Merrill Lynch Kingdom of Saudi Arabia Company

Pillar 3 Disclosure

As at 31 December 2016

Merrill Lynch

Contents

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List of Abbreviations

BAC	Bank of America Corporation
CCR	Counterpart Credit Risk
CFP	Contingency Funding Plan
COR	Corporate Operational Risk
CMA	Capital Market Authority
EMEA	Europe, Middle East, Africa
FICR	Financial Institution Credit Risk
Fitch	Fitch Ratings, Inc.
GLM	Global Liquidity Management
ICAAP	Internal Capital Adequacy Assessment Process
IPO	Initial Public Offering
MENA	Middle East, North Africa
MLKSA	Merrill Lynch Kingdom of Saudi Arabia
Moody’s	Moody’s Investors Service, Inc.
RCSA	Risk and Control Self-Assessment
RRC	Reputational Risk Committee
S&P	Standard & Poor’s
SAMA	Saudi Arabian Monetary Agency
SAR	Saudi Riyals
USD	United States Dollars

1. Introduction

1.1. Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2016 in respect of capital and risk management for Merrill Lynch Kingdom of Saudi Arabia Company ("MLKSA"), a Saudi Arabian Closed Joint Stock Company.

The Basel II framework was implemented by the Capital Market Authority ("CMA") through its Prudential Rules in 2013. The Prudential Rules consist of three Pillars. Pillar 1 is defined as "Minimum Capital Requirements", Pillar 2 "Assessment of All Risks" and Pillar 3 "Disclosure and Reporting". The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

The document provides detail on the capital resources available to MLKSA ("Capital Resources") and the regulatory defined Pillar 1 minimum capital requirements for MLKSA ("Minimum Capital Requirements"), and demonstrates that MLKSA has Capital Resources in excess of these requirements and robust risk management and controls.

1.1.1. Merrill Lynch Kingdom of Saudi Arabia Company

MLKSA is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010245128 issued in Riyadh on Safar 29, 1429H (corresponding to March 7, 2008), the Capital Market Authority ("CMA") license No. 07066-37 dated 26 Jumadah Al-Awwal 1428H (corresponding to June 12, 2007). The Company received its full CMA operating license in January 2011.

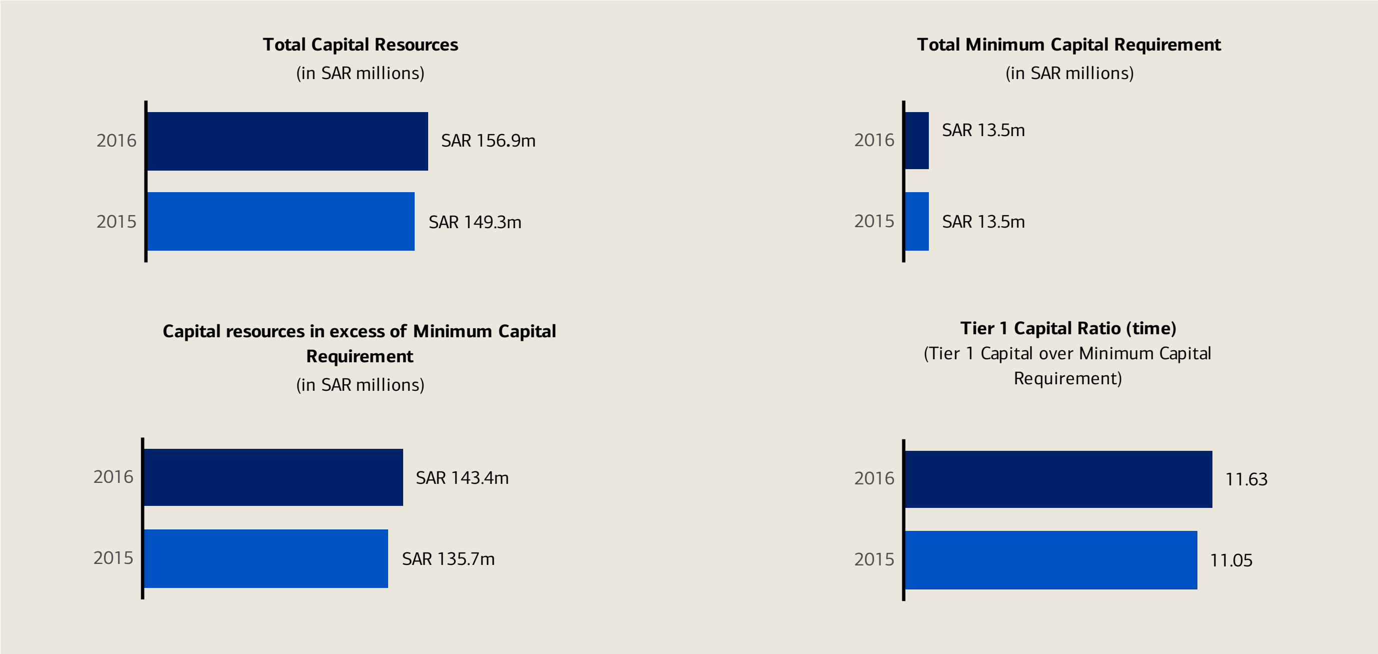
MLKSA is Bank of America Corporation's ("BAC" or "the Company") Saudi Arabian broker-dealer. MLKSA is a wholly-owned indirect subsidiary of BAC. MLKSA has its office in Riyadh, in Saudi Arabia, and plays a key role within the wider BAC group, providing access to the Saudi Arabian market for Global Banking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

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

1.1.2. MLKSA's Capital Position as at 31 December 2016

MLKSA has Capital Resources of SAR 156.9 million made up exclusively of Tier 1 Capital. MLKSA has a Tier 1 Capital Ratio (time) of 11.63 (defined by the CMA as Tier 1 Capital over Total Minimum Capital Requirement) and a surplus over Total Minimum Capital Requirements of SAR 143.4 million. Figure 1 illustrates MLKSA's key capital metrics.

Figure 1. Summary of Key Metrics as at 31st December 2016



1.2. Basis of Preparation

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

The document has been prepared purely to comply with Pillar 3 disclosure rules, for the purpose of explaining the basis on which MLKSA has prepared and disclosed certain information about the management of risks and regulatory capital adequacy concepts and rules, and for no other purpose. It therefore does not constitute any form of financial statement on MLKSA or of the wider enterprise, nor does it constitute any form of contemporary or forward looking record or opinion on the BAC group. Although Pillar 3 disclosures are intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other banks.

These disclosures are published on both MLKSA and BAC corporate websites:
http://investor.bankofamerica.com
www.ml-ksa.com

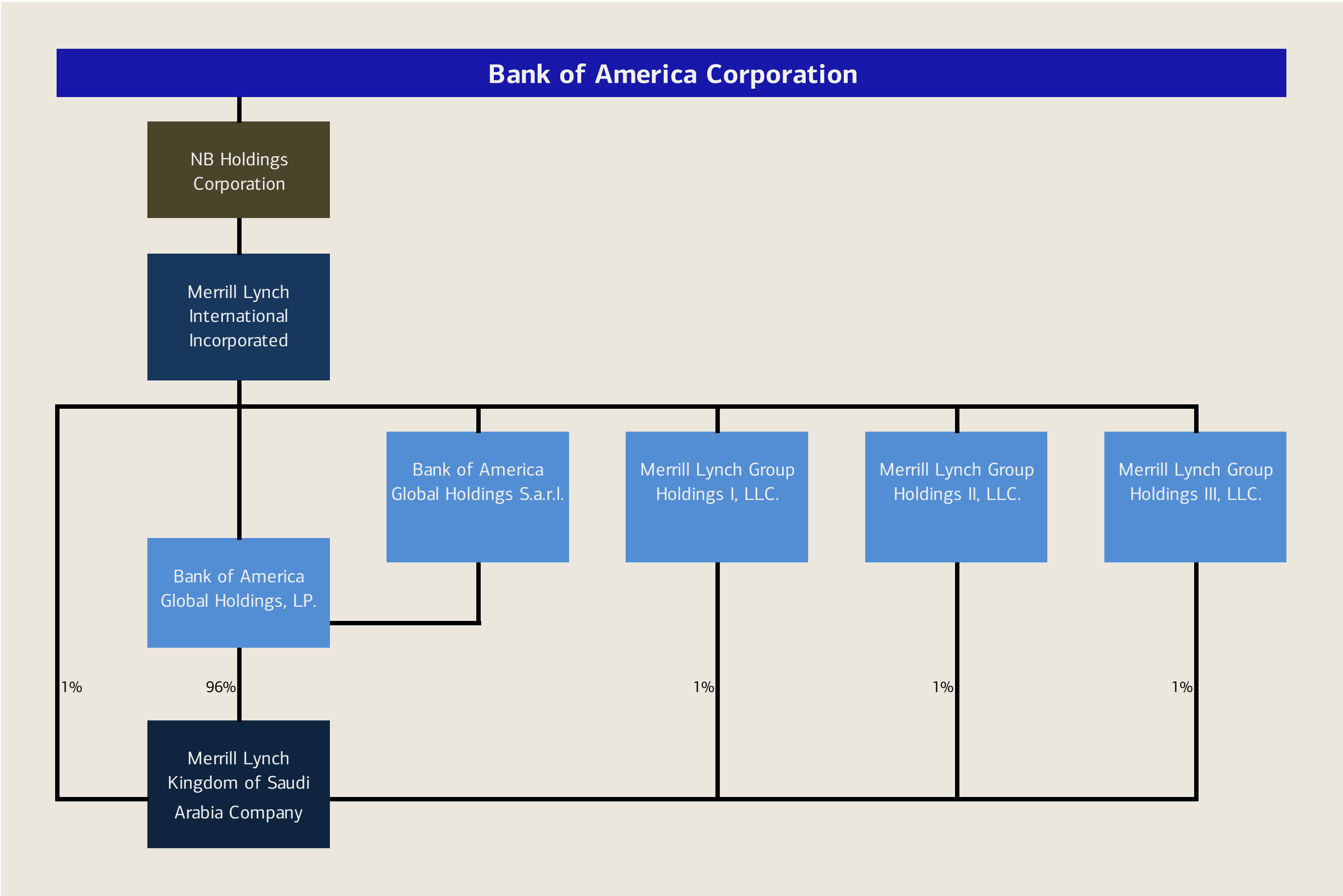
1.3. Operation, Structure and Organisation

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

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

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

Figure 2. Organisation Chart



2. Capital Resources and Minimum Capital Requirements

2.1. Capital Resources

2.1.1. Summary of Capital Resources in 2016

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

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

Table 1. Capital Resources

(SAR in Thousands)	2016	2015
Fully Paid Up Ordinary Share Capital	143,000	143,000
Statutory Reserve	4,505	3,733
Profit and Loss Account and Other Reserves	11,573	4,618
Total Tier 1 Capital Before Deductions	159,078	151,351
Deferred tax assets	-2,208	-2,101
Tier 1 Capital	156,871	149,250
Tier 2 Capital	0	0
Total Capital Resources (net of deductions)	156,871	149,250

2.1.2. Key Movements in 2016

MLKSA's Tier 1 Capital base increased from SAR 149.3 million in 2015 to SAR 156.9 million in 2016 as a result of the addition of 2016 audited post-tax profits.

MLKSA's Tier 1 Capital ratio (time), as defined by the CMA, increased from 11.05 to 11.63 as a result of increased Tier 1 Capital Resources in 2016.

2.1.3. Transferability of Capital within the Group

MLKSA's Capital Resources are satisfied by sourcing capital either directly from BAC or from other affiliates.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

2.2. Minimum Capital Requirements

2.2.1. Summary

MLKSA must ensure that its capital resources remain above the CMA's Pillar 1 minimum capital requirements at all times. MLKSA's capital resources must be greater than its Total Minimum Capital Requirements, allowing for a capital surplus to cover any additional requirements, for example, Pillar 2.

MLKSA's Total Minimum Capital Requirement principally comprises of credit risk in non-trading books, operational risk and market risk requirements. MLKSA does not have risks in the trading book nor any commodity risk.

MLKSA has a Total Minimum Capital Requirement of SAR 13.5 million, this included a credit risk requirement of SAR 6.0 million, an operational risk requirement of SAR 7.1 million, and market risk requirement of SAR 0.4 million.

Table 2 details the Minimum Capital Requirements for MLKSA by type of risk. MLKSA's Capital Resources are significantly in excess of the Pillar 1 Minimum Capital Requirements.

Table 2. Minimum Capital Requirements

(SAR in Thousands)	2016	2015
Total Capital Resources	**156,871**	**149,250**
Market Risk	380	253
Credit Risk	6,039	6,203
Operational Risk	7,070	7,052
Total Minimum Capital Requirements	**13,489**	**13,508**
Surplus over Requirements	**143,382**	**135,742**

2.2.2. Key Movements in 2016

MLKSA's Total Minimum Capital Requirements have remained flat at SAR 13.5 million. The increase in market risk capital requirement was derived from an increase in USD foreign exchange ("FX") risk. The increase in operational risk resulted from a higher expense base in 2016. These were both offset by a reduction in credit risk capital requirement which resulted from a decrease in off balance sheet exposures.

2.2.3. Minimum Capital Requirements Approach

MLKSA has adopted the approach specified by the CMA in their Prudential Rules for calculating credit and market risk capital requirements and expenditure based approach for calculating the operational risk capital requirement. MLKSA uses external ratings based on a combination of Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings, Inc. ("Fitch"), and adheres to the Prudential Rules set out by the CMA.

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

2.3.1. Capital Resources vs. Total Minimum Capital Requirements

MLKSA had SAR 143.4 million of Capital Resources in excess of Total Minimum Capital Requirements as at 31 December 2016. The Capital Surplus over Total Minimum Requirements increased from SAR 135.7 million in 2015. The increase in the Capital Surplus is driven by the addition of 2016 audited post-tax profits to Capital Resources.

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

2.3.2. Tier 1 Capital Ratio (time)

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

MLKSA's Tier 1 Capital Ratio (time) has increased from 11.05 to 11.63 over the year due to an increase in Tier 1 Capital Resources. MLKSA's Tier 1 Capital Ratio (time) is in excess of the CMA ratio requirement of 1.00.

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

(SAR in Thousands)	2016	2015
Total Capital Resources	156,871	149,250
Total Minimum Capital Requirements	13,489	13,508
Surplus over Requirements	143,382	135,742
Tier 1 Capital Resources	156,871	149,250
Tier 1 Capital Ratio (time)	11.63	11.05

3. Risk Management, Objectives and Policy

3.1. BAC Risk Framework

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. BAC adopted the 2017 Risk Framework in December 2016. The key enhancements from the 2016 Risk Framework include the incorporation of the responsible growth strategy and updates to various definitions, and organisation and governance structures.

MLKSA is integrated into and adheres to the global management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements.

The following section lays out the risk management approach and key risk types for MLKSA.

3.2. Enterprise Risk Management Approach

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

The Risk Framework provides an understanding of MLKSA's approach to risk management and each employee's responsibilities for managing risk. The following are the five components of MLKSA's risk management approach:

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

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

3.3. Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC's core values and operating principles. It requires MLKSA to focus on risk in all activities and encourages the necessary mind-set and behaviour to enable effective risk management and promote sound risk-taking within BAC's risk appetite. Sustaining a culture of managing risk well throughout the organization is critical to the success of MLKSA and is a clear expectation of MLKSA's Board of Directors and its management team.

The following principles form the foundation of BAC's culture of managing risk well, and apply to MLKSA as follows:

- Managing risk well protects MLKSA and its reputation and enables MLKSA to deliver on its purpose and strategy.
- MLKSA treats customers fairly and acts with integrity to support the long-term interests of its employees, customers and shareholders. Improper conduct, behaviour or practices by the entity, its employees or representatives could harm MLKSA, shareholders or customers, or damage the integrity of the financial markets.
- Individual accountability and an ownership mind-set are the cornerstones of BAC's Code of Conduct. All MLKSA employees are subject to the principles defined in the BAC Risk Framework and BAC Code of Conduct.
- All MLKSA employees are responsible for proactively managing risk as part of their day-to-day activities through prompt identification, escalation and debate of risks.
- While MLKSA employs models and methods to assess risk and better inform MLKSA's decisions, proactive debate and a thorough challenge process lead to the best outcomes.
- MLKSA's lines of business and other front line units are first and foremost responsible for managing all aspects of their businesses, including all types of risk.
- The MLKSA Country Risk Manager, part of Independent Risk Management, provides independent oversight and effective challenge, while Corporate Audit provides independent assessment and validation.
- MLKSA strives to be best-in-class by continually working to improve risk management practices and capabilities.

3.4. Risk Appetite and Risk Limits

The BAC Risk Appetite Statement, together with the BAC Risk Framework, provides MLKSA with the basis to establish and execute risk taking activities in a manner consistent with the aggregate risk appetite. The Risk Appetite Statement refers to, and should be read in conjunction with, the Risk Framework. BAC's Risk Appetite Statement clearly defines the amount of capital, earnings or liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring), to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements.

The BAC Risk Appetite Statement is rooted in several principles:

- **Overall risk capacity:** BAC's overall capacity to take risk is limited; therefore, it prioritize the risks it take. BAC's risk capacity informs BAC's risk appetite, which is the level and types of risk BAC is willing to take to achieve its business objectives.
- **Financial strength to absorb adverse outcomes:** BAC must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of organic growth opportunities. Therefore, BAC set objectives and targets for capital and liquidity that permit BAC to continue to operate in a safe and sound manner at all times, including during periods of stress.
- **Risk-reward evaluation:** Risks taken must fit BAC's risk appetite and offer acceptable risk-adjusted returns for shareholders.
- **Acceptable risks:** BAC consider all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statement describes BAC's approach to managing such risks in a manner consistent with its culture. For example, actions considered in a line of business that unduly threaten BAC's reputation should be escalated and restricted appropriately.

- **Skills and capabilities:** BAC seek to assume only those risks we have the skills and capabilities to identify, measure, monitor and control.

The BAC Risk Appetite Statement covers the following seven key risk types: Credit, Operational, Market, Liquidity, Strategic, Reputational and Compliance Risks.

Under the ICAAP, MLKSA collectively defines the aggregate level and types of risks that MLKSA is willing to accept in order to achieve its business objectives. MLKSA activities and culture are consistent with aggregate Risk Appetite at the BAC level.

3.5. Risk Management Processes

BAC's Risk Framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and day-to-day business processes. MLKSA follows the same approach and ensures risks are appropriately considered, evaluated and responded to in a timely manner.

MLKSA approach to Risk Management Processes:

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

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

3.6. Risk Data Management, Aggregation and Reporting

Effective risk data management, aggregation and reporting are critical to provide a clear understanding of current and emerging risks and enable MLKSA to proactively and effectively manage risk.

Risk Data Management, Aggregation and Reporting Principles:

- Comprehensive, accurate, reliable and timely data.
- Clear and uniform language to articulate risks consistently across MLKSA.
- Robust risk quantification methods.
- Timely, accurate and comprehensive view of all material risks, including appropriate levels of disaggregation.

3.7. Risk Governance

BAC adheres to a risk governance framework that is designed by independent risk management and approved by the BAC Board of Directors. The MLKSA Board of Directors is responsible for oversight of adequate risk management and controls for the entity and ensures this through its committees, executive officers and risk limits established for material activities.

BAC's risk governance principles serve as the cornerstone of MLKSA's risk governance framework. The BAC Code of Conduct, Risk Framework, Risk Appetite Statement and Strategic Plan are overarching documents that firmly embed MLKSA's culture of managing risk well in everything it does.

3.8. Key Risk Types

The risk management processes outlined in section 3.5 allow management of risks across the seven key risk types: Credit, Operational, Market, Liquidity, Strategic, Reputational and Compliance.

- **Credit risk** is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.
- **Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- **Market risk** is the risk that changes in market conditions may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings.
- **Liquidity risk** is the potential inability to meet expected or unexpected cash flow and collateral needs while continuing to support BAC's business and customer needs under a range of economic conditions.
- **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, such as business cycles, competitor actions, changing customer preferences, product obsolescence and technology developments, in the geographic locations in which BAC operates.
- **Reputational risk** is the potential that negative perceptions of BAC's conduct or business practices may adversely impact its profitability or operations through an inability to establish or maintain existing customer/client relationships or otherwise impact relations with key stakeholders, such as investors, regulators, employees and the community.
- **Compliance risk** is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of BAC arising from the failure of BAC to comply with the requirements of applicable laws, rules and regulations.

3.9. Hedging and Mitigating Risk

3.9.1. Credit Risk Management

MLKSA's Credit risk is managed in line with BAC's global credit policies and standards, credit risk appetite and applicable Saudi Arabian laws and regulations. Credit risk profiles are assessed through risk modelling, underwriting and asset analysis, whilst also considering current economic and industry outlooks. Limits and ratings are subsequently approved based on the appropriate Credit Authority Grid. Limits applied for equities settled free of payment reference MLKSA's capital base and can be subject to a Streamlined Tolerance Limit (subject to eligibility criteria).

Risk management is overseen by the Board of Directors of MLKSA in collaboration with other Risk groups. MLKSA's Equity Trading employees in conjunction with CFO and Operations are responsible for ensuring that all of transactions are conducted with approved clients, limits and policies. At the front line unit level, Independent Risk oversees credit risk management processes and governance in accordance with BAC requirements and authority levels. MLKSA Operations produce daily reporting on positions. At an Enterprise level, BAC's credit risk reporting enables appropriate risk escalation, which includes defined protocols to be followed for policy violations, limit breaches, exceptions, emerging risks and issues.

Further details on MLKSA's credit and counterparty risk are supplied in section 4.

3.9.2. Operational Risk Management

MLKSA is required to comply with BAC Operational Risk Management Enterprise policy and standard in addition to CMA regulatory requirements. Operational risk loss events and open issues are reported monthly to the MENA Country Leadership Team. Loss reports include events due to a local failure impacting local legal entities.

Trading supervision is performed by the Chief Operating Officer group and the Business Controls group. MLKSA also has a Business Continuity Plan in place.

3.9.3. Market Risk Management

The Global Markets division of BAC seeks to run its business on a globally consistent basis. This means that the market risks assumed by Global Markets are identified, measured and controlled on a consistent basis irrespective of the location in which they are taken and booked.

Market Risk in MLKSA arises primarily from FX. FX risk is minimal as the Saudi Riyal is pegged to the US Dollar.

MLKSA offers direct equities market access to Gulf Cooperation Council based institutional clients on an agency basis and during 2016 economic access to international investors through its Total Return Swap business. Neither activity resulted in any residual market risk within MLKSA.

3.9.4. Liquidity Risk Management

MLKSA is governed by the BAC Liquidity Risk Policy and the MLKSA Liquidity Risk Policy and must comply with the regulatory requirements specified in Part 5 of the CMA's Prudential Rules: Minimum Liquidity Requirements.

MLKSA has minimal inherent liquidity risk within its business activities. Liquidity risk reporting is tailored to MLKSA's business mix, strategy, organizational structure and market environment to properly capture key issues. Global Liquidity Management ("GLM"), a group within Corporate Treasury, and MLKSA Finance are responsible for the monthly reporting of the MLKSA liquidity risk position to members of MLKSA's senior management and MLKSA Board. GLM and the EMEA Funding Executive are responsible for providing additional Company-wide liquidity risk reporting and analysis as specified by regulators. The MLKSA Contingency Funding Plan documented within the MLKSA Liquidity Risk Policy also details senior management's strategy to address potential liquidity shortfalls during periods of stress.

Further details on MLKSA's liquidity position are supplied in section 5.

3.9.5. Strategic Risk Management

Strategic Risk is managed through the assessment of effective delivery of strategy and business performance is monitored by the executive management team to assess strategic risk and find early warning signals so that risks can be proactively managed. MLKSA strategic execution and risk management processes are aligned to the overall BAC strategic plans through a formal planning and approval process and are set within the context of overall risk appetite. During the planning process, the BAC Board provides credible challenge to management's assumptions and recommendations, and approves the strategic plans after a comprehensive assessment of the risks.

The BAC Board is responsible for overseeing the strategic planning process and management's implementation of the resulting strategic plan. BAC's strategic plan is reviewed and approved annually by the BAC Board. Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and MLKSA level. The MLKSA strategy is reviewed by MLKSA Board on an annual basis. Strategic decisions relating to MLKSA are presented and discussed at MLKSA Board.

The executive management team provides the BAC Board with progress reports on the strategic plan, including timelines and objectives and recommendation of any additional or alternative actions to be implemented. Front line units provide updates to MLKSA Board on their business performance and management of strategic risk. Updates take into account analyses of performance relative to the strategic plan, financial operating plan, risk appetite and performance relative to peers.

3.9.6. Reputational Risk Management

For every new MLKSA transaction a negative news search on the company, board members and key shareholders is required. The negative news is reviewed by the deal team and any key issues are elevated to MLKSA Senior Management and the Business Selection & Conflicts team as appropriate. An Enhanced Due Diligence report is obtained where required to provide a triangulated view of the issues. The EMEA Reputational Risk Committee meet weekly and review reputational risk in the region including Saudi Arabian matters. The EMEA Reputational Risk Committee have the ability to escalate a matter to the Global Reputational Risk Committee.

3.9.7. Compliance Risk Management

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

MLKSA is required to comply with CMA rules and its implemented regulation including Authorized Person Regulation which sets the rules of conduct that authorized persons must comply with when conducting their business. MLKSA has implemented a monitoring and testing programme to capture the main Saudi Arabian compliance related topics which are reviewed on a periodic basis.

Compliance training is provided to all staff at induction and on an ongoing basis as required. The MLKSA Compliance function works closely with the business on any issues arising. Any issues arising are reported to the MLKSA local management team, compliance management, the Compliance Committee of MLKSA and MLKSA Board of Directors, as required.

3.10. Wrong-Way Risk

Wrong-way risk is a concentration risk which exists when there is adverse correlation between the counterparty's probability of default and the market value of the underlying transaction and /or the collateral.

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

3.11. Internal Capital Adequacy Assessment Process ("ICAAP")

MLKSA prepares an ICAAP document in accordance with the CMA's Prudential Rules which requires the establishment of a framework to perform a comprehensive assessment of risks faced and to relate capital adequacy to those risks. Furthermore, the capital analysis is expected to encompass all risks, not only those risks captured by the Pillar 1 minimum regulatory capital calculation. The Board of Directors of MLKSA assess all risks at least annually during the renewal of the ICAAP.

4. Credit and Counterparty Risk

4.1. Credit and Counterparty Risk

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

MLKSA uses external ratings based on a combination of Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings, Inc. ("Fitch"). The external credit rating against an exposure is then used to assign a Credit Quality Step according to the classification of the counterparty, as prescribed by the CMA in the Prudential Rules. The same approach for assigning a credit rating is used for all exposures. MLKSA itself is not externally credit rated.

4.2. Credit Risk Exposures

MLKSA had no 'past due' claims, impaired liabilities or specific provisions as at December 31, 2016. There were no events that would give rise to any charges for impairments or specific provisions during the last financial year. Exposures are not covered by collateral, guarantees or credit derivatives. As such, the exposure amounts upon which the Credit Risk Capital Requirement is calculated has not been adjusted for credit risk protection.

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

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

(SAR in Thousands)		2016		2015	
	CQS	RWA	Capital	RWA	Capital
Exposures to local banks	1	**31,293**	**4,382**	30,091	4,213
Exposures to authorised persons and banks	2	**539**	**75**	301	42
Exposures to authorised persons and banks	Unrated	**2,824**	**395**	2,869	402
Tangible assets	n.a.	**3,868**	**542**	4,485	628
Prepaid Expenses	n.a.	**4,611**	**645**	5,609	785
Contingent Liability	Unrated	**0**	**0**	953	133
		43,135	**6,039**	44,308	6,203

n.a. : Not applicable

Credit Risk in MLKSA may, but does not ordinarily, arise from its Global Markets Equities business, which provides local institutional clients prefunding facilities on an uncommitted basis to access the local stock market.

5. Liquidity Risk

5.1. Liquidity Position

5.1.1. Regulatory Requirements

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

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

5.1.2. Liquidity Position

MLKSA maintains sufficient access to liquidity resources to meet its financial obligations. As of 31 December 2016, MLKSA held SAR 156.5 million in the form of cash and cash equivalents, up from SAR 150.5 million in 2015.

The Current Ratio for the entity as of 31 December 2016 was 3,714%, up from 2,583% as of 31 December 2015, the increase being attributable to the increase in cash and cash equivalents during the year.

5.1.3. Funding Profile

MLKSA has minimal inherent liquidity risk within its business activities. MLKSA maintains a Contingency Funding Plan ("CFP"), which represents management's strategy to address potential liquidity shortfalls during periods of stress.

The MLKSA contingency funding plan includes two contingency funding levels.

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

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

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