational Risk Committee
RRCC	Regional Risk and Control Committee
RWA	Risk Weighted Assets
S&P	Standard and Poor’s
SES	Stress Event Scenarios
UK GAAP	UK Generally Accepted Accounting Principles
VaR	Value at Risk

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 UK Holdings ("MLUKH" or "the Company") and its operating subsidiaries, including principally Merrill Lynch International ("MLI").

Capital Requirements Directive IV ("CRD IV"), the European Union ("EU") legislation implementing Basel III, came in to effect on 1st January 2014, mandating the quality of capital that firms are required to hold, introducing an EU wide liquidity regime and establishing leverage requirements. This legislation consists of three Pillars. Pillar 1 is defined as "Minimum Capital Requirement", 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 pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

This document provides detail on MLUKH's available capital resources ("Capital Resources") and regulatory defined Pillar 1 minimum capital requirement ("Minimum Capital Requirement"). It demonstrates that MLUKH has Capital Resources in excess of this requirement and that MLI and other subsidiaries maintain robust risk management and controls.

1.2 Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and rules. The figures presented for the year ended 31 December 2014 have been predominately prepared under CRD IV. Comparatives for the year ended 31 December 2013 have been prepared under the Basel II rule framework. This is not an accounting disclosure and as such, is not required to be prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). Therefore the information is not directly comparable with the annual financial statements and the disclosure is not required to be audited by external auditors.

This document has been prepared to comply with Pillar 3 disclosure rules, for the purpose of explaining the basis on which MLUKH has prepared and disclosed certain information about the management of risks and application of regulatory capital adequacy rules and concepts. It therefore does not constitute any form of financial statement on MLUKH or its subsidiaries, or of the wider enterprise, nor does it constitute any form of contemporary or forward looking record or opinion on the Bank of America ("BAC" or "the Enterprise") 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.

Certain prior year amounts have been re-presented to be consistent with current year presentation and disclosure. Management does not consider that the presentation adopted in the prior year was materially inaccurate

MLUKH's Pillar 3 disclosures are published on BAC's corporate website: http://investor.bankofamerica.com

1.3 Operation, Structure and Organisation

Merrill Lynch UK Holdings Limited

MLUKH is a UK domiciled Parent Financial Institution authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") on a consolidated basis. The principal activity of MLUKH is to act as a holding company for various subsidiaries of the ultimate parent company, Bank of America Corporation.

MLUKH is not itself a risk taking entity and the risk is booked in its operating subsidiaries, primarily MLI, where the business is managed. MLUKH's other subsidiaries include, Merrill Lynch International Bank Limited ("MLIB") and Merrill Lynch Commodities Europe Limited ("MLCE"). MLUKH also has other subsidiary entities incorporated in Great Britain, Ireland, Switzerland, Singapore and South Africa.

As MLUKH is a holding company, the qualitative disclosures regarding risk management and governance are relevant to the subsidiaries where the business is booked. In this respect, unless otherwise stated, discussion relates primarily to procedures adopted by MLI. For the purpose of this document, all other disclosures are on a consolidated basis unless stated otherwise.

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

Merrill Lynch International

MLI is a UK Investment Firm and BAC's largest operating subsidiary outside of the US. MLI and is authorised and regulated by the PRA and the FCA.

MLI serves core financial needs of global corporations and institutional investors. MLI's head office is in the United Kingdom with branches in Milan, Rome, Amsterdam, Stockholm and Dubai as well as a representative office in Zurich. MLI has the ability to trade throughout the European Economic Area ("EEA") and conduct business with international clients.

As at 31 December 2014, MLI was rated by Fitch Ratings, Inc ("Fitch") (A / F1) and Standard & Poor's ("S&P") (A / A-1).

MLI Pillar 3 disclosures can be found on the BAC investor relations website at http://investor.bankofamerica.com

Other Entities

MLIB is an Irish Bank entity regulated by the Central Bank of Ireland ("CBI"). MLIB is no longer originating new business and transferred its market risk on Global Markets derivatives to MLI in January 2014 and most of its loan portfolio to other BAC affiliates in 2014.

MLIB is required to complete Pillar 3 disclosures which can be found on the BAC investor relations website at http://investor.bankofamerica.com.

MLCE is a UK commodity firm authorised and regulated by the FCA.

Other subsidiary entities include a number of smaller trading entities such as Merrill Lynch Capital Markets AG ("MLCM AG"), Merrill Lynch Singapore Pte. Limited and Merrill Lynch South Africa Limited. The MLUKH Group also includes a set of intermediate holding companies used for recharging expenses across BAC's entities.

Other entities, although consolidated within MLUKH, are not separately disclosed within this document on the grounds of materiality.

2. Capital Resources and Minimum Capital Requirement

2.1 Capital Resources

2.1.1 Summary of 2014 Capital Resources

Capital resources represent the amount of regulatory capital available to an entity in order to cover all risks. Defined under CRD IV, capital resources are designated into two tiers, Tier 1 and Tier 2 capital. Tier 1 capital consists of Common Equity Tier 1 ("CET1") and Additional Tier 1 ("AT1"). CET1 is the highest quality of capital and typically represents equity and audited reserves; AT1 usually represents contingent convertible bonds; Tier 2 capital typically consists of subordinated debt and hybrid debt capital instruments.

Tier 1 capital is the primary component of MLUKH's Capital Resources. All of MLUKH's Tier 1 capital is made up of CET1.

As per Table 1, MLUKH's Capital Resources were $38.8 billion as at 31 December 2014 and included $33.2 billion of Tier 1 capital. MLI's Tier 1 capital resources were $31.1 billion as at 31 December 2014.

2.1.2 Key Movements in 2014

MLUKH undertook a capital reorganisation in 2014 which resulted in a year-on-year increase in Tier 1 Capital Resources. In addition, MLUKH returned surplus capital to BAC resulting in a year-on-year reduction in total Capital Resources.

Table 1. Capital Resources

(Dollars in Millions)	2014	2013
Ordinary Share Capital	171	112
Share Premium	24,111	9,944
Merger Reserves	25,043	25,043
Profit and Loss Account [(1)] [(2)]	(15,671)	(14,666)
Total Tier 1 Capital Before Deductions	33,653	20,433
Deferred Tax Asset	(443)	(573)
Goodwill	0	(123)
Deductions re Investment in Credit Institution	0	(10)
Tier 1 Capital	33,210	19,727
Total Tier 2 Capital Before Deductions	5,612	9,864
Deduction re Investment in Credit Institution	0	(10)
Tier 2 Capital	5,612	9,854
Tier 3 Capital	0	14,266
Total Capital Resources (net of deductions)	38,823	43,846

(1) Profit and loss account is shown here on a regulatory basis. See table 18 for a reconciliation to accounting balance sheet.
(2) Profit and loss account reflects the inclusion of 2014 audited retained earnings.

2.1.3 Transferability of Capital within the Group

Capital Resources are satisfied by sourcing capital either directly from BAC or from other affiliates. There are no material, current or foreseen, practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

There are no subsidiaries excluded from the consolidation.

2.2 Minimum Capital Requirement

2.2.1 Summary of 2014 Minimum Capital Requirement

The Minimum Capital Requirement is the amount of Capital Resources that the Capital Requirements Regulation ("CRR") requires MLUKH to hold at all times. MLUKH's total Capital Resources must be greater than its Minimum Capital Requirement, allowing for a capital excess to cover any additional obligations, for example, Pillar 2.

MLUKH's Minimum Capital Requirement principally comprises of Market Risk (Position Risk Requirement "PRR"), Counterparty and Credit Risk ("CCR"), Concentration Risk, Operational Risk and Credit Valuation Adjustment ("CVA") requirements.

MLUKH had a Minimum Capital Requirement of $19.8 billion as at 31 December 2014. MLI had a Minimum Capital Requirement of $17.9 billion as at 31 December 2014.

2.2.2 Key Movements in 2014

MLUKH's Minimum Capital Requirement increased year-on-year primarily as a result of the implementation of CRD IV on 1st January 2014.

Table 2. Minimum Capital Requirement

(Dollars in Millions)	2014	2013
Internal Model Based Capital Requirement (IM)	**2,053**	2,668
VaR	254	775
Stressed VaR	1,799	1,893
Incremental risk charge	-	-
Comprehensive risk measure	-	-
Capital Requirement under Standardised Approaches (SA)	**3,505**	3,608
Interest Rate PRR [1]	1,926	1,705
Equity PRR	125	18
Commodity PRR	878	425
Foreign Exchange PRR	575	458
Option PRR [2]	-	1,002
Total Market Risk (PRR)	**5,558**	6,276
Counterparty Risk	**6,702**	6,239
Credit Risk	**698**	1,535
Counterparty and Credit Risk (CCR)	**7,400**	7,775
Credit Valuation Adjustment (CVA)	**3,165**	-
Concentration Risk	**2,987**	2,720
Operational Risk	**702**	670
Total Minimum Capital Requirement	**19,811**	17,440

[1] Interest Rate PRR includes $627m (2013: $632m) of securitisation.

[2] Due to the adoption of Basel III rule framework, Option PRR is included within the position risk requirement corresponding to the reference asset (for example, equity options are included within the Equity PRR amount).

2.2.3 Minimum Capital Requirement Approach

Within the MLUKH Group, MLI has adopted the PRA 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, MLI uses external ratings based on a combination of Moody's Investors Service, Inc. ("Moody's"), S&P and Fitch. MLI's approach for Market Risk is a combination of a Value at Risk ("VaR") model approved by the PRA and the standardised approach.

MLIB applies capital requirements for Market, Credit and Operational risk in accordance with the CBI's standardised approach. MLCE applies capital requirements for market and credit risk in accordance with FCA's requirements whereby it is currently exempt from Basel rules.

Of the other smaller entities within MLUKH, MLCM AG applies CRD IV methodology, with the other entities applying capital methodology in compliance with local regulations. These companies account for less than 1% of the Minimum Capital Requirements of the Group.

2.3 Capital Resources vs. Minimum Capital Requirement and Tier 1 Capital Ratio

2.3.1 Capital Resources vs. Minimum Capital Requirement

MLUKH's Capital Resources in excess of Minimum Capital Requirement have decreased from $26.4 billion in 2013 to $19.0 billion in 2014. This decrease primarily resulted from the implementation of CRD IV and the return of surplus capital to BAC.

MLUKH continuously maintains a surplus over Minimum Capital Requirement.

2.3.2 Tier 1 ratio

An entity's Tier 1 ratio is the ratio of Tier 1 capital to Risk Weighted Assets ("RWAs"). MLUKH's Tier 1 ratio increased in 2014 to 13.4% as at 31 December 2014. This was primarily a result of the entity's increase in Tier 1 Capital Resources following the capital reorganisation undertaken in 2014. MLI's Tier 1 ratio was 13.9% as at 31 December 2014.

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

(Dollars in Millions)	2014	2013
Total Capital Resources	38,823	43,846
Total Minimum Capital Requirement	19,811	17,440
Surplus over Requirement	19,012	26,406
Tier 1 Capital Resources	33,210	19,727
Risk Weighted Assets	247,633	218,000
Tier 1 Capital Ratio	13.4%	9.0%

2.4 Leverage Ratio

2.4.1 Summary

The leverage ratio is a measure of Tier 1 capital as a percentage of exposure as defined under CRR rules.

The requirement for the calculation and reporting of leverage ratios was introduced as part of CRD IV. Full implementation does not become effective under Basel III until 2018, with the preceding submissions used to refine the requirement. As a result of this, CRD IV legislation allows for the calculation of a transitional leverage ratio, permitting the phasing in of various deductions to capital in the years leading to 2018. However, the PRA, require transitional Tier 1 capital to be calculated on a fully phased in basis.

Therefore, the transitional and fully phased-in leverage ratios are computed in the same manner.

The leverage ratio minimum requirement during this transitional phase is 3%. MLUKH's ratio is in excess of this at 7.9% as is MLI's ratio at 8.3%.

Table 4. Transitional versus Fully Phased-In Leverage Ratio

	2014	Minimum Requirement
Transitional Leverage Ratio	7.9%	3.0%
Fully Phased-In Leverage Ratio	7.9%	3.0%

2.4.2 Key Movements in 2014

MLUKH's Leverage Ratio increased during the year due to the capital reorganisation undertaken within the entity.

3. Encumbered and Unencumbered Assets

3.1 Encumbered and Unencumbered Assets

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

This asset encumbrance disclosure is prepared in accordance with European Banking Authority ("EBA") guidelines and is based on financial statement information prepared in accordance with UK GAAP.

Within the MLUKH Group, encumbered assets within MLI primarily comprise of on/off balance sheet assets that are pledged as collateral against secured funding or secured obligations under derivative contracts. Asset encumbrance is an integral part of MLI's secured funding and collateral management process. Corporate Treasury monitors the funding requirement / surplus and models the liquidity impact relating to these activities on an ongoing basis.

MLI primarily adopts standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements (mostly Credit Support Annexes ("CSA") and Global Master Repurchase Agreements ("GMRAs")).

Table 5. Analysis of Assets [1]

(Dollars in Millions)	Carrying Amount of Encumbered Assets	Fair Value of Encumbered Assets	Carrying Amount of Unencumbered Assets	Fair Value of Unencumbered Assets
Assets of the Reporting Institution	70,968		552,841	
Equity Instruments	16,712	16,712	17,472	17,472
Debt Securities	20,230	20,230	15,911	15,911
Other Assets [2] [3]	24		409,346	

[1] Greyed out cell format stems from EBA asset encumbrance template, indicating not applicable disclosures. As a result of MLI's broker-dealer activity, fair value equals carrying value for securities.
[2] The majority of unencumbered Other Assets relates to derivative assets not available for encumbrance.
[3] Other Assets has been reported per EBA guidelines. Remaining assets primarily relate to cash pledges on derivative contracts and loans & advances.

Table 6. Analysis of Collateral Received

(Dollars in Millions)	Fair Value of Encumbered Collateral Received or Own Debt Securities Issued	Fair Value of Collateral Received or Own Debt Securities Issued Available for Encumbrance
Collateral Received by the Reporting Institution	132,733	53,673
Equity Instruments	21,326	6,082
Debt Securities	111,407	17,468
Other Collateral Received [1]	-	305
Own Debt Securities Issued Other than Own Covered Bonds or ABSs	-	-

[1] Other Collateral Received has been reported per EBA guidelines. Remaining collateral assets received primarily relate to cash received on derivative contracts.

Table 7. Encumbered Assets / Collateral Received and Associated Liabilities

(Dollars in Millions)	Matching Liabilities, Contingent Liabilities or Securities Lent	Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered
Carrying Amount of Selected Financial Liabilities	160,562	188,101

4. Risk Management, Objectives and Policy

4.1 BAC Risk Framework

MLUKH is integrated into and adheres to the global BAC management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements (the "Risk Framework"). BAC adopted a revised Risk Framework in January 2014 with additional enhancements to the original framework published in 2010. The following section lays out the risk management approach and key risk types.

4.2 Risk Management Approach

A comprehensive approach to risk management is taken, integrating it with strategic, capital and financial operating plans. Risk management and capital utilisation are integral parts of the strategic planning process and are considered throughout the process to align the businesses' strategies with overall risk appetite and capital considerations. This integration and alignment enhances the financial risk management by focusing on risk-adjusted returns within a given set of financial considerations and risk limits.

Risk is managed, with a focus on the Enterprise as the whole and by business, Governance and Control Functions ("GCFs"), geography, legal entity and / or branch (where appropriate), product, service and transactions. This holistic approach promotes the risk versus reward analysis needed to make informed strategic and business decisions. The Risk Framework details the commitment to maintaining strong, consistent risk management practices across businesses, geographies and employees. The five components of the risk management approach are:

- Risk culture
- Risk appetite
- Risk governance
- Risk reporting
- Risk management processes

Focusing on the five components allows effective management of to effectively manage risks across the seven key risk types faced by the businesses, namely: Strategic, Credit, Market, Liquidity, Operational, Compliance and Reputational risk.

4.3 Risk Culture

Consistent adoption of the Risk Framework is essential for a strong, sustainable culture of risk management. A sustainable risk culture throughout the organisation is critical to the success of BAC and is a clear expectation of the BAC Executive Management Team, BAC Board and regulators. A strong risk culture provides benefits for the overall performance of BAC and its businesses.

Individual accountability is the cornerstone of the code of conduct and is at the heart of the risk culture. Each employee is charged with identifying, escalating and debating risk, and above all, doing the right thing. These are the essential behaviours that sustain the risk culture.

A multi-faceted approach is followed to continuously improve risk culture and drive behaviour and adoption by:

1. Having clear accountabilities for risk management at each level; from the Board, to management, business leaders and employees, enabling a holistic view of risk
2. Expecting all managers to incorporate risk considerations explicitly in their management practices, and encourage challenging views and effective balancing of risk and reward in business decisions
3. Embedding risk management into human resources processes, policies and systems such as job descriptions; hiring, staffing and promotion practices; performance management; compensation; and learning and leadership development
4. Ongoing formal and informal training and communications to sustain the shared understanding of risk management, strengthen the risk culture and build risk skills

4.4 Risk Appetite

BAC's risk appetite statement collectively defines the aggregate level and types of risk BAC is willing to accept in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings,

capital, risk measures, liquidity and other relevant measures as appropriate. The risk appetite statement is reviewed and approved by the BAC Board at least annually.

MLI as well as MLIB have a clearly articulated risk appetite statement which is approved annually by the respective legal entity Board of Directors.

4.5 Risk Governance

BAC's Executive Management Team, with oversight by the BAC Board, defines and executes a governance structure that establishes and pursues BAC's objectives while monitoring performance and balancing risk-reward. Executive management oversees that activities are consistent with the strategic, capital and financial operating plans, the Risk Framework, risk appetite and policies.

The Board of Directors of MLUKH is responsible for identifying and approving Board candidates to fill Board vacancies as and when they arise. The Board of Directors of MLUKH considers candidates from a wide range of backgrounds and considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender representation, taking care that appointees have sufficient time available to devote to the position.

All appointments to the Board are made in compliance with Bank of America's Background Check Policy and Anti Bribery and Anti Corruption enterprise standards.

The MLI Board ensures suitable risk management and controls through the MLI Board Risk Committee ("BRC") and MLI Audit Committee of the MLI Board of Directors, the MLI Risk Management Committee ("RMC") and the EMEA Regional Risk and Control Committee ("RRCC").

4.5.1 MLUKH Risk Statement

MLUKH is a UK domiciled financial holding company within the BAC Group. MLUKH's primary operating subsidiary is MLI with other subsidiaries including MLIB and MLCE. MLUKH is an indirect subsidiary of NB Holdings Corporation. MLUKH is not itself a risk taking entity and the risk is booked in its operating subsidiaries, primarily MLI, where the business is managed. Consequently, in respect of risk management processes, the narrative below focuses primarily on MLI and notes other operating subsidiaries where relevant.

As at 31 December 2014, MLUKH's consolidated total assets prepared in accordance with UK GAAP totalled $621 billion and comprised mainly of derivative assets; equities; and securities, sale and repurchase transaction positions. Net operating income for the year ended 31 December 2014 was $5.4 billion primarily from trading activities, supplemented by commissions and fee income. Profit on Ordinary Activities before Tax for the year ended 31 December 2014 was $0.2 billion. As at 31 December 2014 MLUKH has $38.8 billion of regulatory Capital Resources, mainly consisting of Tier 1 capital ($33.2 billion) and Tier 2 capital ($5.6 billion).

Consistent with the business strategy of the major operating subsidiaries, MLUKH's largest Counterparty and Credit Risk industry sectors based on regulatory capital exposures are banks (33.4%), clearing houses (20.3%) and broker-dealers (16.5%). The majority (55.0%) of MLUKH's Counterparty and Credit Risk requirement is based on exposures within the EMEA region and more than half (53.1%) of Counterparty and Credit Risk matures in less than 1 year. MLUKH has 52.8% of exposures with counterparties externally rated between AAA and A-. 40.8% of exposure in MLUKH is to counterparties not rated by external rating agencies.

Market risk for the major operating subsidiaries of MLUKH is generated by the activities in the interest rate, foreign exchange, credit, equity and commodities markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility.

In respect of liquidity management, MLI maintained excess liquidity of $22.9 billion as at 31 December 2014 in order to meet day-to-day funding requirements, withstand a range of liquidity shocks, safeguard against potential stress events, and meet internal and regulatory liquidity requirements. All entities in the group primarily fund the balance sheet through capital and intercompany unsecured debt. Additionally MLI utilises wholesale secured funding, and MLIB also utilises private client deposits.

MLUKH, MLI and other operating subsidiaries are integrated into and adhere to the global BAC group management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements. The BAC Risk Framework describes the five components (risk culture, risk appetite, risk governance, risk reporting and risk management

processes) of its risk management approach and the seven key risk types (Credit, Market, Operational, Liquidity, Strategic, Compliance and Reputational Risk) faced by its businesses. This is discussed in more detail within this section.

The Risk tolerance of MLI is expressed in the entity's risk appetite statement. The risk appetite statement is driven by the business strategy, capital and liquidity, and is owned and approved at least annually by the Board of Directors. The MLI RMC monitors performance against the risk appetite. The RMC reports to the MLI BRC with a clear escalation process to the Board.

MLI's risk appetite metrics cover Credit, Market, Liquidity and Operational Risk, with consideration given to both baseline and stressed conditions. Credit Risk concentration is managed through a number of metrics that are aligned to credit quality using internal risk rating, geography and industry. Market risk metrics relate to management VaR and stress loss, Operational Risk metrics relate to losses incurred and the aggregate assessment described in the Risk and Control Self Assessment ("RCSA"). Liquidity Risk metrics relate to key liquidity coverage ratios.

Additionally, compliance with the requirements of CRD IV Minimum Capital Requirements, surplus over Minimum Capital Requirements as well as other key figures and ratios are monitored daily for major operating subsidiaries.

The Board confirms that the risk management arrangements outlined are adequate to facilitate the management of risk in the context of MLUKH's profile and strategy as set out in the MLUKH risk statement.

4.6 Risk Reporting

Effective risk 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. Transparency in risk reporting is achieved by understanding the current risk profile; leveraging data, information and analytics; and by reporting actionable insights and recommendations to appropriate levels.

BAC risk reporting principles are to maintain a clear understanding of the regulatory and macroeconomic environment; use clear and uniform language to articulate risks within businesses, where applicable; strive to maintain an aggregate and comprehensive view of all material risks across BAC; and work toward complete, sophisticated and consistent risk quantification methods.

4.7 Risk Management Processes

The holistic and comprehensive Risk Framework integrates risk management activities in key strategic and financial planning processes, day-to-day business processes and model risk management processes across businesses and BAC as a whole.

A simple but effective risk management process is employed, referred to as IMMR: Identify and measure, Mitigate and control, Monitor and test, Report and review. This process builds on the employees' regular tasks and provides a solid knowledge base for mitigating risk.

4.8 Key Risk Types

The risk management processes outlined above allow management of 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 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.

Strategic Risk Management Process

Strategic Risk is managed through the assessment of effective delivery of strategy. Strategic Risk is monitored through a number of existing processes ranging from monitoring of financial and operating performance, through to the management of recovery and resolution plans and also with the regular assessment of earnings and risk profile throughout the year.

Regional strategy execution and risk management are aligned to the overall BAC strategic plans through a formal planning and approval process.

Management routines play an important role in developing strategic recommendations for committees, regional and executive management. GCFs provide key input, oversight and challenge to business level strategic assessments. Topical presentations are made to address any developments or considerations as it relates to strategic planning.

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 Governance Process

The strategic plan is reviewed and approved annually by the BAC Board alongside the capital plan, financial operating plan and risk appetite. Significant strategic actions, such as capital actions, material acquisitions or divestitures, and recovery and resolution plans are reviewed and approved by the Enterprise Board as required. Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and legal entity level.

At the business unit, regional and legal entity level, strategic planning processes mirror each other and output is incorporated into the Enterprise planning process. Routines exist to discuss the strategic risk implications of new business and product entries and other strategic initiatives, and to provide approvals where appropriate. GCFs provide key input and oversight to front line unit and regional level strategic assessments. Strategic plans for MLI are also reviewed by the MLI Board annually.

Strategic Risk Reporting Process

Individual business units provide regular tracking updates to both global and regional management on their business performance. Updates take into account analyses of performance relative to the financial operating plan and risk appetite, the strength of capital and liquidity positions and stress tests, which address potential macroeconomic events, changing regulatory requirements and various market growth rate assumptions.

Focused regional performance updates are provided to executive leadership and the BAC Board on a periodic basis. Entity performance updates are provided to the relevant Boards.

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. Credit exposure to a borrower or counterparty is defined as the loss potential arising from loans, leases, derivatives and other extensions of credit.

Credit Risk Management Process

Credit Risk to a borrower or counterparty is managed based on their risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected impacts of the current and forward-looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

Credit Risk management includes the following processes:

- Credit origination
- Loss mitigation activities
- Portfolio management

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

Credit Origination

MLUKH's credit portfolio consists of commercial lending (encompassing drawn and undrawn corporate and institutional lending facilities to clients) alongside traded products activities (including foreign exchange transactions, interest rate and cross currency derivatives). In addition to this Global Banking and Markets ("GBAM") business there is also a portfolio of Global Wealth and Investment Management ("GWIM") margin loans in MLIB, which is fully collateralised.

When entering into counterparty transactions, the primary focus when granting credit facilities is done on the basis of capacity to repay rather than placing primary reliance on credit risk mitigants. Credit Risk is assessed through various techniques including risk modelling, stress testing, underwriting and asset analysis, while considering current views on economic, industry and counterparty outlooks to ensure portfolio asset quality remains within approved credit risk metrics and limits.

For lending-based credit exposures, Credit Risk is measured as the amount of binding 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 over the life of the trade at a particular confidence level.

Loss Mitigation Activities

Credit Risk is managed by reviewing and establishing limits for credit exposure, disciplined underwriting including the establishment of covenants or monitoring triggers, maintaining collateral and continually assessing the creditworthiness of counterparties. In respect of derivative transactions, and in line with Enterprise policy, MLI and other operating subsidiaries enter into Master Netting Agreements with counterparties which permit the netting of all transactional exposures on multi-currency, multi-location basis and, in certain circumstances, across product types. The same risk management policies are applied for off-balance sheet derivative risks as they do for on-balance sheet risks.

Credit Risk limits define the maximum credit exposure that the entity is willing to assume to a debtor over a specified time period. The process for assigning counterparty's credit risk exposure limit is guided by credit policy, standards and procedures and the creditworthiness of the counterparty or borrower as expressed by the credit rating assigned to it through use of scorecards and experiential judgment of Credit Risk officers.

Credit Risk (cont'd)

Under Enterprise policy, MLI and other operating subsidiaries accept collateral as specified under documentation such as repurchase agreements or Credit Support Annex to an International Swap Dealers Association Master 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 high grade government securities. Based on provisions contained in legal netting agreements, entities net collateral against the applicable derivative fair value. Market trading activities such as collateralised OTC derivatives and structured finance trades are valued daily in support of margining requirements. Collateral management terms in legal agreements follow guidance per collateral management policy. All requests for Non-Standard Collateral are approved through a committee process. Collateral Management report and escalate all fails to receive and deliver collateral to the appropriate persons.

Derivatives exposure will increasingly be routed through Central Clearing Counterparties ("CCPs") in response to regulation changes being phased-in globally. Clearing of new eligible trades will be mandatory, while banks will also assess the impacts of migrating (to the CCPs) trades that pre-date the regulations; as part of the overall management of capital and liquidity.

The taking of third party guarantees represents a further form of credit risk mitigation. Guarantees are reviewed by the legal department and must conform to market standards and meet policy requirements in order to be recognised as a credit mitigant for Credit Risk management purposes. Guarantees are provided by banks, other financial institutions and corporates, the latter typically in support of subsidiaries of their company group.

Portfolio Management

Once credit has been extended to a counterparty, Credit Risk is monitored at the individual and portfolio levels. At the counterparty level, the risk inherent in the ongoing business of the counterparty is reviewed. Names requiring particular focus are included in the relevant portfolio "Watch List". At the portfolio level, credit concentrations and potential stress scenarios are assessed.

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. Where appropriate, the business may make use of portfolio hedging instruments such as credit default swaps, structured notes, private risk insurance and securitization structures.

Counterparty data quality is also regularly monitored, with controls in place for derivative transactions requiring non-standard risk calculations. Differences between market values calculated by front-office models and values calculated by the counterparty credit risk system are tracked.

Credit Risk Management Governance Process

Credit Risk Management is integrated into the BAC governance structure as described earlier in the document. The Credit Risk governance structure enables a system of risk escalation, which includes the hierarchy and process to be followed for approvals, limit excesses, policy variances, and internally identified issues and emerging risks.

Credit Risk Management Reporting Process

Transparency of Credit Risk is critical to effective risk management. Comprehensive and actionable Credit Risk internal reports are produced, which provide information to allow escalation as appropriate and contain the required level of granularity of content for each level of seniority. 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 risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions.

Trading positions are subject to various changes in market based risk factors. The majority of this risk is generated by trading activities in interest rate, foreign exchange, credit, equity and commodities markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. MLI and MLIB seek to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments.

Market Risk Management Process

Market Risk is identified, analysed, monitored, and controlled by an independent function that is overseen by Market Risk Management.

The market risks assumed by Global Markets are identified, measured and controlled on a consistent basis irrespective of the location in which they are taken and booked. The BAC Risk Appetite, the line of business ("LOB") Risk Appetite Statements and LOB Trading and Hedging Strategies provide a comprehensive framework for the management of risk, ensuring that the risk profile for each business is aligned with the overall Enterprise risk appetite.

The approach to Market Risk management is defined by the BAC Risk Framework and related Global Markets Risk policies, which apply globally to Market Risk management functions in respect of Global Markets activity as well as Market Risk Policy Supplement which covers legal entity specific requirements.

To evaluate risk in the trading activities, MLI and other key operating subsidiaries focus on the actual and potential volatility of revenues generated by individual positions as well as portfolios of positions. Various techniques and quantitative measures are utilized to enable the most complete understanding of these risks. These measures include sensitivities of positions to various market risk factors, such as the potential impact on revenue from a one basis point change in interest rates, and statistical measures utilising both actual and hypothetical market moves, such as VaR and Stress testing.

VaR

VaR is a common statistic used to measure Market Risk as it allows the aggregation of market risk factors, by including the effects of portfolio diversification. VaR represents the expected loss for a given portfolio, probability and time horizon and produces a value such that there is a set probability that the mark-to-market loss on the portfolio over the given time horizon does not exceed this value.

MLI uses the historical simulation approach based on a three year window of historical data and uses a primary VaR statistic equivalent to a 99% confidence level for a one day holding period.

VaR is used as a management tool as outlined in the Risk Framework section. MLIB commenced using a standardised rules maturity based calculation for general market risk and ceased use of its VaR model, effective 1 December 2014, as approved by the CBI. MLI has been granted the Internal Models Approach permission by the PRA, which defines products that are included in the regulatory VaR calculation for businesses in MLI. The scope of MLI's IMA permission applies to businesses within Global Markets covering equities, interest rates and foreign exchange products.

VaR Backtesting

MLI has been granted the Internal Models Approach by the PRA and thus, the accuracy of the VaR methodology is evaluated by backtesting, which compares the daily VaR results, utilising a one-day holding period, against a comparable subset of trading revenue. A backtesting excess occurs when a trading loss exceeds the VaR for the corresponding day. These excesses are evaluated to understand the positions and market moves that produced the trading loss and to ensure that the VaR methodology accurately represents those losses. Any firm level and LOB level exceptions are documented and reported to regulators as part of regulatory reporting process.

Market Risk (cont'd)

Stress Testing

Stress tests are performed to supplement the risk information derived from position, sensitivity and VaR measurement. Stress testing for the trading portfolio is integrated with enterprise-wide stress testing and incorporated into the limits framework. A set of scenarios, categorised as either historical or hypothetical, are computed for the overall trading portfolio in MLI. These include stress event scenarios ("SES") performed at the risk factor level and enterprise wide stress tests including a range of historical events. Point-of-weakness stress tests are performed on both regular and ad hoc basis to examine potential portfolio vulnerabilities.

MLI is also faced with market risks that relate to concentrated, one-way, or illiquid positions. Concentration stress tests are run to uncover exposures to severe but plausible events, both hypothetical and historical for both individual instruments and the aggregate portfolio.

Market Risk Governance Process

Key legal entities within MLUKH are governed by their respective forums. Market Risk is integrated into the BAC governance structure as described earlier in the document.

Market Risk management in MLI is a decentralised process with centralised oversight. To be effective, all personnel involved in risk related activities are an active part of the risk management process.

A Regional Risk Manager is appointed for EMEA and also assumes responsibility for the Market Risk management function in MLI.

MLI employs individual risk factor limits, aggregate risk exposure limits (VaR limits) and stress test limits. 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.

Market Risk management governs the new product approval process and ensures that senior management is informed of new product developments.

Market Risk management continually reviews, evaluates and enhance the VaR model so that it reflects the material risks in the trading portfolio. Changes to the VaR model are reviewed and approved prior to implementation and any material changes are reported to management as well as regulators through the appropriate governance process.

Market Risk Reporting Process

Transparency of market risks is critical to effective risk management. Regular reports are produced for MLI on exposure, including VaR, stress, and risk factor sensitivities. MLI also reports on risks such as yield curve shifts and twists, changes to implied volatility, correlations between market variables and credit spreads. To ensure that appropriate market risk transparency exists across the businesses and up through senior management and the Boards, comprehensive and actionable market risk reports are produced, which contain the required granularity of content for each level of management seniority.

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.

Liquidity Risk Management Process

MLUKH incurs liquidity risk through its operating entities, particularly MLI and MLIB.

The fundamental objective of liquidity risk management within MLI and MLIB is to ensure that the entity can meet its financial obligations across market cycles, through periods of financial stress and market shocks and stay within a defined liquidity risk appetite.

Liquidity Risk (cont'd)

The approach to managing Liquidity Risk of MLI and MLIB has been established by the respective Boards, aligned to BAC processes, but tailored to meet MLI's and MLIB's business mix, strategy, activity profile, risk appetite, and regulatory requirements. Key components include:

- Entity specific Liquidity Risk policy, which formally articulates the principles for managing Liquidity Risk within each of MLI and MLIB, including requirements for internal stress testing, limits and guidelines, reporting and monitoring, roles and accountabilities, and regulatory requirements
- The Liquidity Risk appetite, established by the respective Boards of MLI and MLIB, requiring each entity to maintain sufficient excess liquidity resources to meet net modelled outflows under an internally-developed combined stress scenario and to comply with regulatory requirements
- A robust framework of limits, guidelines and metrics that are monitored and reported daily for MLI and MLIB to ensure ongoing compliance with internal and regulatory requirements
- Entity specific contingency funding plan for MLI and MLIB, which details senior management's strategy to address potential liquidity shortfalls during periods of stress

MLI is subject to BIPRU 12 requirements set out by the PRA and must demonstrate self-sufficiency for liquidity purposes; this is consistent with MLI's internal risk appetite. MLI continues to be subject to a PRA Voluntary Variation of Permission ("VVOP") requirement which specifies a minimum amount of liquidity resources MLI must hold locally.

Since January 2014, MLI and MLIB has been subject to the Basel III liquidity requirements legislated by the European Commission's Capital Requirement Regulations ("CRR") and Capital Requirements Directive. In 2015, these entities will be required to meet a minimum Liquidity Coverage Ratio ("LCR").

As of 31 December 2014, MLI and MLIB were in excess of both internal and regulatory liquidity requirements.

Liquidity Risk Governance Process

Liquidity Risk within MLUKH is integrated into the BAC governance structure described earlier in the document. Corporate Treasury is responsible for the day-to-day monitoring and management of Liquidity Risk and excess liquidity resources of the entities, including the processes for measurement, reporting, analysis, and control of liquidity risk across the entity.

The Liquidity Risk Governance structure enables a system of risk escalation, which includes the hierarchy and process to be followed for approvals, limit excesses, policy variances, and internally identified issues and emerging risks.

Liquidity Risk Reporting Process

A disciplined approach to managing liquidity risk provides management with the timely and critical information essential for making sound decisions across market cycles. Dedicated personnel monitoring liquidity, providing regular reporting and active management of liquidity position and metrics of MLI and MLIB enables the identification of emerging trends and potential early warning indicators of liquidity stress for MLI and MLIB. Liquidity Risk reporting is tailored to legal entity business mix, strategies, legal entity structure and market environment. Reports are shared with various risk governance committees, the respective Boards of Directors and the regulators, as appropriate.

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 (cont'd)

Operational Risk Management Process

Operational Risk is managed through independent functions consisting of: Corporate Operational Risk; Global Banking and 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 Markets Operational Risk team, and the Technology, Operations and Control Functions Operational Risk team.

The MLI and MLIB RCSAs capture the operational exposures faced by these entities, which entails: ongoing identification, measurement, mitigation, monitoring, reporting and escalation of applicable current and emerging operational risk and causes, and associated controls and metrics. In addition to the RCSA process, operational risk management processes are conducted including internal and external operational loss data collection and the execution of scenario analysis. Scenario analyses are targeted to identify plausible, low-frequency, high-severity operational loss events. Risk reduction and mitigation activities are developed and enacted when potential operational risk losses are assessed or control gaps identified.

Operational Risk Governance Process

Operational Risk in MLUKH is integrated into the BAC governance structure described earlier in the document. 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 Risk is critical to effective risk management. A consolidated report on Operational Risk is reviewed, discussed and debated with both the management and MLI and MLIB Board level committees.

Compliance Risk

Definition

Compliance Risk is the risk of legal or regulatory sanctions arising from the failure of the BAC and its enterprise subsidiaries to comply with requirements of banking and financial services laws, rules and regulations.

Compliance Risk Management Process

The businesses are the primary risk takers and are responsible for managing risks in their day-to-day activities. Businesses receive support in risk analysis from the GCFs, including Global Risk Management, Global Compliance, Legal and Enterprise Control Functions. Each GCF assumes different but complementary responsibilities, executed separately from the actions owned by the businesses, to independently assess and mitigate risks across BAC for the risk type or function to which they are aligned.

Compliance Risk Governance Process

Global Compliance is a separate function with governance routines and executive reporting distinct from those of the businesses or other GCFs.

While GCFs are collectively responsible for overseeing the Company's overall compliance with applicable laws, rules and regulations, Global Compliance assumes responsibility for Compliance Risk.

Compliance Risk (cont'd)

Global Compliance is responsible for identifying and mitigating compliance risks, escalating compliance risks and issues, and providing ongoing, objective oversight of Compliance Risk for the Company.

Compliance Risk Reporting Process

Global Compliance is led by the Global Compliance Executive who reports to the Global Chief Risk Officer. The Global Compliance Executive maintains the authority for oversight of compliance risk and compliance-related matters as outlined in the Global Compliance Framework, which is an addendum to the Risk Framework. The Global Compliance Framework outlines elements and related high-level requirements of the integrated Global Compliance program, and also defines roles and responsibilities related to the implementation, execution and oversight of the Global Compliance program by Global Compliance.

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 activities, including those related to the management of the strategic, operational or other risks, as well as the overall financial position. As a result, the potential impact to the reputation is evaluated within all of the risk categories and throughout the risk management process.

Reputational Risk Management Process

At the 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 framework.

The EMEA RRC is a sub-committee of the EMEA Regional Executive Committee and applicable to all key legal operating entities in the region. The EMEA RRC reports into the EMEA Regional Risk and Controls Committee on a monthly basis and provides an update on any reputational risk items that have been raised for discussion relating to MLI.

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 quantitative limits are not set for the level of acceptable risk. Through proactive risk management, BAC seeks to minimise both the frequency and impact of reputational events.

Reputational Risk Governance Process

BAC has an appropriate organisational and governance structure in place to ensure strong oversight at both the enterprise and business levels.

The EMEA RRC membership consists of executive representation from Markets, Global Corporate and Investment Banking ("GCIB") and control functions (General Counsel, Compliance and Risk). The committee is chaired by either the Regional President or Chief Operating Officer. The EMEA RRC charter requires that at least one representative from Markets, one representative from Banking and at least two from the control functions (one of which must be Risk) are in attendance for meetings to proceed.

Reputational Risk (cont'd)

Public disclosures of information, transactions, products, services, business initiatives, business practices, regulatory relationship challenges, customer segments and clients that present elevated levels of Reputational Risk are escalated to EMEA RRC for review and approval.

These include:

- Business activities that present significant legal, regulatory or headline risk
- Violations of, or deviations from, BAC policy
- Concerns about client identity, money laundering, potential criminal activity or potential violations of economic sanctions requirements, such as financing of a direct or indirect terrorist or sanctioned country, company or person
- Business activities that have a particular accounting, finance or tax treatment as a material objective
- Business activities, which, due to their nature or due to the current / historic reputation of any of the parties involved, might reflect adversely on the reputation of the firm or suggest the need for close scrutiny

Items requiring increased attention may be escalated from the EMEA RRC to the EMEA Regional Executive Committee and/or the Global Banking and Markets Reputational Risk Committee as appropriate.

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.

Reputational Risk Reporting Process

The reporting of Reputational Risk issues is captured as part of the management routines for the EMEA RRC. Issues that are identified and presented for discussion as part of the meeting logistics are included in reporting. Tracking of items presented to EMEA RRC is maintained through reporting which provides detail such as description of the Reputational Risk issue, reason for escalation to the EMEA RRC, geographical jurisdiction of the issue, reason for escalation, decision reached by EMEA RRC and which legal entity the issue relates to. Summary reporting of the EMEA RRC issues is provided to the EMEA regional executive committee on a monthly basis as part of the control function support papers.

4.9 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.

Key operating subsidiaries of MLUKH (MLI and MLIB) use a range of policies and reporting to identify and monitor wrong-way risk across the portfolio. Forums have been established to review potential situations of wrong-way risk, and depending on the nature of the wrong way risk, risk management may require pre-trade approval or apply various portfolio limits. In keeping with BAC's risk management framework, several processes exist to control and monitor wrong-way risk including reviews at the Global Markets Risk Committee and Country Credit Risk Committee.

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.

Key operating entities, MLI and MLIB undertakes immaterial 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.

Impact of a Credit Rating Downgrade on Collateral Posted

The full impact of a BAC credit rating downgrade on MLUKH depends on numerous factors, including (1) the type and severity of any downgrade; and (2) the reaction of counterparties, customers, and investors who face operating subsidiaries, primarily MLI.

Based on the terms of various OTC derivatives contracts and other trading agreements, a BAC credit rating downgrade may result in MLI posting additional collateral to counterparties or counterparties choosing to unwind or terminate specific transactions. In either case, MLI could experience significant liquidity outflows or the loss of funding sources. The materiality of such events will depend on whether the downgrade affects long-term or short-term credit ratings, as well as whether credit ratings drop by one or more levels.

The potential impact of a BAC credit rating downgrade on collateral is monitored continuously and factored into MLI's internal liquidity stress testing and regulatory liquidity requirements. As of 31 December 2014, MLI was in excess of both internal and regulatory liquidity requirements.

For more information on the impact of a credit downgrade on collateral posted for the Enterprise see pg. 69 of the BAC 10K filing for 2014.

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Internal Capital Adequacy Assessment Process ("ICAAP")

MLUKH prepares an ICAAP document which references subsidiary ICAAPs where relevant and includes the following key elements:

- Reference to senior management oversight process including risk management monitoring of risk profile
- Explanation of the process to calculate Pillar 1 regulatory capital requirements
- A three-year capital plan
- Analysis of the impact of stress testing. The impact of the stress on both profit and loss 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 an 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 company's capital position.

The PRA review the ICAAP through its Supervisory Review Process and set an Internal Capital Guidance level which sets the minimum level of regulatory capital to be held to support Pillar 1 and 2 risks. In addition, the PRA set a capital planning buffer which should be available to support the business in a stress situation.

5. Further Detail on Capital Requirements, Resources and Leverage

5.1 Minimum Capital Requirement Summary

MLUKH's Minimum Capital Requirement primarily arises from Market Risk (Position Risk Requirement "PRR") and Counterparty Credit Risk Requirement ("CCR").

MLUKH's PRR is principally driven by a VaR capital charge and an Interest Rate Risk charge. Further detail on Market Risk can be found in Section 5.2.

MLUKH's CCR exposure is largely weighted against banks, broker–dealers and clearing houses. Further detail on CCR can be found in Section 5.3.

5.2 Market Risk (PRR)

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 8 presents a breakdown of MLUKH's PRR, which is comprised of the following:

Model Based Capital Requirement

Within MLUKH, Model based capital resource requirement in MLI is calculated based on the internal model (VaR) approved by the PRA. MLI has established trading book guidelines which set out the policies and procedures for the overall management of the trading book in accordance with the requirements of CRD IV.

Capital Requirement under Standardised Approaches

Interest Rate PRR

Within MLUKH, Interest Rate PRR is primarily the capital resource requirement calculated on traded debt instruments that are not part of the scope of the internal models permission granted by the PRA to MLI. The requirement 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 type of issuer (corporate / government), credit quality and maturity

Equity PRR

Within MLUKH, Equity PRR is primarily the capital resource requirement calculated on equity positions that are out of scope of the internal models permission granted by the PRA to MLI and is relatively immaterial.

Commodity PRR

Within MLUKH, Commodity PRR is primarily the capital resource requirement calculated on the commodity business within MLI and MLCE. The positions are grouped by maturity with a corresponding weighting applied depending on the maturity band.

Foreign Exchange PRR

Within MLUKH, Foreign Exchange PRR primarily is the capital resource requirement calculated on the open net foreign currency exposure of the balance sheet.

Option PRR

Within MLUKH, Option PRR is primarily the capital resource requirement calculated on options which are not in scope of the internal models permission granted by the PRA to MLI and attract a delta equivalent treatment, with additional capital resource requirement for convexity risk (gamma risk) and volatility risk (vega risk) also required.

Table 8. Market Risk Requirement (PRR)

(Dollars in Millions)	2014	2013
Internal Model Based Capital Requirement (IM)	2,053	2,668
VaR	254	775
Stressed VaR	1,799	1,893
Capital Requirement under Standardised Approaches (SA)	3,505	3,608
Interest Rate PRR [(1)]	1,926	1,705
Equity PRR	125	18
Commodity PRR	878	425
Foreign Exchange PRR	575	458
Option PRR [(2)]	-	1,002
Total Market Risk (PRR)	5,558	6,276

[(1)] Interest Rate PRR includes $627m (2013: $632m) of securitisation.

[(2)] Due to the adoption of the CRD IV framework, Option PRR is included within the position risk requirement corresponding to the reference asset (for example, equity options are included within the Equity PRR amount).

5.2.1. Model Based Capital Requirements (MLI Only)

Regulatory VaR

Regulatory VaR is a variation of VaR in which a ten-day holding period is used with rolling actual ten-day returns generated from three years of historical market data.

Stressed VaR

Stressed VaR is a variation of VaR in which the historical window is not the previous three years but is calibrated to a continuous 12-month window that reflects a period of significant stress appropriate to MLI. Stressed VaR is calculated based on 99% confidence level, a 10-day holding period and the same population of exposures as the regulatory VaR.

Risk Not in VaR Framework (“RNIV”)

The RNIV framework aims to capture and capitalise material market risks that are not adequately covered in the VaR model.

Table 9 shows MLI’s high, low, average and year-end Regulatory VaR and Stressed VaR numbers for 2014 and 2013. Both VaR and Stressed VaR include a price volatility cross risk add-on.

Table 9. MLI Value at Risk

	2014		2013	
(Dollars in Millions)	VaR	SVaR	VaR	SVaR
Highest	138	441	156	551
Lowest	26	171	26	112
Mean	75	240	65	253
VaR Measure at Period End	78	261	92	401

5.3 Counterparty and Credit Risk (CCR)

CCR is the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. CCR capital requirements are derived from risk-weighted exposures, determined using the standardised approach. MLUKH has CCR exposure as a result of derivative trades, securities financing transactions and other trading and non-trading book exposures.

Within MLUKH, MLI measures CCR exposure using mark-to-market method, defined as mark-to-market plus a notional add-on.

A financial asset is past due when the counterparty has failed to make a payment when contractually due. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. As of December 2014, MLUKH did not have any material impairments, past due items, provisions or value adjustments.

The following section provides detailed information on MLUKH's regulatory CCR exposures using the above mentioned approach, net of credit risk mitigation, unless specified.

5.3.1 Counterparty and Credit Risk by Type

Tables 10 and 11 set out MLUKH's RWA, CCR capital requirement and exposure by industry distribution. Within the MLUKH Group, the majority of exposures for the MLI entity are against corporations and institutions. 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.

Table 10. Counterparty and Credit Risk Minimum Capital Requirement and RWA

	2014	
(Dollars in Millions)	RWA	Capital
Central Governments or Central Banks	3,535	283
Corporates	51,819	4,145
Institutions	32,590	2,607
Other [(1)]	4,558	365
Total	92,502	7,400

	2013	
(Dollars in Millions)	RWA	Capital
Central Governments or Central Banks	746	60
Corporates	30,866	2,469
Institutions	59,145	4,732
Other [(1)]	6,425	514
Total	97,182	7,775

[(1)] Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Regional Governments or Local Authorities, Claims on Institutions and Corporate with a Short-Term Credit Assessment, Exposures Secured by Mortgages on Immovable Property, Exposures in Default and Items Representing Securitisation Positions.

Table 11. Counterparty and Credit Risk Exposure by Industry Distribution

(Dollars in Millions)	2014	2013
Bank	65,782	81,950
Broker Dealer	32,494	46,315
Clearing House/Exchange	40,013	30,791
Industrial and Commercial Companies	10,733	13,818
Energy and Commodities	3,467	7,994
Hedge Fund	8,341	4,838
Insurance	2,152	2,227
Sovereign & Government Related	14,644	9,381
Other Financial	19,251	13,885
Personal	123	1,430
Total Exposure Value	197,000	212,629

5.3.2 Counterparty and Credit Exposure Geographic Distribution and Maturity Profile Detail

Further analysis showing the geographical, residual maturity and yearly average distribution of the exposure value is shown in Tables 12 and 13.

The geographical distribution is reported by analysing where the counterparty is based and is further analysed to show the breakdown by exposure class. The majority of MLUKH's exposure sits within EMEA and Americas, reflecting its subsidiary's global business activities.

Table 12. Counterparty and Credit Risk Exposure by Geographical Distribution

	2014			
(Dollars in Millions)	Asia	Americas	EMEA	Total
Central Governments or Central Banks	4,687	96	4,825	9,608
Corporates	8,624	34,449	53,064	96,137
Institutions	7,222	31,079	46,346	84,647
Other [(1)]	595	1,965	4,048	6,608
Total Exposures	**21,128**	**67,589**	**108,283**	**197,000**

	2013			
(Dollars in Millions)	Asia	Americas	EMEA	Total
Central Governments or Central Banks	1,057	162	3,148	4,367
Corporates	229	14,989	53,648	68,866
Institutions	5,151	35,470	87,408	128,029
Other [(1)]	1,101	3,294	6,972	11,367
Total Exposures	**7,538**	**53,915**	**151,176**	**212,629**

[(1)] Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Regional Governments or Local Authorities, Claims on Institutions and Corporate with a Short-Term Credit Assessment, Exposures Secured by Mortgages on Immovable Property, Exposures in Default and Items Representing Securitisation Positions.

Table 13 splits MLUKH's Counterparty and Credit Risk exposure values at the end of 2014 and 2013 by residual maturity and exposure class. The total average value of the exposures for the years is also provided.

Table 13. Counterparty and Credit Risk Exposure by Residual Maturity and Average Value

	As at end of 2014			
(Dollars in Millions)	Under 1 Year	One - Five Years	Over Five Years	Total
Central Governments or Central Banks	8,407	825	376	9,608
Corporates	50,371	25,381	20,385	96,137
Institutions	40,734	32,374	11,539	84,647
Other [(1)]	5,023	261	1,324	6,608
Total Exposure Value	**104,535**	**58,841**	**33,624**	**197,000**

	As at end of 2013			
(Dollars in Millions)	Under 1 Year	One - Five Years	Over Five Years	Total
Central Governments or Central Banks	3,129	716	522	4,367
Corporates	24,776	21,025	23,065	68,866
Institutions	74,688	40,991	12,350	128,029
Other [(1)]	8,076	299	2,992	11,367
Total Exposure Value	**110,669**	**63,031**	**38,929**	**212,629**

	2014 Average Exposure		2013 Average Exposure	
(Dollars in Millions)	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
Central Governments or Central Banks	8,762	8,762	6,112	6,112
Corporates	100,666	90,319	75,329	60,832
Institutions	111,125	86,887	137,973	107,572
Other [(1)]	16,381	12,317	20,476	12,517
Total Exposure Value	**236,934**	**198,285**	**239,890**	**187,033**

[(1)] Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Regional Governments or Local Authorities, Claims on Institutions and Corporate with a Short-Term Credit Assessment, Exposures Secured by Mortgages on Immovable Property, Exposures in Default and Items Representing Securitisation Positions.

5.3.3 Counterparty and Credit Exposure by Credit Quality Step

Table 14 analyses exposure values by exposure class and Credit Quality Step ("CQS"), showing the position Pre and Post Credit Risk Mitigation. Within the MLUKH Group, for the MLI entity, Credit Risk Mitigation comprises of collateral only.

A CQS is a credit quality assessment scale as set out in CRD IV. This mapping table is provided by the PRA and can be accessed through the following link:

http://www.fsa.gov.uk/pubs/international/ecais_standardised.pdf

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

Within the MLUKH Group, the MLI entity has the majority of exposures in CQS 1 and 2, which means the counterparties are rated between AAA to A-. Although counterparties are generally rated internally, 40.8% of exposure in MLUKH is to counterparties not rated by external rating agencies and as such is shown as non-rated.

Table 14. Counterparty and Credit Risk Exposure by Credit Quality Step

	2014		2013	
(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	4,207	4,180	3,841	3,841
2	1,561	1,561	152	152
3	1,024	1,024	544	544
4	2,274	2,274	319	319
5	471	471	0	0
6	0	0	0	0
NR-Non Rated	2,075	2,075	2,138	2,137
Total Exposure Value	11,612	11,585	6,994	6,993
Corporates				
Credit Quality Step				
1	6,699	6,190	5,148	5,078
2	15,663	13,174	15,237	8,575
3	5,030	4,831	7,865	7,666
4	435	305	395	362
5	44	41	73	73
6	71	71	83	77
NR-Non Rated	78,637	71,525	48,807	47,035
Total Exposure Value	106,579	96,137	77,608	68,866
Institutions				
Credit Quality Step				
1	16,507	10,537	13,231	7,614
2	81,323	65,256	125,800	102,044
3	2,774	1,947	2,686	1,789
4	1,279	709	527	212
5	695	638	100	28
6	232	49	409	212
NR-Non Rated	6,569	5,511	18,563	16,130
Total Exposure Value	109,379	84,647	161,316	128,029

Table 14. Counterparty and Credit Risk Exposure by Credit Quality Step (cont'd)

	2014		2013	
(Dollars in Millions)	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation	Pre-Credit Risk Mitigation	Post-Credit Risk Mitigation
Other [(1)]				
Credit Quality Step				
1	722	722	2,877	2,877
2	2,370	2,370	5,383	3,713
3	33	33	45	45
4	42	42	59	59
5	133	133	141	141
6	0	0	10	10
NR-Non Rated	5,102	1,331	6,300	1,896
Total Exposure Value	8,402	4,631	14,815	8,741
Combined Total Exposure Value	235,972	197,000	260,733	212,629

(1) Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Claims on Institutions and Corporate with a Short-Term Credit Assessment, Exposures Secured by Mortgages on Immovable Property, Exposures in Default and Items Representing Securitisation Positions.

Table 15 analyses exposure value Pre and Post Credit Risk Mitigation for 2014 and 2013.

Table 15 Counterparty and Credit Risk Exposure Pre and Post Credit Mitigation

	2014		
(Dollars in Millions)	Gross Exposure Pre-Credit Risk Mitigation	Covered by Eligible Collateral	Net Credit Exposure
Central Governments or Central Banks	9,608	0	9,608
Corporates	106,579	10,442	96,137
Institutions	109,379	24,732	84,647
Other [(1)]	10,406	3,798	6,608
Total Exposure Value	**235,972**	**38,972**	**197,000**

	2013		
(Dollars in Millions)	Gross Exposure Pre-Credit Risk Mitigation	Covered by Eligible Collateral	Net Credit Exposure
Central Governments or Central Banks	4,367	0	4,367
Corporates	77,608	8,742	68,866
Institutions	161,316	33,287	128,029
Other [(1)]	17,442	6,075	11,367
Total Exposure Value	**260,733**	**48,104**	**212,629**

(1) Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Regional Governments or Local Authorities, Claims on Institutions and Corporate with a Short-Term Credit Assessment, Exposures Secured by Mortgages on Immovable Property, Exposures in Default and Items Representing Securitisation Positions.

5.3.4 Counterparty Credit Risk Exposure by Product

Measures for exposure value under Counterparty Credit Risk for MLUKH are calculated using the mark-to-market method. Table 16 analyses this risk by product and before and after credit risk mitigation.

Table 16. Counterparty and Credit Risk Exposure by Product

(Dollars in Millions)	2014	2013
OTC Derivatives Counterparty Credit Risk		
Gross Positive Fair Value of Contracts	582,325	926,337
Gross Potential Future Credit Exposure	251,993	319,698
Gross Exposure Value	**834,318**	**1,246,035**
Netting Benefits	(664,326)	(1,059,746)
Collateral Held	(35,096)	(43,207)
Net Current Credit Exposure	**134,896**	**143,082**
Breakdown of Collateral Held		
Cash Collateral	29,255	38,360
Sovereign Debt Instruments	3,188	146
Other	2,653	4,701
Total Collateral Held	**35,096**	**43,207**
Counterparty Credit Risk by Product		
OTC Derivatives	134,896	143,082
Securities financing transactions	50,765	42,444
Other	378	20
Total	**186,039**	**185,546**

5.3.5 Counterparty and Credit Risk – Credit Derivatives

Table 17 analyses the notional value of MLUKH's credit derivative portfolio. This is additionally categorised between Credit Derivative Products used for intermediation and for the management of MLUKH's own credit portfolio.

Table 17. Counterparty and Credit Risk Exposure – Credit Derivatives

	2014		2013	
(Dollars in Millions)	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Credit Derivative Products used for Intermediation				
Credit Default Swaps	414,791	414,791	389,928	389,928
Total Return Swaps	3,131	3,131	1,794	1,794
Total Notional Value	**417,922**	**417,922**	**391,722**	**391,722**
Credit Derivative Products used for Own Credit Portfolio				
Credit Default Swaps	24,050	2,758	26,418	1,408
Total Return Swaps	2,009	2,282	6,467	2,833
Total Notional Value	**26,059**	**5,040**	**32,885**	**4,241**
Credit Derivative Products by Credit Exposure				
Institutions	240,746	224,094	244,461	221,513
Corporates	198,855	198,594	178,894	174,450
Other [1]	4,380	274	1,252	-
Total Notional Value	**443,981**	**422,962**	**424,607**	**395,963**

[1] Other comprises of exposures to Central Government or Central Banks and Regional Governments or Local Authorities

5.4 Capital Resources

The below table shows a reconciliation between the accounting balance sheet values and the regulatory capital values of the items included in MLUKH's Capital Resources. Further details on the composition of MLUKH's Capital Resources are shown in tables 19 and 20.

Table 18. Regulatory Capital Resources Reconciliation to Audited Financial Statements

(Dollars in Millions)	Balance per UK GAAP Financial Statements	Adj. to Balance Sheet Items for Regulatory Capital Resources			Balance per Regulatory Capital Resources
		Amortisation Adj.	Debt Valuation Adj.	Prudential Valuation Adj.	
Tier 1 Capital					
Share Capital	171	-	-	-	171
Share Premium	24,111	-	-	-	24,111
Merger Reserves	25,043	-	-	-	25,043
Profit and Loss Account	(14,692)	-	(345)	(634)	(15,671)
Tier 1 Capital before Deductions	34,633	-	(345)	(634)	33,653
Deferred Tax Asset	(443)	-	-	-	(443)
Tier 1 Capital after Deductions	34,190	-	(345)	(634)	33,210
Tier 2 Capital					
Shares Classified as Debt	200	-	-	-	200
Subordinated Liabilities	5,464	(52)	-	-	5,412
Total Capital Resources	39,854	(52)	(345)	(634)	38,823

Following the implementation of CRD IV on 1st January 2014, a new requirement was introduced requiring a prudential valuation adjustment to be deducted from MLUKH's Tier 1 Capital Resources. MLUKH has established a valuation control policy and prudent valuation guidelines which set out the policies and procedures for the determination of price verification and prudent valuation in accordance with the requirements of CRD IV and related interpretive guidance.

Table 19. Capital Instrument Features

	Capital Instruments Main Features	CET1	AT1	T2	T2	T2	T2	T2	T2	T2	T2
1	Issuer	ML UK Holdings	N/a	ML UK Holdings	Smith Bros	MLEIH Funding	ML UK Capital Holdings	ML UK Capital Holdings	ML UK Capital Holdings	Merrill Lynch International	Merrill Lynch International
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Private Placement	N/a	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement	Private Placement
3	Governing law(s) of the instrument	English	N/a	English	English	English	English	English	English	English	English
Regulatory Treatment											
4	Transitional CRR rules	CET1	N/a	T2	T2	T2	T2	T2	T2	T2	T2
5	Post-transitional CRR rules	CET1	N/a	T2	T2	T2	T2	T2	T2	T2	T2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	N/a	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares with full voting rights	N/a	Preference Shares	Subordinated Loan	Subordinated Loan	Subordinated Loan	Subordinated Loan	Subordinated Loan	Subordinated Loan	Subordinated Loan
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	$24,282m comprising nominal and premium	N/a	USD 200m	USD 1m	USD 1,723m	USD 2,567m	USD 949m	USD 171m	USD 1m	USD 1m
9	Nominal amount of instrument	$1.00	N/a	$1.00	USD 1m	USD 1,723m	USD 2,567m	USD 1,000m	USD 171m	USD 1m	USD 1m
9a	Issue price	$1,397.31 31 Oct 2008 $2.50 26 Nov 2008 $3.03 28 Nov 2008 $2.5 19 Dec 2008 $10.00 29 Jun 2011 $1.00 2 Sep 2012 $1.00 21 Sep 2012 $1.00 1 Oct 2012 $241.81 18 Nov 2014	N/a	$1.00	USD 1m	USD 1,723m	USD 2,567m	USD 1,000m	USD 171m	USD 1m	USD 1m
9b	Redemption price	N/a	N/a	Amount of nominal capital and share premium paid up on the preference shares, plus any accrued dividends.	N/a	N/a	N/a	N/a	N/a	N/a	N/a
10	Accounting classification	Shareholders equity	N/a	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	$13,973m 31 Oct 2008 $1,975m 26 Nov 2008 $576m 28 Nov 2008 $19m 19 Dec 2008 $442m 29 Jun 2011 $5,304m 2 Sep 2012 $3,418m 21 Sep 2012 $871m 1 Oct 2012 $14,226m 18 Nov 2014	N/a	18-Nov-14	31-Mar-11	19-Dec-13	25-Mar-11	28-Sep-09	31-Mar-11	31-Jan-13	31-Mar-11
12	Perpetual or dated	Perpetual	N/a	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	N/a	No maturity	25-Sep-19	19-Dec-23	25-Mar-31	28-Sep-19	21-Dec-30	31-Jan-19	31-Aug-18
14	Issuer call subject to prior supervisory approval	No	N/a	Yes	No	No	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/a	N/a	May redeem some or all shares at the redemption price detailed above, at any time by serving notice on or after the fifth anniversay of the date of issue, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.	No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval.
16	Subsequent call dates, if applicable	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Coupons / Dividends											
17	Fixed or floating dividend/coupon	N/a	N/a	Fixed	Floating	Floating	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	N/a	N/a	6.716% p.a.	1month USD LIBOR plus 331 bps per annum	1month USD LIBOR plus 193 bps per annum	1month USD LIBOR plus 253 bps per annum	1month USD LIBOR plus 331 bps per annum	1month USD LIBOR plus 337 bps per annum	1month USD LIBOR plus 187 bps per annum	1month USD LIBOR plus 328 bps per annum
19	Existence of a dividend stopper	No	N/a	No	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	N/a	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	N/a	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	N/a	No	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	N/a	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	N/a	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
25	If convertible, fully or partially	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
26	If convertible, conversion rate	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
27	If convertible, mandatory or optional conversion	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
28	If convertible, specify instrument type convertible into	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
29	If convertible, specify issuer of instrument it converts into	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
30	Write-down features	No	N/a	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
32	If write-down, full or partial	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
33	If write-down, permanent or temporary	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
34	If temporary write-down, description of write-up mechanism	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Preference Shares Column 3	N/a	All subordinated liabilities - Columns 4-11	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities	All liabilities except the preference shares and subordinated liabilities
36	Non-compliant transitioned features	No	N/a	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

(') Insert 'N/A' if the question is not applicable

Table 20. Common Equity Tier 1 Capital Instruments and Reserves (dollars in millions)

	Common Equity Tier 1 Capital: Instruments and Reserves	(A) Amount at Disclosure Date	(B) Regulation (EU) No 575 / 2013 Article Reference	(C) Amounts subjected to pre-regulation (EU) No 575 / 2013 treatment or prescribed residual amount of regulation (EU) No 575 / 2013
1	Capital instruments and the related share premium accounts	24,282	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Ordinary shares with full voting rights	24,282	EBA list 26 (3)	
2	Retained earnings	(14,692)	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	25,043	26 (1)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	34,633		
	Common Equity Tier 1 (CET1) Capital: Regulatory Adjustments			
7	Additional value adjustments (negative amount)	(634)	34, 105	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(443)	36 (1) (c), 38, 472 (5)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(345)	33(1) (b), 33(1) (c)	
28	**Total Regulatory Adjustments to Common Equity Tier 1 (CET1)**	(1,422)		
29	**Common Equity Tier 1 (CET1) Capital**	33,210		
	Additional Tier 1 (AT1) Capital: Instruments			
45	**Tier 1 Capital (T1 = CET1 + AT1)**	33,210		
	Tier 2 (T2) Capital: Instruments and Provisions			
46	Capital instruments and the related share premium accounts	5,612	62, 63	
51	Tier 2 (T2) capital before regulatory adjustments	5,612		
	Tier 2 (T2) Capital: Regulatory Adjustments			
58	**Tier 2 (T2) Capital**	5,612		
59	**Total Capital (TC = T1 + T2)**	38,823		
60	**Total Risk Weighted Assets**	247,633		
	Capital Ratios and Buffers			
61	**Common Equity Tier 1** (as a percentage of risk exposure amount)	13.4%	92 (2) (a), 465	
62	Tier 1 (as a percentage of risk exposure amount)	13.4%	92 (2) (b), 465	
63	Total Capital (as a percentage of risk exposure amount)	15.7%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	4.0%	CRD 128, 129, 130	
68	**Common Equity Tier 1** available to meet buffers (as a percentage of risk exposure amount)	7.7%	CRD 128	

5.5 Leverage

5.5.1 Leverage Approach

MLUKH's Leverage Ratio is calculated as the arithmetic average of the three month end ratios calculated over the quarter. The End of Quarter Leverage Ratio, which does not include this averaging, is also calculated. The measure of Tier 1 capital used in the computation of MLUKH's ratio is the same under both transitional and fully phased in definitions of Tier 1 capital per CRD IV.

The leverage ratio is calculated and monitored in line with regulatory requirements. Exposure is typically managed through a combination of mechanisms including risk appetite limits, collateralisation and netting arrangements.

5.5.2 Additional Detail on Leverage Ratio

Table 21. Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

(Dollars in Millions)	Applicable Amounts
Total Assets as per Published Financial Statements	621,405
Adjustment for Entities which are Consolidated for Accounting Purposes but are Outside the Scope of Regulatory Consolidation	-
Adjustment for Fiduciary Assets Recognised on the Balance Sheet Pursuant to the Applicable Accounting Framework but Excluded from the Leverage Ratio Exposure Measure According to Article 429(11) of Regulation (EU) NO. 575/2013	-
Adjustments for Derivative Financial Instruments	(235,818)
Adjustments for Securities Financing Transactions	(39,500)
Adjustment for Off-Balance Sheet Items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	890
Other Adjustments	(11,325)
Leverage Ratio Exposure	**335,652**

Table 22. Leverage Ratio Common Disclosure

(Dollars in Millions)	CRR Leverage Ratio Exposures
On-Balance Sheet Exposures (excluding derivatives and SFTs)	
On-balance Sheet Items (excluding derivatives and SFTs, but including collateral)	119,263
Asset Amounts Deducted in Determining Tier 1 Capital	(1,077)
Total On-Balance Sheet Exposures (excluding derivatives and SFTs)	**118,186**
Derivative Exposures	
Replacement Cost Associated with Derivatives Transactions	49,053
Add-on Amounts for PFE Associated with Derivatives Transactions	116,758
Exposure Determined under Original Exposure Method	-
Total Derivative Exposure	**165,811**
Securities Financing Transaction Exposures	
SFT Exposure According to Article 220 of Regulation (EU) NO. 575/2013	50,765
SFT Exposure According to Article 222 of Regulation (EU) NO. 575/2013	-
Total Securities Financing Transaction Exposures	**50,765**
Off-Balance Sheet Exposures	
Off-balance Sheet Exposures at Gross Notional Amount	1,522
Adjustments for Conversion to Credit Equivalent Amounts	(632)
Total Off-Balance Sheet Exposures	**890**
Capital and Total Exposures	
Tier 1 Capital	33,210
Exposures of Financial Sector Entities According to Article 429(4) Second Subparagraph of Regulation (EU) NO. 575/2013	-
Total Exposures	**335,652**
Leverage Ratios	
End of Quarter Leverage Ratio	9.9%
Leverage Ratio (avg of the monthly leverage ratios over the quarter)	7.9%
Choice on Transional Arrangements and Amount of Derecognised Fiduciary Items	
Choice on Transitional Arrangements for the Definition of the Capital Measure	Fully phased-in
Amount of Derecognised Fiduciary Items in Accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

Table 23. Split of On-Balance Sheet Exposures (excluding derivatives and SFTs)

(Dollars in Millions)	CRR Leverage Ratio Exposures
Total On-Balance Sheet Exposures (excluding derivatives and SFTs), of which:	**119,263**
Trading Book Exposures	105,410
Banking Book Exposures, of which:	13,853
Central Governments and Central banks	538
Corporate	3,604
Institutions	2,163
Other	7,549

6. Additional Information on Remuneration Disclosure

6.1 Remuneration Disclosure

Remuneration disclosures are reported at a UK level in respect of the Remuneration Code and as required under CRD IV. 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.

7. Appendix

Appendix I – Directors Board Membership and Experience

Director	Experience
Martin Butler CFO EMEA & International Treasury Executive Directorships: 1	Joined Merrill Lynch in 1988, becoming CFO for European Debt in 1997. Further senior management roles followed, including head of Global Equity ISS and head of European Business Finance. CFO EMEA since the Bank of America - Merrill Lynch merger in 2009, assuming the additional role of International Treasury Executive in 2012. Holds numerous internal board roles, including director of MLI, BAMLI and MLPF&S.
Fabrizio Gallo Global Head of Equities & Head of EMEA Global Markets Directorships: 1	Responsible for all aspects of the company's equity sales and trading businesses worldwide and the broader Global Markets franchise in EMEA. Previously partner and head of Equities at Brevan Howard Asset Management, after spending 15 years at Morgan Stanley performing a variety of equity and equity derivative trading leadership positions in New York, London and Hong Kong. Also serves as a director of MLI.
Jan Przewozniak EMEA Chief Risk Officer Directorships: 1	Over 30 years of banking and risk management experience, focused on Emerging Markets, Financial Institutions and Corporate Credit Risk. Joined Bank of America Merrill Lynch in 2013, being appointed EMEA Deputy Chief Risk Officer in January 2014, prior to becoming EMEA Chief Risk Officer in September 2014. Also a member of the EMEA Executive Committee. Additional internal board memberships include MLI, BAMLI and MLCE.
Jennifer Taylor Chief Operating Officer EMEA Directorships: 2	Joined the organisation in 1997, responsible for the legal coverage of structured finance transactions. Held various General Counsel roles across Asia Pacific (APAC) before assuming the role of General Counsel for all Merrill Lynch businesses in the APAC region. Assumed the role of Chief Administration Officer for Asia in 2006, later being appointed COO of the region before returning to the UK, to act as COO in EMEA. Number of other internal board memberships, including of MLI, BAMLI and MLIB.
Alex Wilmot-Sitwell President, Europe, Middle East & Africa Directorships: 1	Alex Wilmot-Sitwell is Bank of America Merrill Lynch's president for Europe, the Middle East and Africa (EMEA). He is responsible for the execution and development of the bank's business activities and support functions in the EMEA region. Based at the bank's European headquarters in London, Wilmot-Sitwell chairs the bank's EMEA Executive Committee and is a member of the Global Banking, and Markets Committee. He is also a director of a number of other group entities.

Note: For the purposes of disclosing the number of directorships held by each board member, directorships held within the same group of companies are counted as a single directorship. Directorships in organisations which do not pursue predominantly commercial objectives are not included.