Registered number: 1009248

# Bank of America Merrill Lynch International Limited

# Annual Report and Financial Statements

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

## Contents



## Bank of America Merrill Lynch International Limited – Company Information

| | |
|---|---|
| **Directors** | J. A. Boussuge (appointed 4 October 2016)<br>M. Butler<br>B. Elfring<br>J. A. Gollan<br>D. F. Guest (appointed 3 March 2016)<br>S. A. James (appointed 22 February 2016)<br>B. A. Mensah<br>A. D. Schroeder (appointed 29 February 2016)<br>J. M. Taylor<br>P. J. P. de Weck (appointed 30 November 2016)<br>A. S. Wilmot-Sitwell |
| **Registered Number** | 1009248 |
| **Registered Office** | 2 King Edward Street<br>London<br>EC1A 1HQ |
| **Independent Auditors** | PricewaterhouseCoopers LLP<br>7 More London Riverside<br>London<br>SE1 2RT |

# A. Strategic Report

For the Year Ended 31 December 2016

Bank of America Merrill Lynch

## A. Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report on Bank of America Merrill Lynch International Limited ("BAMLI" or "the Company") for the year ended 31 December 2016.

The Company is a wholly owned subsidiary of Bank of America National Association ("BANA") and the ultimate parent of the Company is Bank of America Corporation (NYSE:BAC) ("BAC"). The Company provides a range of financial services as well as acting as a service company for companies in the BAC group. BAMLI's activities form part of BAC's Global Banking and Markets operations in the Europe, Middle East and Africa ("EMEA") region. Clients principally include large multinational groups, financial institutions, governments and government entities. The Company has the ability to conduct business with international clients and to trade throughout the European Economic Area ("EEA").

BAMLI is registered as a bank in the United Kingdom and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Company's branches are authorised and regulated by the PRA. BAMLI's head office and its subsidiaries are domiciled in the United Kingdom and Republic of Ireland with branch operations across Europe (Dublin, Madrid, Paris, Antwerp, Amsterdam, Frankfurt, Milan and Zurich).

As at 31 December 2016, the Company was rated by Fitch (A/F1) and Standard & Poor's (A+/A 1).

These financial statements are the results of the Company and not its group. The Company has taken advantage of the exemption in Section 401 of the Companies Act 2006 from the obligation to prepare and deliver consolidated financial statements. As part of the Company disclosures the activities of the subsidiary companies are set out in note 43 to the financial statements.

## Market Environment

A referendum was held in the UK on 23 June 2016, which resulted in a majority vote in favour of exiting the European Union ("EU"). At this time, the ultimate impact of the U.K.'s potential exit from the EU is unknown.

The vote increased global economic and market uncertainty and volatility, and resulted in significant declines in the value of the British Pound. Market volatility has since reduced and the Pound has shown some sign of recovery but does remain weak in comparison to the level prior to June. The timing of the UK's formal commencement of the exit process is uncertain. Once the exit process begins, negotiations to agree on the terms of the exit are expected to be a multi-year process. During this transition period, the ultimate impact of the UK's exit from the EU may remain unclear and economic and market volatility may continue to occur. If uncertainty resulting from the UK's potential exit from the EU negatively impacts economic conditions, financial markets and consumer confidence, the Company's business, results of operations, financial position and/or operational model could be adversely affected.

In addition, if the terms of the exit limit the ability of the Company to conduct business in the EU or otherwise result in a significant increase in economic barriers between the UK and the EU, these changes could impose additional costs, adversely impact our business, financial condition and operational model.

In terms of the wider market environment, the Eurozone grew moderately in 2016 amid increasing political uncertainty and fragmentation which led to political impasse and fragile governments in many countries, including Italy and Spain. In this context, the ECB extended its quantitative easing program, albeit at a slower pace.

In the US, for a second consecutive year, the Federal Open Market Committee raised its target range for the Federal funds rate by 25 basis points at the year's final meeting. With a stronger economy, rising inflation and continued labour market tightening, Federal Reserve members raised expectations that if economic growth continued, the pace of rate increases will pick up in 2017, although the removal of accommodation would remain gradual. The contrast between U.S. tightening and quantitative easing in Europe and Japan remained a source of US dollar strength.

## Principal Risks and Uncertainties

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 36).

## Business Review

The Company, as the primary EMEA regional entity for banking and financing activity, has shown positive growth in its core business in 2016. Loan and deposit growth is the result of both new business as well as further consolidation of banking and financing activity from other regional group entities. The Company established a further four new European branches in 2016 (Frankfurt, Antwerp, Milan and Zurich), with banking and financing activity transferring to BAMLI branches from existing BAC group branches and legal entities.

The directors expect the principal activities of the Company will continue during 2017.

In addition to the core banking activity, the Company acts as the primary support services employer for BAC's UK operations.

### Divisional Performance

Results are derived from the Company's core Global Banking and Markets activities and its Support Services activities which represent reportable segments as disclosed in note 3.

Global Banking and Markets segment contributed $1,019 million in terms of total operating income driven primarily by increased corporate and asset backed lending activities.

Support Services segment contributed $1,219 million to total operating income.

### Summary Income Statement

| | 2016<br>$m | 2015<br>$m | Change<br>$m |
|---|---|---|---|
| Net interest, fee and commission income | 652 | 496 | 156 |
| Dealing profits and fair value income | 271 | 5 | 266 |
| Other operating income | 1,370 | 1,422 | (52) |
| Impairment charge for credit losses | (55) | (64) | 9 |
| **Total operating income** | **2,238** | **1,859** | **379** |
| Administrative expenses | (1,434) | (1,379) | (55) |
| Depreciation and other operating expense | (416) | (310) | (106) |
| Impairment in investments in group undertakings | (29) | - | (29) |
| **Profit before tax** | **359** | **170** | **189** |

### Net interest, fee and commission income

This income reflects the performance of BAMLI's lending businesses, consisting primarily of corporate and institutional lending, in addition to certain asset backed lending, secured lending and leasing activity.

### Dealing profits and fair value income

This income reflects the profits on BAMLI's trading asset portfolio as well as certain lending transactions which the Company has designated at fair value.

### Other operating income

This income is generated primarily through BAMLI's services to the broader BAC group ("service fee income") relating to its Support Services activity.

Other operating income also includes one-time income events which are not determined to be part of the Company's trading activities.

### Impairment charge for credit losses

This represents the charge arising from the provision for credit losses on BAMLI's lending businesses.

### Transaction related costs

Expenses are driven by compensation and overhead costs and direct trading-related costs.

### Depreciation and other operating expenses

Depreciation expenses are incurred by the Company on fixed assets acquired as part of its support services activities. Other operating expenses primarily relate to service fee expenses resulting from the purchase of services from other affiliates in the BAC group. The charges are computed under arm's length principles reflecting the economic contribution of the affiliate in accordance with BAC's global transfer pricing policy.

### Impairment in investments in group undertakings

Following an impairment review in 2016, the Company recorded an impairment on its investment in Merrill Lynch (Camberley) Limited.

### Taxation

The Company's effective tax rate for the year is negative 9.7% driven mainly by tax losses claimed from affiliates for no payment and previously unrecognised temporary timing differences. The factors affecting the tax charge for the year are detailed in note 13.

### Capital

BAMLI makes "Pillar 3" disclosures as required under the Capital Requirements Directive IV ("CRD IV").

BAMLI's capital resources increased year on year through a combination of a capital injection ($1 billion equity) from the parent, $1 billion subordinated debt from an affiliated company and the addition of current year earnings ($394 million).

Total eligible regulatory capital increased from $6,825 million as at 31 December 2015 to $9,260 million as at 31 December 2016, which consisted of $8,260 million Tier 1 capital (2015: $6,825 million) and $1 billion Tier 2 capital (2015: $nil).

### Liquidity

The Company is subject to the Basel III liquidity requirements legislated by the European Commission's Capital Requirement Regulations and Capital Requirements Directive ("CRR/CRD IV"). Rules implementing the requirement for credit institutions to comply with the Liquidity Coverage Ratio ("LCR") were finalised by the European Commission in October 2014.

In Supervisory Statement 24/15 the PRA retained their requirement for firms to demonstrate overall liquidity adequacy; this is consistent with the internal risk appetite referenced in note 36 of the financial statements.

## Subsequent Events

On 1 March 2017 BAMLI Madrid acquired investment banking activity from an affiliated entity. Revenues generated by this transaction are expected to be in excess of $20 million per annum as a result. There was minimal impact on the statement of financial position.

## Financial Key Performance Indicators

The results of the Company were as follows:

The profit on ordinary activities before taxation amounted to $359 million (2015: $170 million)

The profit on ordinary activities after taxation amounted to $394 million (2015: $189 million)

Total operating income for the year amounted to $2,238 million (2015: $1,859 million)

Return on assets was 1.02% (2015: 0.56%) and return on equity was 4.75% (2015: 2.74%)

Total assets at 31 December 2016 are $38,629 million (2015: $33,578 million)

Net assets at 31 December 2016 are $8,294 million (2015: $6,889 million)

## Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: $nil).

This report was approved by the board on 8 March 2017 and signed on its behalf.

A. S. Wilmot-Sitwell
Director

# B. Directors' Report
## For the Year Ended 31 December 2016

Bank of America Merrill Lynch

## B. Directors' Report for the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

## Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Company's financial statements are provided for inclusion on the BAC website. The work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Matters Covered in the Strategic Report

Details regarding a review of the business, including future developments, principal risks and uncertainties, dividends and subsequent events are provided in the strategic report on pages 5 to 9.

The directors who served during the year were:

J. A. Boussuge (appointed 4 October 2016)

M. Butler

B. Elfring

J. A. Gollan

D. F. Guest (appointed 3 March 2016)

S. A. James (appointed 22 February 2016)

B. A. Mensah

J. S. Przewozniak (resigned 5 December 2016)

A. D. Schroeder (appointed 29 February 2016)

J. M. Taylor

P. J. P. de Weck (appointed 30 November 2016)

A. S. Wilmot-Sitwell

## Directors’ Third Party Indemnity Provisions

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

## Employee Involvement

BAC is committed to ensuring that employees share in its success. Employees participate in performance-based incentive schemes and have a substantial sum invested in the shares of BAC, see note 12. They are kept informed of matters of concern to them in a variety of ways including newsletters, the intranet and management briefings. These communications help achieve a common awareness among employees of the financial conduct and economic factors affecting BAC. Employees are also provided with opportunities to share their views and provide feedback on matters that are important to them through, for example, employee surveys and forums.

## Disabled Employees

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the Group. Training, career development and promotion of disabled persons is, as far as possible, identical to that of employees who are not disabled.

## Disclosure of Information to Auditors

Each of the persons who are directors at the time when this Directors’ report is approved has confirmed that:

- So far as that director is aware, there is no relevant audit information of which the Company’s auditors are unaware, and
- That director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

This report was approved by the board on 8 March 2017 and signed on its behalf.

M. Butler
Director

# C. Independent Auditors' Report

## To the Shareholders of Bank of America Merrill Lynch International Limited

## C. Independent Auditors' Report to the Shareholder of Bank of America Merrill Lynch International Limited

# Report on the Financial Statements

### Our opinion

In our opinion, Bank of America Merrill Lynch International Limited's financial statements ("the financial statements"):

- Give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report") comprise:

- The Statement of Financial Position as at 31 December 2016;
- The Income Statement and the Statement of Comprehensive Income for the year then ended
- The Statement of Changes in Equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

# Opinion on Other Matters Prescribed by The Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

# Other Matters on which we are Required to Report by Exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the Financial Statements and the Audit

### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on Page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

H Varley

Heather Varley (Senior Statutory Auditor)

for and on behalf of
**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors

7 More London Riverside
London SE1 2RT

8 March 2017

# D. Income Statement

## For the Year Ended 31 December 2016

## D. Income Statement for the Year Ended 31 December 2016

| | Note | 2016 $m | 2015 $m |
|---|---|---|---|
| Interest income | | **576** | 401 |
| Interest expense | | **(129)** | (49) |
| **Net interest income** | 4 | **447** | 352 |
| Fee and commission income | 5 | **212** | 149 |
| Fee and commission expense | | **(7)** | (5) |
| **Net fee and commission income** | | **205** | 144 |
| Dealing profits | | **162** | 174 |
| Net income/(expense) from financial instruments designated at fair value | | **109** | (169) |
| Other operating income | 6 | **1,370** | 1,422 |
| Other operating expenses | | **(352)** | (257) |
| Administrative expenses | | **(1,434)** | (1,379) |
| Depreciation and amortisation | | **(64)** | (53) |
| Impairment charge for credit losses | 7 | **(55)** | (64) |
| Impairment in investments in group undertakings | | **(29)** | - |
| **Profit on ordinary activities before taxation** | 8 | **359** | 170 |
| Taxation on profit on ordinary activities | 13 | **35** | 19 |
| **Profit for the financial year** | | **394** | 189 |

The notes on pages 35 to 82 form part of these financial statements.

# E. Statement of Comprehensive Income

## For the Year Ended 31 December 2016

## E. Statement of Comprehensive Income for the Year Ended 31 December 2016

| | Note | 2016 $m | 2015 $m |
|---|---|---|---|
| Profit for the financial year | | **394** | 189 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Actuarial gain on defined benefit schemes | 30 | **12** | (2) |
| Movement of deferred tax relating to retirement benefit obligation | 13 | **(3)** | - |
| | | **9** | (2) |
| **Items that may be reclassified to profit or loss:** | | | |
| Currency translation differences | | **(1)** | (2) |
| Gains on valuation of available-for-sale financial assets | 19 | **3** | - |
| Movement of deferred tax relating to available-for-sale financial assets | 13 | **(1)** | - |
| **Total comprehensive income for the year** | | **404** | 185 |

# F. Statement of Financial Position

## As at 31 December 2016

## F. Statement of Financial Position as at 31 December 2016

| | Note | 2016 $m | 2015 $m |
|---|---|---|---|
| **Assets** | | | |
| Market and client receivables | | **133** | 8 |
| Cash held at central banks | | **1,210** | 15 |
| Loans and advances to banks | 14 | **8,063** | 7,998 |
| Loans and advances to customers | 15 | **20,614** | 17,367 |
| Reverse repurchase agreements | | **2,200** | 2,550 |
| Trading assets | 17 | **4,969** | 4,034 |
| Derivative financial instruments | | **5** | 242 |
| Financial assets designated at fair value | 18 | **267** | 533 |
| Available for sale securities | 19 | **26** | 23 |
| Investments in group undertakings | 20 | **206** | 219 |
| Property, plant and equipment | 22 | **176** | 174 |
| Other assets | 23 | **674** | 317 |
| Prepayments and accrued income | 24 | **86** | 98 |
| **Total assets** | | **38,629** | 33,578 |
| **Liabilities** | | | |
| Market and client payables | | **10** | 111 |
| Deposits by banks | 25 | **20,195** | 20,320 |
| Deposits by customers | 26 | **7,991** | 5,403 |
| Derivative financial instruments | | **120** | 163 |
| Financial liabilities designated at fair value | | **40** | 147 |
| Other liabilities | 27 | **720** | 318 |
| Accruals and deferred income | 28 | **207** | 209 |
| Subordinated liabilities | 29 | **1,000** | - |
| Retirement benefit obligations | 30 | **52** | 18 |
| **Total liabilities** | | **30,335** | 26,689 |

| | Note | 2016 $m | 2015 $m |
|---|---|---|---|
| **Capital and reserves** | | | |
| Called up share capital | 32 | **890** | 890 |
| Share premium account | | **721** | 721 |
| Foreign exchange reserve | 33 | **(10)** | (9) |
| Available for sale reserve | 33 | **6** | 4 |
| Capital contribution reserve | 33 | **5,600** | 4,600 |
| Merger reserve | 33 | **5** | 5 |
| Profit and loss account | 33 | **1,082** | 678 |
| **Total equity** | | **8,294** | 6,889 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 8 March 2017.

M. Butler
Director

The notes on pages 35 to 82 form part of these financial statements.

# G. Statement of Changes in Equity
## For the Years Ended 31 December 2016 and 31 December 2015

Bank of America Merrill Lynch

## G. Statement of Changes in Equity for the Years Ended 31 December 2016 and 31 December 2015

### Statement of Changes in Equity for the Year Ended 31 December 2016

| | Called up share capital $m | Share premium account $m | Available for sale reserve $m | Foreign exchange reserve $m | Capital contribution reserve $m | Merger reserve $m | Profit and loss account $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2016 | **890** | **721** | **4** | **(9)** | **4,600** | **5** | **678** | **6,889** |
| **Comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 394 | 394 |
| Currency translation differences | - | - | - | (1) | - | - | - | (1) |
| Actuarial gains on retirement benefit obligation (net of deferred tax) | - | - | - | - | - | - | 9 | 9 |
| Revaluation gains taken to reserves (net of deferred tax) | - | - | 2 | - | - | - | - | 2 |
| **Other comprehensive income for the year** | - | - | 2 | (1) | - | - | 9 | 10 |
| **Total comprehensive income for the year** | - | - | 2 | (1) | - | - | 403 | 404 |
| Group share based payments cost | - | - | - | - | - | - | 1 | 1 |
| Capital contribution | - | - | - | - | 1,000 | - | - | 1,000 |
| **Total Transactions with Owners** | - | - | - | - | 1,000 | - | 1 | 1,001 |
| **At 31 December 2016** | **890** | **721** | **6** | **(10)** | **5,600** | **5** | **1,082** | **8,294** |

## Statement of Changes in Equity for the Year Ended 31 December 2015

| | Called up share capital $m | Share premium account $m | Available for sale reserve $m | Foreign exchange reserve $m | Capital contribution reserve $m | Merger reserve $m | Profit and loss account $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | **890** | **721** | **4** | **(7)** | **4,600** | **5** | **490** | **6,703** |
| **Comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 189 | 189 |
| Currency translation differences | - | - | - | (2) | - | - | - | (2) |
| Actuarial losses on retirement benefit obligation | - | - | - | - | - | - | (2) | (2) |
| **Other comprehensive income for the year** | - | - | - | (2) | - | - | (2) | (4) |
| **Total comprehensive income for the year** | - | - | - | (2) | - | - | 187 | 185 |
| Group share based payments cost | - | - | - | - | - | - | 1 | 1 |
| **Total Transactions with Owners** | - | - | - | - | - | - | 1 | 1 |
| **At 31 December 2015** | **890** | **721** | **4** | **(9)** | **4,600** | **5** | **678** | **6,889** |

The notes on pages 35 to 82 form part of these financial statements.

# H. Notes to the Financial Statements
## For the Year Ended 31 December 2016

## H. Notes to the Financial Statements for the Year Ended 31 December 2016

# 1. Accounting Policies

The principal accounting policies, which have been applied consistently throughout the current and prior year, are set out below.

### 1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with the Companies Act 2006, Financial Reporting Standard 100 ("FRS 100") – Application of Financial Reporting Requirements and Financial Reporting Standard 101 ("FRS 101") – Reduced Disclosure Framework.

FRS 100 and FRS 101 set out the disclosure exemptions for the individual financial statements of entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards that have been adopted in the European Union ("EU- adopted IFRS"). References to accounting standards in these financial statements will accordingly relate to applicable International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS").

The financial statements have been prepared under the historical cost convention, as modified to include certain assets and liabilities at fair value. The Company does not maintain historical cost information on items at fair value as this is not relevant to the operation of the business.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

### 1.2 New and amended standards adopted by the company

#### *(a) New standards, amendments and interpretations*

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2016 that have had a material impact on the Company.

#### *(b) New standards, amendments and interpretations not yet adopted*

The Company generally applies the disclosure exemption under FRS 101 from the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. To provide additional information for the users of the financial statements, the Company has provided the below information regarding IFRS 9 - Financial Instruments which is effective for accounting periods beginning on or after 1 January 2018. The Company intends to adopt IFRS 9 when it becomes effective.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no recycling to the income statement.

IFRS 9 implements an expected credit loss model that replaces the incurred loss impairment model used in IAS 39. Expected credit losses are recorded on a 12-month or lifetime basis generally depending on whether there has been a significant increase in credit risk in the instrument.

IFRS 9 requires the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Classification and measurement of financial liabilities are otherwise unchanged. IFRS 9 relaxes the requirements for hedge effectiveness but does not change the general principles of how an entity accounts for effective hedges.

The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is still underway.

### 1.3 Incorporation and domicile information

The Company is a private limited company and is incorporated and domiciled in the United Kingdom, with branches operating in Dublin, Paris, Madrid, Amsterdam, Antwerp, Frankfurt, Zurich and Milan.

### 1.4 Financial Reporting Standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment;
- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and

- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

### 1.5 Going concern

The directors have a reasonable expectation, based on current and anticipated future performance, that the Company will continue in operational existence for the foreseeable future. The financial statements have, therefore, been prepared on a going concern basis.

### 1.6 Basis of consolidation

The Company has taken advantage of the exemption in Section 401 of the Companies Act 2006 from the obligation to prepare and deliver consolidated financial statements as the Company is a wholly owned subsidiary of BAC, which prepares consolidated financial statements that include the Company. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its group.

### 1.7 Segmental analysis

The Company operates two operational activities, comprising Support Services and Global Banking and Markets business. The Board reviews and analyses performance of the Company based on these activities. Segment performance is not analysed geographically as the Company operates globally under one management structure.

### 1.8 Foreign currencies

The financial statements have been presented in US dollars as this is the functional currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the income statement, other than monetary securities classified as available for sale.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between exchange gains and losses resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Exchange gains and losses related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary assets and liabilities in a foreign currency that are not measured at fair value are not subsequently re-translated for movements in prevailing exchange rates.

Exchange gains and losses on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Exchange gains and losses on non-monetary financial assets measured at fair value classified as available for sale are included in other comprehensive income.

The financial statements of branches whose functional currency is not US dollars are translated to US dollars at the exchange rate prevailing at the reporting date for the statement of financial position and at the exchange rate prevailing at the date of the transaction for the income statement. Translation differences arising on profit and loss for the current year and on opening net assets of these branches are recognised in the statement of other comprehensive income and recorded as a movement in reserves.

### 1.9 Service fee income

Charges made to affiliated companies to remunerate the Company for services provided or to reimburse the Company for expenditure incurred, are recognised on an accruals basis and recorded within other operating income.

### 1.10 Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised on an accruals basis using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate the Company estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

### 1.11 Fees and commissions

Loan facility and arrangement fees are deferred and recognised over the life of the facility.

Loan syndication fees are recognised as revenue when syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Investment banking fees are accrued when services for the transactions are substantially completed.

### 1.12 Dealing profits

Dealing profits include the profits and losses arising on both the purchase and sale of trading instruments and from their revaluation to fair value. Interest and dividend income earned from these investments are also shown within dealing profits.

### 1.13 Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term.

### 1.14 Finance leases

Where assets are leased out under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable less any unguaranteed residual value of the underlying assets is recognised as unearned interest income.

Income from finance leases is recognised using the actuarial method to give a constant periodic rate of return on the investment. Gains and losses arising from early terminations are taken to the income statement as incurred. Finance lease revenue is included within interest income.

Finance leases are included within loans and advances to customers.

### 1.15 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

Current tax, including UK corporation tax and foreign taxes, is provided for at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and is measured at the average tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### 1.16 Retirement benefit schemes

The Company operates defined contribution plans which receive contributions calculated as a percentage of each employee's plan salary based on their length of service. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For the defined benefit schemes, the Company recognises a net asset or liability, being the difference between the present value of the defined benefit obligation at the end of the reporting period and the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

### 1.17 Investments in group undertakings

Investments in subsidiaries are shown at cost less provisions for impairment.

At each reporting date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In the event of impairment, the carrying amount of the asset is reduced accordingly and the amount of the loss is recognised in the income statement.

A subsidiary is defined as an entity that is controlled by another entity. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

### 1.18 Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets where available. Where derivatives are not quoted in an active market, appropriate valuation techniques are used including recent transactions, discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Gains and losses arising from changes in the fair value of derivatives are included in the income statement in the period in which they arise. Those related to trading activities are presented within dealing profits and those related to non-trading activities are presented within operating income or expense respectively.

### 1.19 Financial assets

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables and available for sale. Management determines the classification of financial assets at initial recognition.

#### *(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would otherwise arise if related instruments were treated as held for trading and the underlying financial assets were carried at amortised cost or when doing so is consistent with the Company's risk management strategy.

The Company classifies certain securities and loans as held for trading or designates them as at fair value through profit or loss. All derivatives are categorised as held for trading. All remaining financial assets are classified either as loans and receivables or as available for sale.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

#### *(b) Available for sale financial assets*

Available for sale financial assets are those intended to be held for an undefined period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are non-derivative financial assets which are initially recognised at fair value including direct and incremental transaction costs. Interest calculated using the effective interest method is recognised in the income statement on an accruals basis. Gains or losses arising from changes in the fair value of available for sale financial assets are recognised in a separate component of reserves, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement.

Exchange gains and losses on available for sale financial assets are recognised in accordance with note 1.8.

#### *(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss or available for sale.

Loans and receivables are initially recognised at fair value plus direct and incremental transaction costs and are then carried at amortised cost using the effective interest method less an allowance for any impairment. Interest calculated using the effective interest method is recognised in the income statement.

### 1.20 Securities financing transactions

Securities acquired in reverse sale and repurchase transactions are reported as collateralised financings. The Company measures the fair value of securities purchased against the collateral on a daily basis and additional collateral is obtained or excess is returned to ensure that such transactions are appropriately collateralised. Securities acquired in reverse sale and repurchase transactions are not shown on the statement of financial position. The cash position is recorded as a loan. The difference between the sale price and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

### 1.21 Property, plant and equipment and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

| | |
|---|---|
| Land and buildings | – 5 to 40 years |
| Leasehold improvements | – 3 to 15 years |
| Office equipment | – 2 to 15 years |

Depreciation policies are reviewed on a regular basis and are revised in line with actual useful life compared to original estimates.

### 1.22 Impairment of financial assets held at amortised cost and available for sale assets

The Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at each reporting date. 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.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

In the case of investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a non-equity instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

### 1.23 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured borrowing for the proceeds received.

### 1.24 Financial liabilities

The Company recognises financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Derivative liabilities are categorised as held for trading and measured at fair value through profit or loss. Loan commitments that the entity designates as financial liabilities at fair value through profit or loss are recorded on the statement of financial position at fair value at inception of the agreement. Subsequent movements in fair value are recorded in the income statement within net income from financial instruments designated at fair value. All remaining financial liabilities are carried at amortised cost using the effective interest method.

### 1.25 Offsetting

Where the Company intends to settle (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously, and the Company has the legal right to do so, the balance included within the financial statements is the net balance due to or from the counterparty.

### 1.26 Share based payments

BAC grants equity based payment awards to employees of the Company under various incentive schemes.

As this is a group share based payment arrangement, all awards are treated by the Company as equity settled share based payment plans and are measured based on the fair value of those awards at grant date.

The fair value determined at the grant date is expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. The Company has entered into a chargeback agreement with BAC under which it is committed to pay BAC the market value at grant date as well as subsequent movements in fair value of those awards to BAC at the time of delivery to its employees.

### 1.27 Trade and value dated transactions

In general, funding financial instruments (e.g. loans and deposits) are recognised and derecognised on a value (settlement) date basis and trading instruments (e.g. debt securities, derivatives, etc.) are recognised and derecognised on a trade date basis. Traded loans are recognised and derecognised on a value (settlement) date basis.

### 1.28 Financial guarantees and commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is recognised in the income statement under other operating expenses.

Loan commitments that the Company designates as financial liabilities at fair value through profit or loss are recognised as disclosed in note 1.24.

## 2. Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with FRS 101 requires the use of accounting estimates and assumptions concerning the future. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

### 2.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *(a) Impairment of loans and timing of loss recognition*

The Company's accounting policy for losses in relation to the impairment of loans and advances to customers and banks is described in note 1.22. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience and experience of losses that have been incurred but not yet identified for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. Notes 14 and 15 detail the movement in the impairment provision for the year.

#### *(b) Valuation of financial instruments*

The Company's accounting policy for valuation of financial instruments is included in notes 1.19 and 1.24. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs.

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions. Note 37 further discusses the valuation of financial instruments.

## 3. Segmental Analysis

The segmental analysis of the Company's results and financial position is set out below. The Company operates two principal activities, comprising Support Services and the Global Banking and Markets business.

| | Support Services $m | Global Banking and Markets $m | Total $m |
|---|---|---|---|
| **2016** | | | |
| Net interest income | **-** | **447** | **447** |
| Net fee and commission income | **-** | **205** | **205** |
| Dealing profits | **-** | **162** | **162** |
| Net income from financial instruments designated at fair value | **-** | **109** | **109** |
| Other operating income | **1,219** | **151** | **1,370** |
| Impairment charge for credit losses | **-** | **(55)** | **(55)** |
| **Total operating income** | **1,219** | **1,019** | **2,238** |
| Total expenses | **(1,170)** | **(709)** | **(1,879)** |
| **Profit before tax** | **49** | **310** | **359** |

Impairment charges of $29 million relating to the Company's investment in Merrill Lynch (Camberley) Limited have been included within total expenses within the support services segment.

| | Support Services $m | Global Banking and Markets $m | Total $m |
|---|---|---|---|
| **2015** | | | |
| Net interest income | - | 352 | 352 |
| Net fee and commission income | - | 144 | 144 |
| Dealing profits | - | 174 | 174 |
| Net expense from financial instruments designated at fair value | - | (169) | (169) |
| Other operating income | 1,262 | 160 | 1,422 |
| Impairment charge for credit losses | - | (64) | (64) |
| **Total operating income** | 1,262 | 597 | 1,859 |
| Total expenses | (1,179) | (510) | (1,689) |
| **Profit before tax** | 83 | 87 | 170 |

The Support Services segment does not constitute a significant proportion of the Company's assets and liabilities, being primarily driven by support costs incurred and recharged to affiliated companies. As such a breakdown of net assets by segment is not considered necessary.

## 4. Net Interest Income

| | 2016 $m | 2015 $m |
|---|---|---|
| **Interest income and similar income** | | |
| Money market | **10** | 12 |
| Loans and advances to customers and banks | **559** | 385 |
| Other | **7** | 4 |
| | **576** | 401 |
| **Interest expense and similar charges** | | |
| Money market | **(5)** | (1) |
| Deposits from customers and banks | **(123)** | (48) |
| Other | **(1)** | - |
| | **(129)** | (49) |
| **Net interest income** | **447** | 352 |
| Net interest expense from affiliated companies | **(105)** | (36) |

The company previously operated as a deal arranger for an affiliated entity and received fees accordingly. As the company now acts as both arranger and lender, these fees are considered to be part of the effective interest rate earned on the loans provided to customers and banks.

Interest income from loans and advances to customers and banks in 2015 includes $56 million which has been reclassified from fee and commission income to conform to presentation in the current year.

## 5. Fee and Commission Income

| | 2016 $m | 2015 $m |
|---|---|---|
| Investment banking fees | **105** | 81 |
| Commission and other fees | **107** | 68 |
| | **212** | 149 |

Commission and other fees is comprised primarily of loan fees.

$56 million of commission and other fees in 2015 have been reclassified to interest income to conform to presentation in the current year. Refer to Note 4.

## 6. Other Operating Income

| | 2016 $m | 2015 $m |
|---|---|---|
| Service fee income | **1,331** | 1,379 |
| Other | **39** | 43 |
| | **1,370** | 1,422 |

## 7. Impairment Charge for Credit Losses

| | 2016 $m | 2015 $m |
|---|---|---|
| Loans and advances to banks (see note 14) | **(8)** | (1) |
| Loans and advances to customers (see note 15) | **(47)** | (63) |
| | **(55)** | (64) |

## 8. Profit on Ordinary Activities Before Taxation

The profit on ordinary activities before taxation is stated after charging/(crediting):

| | 2016 $m | 2015 $m |
|---|---|---|
| Operating lease rentals: Land and buildings | **58** | 52 |
| Net occupancy recharges | **(21)** | 17 |
| Staff costs (see note 10) | **1,059** | 1,011 |
| Foreign exchange gains | **(61)** | (18) |
| Service fee income | **(1,331)** | (1,379) |
| Service fee expense | **262** | 248 |
| Impairment in investments in group undertakings (see note 20) | **(29)** | - |

Operating lease agreements that are held by an affiliated entity and recharged to the Company are recorded as occupancy recharges. The contractual commitments arising under those operating lease agreements rest with that affiliated entity. Where the Company holds the contractual commitment and subleases to an affiliated entity, the Company makes an occupancy recharge. For contractual commitments that rest with the Company, see note 34.

## 9. Auditors’ Remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Fees for the audit of the Company | **1,010** | 754 |
| Fees for audit related assurance services | **394** | 43 |
| | **1,404** | 797 |

Included within fees for audit related assurance services are client asset audit fees which amount to $27,000 (2015: $33,000), fees relating to Country by Country Reporting of $12,000 (2015: $10,000) and other audit related assurance service fees of $355,000 (2015: $nil).

## 10. Staff Costs

Staff costs were as follows:

| | 2016<br>$m | 2015<br>$m |
|---|---|---|
| Wages and salaries | **897** | 838 |
| Social security costs | **98** | 107 |
| Cost of defined contribution pension scheme | **64** | 66 |
| | **1,059** | 1,011 |

Included within wages and salaries are charges relating to share based compensation plans, see note 12 for further details.

In accordance with the Capital Requirements Regulation (EU) No 575/2013 ("CRR") the Company's disclosure in respect of remuneration under CRR article 450 (consolidated along with all other BAC entities operating in the UK) will be posted at http://investor.bankofamerica.com in conjunction with the publication of these financial statements.

The average monthly number of employees, including the directors, during the year was as follows:

| | 2016<br>No. | 2015<br>No. |
|---|---|---|
| Support, operations and technology | **6,230** | 5,614 |
| Trading, sales and advisory | **91** | 69 |
| | **6,321** | 5,683 |

## 11. Directors' Remuneration

Of the directors that served during the year, 12 (2015: 10) were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company based on an estimated time allocation basis. Emoluments in relation to services performed for other group companies are not disclosed in the Company's financial statements.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Remuneration paid to directors of the Company comprised:** | | |
| Emoluments | **7,946,569** | 7,147,397 |
| Pension contributions | **71,232** | 48,243 |
| **Remuneration paid to directors includes amounts paid to the highest paid director as follows:** | | |
| Emoluments | **2,774,298** | 2,503,018 |
| Pension contributions | **606** | 18,531 |

These amounts are the portion of emoluments and pension contributions attributable for services to BAMLI, and include payments made by other BAC group companies.

Retirement benefits are accruing to seven directors, including the highest paid director under a predominantly defined contribution pension scheme operated by Bank of America N.A. (see note 30) and are accruing to two directors under a hybrid defined benefit and contribution scheme operated by the Bank of America Merrill Lynch Pension Plan.

In 2016 no directors (2015: nil) exercised options over the $1 ordinary shares of BAC awarded to them during the period of their directorship

Seven directors, received or were due to receive shares under a long term incentive scheme (2015: nine).

The highest paid director did not exercise share options in the current and preceding year. During the current and preceding year the highest paid director received shares under a long-term incentive scheme.

## 12. Share Based Payments

BAC administers a number of equity compensation plans, with awards being granted predominantly from BAC's Key Associate Stock Plan ("KASP"). On May 6, 2015, Bank of America shareholders approved the amendment and restatement of the KASP, and renamed it the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, BAC grants stock-based awards, including stock options, restricted stock and restricted stock units ("RSUs"). In 2016 the RSUs are authorized to settle predominantly in shares of common stock of BAC which generally vest in three equal annual instalments beginning one year from the grant date. Awards granted in prior years were predominantly cash settled.

For most awards, expense is generally recognized proportionately over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, BAC records the expense upon grant. For employees that become retirement eligible during the vesting period, BAC recognizes expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

RSUs may be settled in cash or in shares of common stock depending on the terms of the applicable award. Certain awards contain claw back provisions which permit BAC to cancel all or a portion of the award under specified circumstances.

The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for the period to 31 December 2016 was $85 million (2015: $49 million).

Fair market value was determined using the BAC share price at 31 December 2016 of $22.10 (2015: $16.83).

### Other stock plans

At 31 December 2016, non-qualified stock options remain outstanding under the legacy Merrill Lynch Long-Term Incentive Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan.

### Restricted stock units

A restricted stock unit is deemed equivalent in fair market value to one share of Bank of America common stock. Awards of RSUs may be settled in common stock or cash. Recipients of RSU awards may receive cash payments equivalent to dividends.

The table below presents the status at 31 December 2016 and 2015 of the RSUs and changes during those years.

| | Restricted stock units 2016 | Restricted stock units 2015 |
|---|---|---|
| Outstanding, 1 January | **6,527,316** | 6,273,872 |
| Granted | **5,672,739** | 3,786,575 |
| Exercised | **(4,652,029)** | (4,319,006) |
| Cancelled, forfeited or released from contingencies | **(239,823)** | (190,287) |
| Transferred from affiliated companies | **1,144,712** | 976,162 |
| **Outstanding, 31 December** | **8,452,915** | 6,527,316 |

### Non-Qualified Stock Options

The table below presents the status of all option plans at 31 December 2016 and changes during 2016.

| | Options outstanding | Weighted average exercise price $ | Weighted average share price at date of exercise $ |
|---|---|---|---|
| Outstanding, beginning of 2016 | **243,914** | **49.67** | - |
| Granted | - | - | - |
| Exercised | - | - | - |
| Cancelled, forfeited or released from contingencies | **(95,284)** | **(46.16)** | - |
| Transferred from affiliated companies | **63,695** | **62.19** | - |
| **Outstanding, 31 December 2016** | **212,325** | **55.00** | - |
| Exercisable, 31 December 2016 | **212,325** | **55.00** | - |

All options outstanding as of 31 December 2016 were vested and exercisable with a weighted-average remaining contractual term of 0.61 years (2015: 1.00 years), and have no aggregate intrinsic value.

The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 31 December 2016 and 2015.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number | Weighted average remaining contractual life in years | Number | Weighted average remaining contractual life in years |
| $40.00 – $50.00 | **40,950** | **0.22** | 112,469 | 0.40 |
| $50.00 – $60.00 | **106,631** | **0.06** | 119,455 | 0.49 |
| $60.00 – $70.00 | **64,744** | **0.33** | 11,990 | 0.10 |

## 13. Taxation on Profit on Ordinary Activities

| | 2016 $m | 2015 $m |
|---|---|---|
| **Corporation tax** | | |
| Current tax on profits for the year | **5** | 1 |
| Bank surcharge | **12** | - |
| Double taxation relief | **(5)** | (1) |
| | **12** | - |
| **Foreign tax** | | |
| Foreign tax on income for the year | **12** | 2 |
| **Total current tax** | **24** | 2 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(51)** | (17) |
| Impact of change in UK tax rate | **(9)** | (4) |
| Impact of bank surcharge on deferred tax | **1** | - |
| **Total deferred tax** | **(59)** | (21) |
| **Taxation on profit on ordinary activities** | **(35)** | (19) |

### Factors affecting tax credit for the year

The tax on the Company's profit before tax differs from the amount that would arise using the tax rate applicable as follows:

| | 2016 $m | 2015 $m |
|---|---|---|
| Profit on ordinary activities before tax | **359** | 170 |
| Tax calculated at UK tax rates applicable of 20% (2015: 20.25%) | **72** | 34 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **18** | 8 |
| Impact of foreign taxes | **6** | 3 |
| Adjustments to temporary differences in respect of prior periods | **(42)** | (11) |
| Deferred tax credit recognised on transfer of pension liabilities | **(11)** | (5) |
| Tax losses claimed from affiliates for no payment | **(82)** | (44) |
| Impact of change in UK tax rate | **(9)** | (4) |
| Impact of bank surcharge on deferred tax | **1** | - |
| Impact of bank surcharge on current tax | **12** | - |
| **Total tax credit for the year** | **(35)** | (19) |

### Factors that may affect future tax charges

BAMLI is a banking company as defined by Finance (No 2) Act 2015. As such, from 1 January 2016, it has been subject to an 8% surcharge on it profits. Legislation was introduced in the Finance (No 2) Act 2015 to reduce UK main corporation tax rate to 19% from 1 April 2017. The Finance Act 2016 reduced the UK main corporation tax rate to 17% from 1 April 2020. As a consequence, relevant deferred tax balances were re-measured resulting in a net increase in the deferred tax asset of $9 million. (2015: increase of $4 million).

| | 2016 $m | 2015 $m |
|---|---|---|
| **Deferred tax asset** | | |
| Accelerated capital allowances | **51** | 3 |
| Compensation and social security costs | **16** | 16 |
| Available for sale securities | **(2)** | (1) |
| Temporary differences in relation to the retirement benefit obligation | **13** | 5 |
| **Deferred tax asset** | **78** | 23 |

| | 2016 $m | 2015 $m |
|---|---|---|
| **Movements in deferred tax** | | |
| Deferred tax asset at 1 January | **23** | 2 |
| Asset transferred from an affiliated company | **-** | 5 |
| Tax relating to components of other comprehensive income: Retirement benefit obligations | **(3)** | - |
| Tax relating to components of other comprehensive income: AFS securities | **(1)** | - |
| Deferred tax credit on transfer of pension liabilities | **11** | - |
| Deferred tax credited to the income statement | **40** | 12 |
| Re-measurement of deferred tax - change in UK tax rate | **9** | 4 |
| Impact of bank surcharge on deferred tax | **(1)** | - |
| **Deferred tax asset (see note 23)** | **78** | 23 |

## 14. Loans and Advances to Banks

| | 2016 $m | 2015 $m |
|---|---|---|
| **Analysed by maturity:** | | |
| On demand | **1,204** | 320 |
| Within three months | **3,799** | 3,975 |
| Between three months and one year | **1,543** | 1,597 |
| Between one year and five years | **1,530** | 2,111 |
| More than five years | **-** | - |
| | **8,076** | 8,003 |
| **Impairment for credit losses:** | | |
| At 1 January | **(5)** | (4) |
| Impairment charge for the year (see note 7) | **(8)** | (1) |
| **At 31 December** | **(13)** | (5) |
| **Total loans and advances to banks** | **8,063** | 7,998 |
| **Amounts above include:** | | |
| Due from affiliated companies | **4,376** | 4,216 |

## 15. Loans and Advances to Customers

| | 2016 $m | 2015 $m |
|---|---|---|
| **Analysed by maturity:** | | |
| On demand | **223** | 6 |
| Within three months | **697** | 935 |
| Between three months and one year | **1,135** | 928 |
| Between one year and five years | **17,157** | 13,588 |
| Greater than five years | **1,589** | 2,055 |
| | **20,801** | 17,512 |
| **Impairment for credit losses:** | | |
| At 1 January | **(145)** | (100) |
| Charge off on impaired loans | **4** | 24 |
| Purchased loans | **-** | (5) |
| Disposed loans | **1** | - |
| Impairment charge for the year (see note 7) | **(47)** | (63) |
| Recoveries | **-** | (1) |
| **At 31 December** | **(187)** | (145) |
| **Total loans and advances to customers** | **20,614** | 17,367 |
| **Amounts above include:** | | |
| Due from affiliated entities | **16** | 572 |

Loans and advances to customers includes $107 million (2015: $121 million) of lease and hire purchase receivables. See note 16 for further detail regarding these finance leases.

## 16. Finance Lease Receivables

The Company is involved in the provision of leasing and hire purchase activities. The below table summarises the Company's leasing balances.

| | Total future payments $m | Unearned interest income $m | Present value $m |
|---|---|---|---|
| **December 2016** | | | |
| Not later than one year | **38** | **1** | **43** |
| Between one and five years | **43** | **1** | **47** |
| Later than five years | **17** | **-** | **17** |
| | **98** | **2** | **107** |

| | Total future payments $m | Unearned interest income $m | Present value $m |
|---|---|---|---|
| **December 2015** | | | |
| Not later than one year | 40 | 3 | 42 |
| Between one and five years | 52 | 2 | 61 |
| Later than five years | 18 | - | 18 |
| | 110 | 5 | 121 |

Unguaranteed residual values of assets leased under finance leasing arrangements at the reporting date are estimated at $13 million (2015: $15 million).

## 17. Trading Assets

| | 2016 $m | 2015 $m |
|---|---|---|
| Government debt securities | **3,499** | 2,444 |
| Other debt securities | **155** | 238 |
| Traded loans | **1,315** | 1,352 |
| **Trading assets** | **4,969** | 4,034 |
| | | |
| **Trading assets – debt analysed by maturity** | | |
| On demand | **116** | 333 |
| Within three months | **1,580** | 1,061 |
| Between three months and one year | **2,137** | 1,141 |
| Between one year and five years | **574** | 689 |
| More than five years | **562** | 810 |
| | **4,969** | 4,034 |

## 18. Financial Assets Designated at Fair Value

| | 2016 $m | 2015 $m |
|---|---|---|
| Financial assets designated at fair value | **267** | 533 |

Financial assets designated at fair value comprise secured and unsecured loans to banks: $97 million (2015: $173 million) and secured and unsecured loans to customers $170 million (2015: $360 million).

## 19. Available for Sale Securities

| | 2016 $m | 2015 $m |
|---|---|---|
| **Available for sale securities – Debt** | | |
| At 1 January | **-** | - |
| Additions | **44** | - |
| Redemptions | **(49)** | - |
| Net gains transferred from equity | **-** | - |
| Foreign exchange losses recorded in income statement | **5** | - |
| Gain from changes in fair value | **-** | - |
| | **-** | - |
| **Available for sale securities – Equity** | | |
| At 1 January | **23** | 23 |
| Foreign exchange losses recorded in reserves | **(1)** | (2) |
| Gain/(loss) from changes in fair value | **4** | 2 |
| | **26** | 23 |
| **At 31 December** | **26** | 23 |
| Deferred tax on available for sale securities (see note 13) | **(2)** | (1) |

## 20. Investments in Group Undertakings

| | Investments in subsidiary companies $m | Other investments $m | Total $m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2016 | **209** | **10** | **219** |
| Additions | **16** | **-** | **16** |
| At 31 December 2016 | **225** | **10** | **235** |
| **Impairment** | | | |
| At 1 January 2016 | **-** | **-** | **-** |
| Charge for the period | **29** | **-** | **29** |
| At 31 December 2016 | **29** | **-** | **29** |
| **Net book value** | | | |
| At 31 December 2016 | **196** | **10** | **206** |
| At 31 December 2015 | 209 | 10 | 219 |

On 1 April 2016, BAMLI acquired the entire ordinary share capital of Merrill Lynch Financial Services Limited for a total consideration of $16 million.

Following an impairment review, the Company recorded an impairment on its investment in Merrill Lynch (Camberley) Limited of $29 million.

The other investment relates to BAMLI's investment in Athenee CDO Plc, purchased on 9 May 2014, which consists of a 100% holding of specified series of credit linked notes issued by this entity. BAMLI has no voting rights attached to its holding of these loan notes, however, this entity has been included in BAMLI's investment in group undertakings given that BAMLI has exposure to variable returns from the notes and through its 100% holding has the power to affect these returns.

During 2015, the Company acquired Merrill Lynch (Camberley) Limited from an affiliated company for a consideration of $209 million. In addition, it disposed $25 million of other investments.

## 21. Unconsolidated Structured Entities and Transferred Assets

### Transfers of financial assets

The Company enters into transactions in the normal course of business in which it transfers financial assets to third parties and to Special Purpose Entities ("SPE"). These transactions may result in the financial assets continuing to be recognised or being derecognised. Refer to note 1.20 and 1.23 for the accounting policy that governs recognition and de-recognition of financial assets.

During 2016, the Company derecognised in full a portfolio of traded loans transferred to an SPE. The Company has ongoing exposure to the SPE by virtue of a loan made as part of the transaction. The carrying amount and fair value of this continuing involvement as at 31 December 2016 was $17 million (2015: $nil). The maximum exposure to loss for this transaction is equal to the carrying value of the loan on the Company's statement of financial position, and the total size of the SPE transaction was $35 million. Income for the year associated with this transaction was immaterial.

### Interest in unconsolidated structured entities

The Company's interest in an unconsolidated structured entity is considered as the contractual and non-contractual involvement that exposes the Company to variability of returns from the performance of the structured entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

BAMLI's exposure within its loans and advances portfolio with respect to unconsolidated SPE's totalled $5,143 million (2015: $3,910 million) with a maximum exposure to loss of $6,485 million (2015: $4,980 million). This includes activity where the Company uses structured entities to securitise commercial real estate loans and advances as a source of finance and a means of risk transfer. The loans and advances are transferred by BAMLI to the structured entities for cash, and the structured entities issue debt securities to investors. As part of this activity, the Company retains a portion of the original loan, which represents an ongoing exposure of the Company to unconsolidated SPE's.

The Company also has third party SPE exposures relating to its trading asset portfolio totalling $47 million (2015: $54 million). The returns on these assets are fully mitigated by the Company by means of a total return swap with an affiliated company. As a result, there is no exposure to loss arising from these assets (2015: $nil).

The Company considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity; and further where the Company transfers assets to the structured entity; markets products associated with the structured entity in its own name; provides operational support to ensure the SPE's continue operation and/or provides guarantees regarding the structured entity's performance.

SPE's for which the Company has control are listed in notes 20 and 43. The Company typically has either an interest or control over sponsored SPE's, and instances where it has neither are rare.

During the year the Company has not provided any non-contractual financial or other support to unconsolidated structured entities.

## 22. Property, Plant and Equipment

| | Freehold property $m | Leasehold improvements $m | Office equipment $m | Total $m |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2016 | **82** | **109** | **429** | **620** |
| Additions | **10** | **28** | **24** | **62** |
| Transfers from affiliated companies | **-** | **18** | **9** | **27** |
| Disposals | **-** | **(6)** | **(22)** | **(28)** |
| Exchange adjustments | **-** | **(1)** | **-** | **(1)** |
| At 31 December 2016 | **92** | **148** | **440** | **680** |
| **Depreciation** | | | | |
| At 1 January 2016 | **60** | **82** | **304** | **446** |
| Depreciation charge | **2** | **11** | **51** | **64** |
| Transfers from affiliated companies | **-** | **15** | **7** | **22** |
| Disposals | **-** | **(6)** | **(22)** | **(28)** |
| At 31 December 2016 | **62** | **102** | **340** | **504** |
| **Net book value** | | | | |
| At 31 December 2016 | **30** | **46** | **100** | **176** |
| At 31 December 2015 | 22 | 27 | 125 | 174 |

## 23. Other Assets

| | 2016 $m | 2015 $m |
|---|---|---|
| Amounts due from affiliated companies | **424** | 253 |
| Deferred tax (see note 13) | **78** | 23 |
| Other | **172** | 41 |
| | **674** | 317 |

## 24. Prepayments and Accrued Income

| | 2016 $m | 2015 $m |
|---|---|---|
| Accrued income | **62** | 44 |
| Prepayments | **24** | 54 |
| | **86** | 98 |

## 25. Deposits by Banks

| | 2016 $m | 2015 $m |
|---|---|---|
| **Analysed by maturity:** | | |
| On demand | **634** | 58 |
| Within three months | **642** | 22 |
| Between three months and one year | **6,177** | 18,608 |
| Between one year and five years | **12,742** | 1,632 |
| After five years | **-** | - |
| | **20,195** | 20,320 |
| **Amounts above include:** | | |
| Due to affiliated companies | **20,172** | 20,320 |

## 26. Deposits by Customers

| | 2016 $m | 2015 $m |
|---|---|---|
| **Analysed by maturity:** | | |
| On demand | **7,180** | 3,861 |
| Within three months | **77** | - |
| Between three months and one year | **185** | 1,111 |
| Between one year and five years | **512** | 431 |
| After five years | **37** | - |
| | **7,991** | 5,403 |
| **Amounts above include:** | | |
| Due to affiliated companies | **948** | 1,596 |

## 27. Other Liabilities

| | 2016 $m | 2015 $m |
|---|---|---|
| Amounts owed to affiliated companies | **543** | 270 |
| Other | **177** | 48 |
| | **720** | 318 |

## 28. Accruals and Deferred Income

| | 2016 $m | 2015 $m |
|---|---|---|
| Accrued interest payable | **16** | 13 |
| Other accruals | **191** | 196 |
| | **207** | 209 |

## 29. Subordinated Liabilities

| | 2016 $m | 2015 $m |
|---|---|---|
| US Dollar denominated loan notes maturing in 2027 and bearing interest at 3 month USD LIBOR plus 176 basis points | **1,000** | - |
| | **1,000** | - |

During the year, the Company issued $1bn subordinated debt to an affiliated company.

The subordinated debt liability is contractually repayable at any time at the Company's option.

## 30. Retirement benefit schemes

### Defined contribution schemes

All BAMLI UK employees, with the exception of certain directors (see note 11), participate in the Bank of America Merrill Lynch UK Pension Plan Money Purchase Section (formally the ML UK Pension Plan) ("the Plan"). The Plan is a defined contribution scheme operated by Merrill Lynch International ("MLI"). BAMLI became a participating employer of the Plan from 1 April 2014.

In addition to the UK plan, BAMLI participates in several smaller defined contribution schemes across its European branches (three in Italy, one in Netherlands and one in Spain).

The costs of defined contribution pension schemes are a percentage of each employee's plan salary based on the length of service and are charged to the income statement in the period in which they fall due.

The pension cost for the year was $64 million (2015: $66 million), in respect of defined contribution plans.

### Defined benefit schemes

As a result of BAMLI establishing further branches the Company participates in acquired defined benefit liabilities relating to former BAC group branches and legal entities. The plans consist of both funded and unfunded benefits.

The principal defined benefit obligations of the BAMLI European branches are held in Switzerland in a funded cash balance plan. BAMLI Zurich participates in the plan alongside other BAC group entities.

There are further defined benefit obligations in Frankfurt, Amsterdam and Milan, predominantly relating to post retirement pension benefits for transferring employees.

The Zurich Plan is a stand-alone pension foundation providing cash balance benefits in accordance with mandatory Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge/Loi Fédérale sur la Prévoyance Professionnelle Vieillesse, Survivants et Invalidité ("LPP/BVG") requirements. The retirement benefits are provided either as a lump sum at retirement, or as an annuity, and there are associated benefits on death or disability. The Foundation is governed by a Board, who are legally responsible for all aspects of the operation of the foundation including overseeing the investments and the distribution of the benefits. There is equal representation of Board members with half appointed by the employer and half elected by the membership. The participating employers in the Foundation consist of BAMLI and other Swiss subsidiaries of the Bank of America Group and BAMLI is the principal employer in Switzerland. The Employer contributions are generally made in accordance with the benefit formula. Total defined benefit employer contributions made in 2016 were $0.3m and expected total 2017 contributions are $1.1m. In respect of future funding:

- All employers – Employer share of the retirement credits: equal to the total credits less the member contributions as specified in the Plan rules.

- All employers – 3.0% of total risk insured salaries for risk, administration and other costs: 2.15% of total insured salaries for risk benefits in respect of the Foundation's risk insurance premium and an additional allowance for the administration and other costs of running the Pension Plan.

The 'Other' plans consist of a funded defined benefit pension arrangement in The Netherlands administered via an insurance contract held by the Company, unfunded Pension Plans and Deferred Compensation Plans in Germany, and unfunded Termination Indemnity ("TFR") benefits in Italy. Employer contributions in the Netherlands plan are equal to the ongoing insurance premiums and in the unfunded plans, are equal to the benefits due, which the employer pays directly. Total defined benefit employer contributions in respect of the 'Other' Plans made in 2016 were $1.0m and expected total 2017 contributions are $1.1m.

| | Zurich $m | Other $m | Total $m |
|---|---|---|---|
| Fair value of scheme assets | 75 | 3 | 78 |
| Present value of defined benefit obligations | (98) | (32) | (130) |
| **Net pension liability on the statement of financial position** | (23) | (29) | (52) |
| **Net pension expense in 2016** | | | |
| Current service cost | 1 | 1 | 2 |
| Interest expense / (income) | - | 1 | 1 |
| **Total pension expense** | 1 | 2 | 3 |

| | Present value of the obligation $m | Of which Zurich | Fair value of plan assets $m | Of which Zurich | Total $m |
|---|---|---|---|---|---|
| At 1 January 2016 | (19) | - | 1 | - | (18) |
| Transferred in | (125) | (112) | 79 | 77 | (46) |
| Current Service Cost | (2) | (1) | - | - | (2) |
| Interest (expense)/income | (1) | - | - | - | (1) |
| **Pension expense recognised in income statement** | (3) | (1) | - | - | (3) |
| Return on plan assets, excluding amounts included in interest expense/(income) | - | - | - | - | - |
| Gain from change in experience assumptions | 8 | 8 | - | - | 8 |
| Gain from change in financial assumptions | 4 | 4 | - | - | 4 |
| **Total amounts recognised in other comprehensive income** | 12 | 12 | - | - | 12 |
| Exchange differences | 3 | 2 | (1) | (1) | 2 |
| | 3 | - | (1) | - | 2 |
| **Contributions** | | | | | |
| Employer | - | - | 1 | - | 1 |
| Plan participants | - | - | - | - | - |
| | - | - | 1 | - | 1 |
| **Payments from plan** | | | | | |
| Benefit payments | 2 | 1 | (2) | (1) | - |
| | 2 | - | (2) | - | - |
| **As at 31 December 2016** | (130) | (98) | 78 | 75 | (52) |

The movement in the defined benefit (liability)/asset over the prior year is as follows:

| | Present value of the obligation $m | Fair value of plan assets $m | Total $m |
|---|---|---|---|
| At 1 January 2015 | (19) | - | (19) |
| Transferred in | - | - | - |
| Current Service cost | - | - | - |
| Interest expense/(income) | - | - | - |
| **Pension expense recognised in income statement** | - | - | - |
| **Remeasurements in OCI:** | | | |
| Return on plan assets, excluding amounts included in interest expense/(income) | - | - | - |
| Gain from change in experience assumptions | - | - | - |
| Gain from change in financial assumptions | (2) | - | (2) |
| **Total amounts recognised in OCI** | (2) | - | (2) |
| Exchange differences | 2 | - | 2 |
| | 2 | - | 2 |
| **Contributions** | | | |
| Employer | - | 1 | 1 |
| | - | 1 | 1 |
| **Payments from plan** | | | |
| Benefit payments | - | - | - |
| **As at 31 December 2015** | (19) | 1 | (18) |

These comparative figures relate solely to the defined benefit liabilities of ML Management GmbH, which was merged into BAMLI during the year. Please see note 39.

The principal actuarial assumptions with respect to the Zurich plan were as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | **0.50%** | 0.25% |
| Salary growth rate | **2.00%** | 2.25% |
| Interest rate | **2.25%** | 2.50% |
| CPI inflation | **1.00%** | 1.25% |
| Social security | **1.50%** | 1.50% |

| | 2016 | 2015 |
|---|---|---|
| Life expectancy for males aged 65 | **22.4** | 22.4 |
| Life expectancy for females aged 65 | **24.4** | 24.4 |
| Life expectancy at 65 for male currently aged 50 | **23.9** | 23.9 |
| Life expectancy at 65 for female currently aged 50 | **25.9** | 25.9 |

The mortality assumptions are based on actuarial advice in accordance with published statistics and past experience and allow for expected future improvements in mortality rates.

The Swiss plan assets are invested in the following asset classes:

| | Total<br>$m | Quoted<br>market price<br>$m | Un-quoted<br>market price<br>$m |
|---|---|---|---|
| Equities | 22 | 22.0 | - |
| Debt | 34 | 34.0 | - |
| Real estate | 12 | 12.0 | - |
| Other | 7 | 7.0 | - |
| **Total plan assets** | 75 | 75.0 | - |

The plans expose the Company to a number of risks, the most significant of which are:

### Changes in bond yields

Corporate bond yields of a term and currency similar to the liabilities are used as a basis for setting the discount rate for each plan. A decrease in Swiss or euro-zone corporate bond yields will increase the value placed on the plans' liabilities for accounting purposes, which may not be offset by increases in assets in funded plans.

### Inflation risk

A proportion of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.

### Life expectancy

The majority of the plans' liabilities are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

### Asset volatility

The liabilities are calculated using a discount rate set with reference to bond yields; if assets underperform this yield, this will create a loss. The funded plan in Zurich holds a proportion of return seeking assets which, though expected to outperform bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long term objectives.

### Sensitivities

A movement of 1% of the principal actuarial assumptions would not materially alter the defined benefit obligation, nor the current service cost of the scheme.

The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

### Deferred Tax

A deferred tax asset of $13 million is recognised with respect to the defined benefit obligations (2015 $5 million). Please see note 13.

The Plan duration is an indicator of the weighted-average time until benefit payments are made. The combined Plans have a duration of 18.1 years.

## 31. Financial Instruments by Category

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by statement of financial position heading:

| | Designated at fair value $m | Held for trading $m | Loans and receivables $m | Available for sale $m | Other financial liabilities $m | Total $m |
|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | |
| Market and client receivables | - | - | 133 | - | - | 133 |
| Cash held at central banks | - | - | 1,210 | - | - | 1,210 |
| Loans and advances to banks | - | - | 8,063 | - | - | 8,063 |
| Loans and advances to customers | - | - | 20,614 | - | - | 20,614 |
| Reverse repurchase agreements | - | - | 2,200 | - | - | 2,200 |
| Trading assets | - | 4,969 | - | - | - | 4,969 |
| Derivative financial instruments | - | 5 | - | - | - | 5 |
| Financial assets designated at fair value | 267 | - | - | - | - | 267 |
| Available for sale securities | - | - | - | 26 | - | 26 |
| **Financial Assets** | 267 | 4,974 | 32,220 | 26 | - | 37,487 |
| | | | | | | |
| Market and client payables | - | - | - | - | 10 | 10 |
| Deposits by banks | - | - | - | - | 20,195 | 20,195 |
| Deposits by customers | - | - | - | - | 7,991 | 7,991 |
| Derivative financial instruments | - | 120 | - | - | - | 120 |
| Financial liabilities designated at fair value | 40 | - | - | - | - | 40 |
| Subordinated liabilities | - | - | - | - | 1,000 | 1,000 |
| **Financial Liabilities** | 40 | 120 | - | - | 29,196 | 29,355 |

| | Designated at fair value $000 | Held for trading $000 | Loans and receivables $000 | Available for sale $000 | Other financial liabilities $000 | Total $000 |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| Market and client receivables | - | - | 8 | - | - | 8 |
| Cash held at central banks | - | - | 15 | - | - | 15 |
| Loans and advances to banks | - | - | 7,998 | - | - | 7,998 |
| Loans and advances to customers | - | - | 17,367 | - | - | 17,367 |
| Reverse repurchase agreements | | | 2,550 | | | 2,550 |
| Trading assets | - | 4,034 | - | - | - | 4,034 |
| Derivative financial instruments | - | 242 | - | - | - | 242 |
| Financial assets designated at fair value | 533 | - | - | - | - | 533 |
| Available for sale securities | - | - | - | 23 | - | 23 |
| **Financial Assets** | 533 | 4,276 | 27,938 | 23 | - | 32,770 |
| | | | | | | |
| Market and client payables | - | - | - | - | 111 | 111 |
| Deposits by banks | - | - | - | - | 20,320 | 20,320 |
| Deposits by customers | - | - | - | - | 5,403 | 5,403 |
| Derivative financial instruments | - | 163 | - | - | - | 163 |
| Financial liabilities designated at fair value | 147 | - | - | - | - | 147 |
| **Financial Liabilities** | 147 | 163 | - | - | 25,834 | 26,144 |

All financial instruments are at fair value, except for loans and advances to banks, loans and advances to customers and certain financial liabilities for which carrying amounts are considered to approximate fair value.

## 32. Called Up Share Capital

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Shares classified as equity** | | |
| **Allotted, called up and fully paid** | | |
| 889,551,451 Ordinary shares of $1 each | **889,551,451** | 889,551,451 |
| 310 Preference shares of $1 each | **310** | 310 |
| | **889,551,761** | 889,551,761 |

The holder of the preference shares is entitled to a non-cumulative fixed dividend of $246 per 1.55 preference shares per day, payable quarterly. The preference shareholder has the right to any dividends arising on the preference shares until the date of redemption of the preference shares.

The preference shares entitle the preference shareholder to attend general meetings of the Company, however, the preference shareholder has no voting rights except on the winding up of the Company or in the event that any dividend on the preference shares has remained unpaid for a period exceeding two years from the date such a dividend was due and payable. On a return of assets in the event of the winding up of the Company, the holder of the preference shares shall rank first in priority, and shall be entitled to (i) a sum equal to any unpaid accruals of fixed dividends up to the date of the return of capital and (ii) the nominal amount and the remainder of the premium paid up on each preference share.

Subject to the Articles of Association, the Company may redeem the preference shares in whole or in part.

## 33. Reserves

### Available for sale reserve

The available for sale reserves comprise the gains and losses arising from changes in the fair value of available for sale securities.

### Merger reserve

The merger of subsidiaries into BAMLI has been accounted for using the predecessor method of accounting based on the legal terms of the transaction. As a result merger reserves have been created for the merger of Merrill Lynch France SAS and Merrill Lynch Capital Markets (France) SAS which occurred during 2015 and the merger of Merrill Lynch Management GmbH which occurred during the current year. See note 39 for further detail.

### Foreign exchange reserve

The foreign exchange reserve consists of translation differences arising on the profit and loss for the current year and on opening reserves on branches whose functional currency is not US dollars.

### Profit and loss reserve

The difference between equity-settled share scheme awards costs as calculated in accordance with IFRS 2 Share Based Payments and the amounts recharged for such awards by the intermediate parent undertaking is included within profit and loss reserves.

### Capital contribution reserve

The immediate parent made a capital contribution to the Company in 2013 of $4,600 million.

On 23 May 2016, the immediate parent made a further capital contribution to the Company of $1,000 million.

## 34. Operating Lease Commitments

The below table represents the amounts payable under non-cancellable operating leases.

| | Land and buildings 2016 $m | Land and buildings 2015 $m |
|---|---|---|
| Due within one year | **54** | 58 |
| Due between one and five years | **203** | 229 |
| Due beyond five years | **39** | 88 |
| | **296** | 375 |

The Company is not subject to any contingent rent, nor has any restrictions as a result of these operating lease commitments. Terms are renewable at market rates at the end of the lease term.

## 35. Other Financial Commitments

The below table represents the amounts payable under other financial commitments.

| | 2016 $m | 2015 $m |
|---|---|---|
| Undrawn commitments | **27,111** | 26,031 |
| Purchase commitments | **108** | 253 |
| Financial guarantees | **753** | 418 |
| | **27,972** | 26,702 |

## 36. Risk Management

### Legal entity risk governance

The BAMLI Board ensures suitable risk management and controls through the BAMLI Board Risk Committee (“BAMLI BRC”) and the BAMLI Audit Committee of the BAMLI Board of directors and the BAMLI Risk Management Committee (“BAMLI RMC”). The BAMLI BRC assists the Board in fulfilling its oversight responsibility relating to senior management’s responsibilities regarding the identification of, management of, and planning for Market Risk, Credit Risk, Liquidity Risk, Operational Risk and Reputational Risk.

The BAMLI RMC reports to the BAMLI BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the BAMLI BRC, the BAMLI Board or other committees, as appropriate) Market Risk, Credit Risk, Operational Risk and Balance Sheet, Capital, Liquidity Management and stress testing activities.

The BAMLI Audit Committee assists the BAMLI Board in fulfilling its oversight responsibilities relating to BAMLI’s internal financial controls; the preparation and integrity of BAMLI’s financial statements; BAMLI’s relationship with its External Auditor; and the performance and independence of BAMLI’s Internal Audit and Compliance functions.

The BAMLI Governance Committee (the “Governance Committee”) assists the BAMLI Board in fulfilling its oversight of compliance with remuneration policies and regulatory requirements and nominates for the Board’s approval candidates to fill Board vacancies. The Governance Committee acts as the nomination committee and the remuneration committee of the BAMLI Board.

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries (including BAMLI). The Risk Framework applies to all the employees. It provides an understanding of BAMLI's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of BAMLI's risk management approach:

- Culture of Managing Risk Well;
- Risk Appetite and Risk Limits;
- Risk Management Processes;
- Risk Data Management, Aggregation and Reporting; and
- Risk Governance

The seven key types of risk faced by BAC Businesses as defined in the Risk Framework are market, credit, operational, liquidity, reputational, strategic and compliance risks.

Set out below is a summary of the Company's approach to each of the risk types.

### Market risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities or otherwise negatively impact earnings.

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

Value at risk ("VaR") is a common statistic used to measure market risk as it allows the aggregation of market risk factors, including the effects of portfolio diversification. VaR represents the loss a portfolio is not statistically expected to exceed more than a certain number of times per period, based on a specified holding period, confidence level and window of historical data.

BAMLI uses one VaR model consistently across its trading portfolios and it uses a historical simulation approach based on a three-year window of historical data. The primary VaR statistic is equivalent to a 99 percent confidence level. This means that for a VaR with a one day holding period, there should not be losses in excess of VaR, on average, 99 out of 100 trading days.

A VaR model is an effective tool in estimating ranges of potential gains and losses on the Company's trading portfolios. There are, however, limitations inherent in a VaR model as it utilizes historical results over a defined time period to estimate future performance. Historical results may not always be indicative of future results and changes in market conditions and the composition of the underlying portfolio could have a material impact on the accuracy of the VaR model. To ensure that the VaR model reflects current market conditions, the historical data underlying the Company's VaR model is updated on a weekly basis, and the assumptions underlying the model are regularly reviewed.

The table that follows presents the Company's average and year-end VaR for 2016 and 2015. Additionally, high and low VaR is presented independently for each risk category and overall.

| | Year end 2016 \$000 | High 2016 \$000 | Average 2016 \$000 | Low 2016 \$000 |
|---|---|---|---|---|
| **99% Daily VAR** | | | | |
| Credit spread risk | 5,689 | 6,946 | 4,563 | 3,152 |
| Currency risk | 603 | 1,428 | 871 | 35 |
| Interest rate risk | 386 | 537 | 340 | 52 |

| | Year end 2015 $000 | High 2015 $000 | Average 2015 $000 | Low 2015 $000 |
|---|---|---|---|---|
| **99% Daily VAR** | | | | |
| Credit spread risk | 5,405 | 5,584 | 3,389 | 2,733 |
| Currency risk | 962 | 1,995 | 373 | 157 |
| Interest rate risk | 259 | 431 | 244 | 139 |

In addition to VaR measures, the market risk department utilises a range of other risk measures including sensitivity analysis and stress testing to monitor exposures, and manages them using a robust set of limits.

## Credit risk

Credit risk is created when the Company commits to, or enters into, an agreement with a borrower or counterparty. The Company defines credit risk as the loss arising from the inability or failure of a borrower or counterparty to meet its obligations. The Company defines credit exposure to a borrower or counterparty as the loss potential arising from loans, leases, derivatives and other extensions of credit.

The Company manages credit risk to a borrower or counterparty based on its 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
- Portfolio management
- Loss mitigation activities

These processes create a comprehensive and consolidated view of company-wide credit risks, thus providing executive management with the information required to guide or redirect front line units.

The primary credit risks of the Company relate to its commercial lending activities. The Company has limited derivative exposure.

### *Commercial Lending*

The Company's commercial lending activities consist primarily of corporate and institutional lending, in addition to certain asset backed and secured lending. Depending on market conditions, the Company may seek to mitigate or reduce loan exposure through third party syndications, securitisations, secondary loan sales or the purchase of single name and basket credit default swaps.

The Company typically provides drawn and committed but undrawn corporate and institutional lending facilities to clients for general corporate purposes, backup liquidity lines, bridge financings, and acquisition related activities. While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, the Company generally expects repayment through other sources including cash flow and/or recapitalisation. Asset backed and other secured finance facilities are typically secured by assets such as commercial mortgages, residential mortgages, auto loans, leases, consumer loans and other receivables. Credit assessment for these facilities relies primarily on the amount, asset type, quality, and liquidity of the supporting collateral, as the performance of the collateral and/or associated cash flows are the expected source of repayment.

Impaired loans are measured based on the present value of payments expected to be received, observable market prices or, for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral.

### *Derivatives Trading*

The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master agreements or their equivalent ("master netting agreements") with derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

In addition, to reduce the risk of loss, the Company usually requires collateral that is permitted by documentation such as repurchase agreements or Credit Support Annex to an ISDA. From an economic standpoint, the Company evaluates risk exposures net of related collateral that meets specified standards. The Company also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable it to terminate or reset the terms of the derivative contracts under certain defined conditions.

The following table analyses the carrying amount and maximum credit exposure of the Company's financial assets by external credit rating or internal equivalent thereof. Where there is no rating, the balances are classified as not rated. Although the table reflects the Company's gross exposure, the Company manages its credit exposures on a net basis.

| | AAA to AA $m | A to BBB $m | BB and lower $m | Not Rated $m | Total $m |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Market and client receivables | - | 133 | - | - | 133 |
| Cash held at central banks | 1,182 | 22 | 6 | - | 1,210 |
| Loans and advances to banks | - | 6,812 | 1,214 | 37 | 8,063 |
| Loans and advances to customers | 17 | 13,227 | 7,370 | - | 20,614 |
| Reverse repurchase agreements | - | 2,200 | - | - | 2,200 |
| Trading assets | 3,503 | 7 | 114 | 1,345 | 4,969 |
| Derivative financial instruments | - | 5 | - | - | 5 |
| Financial assets designated at fair value | - | 78 | 167 | 22 | 267 |
| Available for sale securities | - | - | - | 26 | 26 |
| **Total financial assets** | 4,702 | 22,484 | 8,871 | 1,430 | 37,487 |
| Guarantees and commitments | 883 | 21,242 | 5,366 | 481 | 27,972 |
| **Maximum credit exposure** | 5,585 | 43,726 | 14,237 | 1,911 | 65,459 |

| | AAA to AA $m | A to BBB $m | BB and lower $m | Not Rated $m | Total $m |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Market and client receivables | - | 8 | - | - | 8 |
| Cash held at central banks | 15 | - | - | - | 15 |
| Loans and advances to banks | 322 | 7,527 | 149 | - | 7,998 |
| Loans and advances to customers | 292 | 9,456 | 7,529 | 90 | 17,367 |
| Reverse repurchase agreements | - | 2,550 | - | - | 2,550 |
| Trading assets | 2,435 | 192 | 73 | 1,334 | 4,034 |
| Derivative financial instruments | - | 242 | - | - | 242 |
| Financial assets designated at fair value | - | - | 533 | - | 533 |
| Available for sale securities | - | - | - | 23 | 23 |
| **Total financial assets** | 3,064 | 19,975 | 8,284 | 1,447 | 32,770 |
| Guarantees and commitments | - | 20,069 | 4,368 | 2,265 | 26,702 |
| **Maximum credit exposure** | 3,064 | 40,044 | 12,652 | 3,712 | 59,472 |

There were $7 million third party credit exposures that were past due but not impaired at 31 December 2016 (2015: $7 million). Of these exposures, $6 million (2015: $5 million) were between 30 and 90 days past due and $1 million (2014: $2 million) was over 90 days past due.

The Company holds limited collateral or other credit enhancements to cover its credit risk associated with its financial assets. The following table reflects by asset class of financial instrument the amount that best represents the Company's maximum exposure to credit risk and a quantification of the extent to which collateral and other credit enhancements mitigate credit risk as viewed by management.

| | 2016 Exposure $m | 2016 Mitigation $m | 2015 Exposure $m | 2015 Mitigation $m |
|---|---|---|---|---|
| Market and client receivables | **133** | **133** | 8 | 8 |
| Cash held at central banks | **1,210** | **-** | 15 | - |
| Loans and advances to banks | **8,063** | **-** | 7,998 | - |
| Loans and advances to customers | **20,614** | **104** | 17,367 | 367 |
| Reverse repurchase agreements | **2,200** | **2,200** | 2,550 | 2,550 |
| Trading assets | **4,969** | **71** | 4,034 | 90 |
| Derivative financial instruments | **5** | **-** | 242 | 238 |
| Financial assets designated at fair value | **267** | **58** | 533 | 293 |
| Other assets | **588** | **-** | 312 | - |
| Prepayments and accrued income | **86** | **-** | 98 | - |
| | **38,135** | **2,566** | 33,157 | 3,546 |
| Guarantees and commitments | **27,972** | **621** | 26,702 | 1,447 |
| | **66,107** | **3,187** | 59,859 | 4,993 |

For all asset classes, where credit risk mitigation exceeds the maximum exposure to credit risk, the credit risk mitigation balance is limited to 100% of the maximum exposure to credit risk.

### Operational risk

BAC has adopted the Basel Committee definition of operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk may occur anywhere in the Company, including third party business processes, and is not limited to operations functions. Effects may extend beyond financial losses and may result in reputational risk impacts. An operational loss event can be associated with any of the following seven operational loss event categories as outlined by the Basel Committee for Banking Supervision: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures; and execution, delivery and process management.

Since operational risk is inherent in every activity across the Company, the Company relies on all employees to conduct themselves properly, contribute to an effective internal control environment and manage operational risk within their roles. The Company manages operational risk by designing and implementing internal controls to identify, measure, monitor and control risks.

Operational risk must be managed by all employees as part of their day-to-day activities. Business and Control Functions are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. The independent risk management teams actively oversee the businesses and control functions to monitor adherence to the operational risk management program and to advise and challenge operational risk exposures.

### Liquidity risk

Liquidity risk is the potential inability to meet expected or unexpected cash flow and collateral needs while continuing to support businesses and customers under a range of economic conditions.

The BAMLI Board is ultimately responsible for BAMLI's liquidity risk management, delegating additional oversight to the BAMLI BRC and BAMLI RMC. The Businesses are the first lines of defence in liquidity risk management, partnering with Global Liquidity Management ("GLM") and Global Funding, functions within Corporate Treasury, to achieve liquidity risk management objectives. GLM and Global Funding are responsible for carrying out the day-to-day monitoring and management of BAMLI liquidity risk and resources, providing timely information to the BAMLI RMC, BAMLI BRC, and BAMLI Board.

CFO Risk serve as the second line of defence, providing independent risk management, and Internal Audit serves as the third line of defence. Compliance, another second line of defence, provides independent monitoring and testing of compliance with laws, regulations, and internal company standards that impact liquidity risk management.

The approach to managing BAMLI's liquidity risk has been established by the BAMLI Board, aligned to BAC processes, but tailored to meet BAMLI's business mix, strategy, activity profile, risk appetite, and regulatory requirements. Key components include:

- The BAMLI Liquidity Risk Policy, which is approved annually by the BAMLI Board and formally articulates the principles for managing liquidity risk within BAMLI, 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 BAMLI Board, requiring BAMLI 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 to ensure ongoing compliance with internal and regulatory requirements.
- The BAMLI Contingency Funding Plan, which details senior management's strategy to address potential liquidity shortfalls during periods of stress.

BAMLI is subject to the following PRA liquidity requirements:

- LCR: requires BAMLI to hold a sufficient buffer of eligible High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first month of a liquidity stress event. BAMLI is required to comply with a minimum 90% LCR Pillar 1, rising to 100% by 1 January 2018.
- Voluntary variation of Permission ("VVOP") requires BAMLI to hold the following eligible liquidity resources and an amount equal to BAMLI's 90-day operating expenses:
  - Excess Liquidity
  - Unencumbered trading assets (post haircuts)

As legislated by the European Commission's Capital Requirement Regulations and Capital Requirements Directive ("CRR/CRD IV"), BAMLI is expected to comply with the Net Stable Funding Ratio ("NSFR") requiring BAMLI to maintain sufficient levels of stable funding to support the liquidity profile of its assets. The NSFR remains subject to further consultation in Europe following the publication by the European Commission 23 November 2016 of an extensive package of proposed legislative amendments to the EU prudential framework. The aim of the package is to implement a number of important globally agreed standards, including NSFR. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms two years after the date of entry into force of the proposed Regulation.

As of December 2016, BAMLI was in excess of both internal and regulatory liquidity requirements.

***Undiscounted cash flows – financial liabilities***

| | On demand $m | <3 mths $m | >3 mths <1 yr $m | >1 yr <5 yrs $m | >5 yrs $m | Total $m |
|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | |
| **Non-Trading Financial Liabilities** | | | | | | |
| Market and client payables | 10 | - | - | - | - | 10 |
| Deposits by banks | 634 | 642 | 6,177 | 12,742 | - | 20,195 |
| Deposits by customers | 7,180 | 77 | 185 | 512 | 37 | 7,991 |
| Financial liabilities designated at fair value | 40 | - | - | - | - | 40 |
| Subordinated liabilities | - | - | 29 | 141 | 1,227 | 1,397 |
| | 7,864 | 719 | 6,391 | 13,395 | 1,264 | 29,633 |
| Guarantees and commitments | 27,864 | - | 22 | 27 | 59 | 27,972 |
| **Trading liabilities** | | | | | | |
| Derivative financial instruments | 120 | - | - | - | - | 120 |

| | On demand $m | <3 mths $m | >3 mths <1 yr $m | >1 yr <5 yrs $m | >5 yrs $m | Total $m |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| **Non-Trading Financial Liabilities** | | | | | | |
| Market and client payables | 111 | - | - | - | - | 111 |
| Deposits by banks | 58 | 22 | 18,608 | 1,632 | - | 20,320 |
| Deposits by customers | 3,861 | - | 1,111 | 431 | - | 5,403 |
| Financial liabilities designated at fair value | 147 | - | - | - | - | 147 |
| | 4,177 | 22 | 19,719 | 2,063 | - | 25,981 |
| Guarantees and commitments | 26,450 | - | 6 | 104 | 142 | 26,702 |
| **Trading liabilities** | | | | | | |
| Derivative financial instruments | 163 | - | - | - | - | 163 |

The Company has recorded all derivative financial instrument liabilities in the "on demand" category to reflect the common market practice of terminating such liabilities at fair value upon a client's request, although the Company is generally not contractually obliged to do so. The Company has provided the present value rather than contractual undiscounted cash flows for these instruments. The Company considers it unlikely that, in any given period, all of the liabilities will unwind in the short term. The Company manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows. Guarantees and commitments and financial liabilities designated at fair value are undiscounted and are shown on the basis of the earliest date they can be called. All other figures are undiscounted and show contractual maturities.

### Reputational risk

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.

BAC manages reputational risk through established policies and controls in the business and risk management processes to mitigate reputational risks in a timely manner and through proactive monitoring and identification of potential reputational risk events.

Ultimately, to ensure that reputational risk is mitigated through regular business activity, awareness of reputational risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees.

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

At the enterprise level, reputational risk is reviewed by the Enterprise Risk Committee and the Management Risk Committee, which provide primary oversight of reputational risk. Additionally, top reputational risks are reviewed by the Global Risk Management Leadership team and the BAC Board.

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee, whose charter includes consideration of reputational risk issues and to provide guidance and approvals for activities that represent specific reputational risks which have been referred for discussion by other current control frameworks or lines of business.

Reputational risk items relating to BAMLI are considered as part of the EMEA Reputational Risk Committee. The EMEA Reputational Risk Committee provides updates to the BAMLI BRC on a quarterly basis.

Items requiring increased attention may be escalated from the EMEA Reputational Risk Committee to the EMEA Regional Risk Committee and/or the Global Reputational Risk Committee as appropriate. The EMEA Reputational Risk Committee and BAMLI BRC are informed of such matters.

### Strategic risk

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, ambiguous), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments, in the geographic locations in which BAMLI operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

Strategic risk is managed through the following approaches: (1) The strategic planning process specifically addresses many forms of strategic risk. The BAC boards of directors review and approve the strategic plans after considering strategic risks in addition to other types of risk. (2) The strategic plans are consistent with risk appetite and specifically address strategic risks. (3) The executive management team continuously monitors business performance throughout the year to assess strategic risk and find early warning signals so that risks can be proactively managed.

BAC's 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 BAC board as required. Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and BAMLI level.

At the business unit, regional and BAMLI level, the strategic planning processes are consistent with each other and their output is incorporated as part of BAC planning process. The BAMLI strategy is reviewed and signed-off by BAMLI Board on an annual basis. Strategic decisions relating to BAMLI are presented and discussed at BAMLI Board Risk Committee ("BRC") and Board. Routines exist to discuss the Strategic Risk implications of new business and product entries and other strategic initiatives, and to provide approvals where appropriate. Independent risk management, Corporate Audit and other control functions provide input, challenge and oversight to front line unit and regional level strategic plans and initiatives.

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 and performance relative to peers. Topical presentations are made to address any developments or considerations as it relates to strategic planning.

Focused regional performance updates are provided to executive leadership and the BAC board on a periodic basis. BAMLI performance updates are provided to the BAMLI board.

### Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Company arising from the failure of the Company to comply with requirements of applicable laws, rules and regulations.

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

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

The Global Compliance Executive leads the Global Compliance organisation, which together with the front line units, also has responsibility for the aggregated identification, management and escalation of compliance risks and compliance related matters across BAMLI, including financial crimes compliance risks.

Compliance risk issues are reported to the BAMLI Audit Committee.

### Security and collateral

At 31 December 2016 the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was $2,437 million (2015: $2,708 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was $110 million (2015: $107 million). The collateral obtained is composed of cash and government and agency securities. The Company is obliged to return cash or equivalent securities as appropriate.

Security has been given by the Company by way of specific and general charges in respect of certain contractual commitments. The collateral pledged is in the form of cash. At 31 December 2016 the Company had delivered cash collateral of $4 million (2015: $2 million) against contractual commitments under derivative liability positions.

### Basel III Pillar 3 disclosures

The Pillar 3 disclosures, required under part eight of CRR, can be obtained via http://investor.bankofamerica.com. The disclosure will be published in conjunction with the publication of these financial statements.

### Country by country reporting

The Company makes Country by Country reporting disclosures as required under CRD IV – these disclosures can be obtained via http://investor.bankofamerica.com.

### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its parent and benefits for other stakeholders, to maintain an optimal capital structure and to meet relevant regulatory requirements.

The Company's regulatory capital consists of Tier 1 capital, which primarily includes share capital, share premium, capital contribution reserve and audited retained earnings and Tier 2 capital which consists of subordinated debt payable ($1 billion). At 31 December 2016, the Company's total regulatory capital was $9,260 million (2015: $6,825 million). The Company had a surplus of capital resources over the minimum regulatory financial resources requirement.

## 37. Fair Value Disclosures

Financial instruments carried at fair value have been categorised into levels based on the observability of pricing information.

Financial instruments are considered Level 1 when valuations are based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

### Trading account assets and liabilities, financial assets designated at fair value and available for sale ("AFS") securities

The fair values of trading account assets and liabilities and financial assets designated at fair value are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. The fair values of AFS securities are generally based on quoted market prices or market prices for similar assets and liabilities. Liquidity is a significant factor in the determination of the fair values of trading account assets and liabilities and AFS securities. In less liquid markets, market price quotes may not be readily available. Some of these instruments are valued using a net asset value approach, which considers the value of the underlying assets and liabilities. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial statements and changes in credit ratings made by one or more rating agencies.

### Derivative assets and liabilities

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate. Derivative liabilities considered Level 3 relate to total return swaps and credit default swaps for which fair value has been determined consistently with reference to the related hedged assets.

### Fair value measurement as at 31 December 2016

| | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | **3,499** | **707** | **763** | **4,969** |
| Derivative financial instruments | **-** | **5** | **-** | **5** |
| Financial assets designated at fair value | **-** | **259** | **8** | **267** |
| Available for sale securities | **-** | **-** | **26** | **26** |
| **Total assets** | **3,499** | **971** | **797** | **5,267** |
| **Liabilities** | | | | |
| Derivative financial instruments | **-** | **120** | **-** | **120** |
| Financial liabilities designated at fair value | **-** | **40** | **-** | **40** |
| **Total liabilities** | **-** | **160** | **-** | **160** |

### Fair value measurement as at 31 December 2015

| | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading Assets | 2,444 | 656 | 934 | 4,034 |
| Derivative financial instruments | - | 242 | - | 242 |
| Financial assets designated at fair value | - | 432 | 101 | 533 |
| Available for sale securities | - | - | 23 | 23 |
| **Total Assets** | 2,444 | 1,330 | 1,058 | 4,832 |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 163 | - | 163 |
| Financial liabilities designated at fair value | - | 147 | - | 147 |
| **Total liabilities** | - | 310 | - | 310 |

There have been no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2016 and 2015.

### Fair Values of Level 3 Assets and Liabilities

The Level 3 financial instruments include corporate loans, bonds, derivatives and unlisted equity investments.

By definition, Level 3 inputs relate to mark-to-model financial instruments having unobservable model inputs that have an overall significant impact on the financial instrument fair value. This is true whether the financial instrument is considered a cash security, securitized product or structured derivative. Classification on Level 3 is a result of failure to be classified on either Levels 1 or 2. It is important to note some key points regarding the use of Level 3 inputs for the purposes of estimating fair value:

- Unobservable inputs can only be used in the absence of reliable observable market data.
- If unobservable inputs are used, they must reflect the assumptions market participants would use when pricing the asset or liability, including assumptions about risk. If the Company's own data is used to develop unobservable inputs, this should be adjusted if reasonably available information suggests other market participants would use different data.
- Assumptions about risk include the risk or uncertainty inherent in a particular valuation model used to estimate fair value, as well as the inputs used by the valuation model. A fair value estimate produced from a valuation model must be adjusted for these risks if a market participant would do so in their pricing of an asset or liability. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and are significant to the overall fair value measurement are classified as Level 3 in the fair value hierarchy.

The table below presents a reconciliation of all Level 3 financial instruments measured at fair value. Level 3 assets were $797 million as of 31 December 2016 (2015: $1,058 million) and represented approximately 15 percent of assets measured at fair value (2015: 22 percent) and approximately 2 percent of total assets (2015: 3 percent). Level 3 liabilities were $nil as of 31 December 2016 (2015: $nil).

| | Trading assets $m | Available for sale securities $m | Financial assets designated at fair value $m | Total $m |
|---|---|---|---|---|
| Balance at 1 January 2016 | 934 | 23 | 101 | 1,058 |
| **Gains or Losses:** | | | | |
| Included in earnings – realised | 32 | - | - | 32 |
| Included in earnings – unrealised | (22) | - | 1 | (21) |
| Included in statement of other comprehensive income | - | 3 | - | 3 |
| Purchases | 188 | 43 | 10 | 241 |
| Sales | (245) | - | (6) | (251) |
| Issuances | - | - | - | - |
| Settlements | (101) | (49) | - | (150) |
| Transfer into Level 3 | 196 | 6 | 5 | 207 |
| Transfer out of Level 3 | (219) | - | (103) | (322) |
| **Balance at 31 December 2016** | 763 | 26 | 8 | 797 |

The transfers into Level 3 from Level 2 during the year were due to lack of observable market pricing data subsequent to purchase. The transfers out of Level 3 to Level 2 during the year were due to increased availability of observable pricing data on underlying positions.

| | Trading assets $m | Available for sale securities $m | Derivative financial instruments liabilities $m | Financial assets designated at fair value $m | Total $m |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | 595 | 23 | (1) | - | 617 |
| **Gains or Losses:** | | | | | |
| Included in earnings - realised | 13 | - | - | - | 13 |
| Included in earnings - unrealised | (72) | - | (1) | (3) | (76) |
| Included in statement of other comprehensive income | - | - | - | - | - |
| Purchases | 672 | - | - | 3 | 675 |
| Sales | (360) | - | - | - | (360) |
| Issuances | - | - | - | - | - |
| Settlements | (90) | - | 2 | (2) | (90) |
| Transfer into Level 3 | 290 | - | - | 106 | 396 |
| Transfer out of Level 3 | (114) | - | - | (3) | (117) |
| **Balance at 31 December 2015** | 934 | 23 | - | 101 | 1,058 |

The table below provides information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory.

***Quantitative Information about Level 3 Fair Value Measurements at December 31, 2016***

| Inputs $m | | | | |
|---|---|---|---|---|
| **Financial instrument value technique** | **Fair valuation** | **Significant unobservable inputs** | **Ranges of inputs** | **Weighted average** |
| **Loans** | | | | |
| **Instruments backed by residential real estate assets**<br>Trading account assets – Mortgage trading loans and ABS<br>Loans and leases | Discounted cash flow, Market comparables | Yield<br>Prepayment speed<br>Default rate<br>Loss severity | 0% to 50%<br>0% to 27% CPR<br>0% to 3% CDR<br>0% to 54% | 7%<br>14%<br>2%<br>18% |
| **Instruments backed by commercial real estate assets**<br>Trading account assets – Corporate securities, trading loans and other Trading account assets – Mortgage trading loans and ABS | Discounted cash flow, Market comparables | Yield<br>Price | 0% to 39%<br>$0 to $100 | 11%<br>$65 |
| **Commercial loans, debt securities and other including assets designated at fair value**<br>Trading account assets – Corporate securities, trading loans and other<br>Trading account assets – Non-U.S. sovereign debt<br>Trading account assets – Mortgage trading loans and ABS<br>AFS debt securities – Other taxable securities<br>Loans and leases including financial assets designated at fair value | Discounted cash flow, Market comparables | Yield<br>Prepayment speed<br>Default rate<br>Loss severity<br>Price<br>Duration<br>Enterprise value/EBITDA multiple | 1% to 37%<br>5% to 20%<br>3% to 4%<br>0% to 50%<br>$0 to $292<br>0 to 5 years<br>34x | 14%<br>19%<br>4%<br>19%<br>$68<br>3 years<br>n/a |

*Constant Prepayment Rate*
*CDR = Constant Default Rate*
*EBITDA = Earnings before interest, taxes, depreciation and amortisation*

### Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the balance sheet date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at 31 December 2016, they could have increased fair value by as much as $54 million (2015: $22 million) or decreased fair value by as much as $18 million (2015: $52 million).

This disclosure is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable inputs and is not predictive or indicative of future movements in fair value. Furthermore, it is unlikely in practice that all unobservable parameters would be simultaneously at the extremes of their ranges of reasonable possible alternatives. Hence, the estimates disclosed above are likely to be greater than the true uncertainty in fair value at the balance sheet date.

### Financial assets and liabilities carried at amortised cost

The below summarises the fair value of the company's financial assets and liabilities which are carried at amortised cost.

Reverse repurchase agreements and repurchase agreements are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value, given the short-term nature of these instruments.

Loans and advances to banks and customers are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value of $28,596 million.

The fair value of subordinated liabilities and other long term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities and other long term funding are classified as level 2 and are valued at $976 million.

All other debtors and creditors in the statement of financial position are classified as level 2. The carrying amounts are a reasonable approximation of their fair value, due to the short term nature of these instruments.

## 38. Offsetting

The following table analyses the offsetting of the Company's financial assets and liabilities as presented in the statement of financial position:

| | Effects of offsetting on the Statement of financial position | | | Related amounts not offset in Statement of financial position | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets / liabilities | Gross amounts offset in the SOFP | Net amount of recognised financial assets / liabilities presented on the SOFP | Financial instruments $m | Cash collateral $m | Net amount $m |
| **31 December 2016** | | | | | | |
| **Assets** | | | | | | |
| Derivative financial instruments | 5 | - | 5 | (5) | - | - |
| **Liabilities** | | | | | | |
| Derivative financial instruments | (120) | - | (120) | 5 | 109 | (6) |

| | Effects of offsetting on the Statement of financial position | | | Related amounts not offset in Statement of financial position | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets / liabilities | Gross amounts offset in the SOFP | Net amount of recognised financial assets / liabilities presented on the SOFP | Financial instruments $m | Cash collateral $m | Net amount $m |
| **31 December 2015** | | | | | | |
| **Assets** | | | | | | |
| Derivative financial instruments | 242 | - | 242 | (162) | (77) | 3 |
| **Liabilities** | | | | | | |
| Derivative financial instruments | (163) | - | (163) | 162 | - | (1) |

### Financial instruments

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/ receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Company does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

### Cash collateral received

The Company has received financial instruments as collateral against a number of its borrowings.

## 39. Business Combinations

Since 2015 BAMLI has consolidated banking and financing activity in the region from existing regional BAC group branches and legal entities. Activity consolidation in to the Company requires compliance under both local and US regulations. As a result, depending on the legal hierarchy within the group, consolidations have taken two legal forms; Asset sale, being the primary form and business combinations (primarily for certain legacy entities).

In 2016, the Company had a single business combination in Germany; Merrill Lynch Capital Markets GmbH ("MLM"). On 1 March 2016, 25,599 shares in MLM were contributed to the Company by BANA. Additionally, MLM reregistered as a partnership on this date. On 1 April 2016 BANA contributed its remaining 1 share in MLM to the Company and as a legal consequence of this contribution, the assets and liabilities of the partnership were absorbed into BAMLI by way of universal succession.

As a business combination between entities under common control, the transaction is outside of the scope of IFRS 3 – Business Combinations. The Company's policy for accounting for such transactions is to apply predecessor accounting where the legal terms of the transaction support this accounting, in effect presenting the results and balances of MLM as if they had always been part of the Company. Comparative financial information has been restated accordingly.

The impact of MLM for the current and prior year is as follows:

| | 2016 $m | 2015 $m |
|---|---|---|
| Revenues | **1** | 3 |
| Net profit | **-** | 1 |

The impact on the 2015 Statement of Financial Position was to increase net assets by $2 million. This included $18 million defined benefit pension scheme liabilities and $16 million loans and advances to banks.

The migration of other assets to the Company's Frankfurt, Milan, Amsterdam, Antwerp and Zurich branches have not been accounted for as business combinations and as such have not resulted in any restatement of the Company's results. The main impact of these migrations has been to increase cash held at central banks, and third party loans and advances to customers and deposits by customers.

## 40. Related Party Transactions

As detailed in note 1.4, the Company has elected to take advantage of the exemption available under FRS 101 for the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Management consider key management personnel to be represented by the board of directors of the Company. Details of the remuneration of the directors are included in note 11.

## 41. Controlling Party

The Company's immediate parent company is Bank of America, N.A. and the ultimate parent company and controlling party is BAC, which is organised and existing under the laws of the State of Delaware in the United States of America.

The parent company of the largest and smallest group that includes the Company and for which group financial statements are prepared is BAC. Copies of BAC's financial statements can be obtained from either of the following website locations: http://investor.bankofamerica.com or www.sec.gov/.

## 42. Subsequent Events

On 1 March 2017 BAMLI Madrid acquired investment banking activity from an affiliated entity. Revenues generated by this transaction are expected to be in excess of $20 million per annum as a result. There was minimal impact on the statement of financial position.

## 43. Subsidiary Undertakings

The following table provides information on the Company's subsidiary undertakings:

| Name | Country of incorporation | Class of shares | Holding | Principal activity |
|---|---|---|---|---|
| Alie Street Investments 12 Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Alie Street Investments 16 Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Alie Street Investments 24 Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Alie Street Investments 6 Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Alie Street Investments 8 Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Alie Street Investments Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Fugu Credit Limited | United Kingdom | Ordinary | 100% | Asset backed financing |
| Merrill Lynch (Camberley) Limited | United Kingdom | Ordinary | 100% | Owner of data centre |
| Merrill Lynch Financial Services Limited | Republic of Ireland | Ordinary | 100% | Funding company |
| **Other investments** | | | | |
| Athenee CDO Plc | Republic of Ireland | Notes | 100% | Issuer of credit linked notes |

All of the above entities are registered at 2 King Edward Street, London, EC1A 1HQ, United Kingdom, with the exception of Merrill Lynch Financial Services Limited, which is registered at Central Park, Leopardstown, Dublin 18, Ireland and Athenee CDO Plc which is registered at 25 Eden Quay, Dublin 1, Ireland.

Bank of America Merrill Lynch

## Disclaimer



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