Merrill Lynch, Kingdom of Saudi Arabia Company
Pillar 3 Disclosure

As at 31 December 2020

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Glossary

BAC	Bank of America Corporation
CEEMEA	Central and Eastern Europe, Middle East and Africa
CFP	Contingency Funding Plan
CMA	Capital Market Authority
CMI	Capital Market Institution
EU	European Union
Fitch	Fitch Ratings, Inc.
FLU	Front Line Unit
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	Internal Financial Reporting Standards
MLKSA	Merrill Lynch, Kingdom of Saudi Arabia
Moody's	Moody's Investors Service, Inc.
Risk Framework	Risk Governance Framework
S&P	Standard & Poor's
SAMA	Saudi Central Bank
UK	United Kingdom
USD	United States Dollars
WWR	Wrong Way Risk

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1. Introduction

As at 31 December 2020

1.1. Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2020 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 details 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 Arabian 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), CMA license No. 07066-37 dated 26 Jumadah Al-Awwal 1428H (corresponding to June 12, 2007). MLKSA received its full CMA operating license in January 2011.

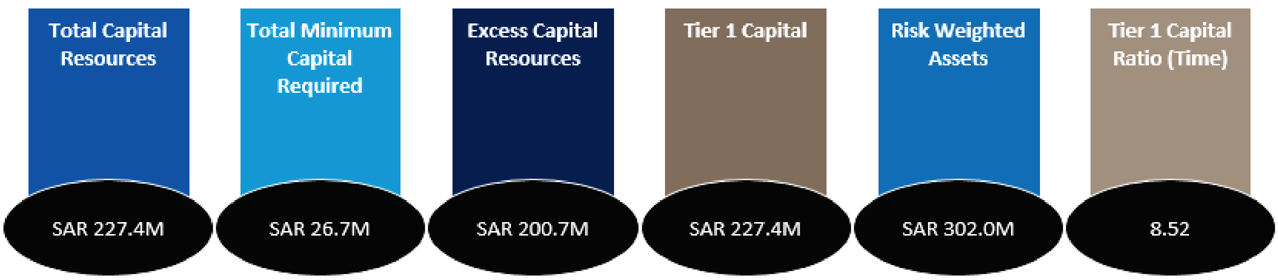
MLKSA is Bank of America Corporation's ("BAC") Saudi Arabian broker-dealer. MLKSA is a wholly owned indirect subsidiary of BAC. MLKSA has its office in Riyadh, in Saudi Arabia, and plays a key role within the wider BAC group, providing access to the Saudi Arabian market for Global Banking and Global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

1.1.2. MLKSA's Capital Position as at 31 December 2020

MLKSA has Capital Resources of SAR 227.4 million made up exclusively of Tier 1 Capital. MLKSA has a Tier 1 Capital Ratio (time) of 8.52 (defined by the CMA as Tier 1 Capital over Total Minimum Capital Requirement) and a surplus over Total Minimum Capital Requirements of SAR 200.7 million. Figure 1 illustrates MLKSA's key capital metrics.

Figure 1. – Summary of Key Metrics as at 31 December 2020



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 have not been and 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 Capital Market Institutions.

These disclosures are published on both MLKSA and BAC corporate websites:

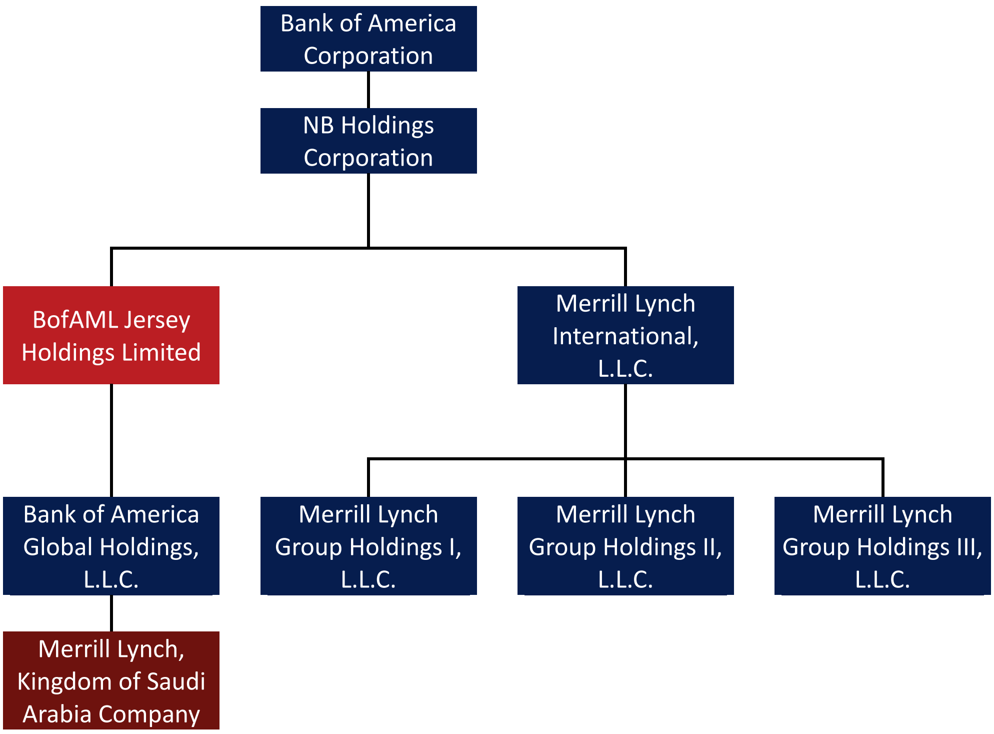
http://investor.bankofamerica.com
www.ml-ksa.com

1.3. Operation, Structure, and Organisation

MLKSA has a key role within the wider BAC group, by providing Saudi Arabian 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, advising, and custody services for securities.

Figure 2. – Organisation Chart



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2. Capital Resources and Minimum Capital Requirements

As at 31 December 2020

2.1. Capital Resources

2.1.1. Summary of Capital Resources in 2020

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 two 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)	2020	2019
Fully Paid Up Ordinary Share Capital	143,000	143,000
Statutory Reserve	11,693	10,215
Profit and Loss Account and Other Reserves	75,412	62,392
Total Tier 1 Capital Before Deductions	230,104	215,607
Deferred tax assets	(2,740)	(1,868)
Tier 1 Capital	**227,364**	**213,739**
Tier 2 Capital	**—**	**—**
Total Capital Resources (net of deductions)	**227,364**	**213,739**

2.1.2. Key Movements in 2020

MLKSA's Tier 1 Capital base increased from SAR 213.7 million in 2019 to SAR 227.4 million in 2020 as a result of the addition of 2020 audited post-tax profits.

MLKSA's Tier 1 Capital ratio (time), as defined by the CMA, increased to 8.52 from 7.79 reflecting a higher capital base in 2020 compared to 2019 relative to a similar capital requirement year on year.

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 26.7 million. This comprises of: Credit Risk requirement of SAR 13.9 million; Operational risk requirement of SAR 9.6 million and Market Risk requirement of SAR 3.2 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)	2020	2019
Total Capital Resources	**227,364**	**213,739**
Market Risk	3,169	2,279
Credit Risk	13,921	14,991
Operational Risk	9,594	10,169
Total Minimum Capital Requirements	**26,683**	**27,439**
Surplus over Requirements	**200,681**	**186,300**

2.2.2. Key Movements in 2020

MLKSA's Total Minimum Capital Requirements decreased by SAR 0.8 million from SAR 27.4 million in 2019 to SAR 26.7 million in 2020. Market risk capital requirements increased by SAR 0.9 million derived from higher USD foreign exchange risk. Credit risk capital requirements decreased by SAR 1.1 million, predominantly driven by others assets which attracted a 714% risk weight. Other assets included an overall receivable from the Saudi Arabian Tax Authority. Operational risk capital requirements decreased by SAR 0.6 million. The operational risk requirement is calculated as the higher of the basic indicator approach and expenditure based approach. In 2020, the basic indicator approach became the binding constraint as the operating expense base decreased year on year, whilst average operating income increased over the last three years.

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 the higher of the basic indicator 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 200.7 million of Capital Resources in excess of Total Minimum Capital Requirements as at 31 December 2020. The Capital Surplus over Total Minimum Requirements increased by SAR 14.4 million from SAR 186.3 million in 2019 following the addition of 2020 audited post-tax profits to Capital Resources. 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 7.79 to 8.52 over the year due to the addition of 2020 audited post-tax profits to Capital Resources and a decrease in Total Minimum Capital Requirements. MLKSA's Tier 1 Capital Ratio (time) is in excess of the CMA ratio requirement of 1.00.

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

(SAR in Thousands)	2020	2019
Total Capital Resources	**227,364**	213,739
Total Minimum Capital Requirements	**26,683**	27,439
Surplus over Requirements	**200,681**	186,300
Tier 1 Capital Resources	**227,364**	213,739
Tier 1 Capital Ratio (time)	**8.52**	7.79

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3. Liquidity Position

As at 31 December 2020

3.1. Liquidity Position

3.1.1. 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.

3.1.2. Liquidity Position

MLKSA maintains sufficient access to liquidity resources to meet its financial obligations. As of 31 December 2020, MLKSA held SAR 233 million in the form of cash and cash equivalents, a small decrease from SAR 235 million in 2019.

The Current Ratio for the entity as of 31 December 2020 was 1,344%, compared to 721% as of 31 December 2019.

3.1.3. 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 Contingency Actions / Recovery Plan

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

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4. Risk Management, Objectives, and Policy
As at 31 December 2020

4.1. 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 2021 Risk Framework in December 2020. The key enhancements from the 2020 Risk Framework include formalisation of legal risk definition and how it is managed within the Legal control function as well as a new section to address how BAC defines and manages climate risk today.

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 sections lay out the risk management approach and key risk types for MLKSA.

4.2. 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.

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
- 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, Market, Liquidity, Strategic, Reputational, Compliance, and Operational Risks.

4.3. Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC’s core values and its purpose, and how it derives responsible growth. It requires MLKSA to focus on risk in all activities and encourages the necessary mindset and behaviour to enable effective risk management and promote sound risk-taking within BAC’s risk appetite. Sustaining a 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.

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

- MLKSA helps its customers improve their financial lives, it must always conduct itself with honesty, integrity, and fairness

- 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

4.4. Risk Appetite

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, 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 prioritizes the risks it takes. 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 it has the skills and capabilities to identify, measure, monitor, and control

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

4.5. 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's 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 as part of its daily activities.

4.6. 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

4.7. 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 and executive officers.

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.

4.8. Key Risk Types

The risk management processes outlined above allow MLKSA to manage risks across the seven key risk types: Credit, Market, Liquidity, Strategic, Reputational, Compliance, and Operational. Details of how risk is managed within MLKSA is given below.

4.8.1. Credit Risk

Definition

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.

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 in MLKSA arises from its established Equities business, cash placed at bank and its inter-affiliate activities.

With regard to its Equities business, MLKSA is exposed to credit risk on execution activity where it is the cash custodian for certain clients. Execution activity results in receivables recorded on MLKSA's balance sheet on T+0, which remain in place until clients deliver cash on T+2. Credit risk is also derived from placing cash with local and foreign banks.

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

Front line units ("FLUs") manage credit risk through increased frequency and intensity of portfolio monitoring for moderate to weak risk profiles, hedging and transferring management of deteriorated commercial exposures to specialized asset officers. Limits and ratings are applied based on the appropriate authorities. MLKSA's Equity Trading in conjunction with Finance and Operations are responsible for ensuring that all transactions are conducted with approved clients, limits, and policies.

Risk management is overseen by the Board of Directors of MLKSA in collaboration with other Risk groups. Independent risk management oversees credit risk management processes and governance in accordance with BAC requirements and authority levels. At the legal entity level, credit risk teams oversee credit risk management processes in accordance with BAC's subsidiary governance requirements. This includes reporting to various risk committees, executive management and boards of directors.

Further details on MLKSA's credit and counterparty risk are supplied in Section 5.

4.8.2. Compliance and Operational Risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of MLKSA or BAC arising from MLKSA's failure to comply with the requirements of applicable laws, rules, and regulations and internal policies and procedures. MLKSA is committed to the highest level of compliance and has no appetite for violations of legislative or regulatory requirements. MLKSA seeks to anticipate and assess compliance risks to the core businesses and respond to these risks effectively should they materialize. While BAC and MLKSA strive to prevent compliance violations in everything it does, it cannot fully eliminate compliance risk, but manages it by establishing permissible thresholds to reduce exposure to financial loss, reputational harm, or regulatory sanctions.

Operational risk is the risk of loss resulting from inadequate or failed processes, people, and systems or from external events. BAC manages operational risk by establishing permissible thresholds to reduce exposure to financial loss, reputational harm, or regulatory sanctions. Independent risk management actively oversees FLUs and control functions to monitor MLKSA's adherence to the program and identify, advise, and challenge operational risks.

Compliance and Operational Risk Management

FLUs and control functions are first and foremost responsible for managing all aspects of their businesses, including their compliance and operational risk. FLUs and control functions are required to understand their business processes and related risks and controls, including the related regulatory requirements, and monitor and report on the effectiveness of the control environment. In order to actively monitor and assess the performance of their processes and controls, they must conduct comprehensive quality assurance activities and identify issues and risks to remediate control gaps and weaknesses. Front line units and control functions must also adhere to compliance and operational risk appetite limits to meet strategic, capital, and financial planning objectives. Finally, front line units and control functions are responsible for the proactive identification, management, and escalation of compliance and operational risks across BAC.

4.8.3. Market Risk

Definition

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

MLKSA offers access to Tadawul on a predominantly agency basis to local clients domiciled within the Gulf Co-operation Council as well as stock execution for Merrill Lynch International and Bank of America, National Association. MLKSA also provides underwriting on primary issuances executed on the Tadawul exchange, where any risk will be sub-underwritten by Merrill Lynch International.

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

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 Management in MLKSA is a decentralized process with centralized oversight. To be effective, all personnel involved in risk related activities are an active part of the risk management process and regular reporting provides transparency across FLUs, management, and Board.

4.8.4. Liquidity Risk

Definition

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

Liquidity Risk Management

Each FLU is accountable for managing liquidity risk by establishing appropriate processes to identify, measure, monitor and control the risks associated with their activities. Global Risk Management ("GRM") provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities, and assesses the effectiveness of MLKSA's liquidity risk management processes.

The MLKSA Liquidity Risk Policy is owned by the MLKSA Board and establishes the overarching governance, controls, and risk management practices to monitor and manage liquidity risk across MLKSA. In certain jurisdictions, such as Saudi Arabia, liquidity management responsibilities are undertaken by local finance and management teams, who consult with Treasury and GRM.

MLKSA has an uncommitted funding line with Merrill Lynch International that it may draw down on to mitigate liquidity risk, and a Guarantee Letter from Saudi British Bank to further support MLKSA's trading activity.

Regular liquidity risk reports are sent to the MLKSA Board and senior management.

4.8.5. Strategic Risk

Definition

Strategic Risk is the risk to current or projected financial condition arising from incorrect assumptions about external 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 or competitive environments, in the geographic locations in which MLKSA operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

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.

The 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. 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. MLKSA's strategy is reviewed by the MLKSA Board on an annual basis.

Strategic decisions relating to MLKSA are presented and discussed at the MLKSA Board. There are regular updates to the Board on business performance and the management of strategic risk takes into account analyses of performance relative to the strategic plan, financial operating plan and risk appetite.

4.8.6. Reputational Risk

Definition

Reputational risk is the potential risk that negative perceptions of BAC and its subsidiaries, including MLKSA's conduct or business practices will adversely affect its profitability or operations.

Reputational Risk Management

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.

Reputational risk items relating to MLKSA are considered as part of the EMEA Reputational Risk Committee (the "Reputational Risk Committee"), whose mandate includes consideration of reputational risk issues and provision of 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.

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 to define its risk appetite for reputational risk. Through proactive risk management, BAC seeks to minimise both the frequency and impact of reputational events.

Through the Reputational Risk Committee, BAC has an appropriate organisational and governance structure in place to ensure strong oversight at the entity business level.

The Reputational Risk Committee is a sub-committee of the Global Reputational Risk Committee and is applicable to all key legal operating entities in the region including MLKSA.

Items requiring increased attention may be escalated from the Reputational Risk Committee to the Global Reputational Risk Committee as appropriate.

Reporting of MLKSA reputational risk issues is captured as part of management routines for the Reputational Risk Committee. Tracking of items presented to the Reputational Risk Committee is maintained through a reporting protocol, which provides detail such as the description of the reputational risk issue, the geographical jurisdiction of the issues, the reason for escalation and the decision reached by the Committee. A summary report of issues discussed at the Reputational Risk Committee is provided to the EMEA Regional Risk Committee on a quarterly basis.

4.9. Other Risk Considerations

4.9.1. Wrong-Way Risk

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

BAC uses a range of policies and reporting to identify and monitor wrong-way risk across the portfolio. The Correlation and Concentration Risk policy describes the governance, limit frameworks, approval requirements, and roles and responsibilities for the management of WWR exposures. 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 BAC Global Markets Risk Committee and BAC Credit Risk Committee.

4.9.2. Internal Capital Adequacy Assessment Process

MLKSA prepares an Internal Capital Adequacy Assessment Process ("ICAAP") document annually in compliance with CMA's Prudential Rules. The ICAAP assesses the capital adequacy of MLKSA in relation to current and future activities and ensures that MLKSA maintains an appropriate amount of capital relative to the risks to which it is exposed. The ICAAP forms a key part of the governance framework, and covers MLKSA's risk appetite, strategy and financial plans, capital and risk management, and stress testing. The ICAAP is approved by the MLKSA Board of Directors.

4.9.3. Coronavirus

The global COVID-19 outbreak dominated markets, introducing significant volatility and weakening across the asset classes, particularly credit. Additional internal communication protocols were established between Risk and the Lines of Business to ensure management awareness of credit exposure, market volatility, liquidity and funding risks. There has been enhanced regulatory engagement since the beginning of the COVID-19 period, with regular interaction between the MLKSA management team and Capital Market Authority ("CMA").

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5. Further Detail on Credit and Counterparty Risk
As at 31 December 2020

5.1. 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, S&P, and 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.

5.2. Credit Risk Exposures

MLKSA had no 'past due' claims, no credit-impaired financial assets or specific provisions as at December 31, 2020. In accordance with International Financial Reporting Standards, MLKSA has recorded an impairment allowance against exposures to local banks. The opening impairment allowance was SAR 67 thousand and closing balance was SAR 44 thousand. The movement in impairment allowance of SAR 23 thousand was recorded directly in the income statement. 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 Central Bank ("SAMA") regulated settlement banks, deposits with foreign banks, inter-affiliate receivables, tangible fixed assets, prepaid expenses, and other assets. The table below details the risk weighted exposures and credit risk capital requirements for MLKSA by counterparty type. Credit Risk in MLKSA arises from its established Global Markets Equities business. MLKSA is exposed to credit risk where it is the cash custodian for its clients.

Table 4. – Credit Exposures by Counterparty Type, Non-trading Activities

(SAR in Thousands)		2020		2019	
	CQS	RWA	Capital	RWA	Capital
Exposures to local banks	1	14,868	2,081	22,074	3,090
Exposures to foreign banks	2	31,768	4,448	24,881	3,483
Exposures to Government and central banks	2	1,456	204	—	—
Exposures to CMI's and banks	2	137	19	794	111
Exposures to CMI's and banks	Unrated	1,427	200	3,108	435
Corporates	Unrated	58	8	35	5
Investment funds	Unrated	—	—	1,443	202
Tangible assets	n.a.*	13,003	1,820	14,944	2,092
Prepaid expenses	n.a.*	1,121	157	1,271	178
Other assets	n.a.*	35,596	4,983	38,526	5,394
		99,433	**13,921**	**107,076**	**14,991**

* *n.a.= not applicable*