# ML UK Capital Holdings Limited

## Including Merrill Lynch International

# Pillar 3 Disclosure

As at 31 December 2017

Bank of America Merrill Lynch

# Contents

# List of Figures & Tables

# Glossary

| | |
|---|---|
| ABS | Asset-Backed Securities |
| AT1 | Additional Tier 1 Capital |
| BAC / the Enterprise | Bank of America Corporation |
| BRC | Board Risk Committee |
| CCR | Counterparty Credit Risk |
| CCYB | Countercyclical Capital Buffer |
| CET1 | Common Equity Tier 1 |
| CMR | Contingent Market Risk |
| COR | Corporate Operational Risk team |
| CQS | Credit Quality Step |
| CRD IV | Capital Requirements Directive IV |
| CRM | Comprehensive Risk Measure |
| CRR | Capital Requirements Regulation |
| CSA | Credit Support Annex |
| CVA | Credit Valuation Adjustment |
| EBA | European Banking Authority |
| ECAIs | External Credit Assessment Institutions |
| EEA | European Economic Area |
| EMEA | Europe, Middle East and Africa |
| EMEA CRO | EMEA Chief Risk Officer |
| EU | European Union |
| EWI | Early Warning Indicator |
| FCA | Financial Conduct Authority |
| Fitch | Fitch Ratings, Inc. |
| FLU | Front Line Unit |
| FPC | Financial Policy Committee |
| FRS 101 | Financial Reporting Standard 101 ‘ Reduced Disclosure Framework’ |
| FX | Foreign Exchange |
| GMRAs | Global Master Repurchase Agreements |
| G-SII | Global Systemically Important Institutions |
| HQLA | High Quality Liquid Assets |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| IMA | Internal Models Approach |
| IRC | Incremental Risk Charge |
| ISDA | International Swaps Dealers Association Master Agreement |
| LCR | Liquidity Coverage Ratio |
| MDB | Multilateral Development Banks |
| MLI / the Company | Merrill Lynch International |
| MLUKCH | ML UK Capital Holdings Limited |
| Moody’s | Moody’s Investors Service, Inc. |
| O-SII | Other Systemically Important Institutions |
| UMR | Uncleared Margin Rules |
| PRA | Prudential Regulation Authority |
| P&L | Profit and Loss |
| RAS | Risk Appetite Statement |
| RNIV | Risk Not in VaR |
| RMC | Risk Management Committee |
| RSA | Risk Self-Assessment |
| RWAs | Risk Weighted Assets |
| SFT | Secured Financing Transaction |
| SPE | Special Purpose Entities |
| S&P | Standard & Poor’s |
| VaR | Value at Risk |
| VVOP | Voluntary Variation of Permission |

# 1. Introduction

## 1.1 Overview and Purpose of Document

This document contains the Pillar 3 disclosure as at 31 December 2017 in respect of the capital and risk management of ML UK Capital Holdings Limited ("MLUKCH"), its sole operating subsidiary, Merrill Lynch International ("MLI" or "the Company") and its other non-operating subsidiaries (together "the Group" or "the MLUKCH Group"). All defined terms are found in the glossary.

Capital Requirements Directive IV ("CRD IV"), the European Union ("EU") legislation implementing Basel III, came in to effect on 1st January 2014, mandating the quality and quantity of capital that firms are required to hold, introducing an EU wide liquidity regime and establishing leverage requirements. This legislation consists of three Pillars. Pillar 1 is defined as "Minimum Capital Requirement", Pillar 2 "Supervisory Review Process" and Pillar 3 "Market Discipline". The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key pieces of information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

MLUKCH's ultimate parent company is Bank of America Corporation ("BAC" or "the Enterprise") and it acts predominantly as the holding company for MLI. In accordance with the Capital Requirements Regulation ("CRR"), the MLUKCH Group complies with the Pillar 3 requirements on a consolidated basis. As its sole operating subsidiary, the information set out in this document predominately relates to MLI.

This document provides detail on the Group's and MLI's available capital resources ("Capital Resources") and regulatory defined Pillar 1 minimum capital requirement ("Minimum Capital Requirement"). It demonstrates that the Group and MLI have Capital Resources in excess of this requirement and maintains robust risk management and controls primarily in respect of the activities of MLI.

To further increase transparency, this document also includes information on the Group's and the Company's capital requirements in respect of the Countercyclical Capital Buffer ("CCYB").

### 1.1.1 MLUKCH

The MLUKCH Group is supervised on a consolidated basis in the UK by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The principal activity of MLUKCH is to act as a holding company for MLI. MLUKCH also acts as a holding company for a small number of non-operating subsidiaries.

MLUKCH is not itself a risk taking entity and the risk is booked in its operating subsidiary MLI, where the business is managed. The only risk that MLUKCH has is in respect of its intercompany funding activities, primarily from funding provided to MLI.

As MLUKCH is a holding company, the qualitative disclosures regarding risk management and governance are relevant to the subsidiaries where the activity is conducted and recorded. In this respect, unless otherwise stated, discussion herein relates primarily to MLI. For the purpose of this document, quantitative disclosures for the MLUKCH Group are presented on a consolidated basis unless stated otherwise.

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

### 1.1.2 MLI

The Company's immediate parent is MLUKCH. The ultimate parent of the Company is BAC. MLI is BAC's largest entity outside the United States of America and helps serve the core financial needs of global corporations and institutional investors.

The Company's head office is in the United Kingdom ("UK") with branches in Dubai, Stockholm and Qatar along with a representative office in Zurich. During the year, the Company's Milan and Rome branches were closed. The Company has the ability to conduct business with international clients and trade throughout the European Economic Area. The Company is authorised and regulated by the PRA and regulated by the FCA.

As at 31 December 2017, MLI was rated by Fitch Ratings, Inc. ("Fitch") (A / F1) and Standard & Poor's ("S&P") (A+ / A-1).

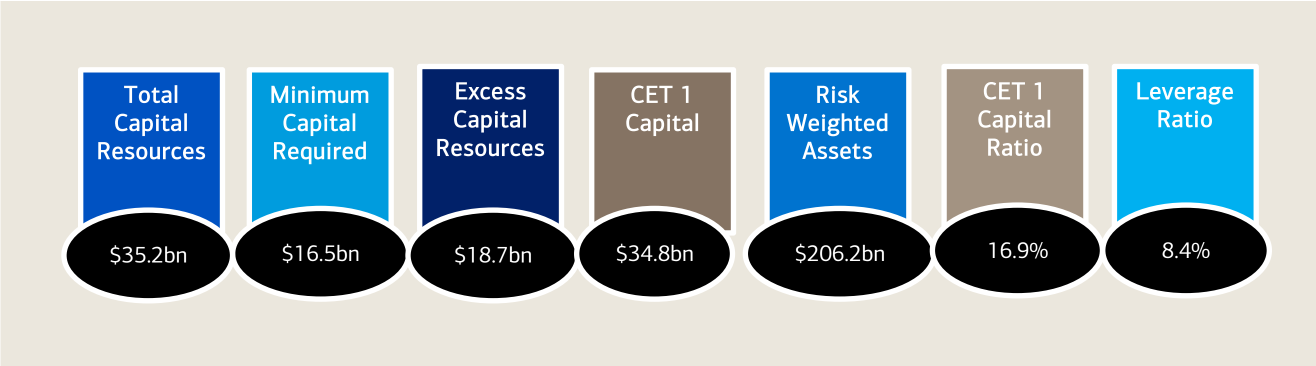
### 1.1.3 Other Entities

Other entities, although consolidated into the Group, are not separately disclosed in this document on the grounds of materiality.

### 1.1.4 MLI's Capital Position at 31 December 2017

Figure 1 illustrates MLI's key capital metrics. MLI's Capital Resources consist predominately of Common Equity Tier 1 ("CET1") capital and MLI continues to maintain capital ratios and resources significantly in excess of its minimum requirement.

Figure 1. Summary of MLI's Key Metrics as at 31 December 2017




Note: All of MLI's Tier 1 capital is CET1, therefore CET1 Capital Ratio and Tier 1 Capital ratio are the same.

## 1.2 Basis of Preparation

The information contained in these Pillar 3 disclosures has been prepared in accordance with the Basel III rule framework, for the purpose of explaining the basis on which the Group and MLI have prepared and disclosed certain information about the management of risks and application of regulatory capital adequacy rules and concepts. It therefore does not constitute any form of financial statement of MLUKCH or its subsidiaries, or of the wider Enterprise, and as such, is not prepared in accordance with International Financial Reporting Standards ("IFRS") or Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Therefore the information is not directly comparable with the Annual Report and Financial Statements and the disclosure is not required to be audited by external auditors. In addition, the report does not constitute any form of contemporary or forward looking record or opinion on the Group, the Company or the Enterprise. Although the Pillar 3 disclosure is 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.

The basis of consolidation of the Group used for prudential purposes is the same as the consolidation used for accounting purposes. Figures for the Group are presented on a consolidated basis. Figures for MLI are presented on a solo basis.

This Pillar 3 disclosure is published on BAC's corporate website: http://investor.bankofamerica.com.

## 1.3 Disclosure Policy

In accordance with CRR article 431(3) and applicable guidelines, institutions are required to adopt a formal policy to comply with the disclosure requirements included in Part Eight of the CRR.

In accordance with these requirements, a Pillar 3 disclosure policy ("the Policy") has been developed and adopted. The Policy is approved at the management body level and sets out the internal controls and procedures for disclosure of the information required under Part Eight of the CRR, including verification and frequency of the disclosures.

The key elements of the Policy are as follows:

- Policy background
- Disclosure requirements applicable to MLI
- Disclosure frequency
- Process for production of the Pillar 3 disclosure
- Overview of the key document sections
- Review and verification of the Pillar 3 disclosure
- Roles and accountabilities of all stakeholders in the production and verification processes
- Controls and monitoring of key processes
- Governance and oversight of the Policy

In addition as required, the Policy specifies that two senior management officers will attest in writing that the Pillar 3 disclosure has been prepared in accordance with the internal control processes as detailed in the Policy.

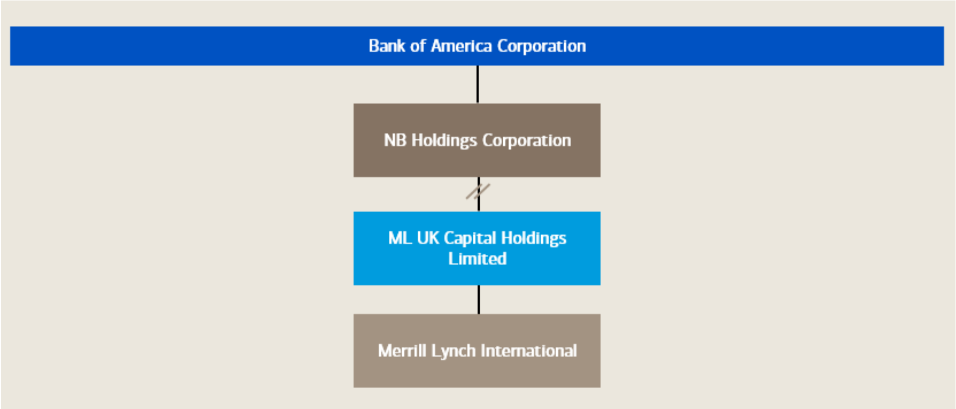
## 1.4 Operation, Structure and Organisation

MLI has a key role within the wider BAC group, by providing non-US market access for Global Banking and Global Markets clients. MLI is BAC's primary Global Markets trading entity in EMEA.

The principal activities of MLI are to provide a wide range of financial services globally for business originated in EMEA, Asia Pacific and the Americas, to act as a broker and dealer in financial instruments and to provide corporate finance advisory services. MLI also provides a number of post trade related services including settlement and clearing services to third party clients.

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

Figure 2. High Level Ownership Chart




//represents indirect ownership relationship

# 2. Capital Resources and Minimum Capital Requirement

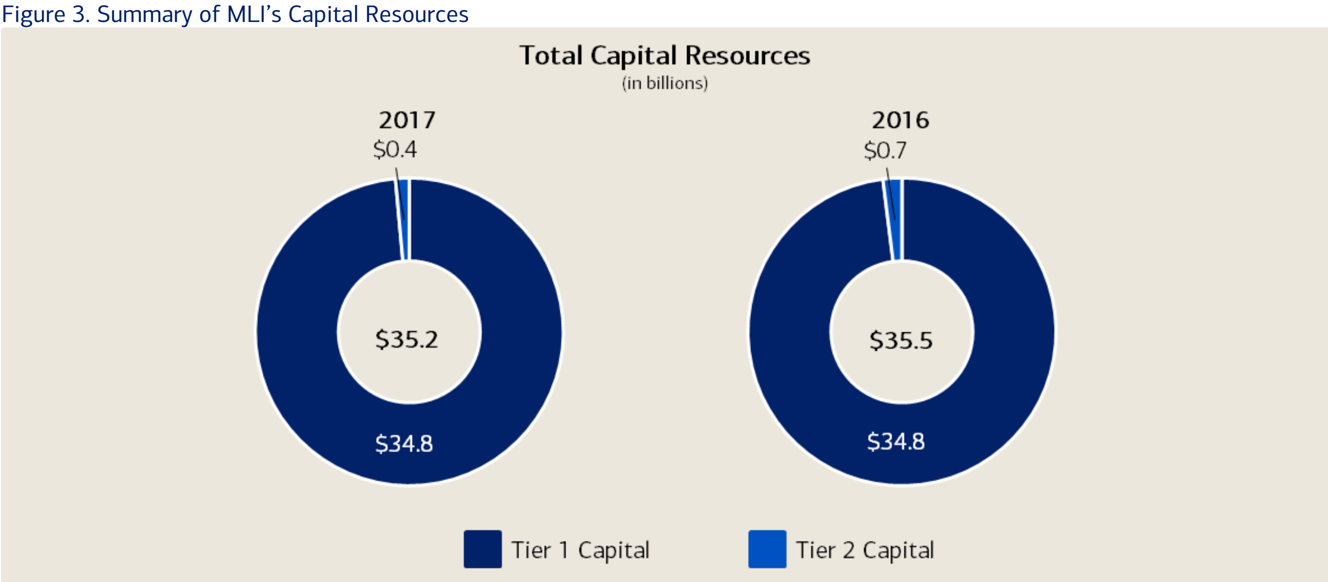
## 2.1 Capital Resources

### 2.1.1 Summary of 2017 Capital Resources

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

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

Figure 3. Summary of MLI's Capital Resources




### 2.1.2 Key Movements in 2017

MLI's Capital Resources decreased year-on-year from $35.5bn in 2016 to $35.2bn in 2017. The decrease was primarily due to the amortisation of Tier 2 subordinated debt.

Table 1 shows a breakdown of the capital resources of MLI and the Group.

Table 1. Capital Resources

| | MLI | | MLUKCH Group | |
|---|---|---|---|---|
| *(Dollars in Millions)* | 2017 | 2016 | 2017 | 2016 |
| Ordinary Share Capital | **7,933** | 7,933 | **2,926** | 2,926 |
| Share Premium | **4,499** | 4,499 | **-** | - |
| Capital Contribution | **9,193** | 9,193 | **1,082** | 745 |
| Profit and Loss Account [(1)] [(2)] | **13,987** | 13,917 | **30,261** | 30,226 |
| Non-Controlling Interest | **-** | - | **-** | 243 |
| Total Tier 1 Capital Before Deductions | **35,612** | 35,542 | **34,269** | 34,140 |
| Deferred Tax Asset | **(420)** | (448) | **(420)** | (448) |
| Defined Benefit Pension Fund Asset (net of associated deferred tax liability) | **(403)** | (315) | **(403)** | (315) |
| **Tier 1 Capital** | **34,789** | 34,779 | **33,446** | 33,377 |
| Total Tier 2 Capital Before Deductions | **436** | 703 | **1,473** | 1,743 |
| **Tier 2 Capital** | **436** | 703 | **1,473** | 1,743 |
| **Total Capital Resources (net of deductions)** | **35,225** | 35,482 | **34,919** | 35,120 |

[(1)] Profit and loss account is shown here on a regulatory basis. See Table 25 for a reconciliation to the accounting balance sheet.
[(2)] Profit and loss account reflects the inclusion of 2017 audited earnings after deduction of any foreseeable dividends.

### 2.1.3 Transferability of Capital within the Group

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

## 2.2 Minimum Capital Requirement

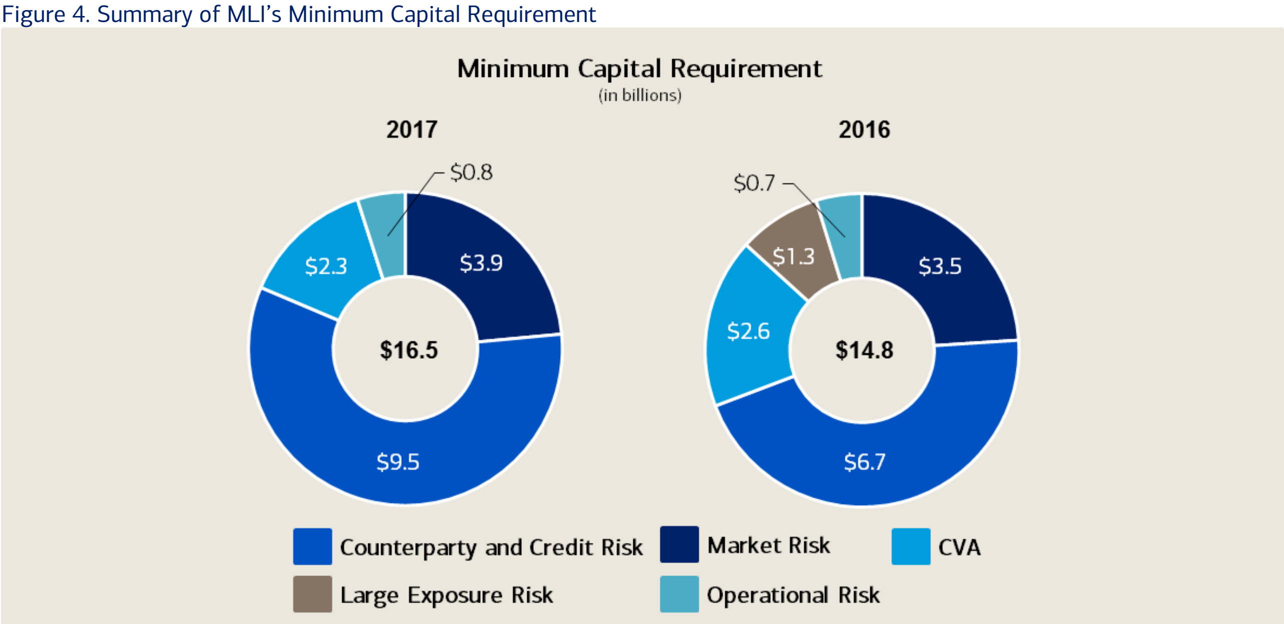
### 2.2.1 Summary of 2017 Capital Requirement

MLI and the Group are subject to a Minimum Capital Requirement set out in the CRR and the PRA requirements in order to meet its individual capital guidance. MLI and the Group are required to hold capital in addition to the Minimum Capital Requirement to meet CRD IV buffers and local PRA obligations.

The Minimum Capital Requirement principally comprises of Credit Risk, Market Risk and Operational Risk requirements.

MLI has a Minimum Capital Requirement of $16.5bn (2016: $14.8bn) comprising of the risk requirements outlined in Figure 4.

Figure 4. Summary of MLI's Minimum Capital Requirement




### 2.2.2 Key Movements in 2017

MLI's minimum capital requirement increased year-on-year from $14.8bn to $16.5bn.

The increase was primarily driven by an increase in the counterparty and credit risk capital requirements mainly due to an increase in securities financing transactions, partly offset by a reduction in Large Exposure capital requirements due to the granting of a permission from the PRA under CRR article 400(2)(c) exempting exposures to certain affiliates within the BAC group from the Large Exposure calculation.

Table 2 shows a breakdown of the Risk Weighted Assets ("RWAs") and Minimum Capital Requirement of MLI and the Group.

Table 2. RWAs and Minimum Capital Requirement

| | MLI | | | MLUKCH Group | | |
|---|---|---|---|---|---|---|
| | RWAs | | Minimum capital requirements | RWAs | | Minimum capital requirements |
| *(Dollars in Millions)* | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 |
| **Credit risk (excluding CCR)** | **6,821** | **4,412** | **546** | **6,642** | **4,543** | **531** |
| Of which the standardised approach | 6,821 | 4,412 | 546 | 6,642 | 4,543 | 531 |
| Of which the foundation IRB (FIRB) approach | - | - | - | - | - | - |
| Of which the advanced IRB (AIRB) approach | - | - | - | - | - | - |
| Of which equity IRB under the simple risk-weighted approach or the IMA | - | - | - | - | - | - |
| **CCR** | **136,634** | **107,505** | **10,930** | **136,784** | **107,516** | **10,942** |
| Of which mark to market | 57,818 | 51,074 | 4,625 | 57,891 | 51,077 | 4,631 |
| Of which original exposure | - | - | - | - | - | - |
| Of which: comprehensive approach for credit risk mitigation (for SFTs) | 49,539 | 23,486 | 3,963 | 49,616 | 23,494 | 3,969 |
| Of which internal model method (IMM) | - | - | - | - | - | - |
| Of which risk exposure amount for contributions to the default fund of a CCP | 1,076 | 607 | 86 | 1,076 | 607 | 86 |
| Of which CVA | 28,201 | 32,338 | 2,256 | 28,201 | 32,338 | 2,256 |
| **Settlement risk** | **35** | **62** | **3** | **34** | **62** | **3** |
| **Securitisation exposures in the banking book (after the cap)** | **3,892** | **3,745** | **311** | **3,892** | **3,745** | **311** |
| Of which IRB approach | - | - | - | - | - | - |
| Of which IRB supervisory formula approach (SFA) | - | - | - | - | - | - |
| Of which internal assessment approach (IAA) | - | - | - | - | - | - |
| Of which standardised approach | 3,892 | 3,745 | 311 | 3,892 | 3,745 | 311 |
| **Market risk** | **48,489** | **43,616** | **3,879** | **49,101** | **44,228** | **3,928** |
| Of which the standardised approach | 18,718 | 18,412 | 1,497 | 19,330 | 19,024 | 1,546 |
| Of which IMA | 29,771 | 25,204 | 2,382 | 29,771 | 25,204 | 2,382 |
| **Large exposures** | **-** | **16,107** | **-** | **-** | **15,695** | **-** |
| **Operational risk** | **10,189** | **9,772** | **815** | **10,190** | **9,772** | **815** |
| Of which basic indicator approach | - | - | - | - | - | - |
| Of which standardised approach | 10,189 | 9,772 | 815 | 10,190 | 9,772 | 815 |
| Of which advanced measurement approach | - | - | - | - | - | - |
| **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **127** | **146** | **11** | **-** | **-** | **-** |
| Floor adjustment | - | - | - | - | - | - |
| **Total** | **206,187** | **185,365** | **16,495** | **206,643** | **185,561** | **16,530** |

### 2.2.3 Minimum Capital Requirement Approach

Within the Group, MLI has adopted the standardised approach for calculating Counterparty Risk, Credit Risk and Operational Risk Capital Requirements. In order to adhere to the standardised rules in CRD IV, MLI uses external ratings from External Credit Assessment Institutions ("ECAIs") based on a combination of Moody's Investors Service, Inc. ("Moody's"), Standard and Poors ("S&P") and Fitch Ratings, Inc ("Fitch").

MLI's approach for Market Risk is a combination of models approved by the PRA, including VaR and the standardised approach. The Group applies the standardised approach to all other exposures.

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

### 2.3.1 Capital Resources vs. Minimum Capital Requirement

Table 3 outlines that MLI and the Group's Total Capital Resources are significantly in excess of the Pillar 1 Total Minimum Capital Requirement.

MLI's capital resources in excess of its minimum capital requirements have decreased from $20.7bn to $18.7bn.

The Group's capital resources in excess of its minimum capital requirements are $18.4bn as at 31 December 2017.

Capital Resources and Minimum Capital Requirement for MLI are monitored and analysed on a daily basis. Both MLI and the Group continuously maintain a surplus over the Minimum Capital Requirement.

### 2.3.2 Tier 1 Ratio

An entity's Tier 1 ratio is the ratio of Tier 1 Capital to RWAs. RWAs have increased in 2017, primarily driven by an increase in the counterparty and credit risk capital requirements mainly due to an increase in securities financing transactions. This is partly offset by a reduction in Large Exposure capital requirements due to the granting of a permission from the PRA under CRR article 400(2)(c) exempting exposures to certain affiliates within the BAC group from the Large Exposure calculation.

Following on from the changes outlined above MLI's Tier 1 ratio has decreased year-on-year from 18.8% to 16.9%.

The Group's Tier 1 ratio is 16.2% as at 31 December 2017.

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

| | MLI | | MLUKCH Group | |
|---|---|---|---|---|
| *(Dollars in Millions)* | 2017 | 2016 | 2017 | 2016 |
| Total Capital Resources | **35,225** | 35,482 | **34,919** | 35,120 |
| Total Minimum Capital Requirement | **16,495** | 14,831 | **16,530** | 14,846 |
| **Surplus over Requirement** | **18,730** | 20,651 | **18,389** | 20,274 |
| Tier 1 Capital Resources | **34,789** | 34,779 | **33,446** | 33,377 |
| Risk Weighted Assets | **206,187** | 185,366 | **206,643** | 185,562 |
| **Tier 1 Capital Ratio** | **16.9%** | 18.8% | **16.2%** | 18.0% |

## 2.4 Reconciliation of Accounting Balance Sheet to Regulatory Exposure Amounts

### 2.4.1 Mapping of Financial Statement Categories with Regulatory Risk Categories

Table 4 shows MLI's accounting balance sheet, and breaks down the carrying values of each line item between the relevant regulatory risk frameworks to which they are allocated.

There are no differences between MLI's accounting balance sheet and the carrying values included under the scope of the regulatory consolidation of the Group.

The sum of amounts disclosed in columns (c) to (g) may not equal the amounts disclosed in column (b), as some items are subject to capital requirements for more than one risk framework listed in Part Three of CRR.

Table 4. EU LI1 Differences Between Accounting and Regulatory Scopes of Consolidation and the Mapping of Financial Statement Categories with Regulatory Risk Categories

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | b | c | d | e | f | g |
| *(Dollars in Millions)* | Carrying values under scope of regulatory consolidation | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| **Assets** | | | | | | |
| Defined Benefit Pension Fund Asset | 537 | - | - | - | - | 537 |
| Investments | 97 | 97 | - | - | - | - |
| Long inventory positions | 214,196 | 3,948 | 157,862 | 498 | 209,852 | - |
| Debtors | 173,424 | 6,896 | 159,390 | - | 114,587 | 7,138 |
| Cash at bank and in hand | 5,859 | 5,859 | - | - | - | - |
| **Total assets** | **394,113** | **16,800** | **317,252** | **498** | **324,439** | **7,675** |
| **Liabilities** | | | | | | |
| Bank loans and overdraft | 899 | - | - | - | - | 899 |
| Short inventory positions | 202,719 | - | 159,744 | 138 | 202,719 | - |
| Creditors | 147,338 | - | 131,903 | - | 88,383 | 15,435 |
| Creditors: Amounts falling due after more than one year | 6,146 | 4,668 | - | - | - | 1,478 |
| **Total liabilities** | **357,102** | **4,668** | **291,647** | **138** | **291,102** | **17,812** |

### 2.4.2 Differences between the Financial Statements' Carrying Value Amounts and the Exposure Amounts used for Regulatory Purposes

The purpose of the following table is to provide information on the main sources of differences between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

Table 5. EU LI2 Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

| | 2017 | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Total | Credit risk framework | CCR framework | Securitisation framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | 386,437 | 16,800 | 317,252 | 498 |
| **Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)** | 339,291 | 4,668 | 291,647 | 138 |
| Total net amount under the regulatory scope of consolidation | **47,146** | 12,132 | 25,605 | 360 |
| Off-balance-sheet amounts | **(68,642)** | 397 | (69,039) | - |
| Differences in valuations | **468** | - | 468 | - |
| Differences due to different netting rules, other than those already included in row 2 | **7,433** | 136 | 7,180 | 117 |
| Differences due to potential future credit exposure | **106,764** | - | 106,708 | 56 |
| Adjustments for volatility adjustments and collateral not used | **131,494** | - | 131,494 | - |
| Other differences | **(55)** | 6 | (49) | (12) |
| **Exposure amounts considered for regulatory purposes** | **224,608** | **12,671** | **202,367** | **521** |

### Explanations of Differences between Accounting and Regulatory Exposure Amounts

Included below is a summary of the key types of differences between the accounting and regulatory exposure amounts as shown in the reconciliation above.

### Off-Balance-Sheet Amounts

- Instruments not on the balance sheet, such as guarantees and commitments, are considered as exposures for the calculation of regulatory capital requirements.
- Collateral received or provided in the form of securities (debt and equity instruments) are not shown on the balance sheet, but are used in the calculation of regulatory exposure amounts.

### Netting Rules

- Under the FRS101 accounting framework, financial assets and liabilities are offset and the net amount reported on the balance sheet where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.
- Under the regulatory framework, netting is applied for the calculation of exposures if there is legal certainty and the positions are managed on a net collateralised basis. This typically means that more netting is recognised under the regulatory framework than under the accounting framework.

### Collateral Allocation

- The amounts of collateral used as credit risk mitigation under the regulatory framework are adjusted using volatility adjustments to reflect, for example, currency and maturity mismatches.

### Potential Future Credit Exposure

- In the calculation of regulatory exposure amounts for derivative contracts, an add-on is calculated for potential future credit exposure based on the notional amount of a derivative.

### Differences in Valuations

Where assets or liabilities are measured at fair value on the balance sheet, certain valuation adjustments are made under the FRS101 accounting framework in order to reasonably reflect the fair value. These valuation adjustments are not considered as part of the regulatory exposure amounts, where the unadjusted mark-to-market values of the contracts or securities are used as the basis for the calculation.

See below for further details on valuation methodologies, the process of independent price verification, and valuation adjustments.

### Valuation Methodologies and Independent Price Verification

The Group has various processes and controls in place so that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models by personnel who are independent of the front office and periodic reassessments of models so that they are continuing to perform as designed. In addition, detailed reviews of trading gains and losses are conducted on a daily basis by personnel who are independent of the front office.

A price verification group, which is also independent of the front office, utilizes available market information including executed trades, market prices and market observable valuation model inputs so that fair values are reasonably estimated. The Group performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

### Valuation Adjustments

Credit Valuation Adjustment (“CVA”) is recorded on the Group’s derivative assets, including credit default protection purchased, in order to properly reflect the credit risk of the counterparty. CVA is based on a modelled expected exposure that incorporates current market risk factors including changes in market spreads and non-credit related market factors that affect the value of a derivative. The exposure also takes into consideration credit mitigants such as legally enforceable master netting agreements and collateral. The Group also records a funding valuation adjustment to include funding costs on uncollateralized derivatives and derivatives where the Group is not permitted to reuse the collateral it receives. The Group also calculates a debit valuation adjustment (“DVA”) to properly reflect our own credit risk exposure as part of the fair value of derivative liabilities. DVA is deducted from CET1 capital if there is a gain, and added back if there is a loss.

### Prudential Valuation Adjustment

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

## 2.5. Leverage Ratio

### 2.5.1 Summary

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

The requirement for the calculation and reporting of leverage ratios was introduced as part of CRD IV in 2014, and amended by the European Commission Delegated Act (EU) 2015/62 in 2015.

CRD IV legislation allows for the calculation of a transitional leverage ratio, permitting various adjustments to Tier 1 capital in the years leading to 2018. However the PRA, as local regulator, require transitional Tier 1 capital to be calculated on a fully phased-in basis. Therefore, the transitional and fully phased-in leverage ratios are computed in the same manner.

CRD IV does not currently include a minimum Leverage Ratio requirement. In November 2016 the European Commission published a legislative proposal to amend various elements of CRD IV, which included a binding minimum Leverage Ratio requirement of 3%, as well as a number of changes to the calculation of the exposure measure. Based on the draft text of the proposal, it is currently expected that these amendments will become effective on 1 January 2021. MLI and the Group’s leverage ratios are in excess of the proposed minimum at 8.4% and 8.2% respectively (31 December 2016: 8.8% and 8.6% respectively).

Table 6. Transitional and Fully Phased-In Leverage Ratio

| | MLI | | MLUKCH Group | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Transitional and Fully Phased-In Leverage Ratio | 8.4% | 8.8% | 8.2% | 8.6% |

### 2.5.2 Key Movements in 2017

The Company and the Group's leverage ratios both decreased during the year due to an increase in the leverage ratio exposure measure, primarily due to an increase in securities financing transactions.

# 3. Liquidity Position and Encumbered and Unencumbered Assets

## 3.1 Liquidity Position

### 3.1.1 Regulatory Requirement

The MLUKCH Group is subject to CRD IV, CRR and PRA liquidity requirements through which it must demonstrate self-sufficiency for liquidity purposes.

The MLUKCH Group is subject to the Liquidity Coverage Ratio ("LCR"), which requires the Group to hold a sufficient buffer of eligible High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first 30 days of a liquidity stress event.

### 3.1.2 Liquidity Position

As of 31 December 2017, MLI, as MLUKCH's sole operating subsidiary, was in compliance with its regulatory and internal liquidity requirements.

### 3.1.3 Funding Profile

The MLUKCH Group does not issue debt to parties external to BAC and is not licensed to take deposits. The Group primarily funds its balance sheet through wholesale secured funding, equity, subordinated debt and intercompany unsecured debt.

These funding sources are used to support the Group's trading and capital market activities and maintain sufficient excess liquidity.

## 3.2 Encumbered and Unencumbered Assets

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

Within the MLUKCH Group, encumbered assets primarily comprise of on/off-balance sheet assets that are pledged as collateral against secured funding transactions; these include repurchase agreements, stock lending and collateral swaps. In addition, the Group's encumbered assets includes collateral posted against derivative contracts and securities covering shorts. Asset encumbrance is an integral part of the Group's secured funding and collateral management process. Corporate Treasury monitors the funding requirement / surplus and models the liquidity impact relating to these activities on an ongoing basis.

The business model of MLI, as the sole operating subsidiary in the Group and primary driver of asset encumbrance, has remained relatively stable over time with types of encumbered assets remaining consistent.

This asset encumbrance disclosure is prepared in accordance with both European Banking Authority ("EBA") guidelines and PRA disclosure guidelines. It is based on accounting information prepared in accordance with international accounting standards.

MLI, as the primary driver of asset encumbrance in the Group, primarily adopts standard collateral agreements and collateralises at appropriate levels based on industry standard contractual agreements (mostly Credit Support Annexes ("CSA") and Global Master Repurchase Agreements ("GMRAs")).

Table 7 outlines the carrying and fair value of certain assets of the Company and the Group split between those encumbered and unencumbered.

Table 7. Analysis of Assets

| MLI [1] | 2017 | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Carrying Amount of Encumbered Assets | Fair Value of Encumbered Assets | Carrying Amount of Unencumbered Assets | Fair Value of Unencumbered Assets |
| **Assets of the Company** [2] | **75,290** | | **337,593** | |
| Equity Instruments | 32,143 | 32,143 | 8,516 | 8,516 |
| Debt Securities | 14,912 | 14,912 | 8,455 | 8,455 |
| Other Assets [3] | - | | 196,944 | |

| | 2016 | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Carrying Amount of Encumbered Assets | Fair Value of Encumbered Assets | Carrying Amount of Unencumbered Assets | Fair Value of Unencumbered Assets |
| **Assets of the Company** [2] | **65,729** | | **446,266** | |
| Equity Instruments | 24,646 | 24,646 | 7,695 | 7,695 |
| Debt Securities | 14,464 | 14,464 | 10,880 | 10,880 |
| Other Assets [3] | - | | 325,389 | |

| MLUKCH Group [1] | 2017 | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Carrying Amount of Encumbered Assets | Fair Value of Encumbered Assets | Carrying Amount of Unencumbered Assets | Fair Value of Unencumbered Assets |
| **Assets of the Group** [2] | **75,290** | | **332,554** | |
| Equity Instruments | 32,143 | 32,143 | 8,516 | 8,516 |
| Debt Securities | 14,912 | 14,912 | 8,455 | 8,455 |
| Other Assets [3] | - | | 196,784 | |

| | 2016 | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Carrying Amount of Encumbered Assets | Fair Value of Encumbered Assets | Carrying Amount of Unencumbered Assets | Fair Value of Unencumbered Assets |
| **Assets of the Group** [2] | **65,729** | | **442,107** | |
| Equity Instruments | 24,646 | 24,646 | 7,695 | 7,695 |
| Debt Securities | 14,464 | 14,464 | 10,880 | 10,880 |
| Other Assets [3] | - | | 325,489 | |

[1] Greyed out cell format stems from EBA asset encumbrance template, indicating not applicable disclosures. As a result of the Group's broker-dealer activity, fair value equals carrying value for securities.
[2] Equity Instruments, Debt Securities and Other Assets are a subset of Assets of the Company / Group and may not be equal to the total on the "Assets of the Company / Group" lines. Remaining assets primarily relate to cash pledges on derivative contracts and loans & advances.
[3] The majority of unencumbered Other Assets relates to derivative assets not available for encumbrance.

Table 8 provides detail on both the fair value of encumbered collateral received and collateral received that is available for encumbrance. As defined by the EBA, no "Other Collateral" or "Own Debt Securities other than own Covered Bonds or Asset-Backed Securities ("ABS")" have been received as collateral.

Table 8. Analysis of Collateral Received

| | MLI | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| *(Dollars in Millions)* | Fair Value of Encumbered Collateral Received or Own Debt Securities Issued | Fair Value of Collateral Received or Own Debt Securities Issued Available for Encumbrance | Fair Value of Encumbered Collateral Received or Own Debt Securities Issued | Fair Value of Collateral Received or Own Debt Securities Issued Available for Encumbrance |
| **Collateral Received by the Company** [(1)] | **223,195** | **51,555** | **178,455** | **56,139** |
| Equity Instruments | 67,594 | 9,502 | 50,999 | 10,167 |
| Debt Securities | 154,902 | 14,456 | 126,120 | 14,485 |

| | MLUKCH Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| *(Dollars in Millions)* | Fair Value of Encumbered Collateral Received or Own Debt Securities Issued | Fair Value of Collateral Received or Own Debt Securities Issued Available for Encumbrance | Fair Value of Encumbered Collateral Received or Own Debt Securities Issued | Fair Value of Collateral Received or Own Debt Securities Issued Available for Encumbrance |
| **Collateral Received by the Group** [(1)] | **223,195** | **51,555** | **178,455** | **56,139** |
| Equity Instruments | 67,594 | 9,502 | 50,999 | 10,167 |
| Debt Securities | 154,902 | 14,456 | 126,120 | 14,485 |

[(1)] Equity Instruments and Debt Securities are a subset of Collateral Received by the Company / Group and may not be equal to the total on the "Collateral Received by the Company / Group" line.

Table 9 outlines the value of liabilities against which assets have been encumbered and the respective asset values.

Table 9. Encumbered Assets / Collateral Received and Associated Liabilities

| | MLI | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| *(Dollars in Millions)* | Matching Liabilities, Contingent Liabilities or Securities Lent | Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered | Matching Liabilities, Contingent Liabilities or Securities Lent | Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered |
| **Carrying Amount** | 170,171 | 173,174 | 147,884 | 150,133 |

| | MLUKCH Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| *(Dollars in Millions)* | Matching Liabilities, Contingent Liabilities or Securities Lent | Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered | Matching Liabilities, Contingent Liabilities or Securities Lent | Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered |
| **Carrying Amount** | 170,171 | 173,174 | 147,884 | 150,133 |

# 3.3 LCR Disclosures

### 3.3.1 LCR Disclosure Requirements

The objective of the LCR disclosure requirements (EBA/GL/2017/01 dated 21/06/2017) is to provide market participants with information to assess EU banks' liquidity positions and risk management. The Guidelines allow credit institutions which are neither Global Systemically Important Institutions ("G-SIIs") nor Other Systemically Important Institutions ("O-SIIs"), or institutions which choose to disclose their LCR voluntarily, to disclose a simplified template. This simplified template includes only the liquidity buffer, total net cash outflows and LCR. MLI and MLUKCH Group are not credit institutions and disclose their LCR voluntarily via the simplified disclosure.

### 3.3.2 LCR Disclosure Template

Table 10 discloses average weighted values of the liquidity buffer, total net cash outflows and the LCR of MLI and of the MLUKCH Group.

Table 10. Simplified LCR Disclosure

| | MLI | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Total weighted value (average) | | | |
| Quarter ending on | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 |
| Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 |
| Liquidity Buffer | 25,552 | 25,193 | 25,764 | 25,857 |
| Total Net Cash Outflows | 10,191 | 10,735 | 12,088 | 13,383 |
| Liquidity Coverage Ratio (%) | 259% | 246% | 223% | 197% |

| | MLUKCH Group | | | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Total weighted value (average) | | | |
| Quarter ending on | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 |
| Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 |
| Liquidity Buffer | 25,552 | 25,193 | 25,764 | 25,857 |
| Total Net Cash Outflows | 10,191 | 10,735 | 12,089 | 13,383 |
| Liquidity Coverage Ratio (%) | 259% | 246% | 223% | 197% |

Note: The disclosed values and figures within the liquidity buffer, total net cash outflows, and LCR are simple averages of the preceding twelve LCR monthly reporting observations for each quarter.

# 4. Risk Management, Objectives and Policy

## 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 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.

The MLUKCH Group, including the sole operating subsidiary MLI, 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 Board of MLI adopted the BAC 2017 Risk Framework in February 2017.

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

## 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 the Group to serve the customers and deliver for the BAC shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to the Group's reputation, each of which may adversely impact the Group's ability to execute its business strategies. Managing risk well is fundamental to delivering on the Enterprise's strategy for responsible growth.

The Risk Framework applies to all employees. It provides an understanding of the Group's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Group. The Risk Framework sets forth roles and responsibilities for the management of risk by Front Line Units ("FLUs"), independent risk management, other control functions and Corporate Audit. The following are the five components of the Group'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 the Group's businesses, namely: Strategic, Credit, Market, Liquidity, Operational, Compliance and Reputational risks.

### 4.2.1 Culture of Managing Risk Well

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

The following principles form the foundation of the Group's culture of managing risk well:

1. Managing risk well protects the Group and its reputation and enables the Group to deliver on its purpose and strategy.
2. The Group treats customers fairly and acts with integrity to support the long-term interests of its employees, customers and shareholders. The Group understands that improper conduct, behaviour or practices by the Group, its employees or representatives could harm the Group, the shareholders or customers, or damage the integrity of the financial markets.
3. Individual accountability and an ownership mindset are the cornerstones of the Enterprise Code of Conduct and are at the heart of the Group's culture
4. All employees are responsible for proactively managing risk as part of their day-to-day activities through prompt identification, escalation and debate of risks
5. While the Group employs models and methods to assess risk and better inform the Group's decisions, proactive debate and a thorough challenge process lead to the best outcomes
6. Lines of business and other FLUs are first and foremost responsible for managing all aspects of their businesses, including all types of risk

7. Independent risk management provides independent oversight and effective challenge, while Corporate Audit provides independent assessment and validation
8. The Group strives to be best-in-class by continually working to improve risk management practices and capabilities

### 4.2.2 Risk Profile and Appetite

#### Risk Profile

MLI, MLUKCH's sole operating subsidiary, is BAC's largest operating subsidiary outside the US and serves the core financial needs of global corporations and institutional investors.

The MLUKCH Group's risk profile reflects the principal activities of MLI which are to provide a wide range of financial services globally for business originated in EMEA, Asia Pacific and the Americas, to act as a broker and dealer in financial instruments and to provide corporate finance advisory services. The Company also provides a number of post trade related services including settlement and clearing services to third party clients.

As at 31 December 2017, the Group's total assets prepared in accordance with FRS 101 totalled $389bn, and for MLI standalone $394bn, and comprised principally of derivative assets, equities, fixed income securities and sale and repurchase transaction positions. 25.3% of balances are with affiliated companies (MLI: 26.3%). As at 31 December 2017 the Group has $34.9bn of regulatory Capital Resources (MLI: $35.2bn), mainly consisting of CET1 capital of $33.4bn (MLI: $34.8bn). The Group has a Tier 1 capital ratio of 16.2% (MLI: 16.9%). The Group's twelve month average LCR was 197%.

MLI has transactions with affiliated companies in the BAC Group, primarily as a result of utilising affiliate counterparties to gain access to certain markets and products, both on behalf of clients in order to provide efficient market access, and for its own risk management purposes. MLI also typically deposits cash with affiliates, and provides / receives intercompany loans for general liquidity management purposes.

Consistent with the business strategy, the Group's largest Counterparty and Credit Risk industry sectors based on regulatory capital exposures are banks 23% and clearing houses 20%. 62% of the Group's Counterparty and Credit Risk requirement is based on exposures within the EMEA region and 73% of Counterparty and Credit Risk related exposures mature in less than 1 year. The Group has over 33% of exposures with counterparties externally rated between AAA and A- or equivalent. Although generally assessed internally as being of high quality 61% of exposure in the Group is to counterparties not rated by external rating agencies. Credit risk is assessed as outlined at 4.3 Key Risk Types.

Market risk for the Group is generated by the activities in the interest rate, foreign exchange ("FX"), credit, equity and commodities markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. Average regulatory VaR for MLI during 2017 was $60m.

MLI maintains excess liquidity in order to meet day to day funding requirements, withstand a range of liquidity shocks, safeguard against potential stress events, and meet internal and regulatory requirements.

#### Risk Appetite and Limits

The Risk Appetite Statement ("RAS"), established for MLI as the sole operating subsidiary, indicates the amount of capital, earnings and liquidity MLI is willing to put at risk to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements. The RAS ensures that MLI maintains an acceptable risk profile that is in alignment with its strategic and capital plans. It is designed with the objective of ensuring that it is comprehensive for all key risks, relevant to the MLI business and aligned with the risk management practices of the Enterprise. The RAS is reviewed and approved by the MLI Board at least annually.

The quantitative and qualitative elements of MLI's RAS provide clear, actionable information for taking and managing risk. Training and communication reinforce the importance of aligning risk-taking decisions to applicable aspects of the RAS.

The RAS covers the seven key risk types as defined in the Risk Framework. There are detailed qualitative statements for all of the key risk types within the Risk Framework. In addition there is a suite of metrics for the following risks:

- Credit Risk: Forward looking stress and baseline metrics in addition to concentration limits aligned to credit quality using internal risk rating, geography and industry
- Market Risk: Metrics relating to trading VaR and stress loss

- Operational Risk: Metrics covering losses incurred and an aggregate assessment as described in the Risk Self-Assessment ("RSA")
- Liquidity Risk: LCR Metric and Internal Liquidity Stress Testing ("ILST")

Capital metrics are also included within the RAS. These enable direct monitoring and limiting of risk against available capital resources and are provided in addition to stress loss limits.

The performance against the MLI risk appetite is reviewed on a monthly basis by the MLI Risk Management Committee ("RMC"). Limits are monitored by FLUs and risk management on a more frequent basis. Performance is also reported to the MLI Board Risk Committee ("BRC") and provided to the MLI Board on a quarterly basis.

The EMEA CRO oversees the Risk Appetite exception management process in order to ensure that excesses are properly escalated, effectively managed and any remediation actions are governed appropriately. This process outlines the escalation and management of exposures that are in excess of the trigger or limit levels. When exposures breach trigger and limit levels they are escalated as appropriate to management bodies including the MLI Board, BRC and RMC.

### Defining MLI's Risk Appetite

MLI's risk appetite is designed to be consistent with the aggregate risk appetite at the BAC level and is based on several principles:

- Overall Risk Capacity – Overall capacity to take risk is limited therefore risk prioritisation is critical. Risk Capacity informs risk appetite, which is the level and types of risk deemed acceptable to take to achieve business objectives.
- Financial strength to absorb adverse outcomes – Maintenance of a strong and flexible financial position is essential to weather challenging economic times and take advantage of organic growth opportunities. Therefore, objectives and targets are set for capital and liquidity that permit MLI 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 MLI's risk appetite and offer acceptable risk-adjusted returns for BAC shareholders.
- Skills and capabilities – MLI seeks to assume only those risks which it has the skills and capabilities to identify, measure, monitor and control.

The quantitative framework for MLI's RAS is designed to articulate the risks it will take in pursuit of strategic objectives that are both consistent with MLI's financial resources and will avoid excessive risk taking. It comprises Board approved limits indicating the amount of risk MLI is willing to take and metrics showing risk levels across lines of business.

Risk appetite metrics are expressed on an in-year and forward-looking basis, as appropriate, under expected and stressed macroeconomic conditions. In addition, risk appetite metrics and limits related to material concentrations are maintained to ensure appropriate visibility into risks that may manifest themselves across lines of business or risk types as part of ongoing efforts to ensure concentrations are effectively identified, measured, monitored and controlled.

Robust monitoring and reporting processes for Board approved limits are in place, with limit breaches triggering appropriate notification and escalation based on the severity of the breach as defined by magnitude or frequency. Breach resolution plans include a written description of the root causes and how a breach will be resolved. Management and Committees of the Board of Directors monitor risk metrics relative to risk appetite limits and take action as necessary to proactively and effectively manage risk.

Risk appetite is aligned with MLI's strategic, capital and financial operating plans to ensure consistency with its strategy and financial resources. Line of business strategies and risk appetite are also aligned. Ongoing reporting shows performance against the strategic plan, as well as risk appetite breaches for each of the lines of business. Risk appetite is also considered within the New Product Review and Approval Policy and processes, and within decisions around any acquisitions and divestitures. Managing risk well and embracing the Risk Framework are considered as part of compensation and performance management decisions.

The Company is committed to communicating a clear, consistent position on risk taking to internal and external stakeholders, as appropriate.

### 4.2.3 Risk Management Processes

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

The Group'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
- The Group encourages a thorough challenge process and maintains processes to identify, escalate and debate risks
- The Group utilizes timely and effective escalation mechanisms for risk limit breaches

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

### 4.2.4 Risk Data Management, Aggregation and Reporting

Effective risk data management, aggregation and reporting is critical to provide a clear understanding of current and emerging risks and enables the Group to proactively and effectively manage risk.

Risk Data Management, and Reporting Principles:

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

Functional risk managers arrange risk reporting to address the requirements of MLI Management bodies as appropriate.

### 4.2.5 Risk Governance

The Enterprise's risk governance principles serve as the cornerstone of the risk governance framework. The Code of Conduct, Risk Framework, the RAS and strategic plans are overarching documents that firmly embed the Company's culture of managing risk well in everything it does. The Code of Conduct provides basic guidelines for business practices and professional and personal conduct that all employees are expected to follow. The Risk Framework articulates how the Company defines and manages risk. The RAS clearly indicates the risks MLI is willing to accept. The strategic plans, for both BAC and MLI, document strategies for the next three-year period.

#### Three lines of defence

MLI has clear ownership and accountability for managing risk across three lines of defence: FLUs, independent risk management (i.e. Global Risk Management and Global Compliance) and Corporate Audit. The Company also has control functions outside of FLUs and independent risk management (e.g., Legal and Global Human Resources), that provide guidance and subject matter expertise in support of managing risks facing the Company.

| | |
|---|---|
| FLUs | Own and proactively manage all risks in business activities |
| Independent Risk Management | Oversee risk-taking activities within the FLUs and across the enterprise, and provide independent assessment of effective challenge of risks |
| Corporate Audit | Provide independent validation through testing of key processes and controls |

#### Corporate Audit

Corporate Audit supports the Company's risk governance framework by assessing whether controlling processes and controls over strategic, credit, market, liquidity, operational, compliance, and reputational risks are adequately designed and functioning effectively.

This is done by conducting independent assessments and validation through testing of key processes and controls across the Company.

Corporate Audit team resources are used to execute work across all EMEA locations. Team deployments are assessed based on the scale, complexity and nature of the business and control functions in each location. Corporate Audit prepares an annual audit plan with consideration to external and internal risk factors, risk assessment of a business and legislative and regulatory requirements. The annual planning process directs timely and flexible testing of the Company's highest risks and risk management processes (inclusive of risk appetite).

Corporate Audit is not responsible for setting and approving of limits for risks which the Company is exposed to. However, Corporate Audit conducts reviews, as appropriate, of the controls and monitoring of such limits.

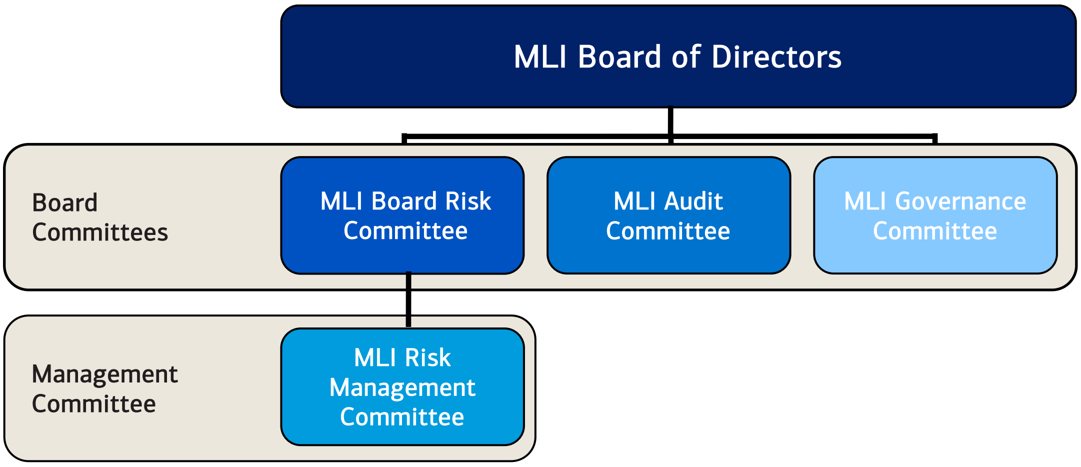
Corporate Audit maintains its independence from the FLUs, independent risk management and other control functions by reporting directly to the audit committee or the board of directors.

### Risk Governance Structure

The MLUKCH Board is responsible for oversight of adequate risk management and controls for the Group. The principal activity of MLUKCH is to act as a holding company for MLI, the sole operating subsidiary in the Group. MLUKCH is not itself a risk taking entity and the risk in the Group is booked in MLI, where the business is managed. As a result, the majority of the risk governance for the Group is conducted at MLI, where that risk is incurred.

The MLI Board ensures suitable risk management and controls through the BRC, the MLI Audit Committee, the MLI Governance Committee and the RMC, also conducting periodic reviews of risk management strategies to ensure their continuing effectiveness.

Figure 5. MLI Risk Governance Structure




The MLI BRC assists the MLI 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 MLI BRC met five times during 2017.

The MLI RMC reports to the MLI BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the MLI BRC, the MLI Board or other committees, as appropriate) market risk, credit risk, operational risk, balance sheet, capital, liquidity management and stress testing activities. The MLI RMC met fourteen times during 2017.

The MLI Audit Committee assists the MLI Board in fulfilling its oversight responsibilities relating to MLI's internal financial controls, the preparation and integrity of MLI's financial statements, MLI's relationship with its external auditor, and the performance and independence of MLI's Corporate Audit and Compliance functions. The MLI Audit Committee met six times during 2017.

### MLI Director Selection and Diversity Policy

The Governance Committee of the MLI Board (the "Governance Committee") assists the MLI Board in fulfilling its oversight of compliance with remuneration policies and regulatory requirements and nominates for the MLI Board's approval candidates to fill Board vacancies. The MLI Governance Committee acts as the nomination committee and the remuneration committee of the MLI Board. The MLI Governance Committee met five times during 2017.

Before any appointment is made by the MLI Board, the MLI Governance Committee is responsible for evaluating the balance of skills, knowledge, experience and diversity on the Board, and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment. Pursuant to the terms of the charter for the MLI Governance Committee, in identifying suitable candidates the MLI Governance Committee shall consider candidates from a wide range of backgrounds and consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the MLI Board, including gender representation, taking care that appointees have sufficient time available to devote to the position.

In addition, pursuant to the terms of its charter, the MLI Governance Committee is responsible for deciding on a target for the representation of the underrepresented gender on the MLI Board and how to meet it (as required).

#### MLUKCH Director Selection and Diversity Policy

Members of the MLUKCH Board, along with representatives from HR, Subsidiary Corporate Governance and Legal, are responsible for identifying and approving Board candidates to fill its Board vacancies as and when they arise.

The MLUKCH Board considers candidates from a wide range of backgrounds and considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender representation, taking care that appointees have sufficient time available to devote to the position.

#### General

All appointments to both the MLI Board and the MLUKCH Board are made in compliance with Bank of America's Background Check Policy and are subject to successful completion of the following background checks: Identification, Credit, Criminal, Global Sanctions, Media, Directorship, Employment and Education checks, as required. In addition, executive directors and board and committee chairs appointed to the MLI Board require regulatory pre-approval in line with the PRA and FCA's requirements under the Senior Managers Regime.

Board member experience is detailed within individual director biographies (Appendix I).

The independent risk management functions within the EMEA region led by the EMEA Chief Risk Officer ("EMEA CRO") have operational responsibility for risk management of MLI and ensuring appropriate reporting and escalation to the MLI Board.

In 2017 there were no changes to the EMEA CRO or Head of Corporate Audit, however a new EMEA Head of Compliance and Operational Risk was appointed during the year.

The MLUKCH Board has reviewed the effectiveness of the risk management arrangements of the Group and confirms that the measures outlined are adequate to facilitate the management of risk in the context of the Group's profile and strategy.

## 4.3 Key Risk Types

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

### 4.3.1 Strategic Risk

#### Definition

Strategic Risk is the risk that results from incorrect assumptions about external and / or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus, 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 MLI 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. Strategic Risk is monitored continuously by the executive management team through a number of existing processes ranging from monitoring of financial and operating performance, through to the management of recovery and resolution plans and also with the regular assessment of earnings and risk profile throughout the year. The executive management team provides the BAC Board with reports on progress in meeting the strategic plan, as well as whether timelines and objectives are being met and if additional or alternative actions need to be implemented.

Regional and MLI strategy execution and risk management are aligned to the overall BAC strategic plans through a formal planning and approval process. The BAC strategic plans are set within the context of overall risk appetite and the strategic planning process includes an evaluation of the internal and external environment and BAC's strengths, weaknesses, opportunities and threats. 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.

Management routines play an important role in developing strategic recommendations for committees, regional and executive management. Specific thematic focused presentations are made to the BAC Board as necessary to address any developments or additional considerations as it relates to strategic planning or the strategic plan itself.

Strategic Risk is embedded in every business and, to some extent, is part of the other major risk types (Credit, Market, Liquidity, Operational, Compliance and Reputational Risk).

#### Strategic Risk Governance

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 in consideration of the capital plan, financial operating plan, liquidity requirements 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 MLI level.

At the business unit, regional and MLI level, strategic planning processes are consistent with each other and their output is incorporated as part of the BAC planning process. The MLI strategy is reviewed and signed-off by the MLI Board on an annual basis. Strategic decisions relating to MLI are presented and discussed at the MLI BRC and the MLI board.

Routines exist to discuss the Strategic Risk implications of new, expanded, or modified businesses, products or services and other strategic initiatives, and to provide formal review and approval where appropriate. Independent risk management, Corporate Audit and other control functions provide input, challenge and oversight to FLU and regional level strategic plans and initiatives. Corporate Audit reviews the strategic plan and provides feedback to regional management, the MLI Board and the BAC Board as necessary regarding the impact to the control environment.

#### Strategic Risk Reporting

Individual business units provide regular updates to the MLI Board on their business performance and management of strategic risk. Updates take into account analyses of performance relative to the strategic plan, risk appetite, performance relative to peers, the strength of capital and liquidity positions and stress tests, (which address potential macroeconomic events, changing regulatory requirements and various market growth rate assumptions).

Specific thematic focused presentations are also made to the MLI Board as necessary to address any developments or additional considerations as it relates to strategic planning or the strategic plan itself.

The MLI Board uses these updates and presentations to ensure that management actions and decisions remain consistent with strategic plans and risk appetite statements.

These reporting and escalation standards are consistent with BAC's enterprise wide processes.

### 4.3.2 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 is created when MLI commits to, or enters into, an agreement with a borrower or counterparty.

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

### Credit Risk Management

MLI manages credit risk to a borrower or counterparty based on their risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected effects 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.

MLI uses a number of actions to mitigate losses, including increased frequency and intensity of portfolio monitoring for moderate to weak risk profiles, hedging, and transferring management of deteriorated commercial exposures to special asset officers.

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

These processes create a comprehensive and consolidated view of the company's credit risks, thus providing executive management with the information required to guide or redirect FLUs and certain legal entity strategic plans, if necessary.

### Credit Origination

As BAC's main investment firm outside of the US, MLI's credit strategy and origination is focused on its trading, securities and derivatives activities which account for the majority of its credit exposure.

MLI's credit processes align with BAC's credit policies and credit risk appetite across FLUs, and are compliant with applicable laws and regulations. Credit risk management oversees decisions about the amount of credit to extend to borrowers consistent with MLI's credit risk appetite.

Borrowers' credit risk profiles are assessed through risk modeling, underwriting and asset analysis, while considering current and forward-looking views on economic, industry and borrower outlooks to ensure portfolio asset quality within FLUs remains within approved credit risk limits. New products and credit terms and conditions are differentiated based on risk, within the limits of risk appetite.

Counterparty credit risk in MLI arises from the creditworthiness of MLI's trading partners and varies by type of transaction. Credit risk management manages counterparty risk with specific policies, limits and controls

Based on risk profiles, limits and tenors are set at the individual counterparty level and aggregate family level. Investment Advisor "As Agent" limits can also be set as needed. Mark-to-market exposure and potential exposure are measured taking applicable collateral into account. Counterparty concentration limits are also set at country and industry levels. The principal exposure measure for a traded product is potential exposure, which governs pre-settlement exposure and represents a statistical estimate of the 95%-confidence, "worst case" exposure that could be realized over the life of a transaction.

Counterparty risk exposures are considered within the context of the broader credit risk portfolio across FLUs and legal entities. Trading exposures with counterparties are accounted for in the assessment of portfolio concentrations so credit decisions reflect complete, accurate and timely information.

### Portfolio Management

Once credit has been extended, processes are in place to monitor credit risk exposure at both the individual borrower and portfolio levels. Key credit risk exposures are assessed under both normal and stress scenarios and credit risk is managed primarily through establishing and monitoring limits. Credit risk may be hedged to mitigate exposure and remain within credit risk appetite and return expectations.

Regular portfolio monitoring and reporting and business-specific governance routines, including periodic testing and examinations by Credit Review, which is part of Corporate Audit, enable detection of deteriorating credit trends, development of mitigation strategies and measurement of the effectiveness of actions taken. At the borrower and counterparty level, the risks inherent in ongoing financial performance are reviewed. At the portfolio level, aggregate losses, credit performance and concentrations in baseline and potential stress scenarios are assessed.

As part of the portfolio management process, loss experience is evaluated compared to expected losses against established credit risk metrics for the entire credit portfolio, including obligor and facility rating distributions for the portfolio. In addition, targeted and portfolio stress testing and scenario analysis are performed and reviewed.

### Loss and Credit Risk Mitigation Activities

At times, borrowers and counterparties do not fulfill their obligations and steps are taken to mitigate and manage losses. Dedicated teams and stringent processes are in place to appropriately manage non-performing assets.

MLI maintains more than sufficient capital in compliance with all applicable regulatory requirements to absorb unexpected losses. During a credit cycle, MLI may experience a concentration of losses and must intensify efforts to mitigate losses, balancing fiduciary responsibilities to protect asset values with MLI's principles to serve its customers.

MLI employs a range of techniques to actively mitigate counterparty credit risks. MLI accepts collateral that it is permitted by documentation such as repurchase agreements or a CSA to an International Swaps Dealers Association Master Agreement ("ISDA"). For derivatives, required collateral levels may vary depending on the credit quality of the party posting collateral. Generally, collateral is accepted in the form of cash and high grade government securities.

MLI nets collateral against the applicable derivative fair value where legally enforceable netting agreements are recognised. In order to benefit from close-out netting / enforceability of collateral, written legal opinions are required to confirm (a) (i) the enforceability of close-out netting under a Master Agreement, (ii) enforceability of credit support agreements (if applicable) in the jurisdiction of incorporation of the counterparty in each case for the relevant type of counterparty, (b) where applicable for Uncleared Margin Rules ("UMR") purposes or otherwise, (i) the enforceability of collateral arrangements in respect of MLI, the counterparty and the custodian including in the event of bankruptcy, insolvency or other similar proceeding; and (ii) the ability of the collateral provider and collateral taker to recover collateral held by the custodian. Credit risk management will consult with the Legal department to ensure that any necessary capacity and authority matters, country and enforceability issues and product approvals are addressed.

Daily valuations are carried out on market trading activities such as collateralized OTC derivatives and structured finance trades in support of margining requirements. All requests for non-standard collateral are approved through the Non-Standard Collateral Review Process. Collateral Management report and escalate collateral disputes and fails through established routines.

Derivatives exposure are increasingly routed through Central Counterparties in response to regulation changes being phased-in globally. UMR is a regulatory mandate requiring the exchange of Variation Margin ("VM") and Initial Margin ("IM") for uncleared OTC Derivative bilateral trades. UMR was effective for Initial Margin September 1, 2016 for the largest international bank holding companies and their subsidiaries, with a further phased-in compliance based on aggregate trading notionals annually every September until 2020. UMR regulatory Variation Margin was effective for all applicable counterparties on March 1, 2017.

The main type of collateral that MLI accepts for its Global Markets business consists of US Dollar Cash and Government bonds from investment grade G7 countries. Any such collateral taken in respect of trading exposures will be subject to a 'haircut', which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security. Where applicable, regulations in certain jurisdictions may specify minimum haircuts on eligible collateral. In the situation where an ISDA / CSA is subject to UMRs of multiple regulatory regimes, the accepted haircuts are floored by regulatory minimums, while more conservative haircuts may be negotiated. Where haircuts are not required by regulations, haircuts associated with acceptable forms of collateral are standard haircuts calculated by Counterparty Credit Risk Portfolio Management. Any deviation from these is subject to Credit Officer approval. The standard haircut table for Eligible Collateral is maintained by Counterparty Credit Risk Portfolio Management and updated on at least an annual basis.

A range of instruments including guarantees, credit insurance, credit derivatives and securitisation can be used to transfer credit risk from one counterparty to another. Third party guarantees are reviewed by the legal department and must conform to certain standards in order to be recognised as mitigation for Credit risk management purposes. The main types of provider of guarantees are banks, other financial institutions and corporates, the latter typically in support of subsidiaries of their company group. Where credit risk mitigation is deemed to transfer credit risk, the risk is transferred to a counterparty with higher credit quality than the transferor and typically with investment grade ratings, this exposure is appropriately recorded against the credit risk mitigation provider.

Credit risk mitigation taken by MLI to reduce credit risk may result in credit or market risk concentrations (as per 4.4. Other Risk Considerations). Guarantees that are treated as eligible credit risk mitigation are marked as an exposure against the guarantor and aggregated with other credit exposure to the guarantor. Limit monitoring at the counterparty level is then used for monitoring of concentrations in line with Enterprise policy.

#### Credit Risk Governance

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

Credit risk policies form an important part of BAC's and MLI's risk governance framework. Policies govern the extension of credit and the management of credit relationships in order to:

- Align day-to-day employee decision-making with the Risk Framework, Risk Appetite and risk management objectives
- Foster understanding and compliance with all relevant laws, rule, regulations, and regulatory guidance
- Describe standards for underwriting and management of credit risk exposures
- Define approval authorities, including authorities for exceptions to policy and higher risk or specialized transactions

Core Credit Policies are supplemented, as needed, by individual Business Unit or Legal Entity policies which contain additional requirements specific to individual Business Unit / Legal Entity needs.

At the FLU level, independent risk management oversees credit risk management processes and governance in accordance with MLI's requirements and authority levels. Credit risk teams oversee credit risk management processes in accordance with BAC's subsidiary governance requirements. This includes reporting to various risk governance committees, executive management and boards of directors.

#### Credit Risk Reporting

Transparency of credit risk is critical to effective risk management. To ensure appropriate transparency and escalation across FLUs, BAC and MLI Boards and executive management, comprehensive and actionable credit risk reporting containing the required granularity of content for each level of seniority is produced.

Regular reporting for management and board committees includes monitoring of credit exposure against approved risk appetite limits, as well as more detailed credit information covering total outstanding volumes, industry and geographic concentrations, key counterparty exposures and credit quality trends. Credit risk reporting enables appropriate risk escalation.

### 4.3.3 Market Risk

#### Definition

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

Market risk is composed of price risk and interest rate risk:

Price risk: Trading positions within MLI are subject to various changes in market based risk factors. The majority of this risk is generated by the activities in interest rate, FX, equities, commodities 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.

Interest rate risk: Is the risk to current or projected financial condition and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (re-pricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in bank products (options risk). Interest rate risk arises in MLI's non-trading book from differences in re-pricing, rate and maturity characteristics between its assets and liabilities. Interest rate risk is measured as the potential change in net interest income or economic value of equity caused by movements in market interest rates.

### Market Risk Measurement

At the asset and liability level, market risk is assessed by evaluating the impact of individual risk factors on individual exposures. At the aggregate level, price risk is assessed primarily through risk models, including VaR models. MLI's aggregate potential economic exposure, as well as earnings and capital sensitivity, to interest rate risk in the banking book is also assessed.

MLI has been granted permission by the PRA to use an Internal Model Approach ("IMA") for the following models in calculating regulatory capital for market risk: VaR, Stressed VaR, Incremental Risk Charge ("IRC") and Comprehensive Risk Measure. The capital requirement for trading book positions that do not meet the conditions for inclusion within the approved Internal Models Approach ('IMA') is calculated using standardised rules.

### VaR

VaR is a statistical measure of potential portfolio market value loss resulting from changes in market variables, during a given holding period, measured at a specified confidence level. A single model is used consistently across the trading portfolios.

VaR for regulatory capital calculations ("Regulatory VaR") is equivalent to a 99% confidence level, has a ten-day time horizon and uses 3 years of historic data. Actual ten-day historical moves capture both serial correlation in the market data and non-linearity of exposures.

Stressed VaR ("Stressed VaR") for regulatory capital calculations is equivalent to a 99% confidence interval, has a ten-day overlapping holding period and uses a historical window that is calibrated to a continuous 12-month period that maximises the resulting VaR calculation for MLI. A scalar is applied to correct for autocorrelation introduced by the use of overlapping holding periods.

VaR is also used for management reporting purposes ("Trading VaR"). Two measures are calculated: a version using 3-years of historic data and a version which uses a 1-year period in order to reflect more recent market volatility. Both are equivalent to a 99% confidence level and have a 1-day holding period.

MLI uses a historical simulation approach to calculate VaR. A hypothetical P&L distribution is generated for the current portfolio using time series of historical risk factor changes via Risk Grids / Scenarios and Full Revaluation for benchmarking. While the historical simulation does not require explicit assumptions about the distribution of the underlying market variables, the general mathematical process that governs each risk factor's behaviour is modelled. The Specific Risk of equity and debt positions are captured in the VaR calculation by measuring each issuer's risk using its own history wherever possible. Where it is not possible, in the case of credit specific risk, the VaR model overlays a parameterized stochastic residual component to capture idiosyncratic risk. VaR calculations are performed for portfolios on a fully integrated basis, so no further assumption regarding correlation is necessary. In order for the VaR model to reflect current market conditions, the historical data is updated on a weekly basis, or more frequently during periods of market stress.

Key differences between the model parameters used for regulatory capital and for internal management purposes are listed in the table below. In particular, regulatory standards require that Regulatory VaR only include the in-scope trading book positions, while Trading VaR also includes out-of-scope trading book positions. The IMA Permission defines which products may be included in the Regulatory VaR calculation.

Table summarising differences between the VaR for regulatory and management reporting purposes

| Parameter | MLI Regulatory VaR | MLI Stressed VaR | MLI Trading VaR |
|---|---|---|---|
| Scope | Covered positions as defined by PRA approval | Covered positions as defined by PRA approval | Covered and non-covered positions |
| Liquidity horizon (holding period) | 10 days (unscaled) | 10-days (unscaled) | 1 day |
| Historical window | 3 years | Worst 1 year back to 15/1/2007 | 1 year and 3 years |

For positions with insufficient historical data for the VaR calculation, the process for establishing an appropriate proxy is based on fundamental and statistical analysis of the new product or less liquid position. This analysis identifies reasonable alternatives that replicate both the expected volatility and correlation to other market risk factors that the missing data would be expected to experience.

MLI identifies and assesses any risks that are not adequately captured by its models on at least a quarterly basis and holds additional own funds against those risks. Pricing model parameters are being stress tested and capitalised in the Risk Not in VaR ("RNIV") framework.

### IRC

IRC estimates the potential losses, at a 99.9% confidence level, that non-securitised credit products in the trading portfolio might experience over a one-year period of financial stress from defaults, ratings migration and significant basis risk factors. The IRC model captures the incremental risk for products that are covered by credit specific risk approval.

The IRC model utilizes a Monte-Carlo framework to simulate transitions and defaults. Additional risk factors include recovery rates, bond-CDS basis, index-single name basis, index option volatility, and FX. The model assumes a constant-position, so the liquidity horizon is the same as the capital horizon of one year. The transition matrix is sourced from published rating agency data.

The IRC model captures issuer and market concentrations through the multi-factor framework of the model and the fact that the market data is evolved for all users. The asset correlation for each pair of issuers is defined at the sector / region level. The model also captures the negative correlation between default and recovery rate, and the co-movement between the macroeconomic variable and other market driven risk factors.

### Comprehensive Risk Measures ("CRM")

CRM estimates the potential losses, at a 99.9% confidence level, that the correlation trading portfolio (primarily tranches on credit index and bespoke credit portfolios, with their corresponding hedges) might experience over a one-year period of financial stress.

CRM is comprised of a modelled component and a surcharge for the eligible positions in the correlation trading portfolio. The modelled component of CRM utilizes the same Monte-Carlo simulation framework as the IRC model, with the inclusion of additional risk factors that materially impact the value of the positions within the correlation trading portfolio. The model captures the complexity of these positions, including the non-linear nature of the trade valuations, particularly during periods of market stress – as well as the impact of the joint evolution of the risk factors.

The CRM and IRC models share the usage of the rating migration / default risk factor, with CRM employing an additional risk factor for credit spread diffusion. Here the combined migration / default and credit spread risk factors act as a jump-diffusion process. In this model, credits are organized into sectors and regions to take into account the correlated moves across industries or markets. In order to capture the correlation between names and the economy, the model uses an economy-wide factor that drives the evolution of all names and factors specific to each sector and region. The jump component is also correlated to the diffusion component through these factors. This allows for the simulation of widening credit environments, while also capturing the increase in default rates that would be observed in these scenarios.

The base correlation data used in CRM is sourced from front office data, which uses a stochastic recovery CDO model. The CRM model applies an instantaneous shock to the portfolio as of the calculation date. The modelled component of the CRM, like the IRC model, assumes a constant position and a liquidity horizon of one year.

### Market Risk Management

MLI adheres to the Global Markets Market Risk Policy and the Global Markets Market Risk Limits Policy. In addition, an MLI Market Risk Policy Supplement specifies additional corporate governance and regulatory requirements beyond those stated in the global policies and is approved by the MLI RMC.

MLI manages and monitors its market risk exposures in a way that reflects MLI's Risk Framework. Assessing key exposures and setting and monitoring limits to ensure that MLI operates within the approved risk appetite are at the core of MLI's approach to managing market risk.

Robust monitoring and reporting processes for limits are in place, with limit breaches triggering appropriate notification and escalation. The RMC and BRC review and recommend Risk Appetite limits for approval to the MLI Board. VaR, stress and sensitivity limits are set at various levels of granularity, ensuring extensive coverage of risks as well as accounting for correlations among risk factors.

Stress testing and scenario analysis are performed to capture potential risk that may arise in severe but plausible events. These stress tests may be hypothetical or historical, and applied to individual instruments or the aggregate MLI portfolio. Markets Risk Management identifies points of weakness and concentrations in the MLI portfolio or where the entity holds positions that are illiquid or which could be exposed to particular extreme tail events. Stress scenarios may be specifically designed to target potential vulnerabilities that are not always easy to capture or model using VaR, or where there may be difficulty in hedging or exiting positions in a timely fashion - or at a reasonable price - in an extreme event.

### Market Risk Governance

Market risk is identified, monitored, and controlled by Global Markets Risk Management. The responsibilities of this independent control function include ownership of markets risk policy, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading inventory, approving material risk exposures and new trades and fulfilling regulatory requirements.

On an annual basis, the EMEA CRO provides written attestation to the PRA that the internal approaches for which the firm has received permission comply with regulatory requirements.

IMA models are continually reviewed, evaluated and enhanced so that they reflect the material risks in the trading portfolio. Global Risk Analytics develops, tests, monitors and documents the IMA models. Model development documentation and testing includes model theoretical framework, assumptions and limitations, model development data, model performance and model implementation. The ongoing monitoring includes outcomes analysis, benchmarking and process verification. Model Risk Management (MRM), as an independent control function, conducts model validations following the implementation of a new model or a model change that requires validation, and MRM approval is required before models are used. Model validation includes the following: Documentation Review, Review of Assumptions / Underlying Theory, Implementation Verification, Calibration / Estimation, Convergence and Stability and Stress Tests. In addition, through the Ongoing Monitoring Review and Annual Model Review, MRM periodically reviews the performance of all models. Finally, MRM revalidates all models on a cycle based on the model risk rating.

Changes to IMA models are reviewed and approved prior to implementation and any material changes are reported to management through the appropriate management committees, as well as to the PRA where required.

The effectiveness of the VaR methodology is evaluated and monitored through backtesting, which compares the daily VaR results, utilising a one-day holding period, against actual and hypothetical changes in portfolio value as defined in CRR Article 366. A backtesting overshoot occurs when a trading loss exceeds the VaR for the corresponding day. These overshoots are evaluated to understand the positions and market moves that produced the trading loss in order to ensure that the VaR methodology accurately represents those losses. Exceptions at the legal entity or business level, are documented and reported to the PRA, as appropriate, as part of regulatory reporting processes.

On a quarterly basis, a stressed IRC and CRM are calculated as part of the enterprise regulatory stress testing framework. In particular, the impact of default for mark-to-market, as well as capital, purposes is assessed by shocking market observables to levels specified in the Federal Reserve Bank's Supervisory Adverse and Supervisory Severely Adverse scenarios.

The calibration input data for the IRC and CRM models is validated through a Qualitative Assessment process. Spreads, recovery rates, and expected loss data is checked for spikes, jumps, and flat data. In order to monitor the model performance at the risk factor level, the simulated risk factor changes for spreads, defaults, and FX are compared against historically observed changes on a monthly basis.

#### Market Risk Reporting

Transparency of market risks is critical to effective risk management. MLI produces reports on exposure, including VaR, Stress, and Risk Factor sensitivities. MLI also reports on risks such as yield curve shifts and twists, changes to implied volatility, correlations between market variables, and credit spreads.

Market risk reports are distributed to senior management within Markets Risk Management and, where appropriate, to relevant stakeholders – including FLUs. Markets Risk Management also contributes to governance committee reports.

### 4.3.4 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 of the Front Line Units ("FLU's") are accountable for managing liquidity risk by establishing appropriate processes to identify, measure, monitor and control the risks associated with their activities. Global Risk Management provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of MLI's liquidity risk management processes.

#### Liquidity Risk Governance

The MLI Liquidity Risk Policy ("LRP") establishes the overarching governance, controls and risk management practices to monitor and manage liquidity risk across MLI and is approved by the MLI Board.

The MLI Board sets the liquidity risk appetite that is the minimum amount of liquidity that must be held to meet net modelled outflows under an internally-developed combined stress scenario and to comply with regulatory requirements. Global Risk Management is responsible for maintaining a liquidity risk limits framework to ensure that the entity is managed within its liquidity risk appetite.

#### Liquidity Risk Reporting

Daily liquidity reporting enables liquidity risk monitoring and appropriate risk escalation, which includes defined protocols for limit breaches and emerging risks and issues. Regular liquidity risk reports are sent to the MLI Board, BRC and Senior Management.

### 4.3.5 Operational Risk

#### Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

- Process risk is the risk that a predetermined process necessary to conduct business does not function properly or leads to undesired results.

- People risk is the risk that business objectives will not be met due to human resource deficiencies (e.g., improper conduct, inadequate staffing).
- Systems risk is the risk that arises from systems and / or tools that are deficient, unstable or overly complex for the intended use and are key to conducting BAC's activities.
- External events risk is the risk that arises from factors outside of BAC's span of control.

Operational risks are associated with the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and systems failures; and execution, delivery and process management.

### Operational Risk Management

Since operational risk is inherent in every activity across the enterprise, BAC relies on all employees to conduct themselves properly, contribute to an effective internal control environment and manage operational risk within their roles.

Operational risk must be managed by all employees as part of their day-to-day activities. Front line units and Control Functions ("CF") are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. Independent risk management teams actively oversee the FLUs / CFs to monitor adherence to the program and identify, advise and challenge operational risks.

Consistent operational risk management across all legal entities within BAC globally is supported through the implementation of the Operational Risk Management – Enterprise policy and the supporting standards, and adherence to the operational risk management program.

A key element of the program is the MLI RSA which captures the operational exposures faced by MLI, and entails: ongoing identification, measurement, mitigation, monitoring, reporting and escalation of applicable current and emerging operational risk and causes. In addition other operational risk management processes are in place such as review and reporting of internal and external operational loss data and the execution of scenario analysis. Scenarios are targeted to identify plausible, low-frequency, high-severity operational loss events. Risk reduction and mitigation activities are developed and enacted when potential operational risk losses are assessed or control gaps identified.

### Conduct Risk Management

Conduct Risk is the risk of improper actions, behaviours or practices by MLI, its employees or representatives that are illegal, unethical or contrary to BAC's core values. The impact of improper conduct could result in harm to the Company, its shareholders or its customers, damage the integrity of the financial markets, or negatively impact the Company's reputation. Conduct risk has the potential to create additional risks such as reputational risk. Conduct risk is managed by establishing a culture that reinforces expectations of proper conduct, understanding how conduct risk arises, designing the infrastructure and implementing controls and processes to prevent and identify potential conduct risk, and managing employee misconduct incidents.

### Operational Risk Governance

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

### Operational Risk Reporting

To achieve transparency, MLI reports on the operational risk exposures, including Risk Appetite metrics and associated thresholds, operational loss events and RSA results. A consolidated report on Operational Risk is reviewed, discussed and debated with both the MLI RMC and MLI BRC.

### 4.3.6 Compliance Risk

#### Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of MLI arising from the failure of MLI to comply with requirements of applicable laws, rules and regulations and related self-regulatory organizations' standards and codes of conduct.

#### Compliance Risk Management

FLUs are responsible for the proactive identification, management and escalation of compliance risks across MLI. Global Compliance is responsible for setting BAC-wide policies and standards and provides independent challenge and oversight to the FLUs. BAC'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 risk management program and defines roles and responsibilities related to the implementation, execution and management of the global compliance risk management program by Global Compliance.

#### Compliance Risk Governance

Global Compliance is a separate function with governance routines and executive reporting distinct from those of the FLUs 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 FLUs, Global Risk Management and other control functions for mitigating reputational risk.

#### Compliance Risk Reporting

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

Compliance Risk issues are reported to the MLI board, the MLI Audit Committee and MLI BRC.

### 4.3.7 Reputational Risk

#### Definition

Reputational Risk is the potential risk 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 or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

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

#### 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.

At the Enterprise level, Reputational Risk is reviewed by the Enterprise Risk Committee ("ERC") and the Management Risk Committee ("MRC"), 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 LOB. Reputational Risk items relating to MLI are considered as part of the EMEA Reputational Risk Committee.

Activities will be escalated to the EMEA Reputational Risk Committee for review and approval where elevated levels of Reputational Risk are present examples of activities include:

- Business activities that present significant legal, regulatory or headline risk
- Violations of, or deviations from, BAC policies
- Concerns about customer / client identity or integrity, money laundering, potential criminal activity or potential violations of economic sanctions requirements, such as direct or indirect terrorist financing or operation of an account for or on behalf of a sanctioned country, company or person
- Business activities that have a particular accounting, finance or tax treatment as a material objective
- Business activities that raise the possibility that BAC might have an undisclosed or significant conflict of interest
- Business activities from which BAC expects to receive disproportionate compensation compared with the services provided, investments made and/or risks assumed
- Business activities which, due to their nature or due to the current or historic reputation of any of the parties involved, might reflect adversely on MLI's reputation or suggest the need for close scrutiny
- Business activities that present the risk of creating information or security breaches or consumer privacy issues, including public disclosure of information
- Business activities that may present environmental or social risks due to actions by MLI or any of the parties involved
- Business activities or practices that may follow longstanding industry practice where there is the potential for a shift in public sentiment such that the business activity or practice might now or in the future be perceived as unfair, improper or unethical
- Business activities that are similar to other activities in MLI or another firm that have caused reputational harm
- Any potential reputational risk associated with the introduction, modification or discontinuation of products, services, lines of business or delivery channels
- Any reputational risk concerns that are specific to the business, region or the markets in which the business operates

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.

### Reputational Risk Governance

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

The EMEA Reputational Risk Committee membership consists of executive representation from Markets, Global Corporate and Investment Banking and control functions (Legal, Compliance and Risk). The committee is co-chaired by the EMEA President, and the EMEA CRO. The EMEA Reputational Risk Committee charter requires that a majority of members must be present, including a co-chair and all control functions, in order for meetings to proceed.

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

Items requiring increased attention may be escalated from the EMEA Reputational Risk Committee to the Global Reputational Risk Committee as appropriate. MLI BRC is informed of such matters at each quarterly meeting through a MLI specific report.

### Reputational Risk Reporting

The reporting of reputational risk issues is captured as part of the management routines for the EMEA Reputational Risk Committee. Issues that are identified and presented for discussion are included in reporting. Tracking of items presented to EMEA Reputational Risk Committee is maintained through reporting which provides detail such as description of the reputational risk issue, geographical jurisdiction of the issue, reason for escalation and decision reached by the EMEA Reputational Risk Committee and which legal entity the issue relates to. Summary reporting of the EMEA Reputational Risk Committee issues is provided to the EMEA Regional Risk Committee on a quarterly basis as part of the control function support papers. In addition, the EMEA Reputational Risk Committee provides updates to the MLI BRC on a quarterly basis through a standing agenda item.

## 4.4 Other Risk Considerations

The risk management approach outlined in 4.2 Risk Management Approach also allows the Group, through its sole operating subsidiary MLI, to manage the other risk considerations set out below.

### Wrong-way Risk

Wrong-way risk 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.

MLI 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 the Risk Framework, several processes exist to control and monitor wrong-way risk including reviews at the BAC Global Markets Risk Committee and the BAC Credit Risk Committee.

### Contingent Market Risk

Contingent Market Risk ("CMR") arises from concentrated positions with a single counterparty or a subset of counterparties. Traditional exposure metrics, like potential exposure and CVA trend towards zero with the rise of overcollateralization and central clearing, while tail risk remains. This risk is captured by measuring concentrated positions while remaining agnostic to specific market scenarios and counterparty worthiness.

MLI is subject to various Enterprise-level CMR limits by asset class and risk factor, based on appropriate measures and levels, taking into account market liquidity, risk appetite stress scenarios and business rationale. Limits are reviewed and monitored by Counterparty Credit Risk Portfolio Management. Permanent limits are approved at the BAC Global Markets Risk Committee.

### Pegged Currency Risk

A pegged exchange rate is a type of exchange rate regime where a currency's value is managed against either the value of another single currency, to a basket of other currencies, or to another measure of value. Pegged Currency Risk arises when the peg "breaks", such as that which occurred in January 2015 when the Swiss National Bank announced it would no longer be pegging its currency, the Swiss Franc, to the Euro.

MLI is subject to various Enterprise Pegged Currency limits for each pegged currency, across different ratings buckets and at the single name and portfolio level. Limits are reviewed and monitored by Counterparty Credit Risk Portfolio Management. Permanent limits are approved at the BAC Global Markets Risk Committee.

### Exposures to Interest Rate Risk in the Non-Trading Book

No detailed disclosures are made in respect of exposures to interest rate risk in the non-trading book as the information provided by such disclosure is not regarded as material. However, these exposures are monitored daily.

### Equities Exposures in the Non-Trading Book

No detailed disclosures are made in respect of equity exposures in the non-trading book as the information provided by such disclosures is not regarded as material.

### Impact of a Credit Rating Downgrade on OTC Collateral

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

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

The potential impact of a BAC credit rating downgrade on collateral is monitored continuously and factored into MLI's internal liquidity stress testing and regulatory liquidity requirements. As of 31 December 2017, MLI was in excess of both internal and regulatory liquidity requirements.

For more information on the impact of a credit downgrade on collateral posted for the Enterprise see pg. 120 of the BAC 10K filing for 2017. http://investor.bankofamerica.com

### Internal Capital Adequacy Assessment Process ("ICAAP")

As the sole operating subsidiary of the MLUKCH Group, the ICAAP is completed at least annually for MLI in compliance with CRD IV and the PRA Rulebook with all conclusions also deemed applicable to the Group. The ICAAP assesses the capital adequacy of MLI in relation to current and future activities and ensures that MLI 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 MLI's risk appetite; strategy and financial plans; capital and risk management; and stress testing.

### Securitisation Risk Governance and Reporting

Securitisation products traded in MLI can vary from notes backed by fairly standardised collateral to less standard, more bespoke assets. Positions that are deemed to be concentrated or illiquid are assessed through a prudential valuation process and a quarterly concentration/point of weakness risk analysis. Risk reporting is provided daily with weekly and monthly reporting looking at larger trends.

MLI is active in all classes of securitisation issuances, trading senior, mezzanine and residual tranches to facilitate client activity. To control against the increase in default risk for bonds with weaker credit enhancement, Market Risk Management has tighter limits on more junior and weaker rated bonds as well as on less standard, more bespoke assets. Although ABS are the dominant driver of the capital requirement for securitisation positions, MLI is also active in all classes of collateralised loan obligation issuance and also has certain derivative positions collateralised by ABS.

Monitoring and controls are in place via VaR based modelling, stress testing and market value limits. Monitoring processes for re-securitisation positions also include prudential valuation assessment, concentration / point of weakness analysis and market risk limits.

### New Products

MLI is committed to offering products and services that are appropriate, are aligned with the Company's strategic plans and risk appetite and comply with applicable laws and regulations in the jurisdiction(s) in which they are offered.

MLI complies with the BAC New Product Review and Approval Policy, which establishes requirements designed to identify and mitigate risks associated with New Products. This Policy requires that New Products be assessed across all risk categories, including consistency with Risk Appetite, prior to product implementation.

Under this Policy Businesses are required to develop and maintain a New Product review and approval process and related procedures that address the identification, review, approval and monitoring, including post implementation review of New Products and meets predefined minimum requirements in respect of Governance, Risk Assessment, Post Implementation review, reporting and required Documentation

# 5. Further Detail on Capital Requirement, Capital Resources, Leverage, Securitisation and Capital Buffers

## 5.1 Minimum Capital Requirement Summary

MLI and the Group's Minimum Capital Requirement primarily arises from counterparty and credit risk and market risk. Figures 6 and 7 illustrate MLI's counterparty and credit risk exposure by industry and Market Risk Capital Requirement by type, respectively.

The majority of MLI's counterparty and credit risk exposure is against banks, broker-dealers and clearing houses.

MLI's Market Risk Capital Requirement is principally driven by MLI's internal model based capital requirement and a standard rules charge on traded debt instruments. Further detail on Market Risk can be found in 5.2 Market Risk.

Figure 6. Minimum Capital Requirement Detail: Counterparty and Credit Risk Exposure

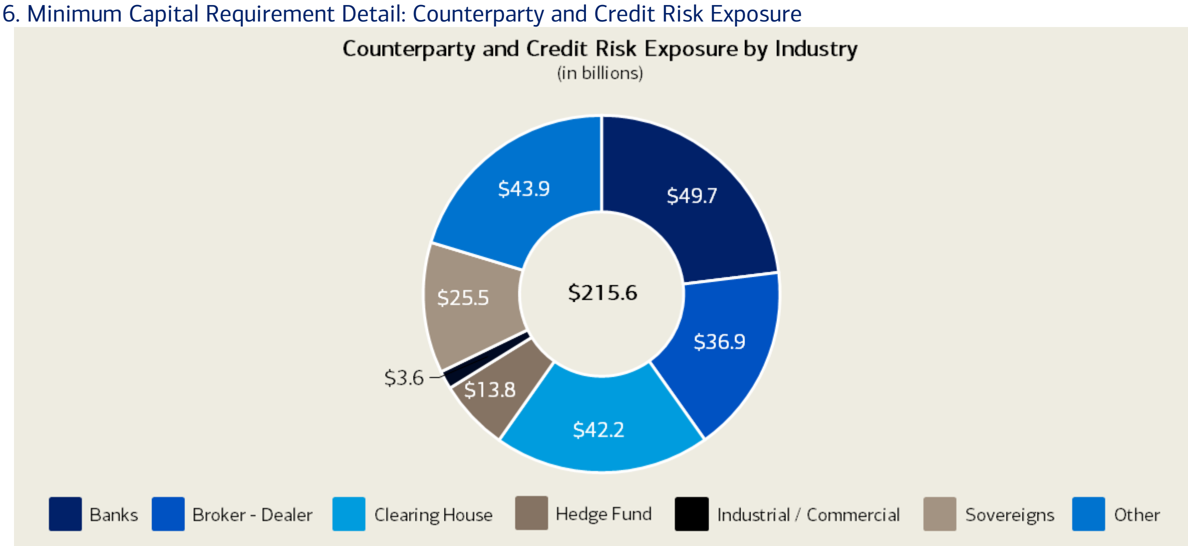
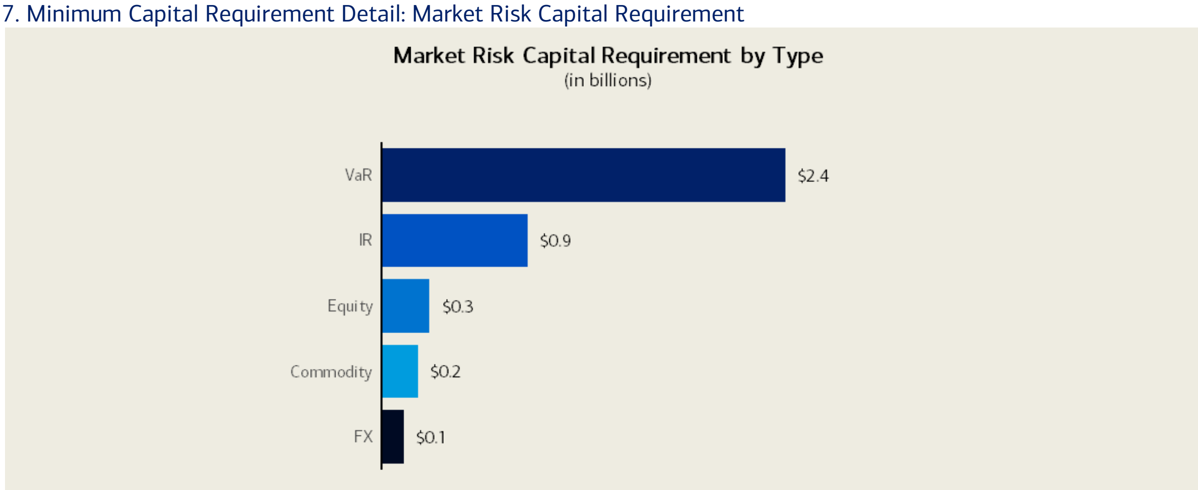



Figure 7. Minimum Capital Requirement Detail: Market Risk Capital Requirement




## 5.2 Market Risk

### Summary

Market Risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rate, equity and commodity prices, credit spreads or other risks. MLI has established trading book guidelines which set out the policies and procedures for the overall management of the trading book in accordance with the requirements of CRD IV.

Table 11 presents a breakdown of MLI and the Group's Market Risk under the standardised approach and Table 12 presents a breakdown of MLI's Market Risk under the IMA. Table 13 shows a reconciliation of movements in RWAs under the IMA for MLI's Market Risk. Further detail on the components follows the tables.

MLI is the only entity in the Group with an internal model permission for market risk therefore Table 12 is presented for MLI only. Market Risk under the IMA is the same for MLI and the Group.

Table 11. EU MR 1 Market Risk under the Standardised Approach

| | 2017 | | | |
|---|---|---|---|---|
| | MLI | | MLUKCH Group | |
| *(Dollars in Millions)* | RWAs | Capital requirements | RWAs | Capital requirements |
| **Outright products** | | | | |
| Interest rate risk (general and specific) | 7,181 | 574 | 7,352 | 588 |
| Equity and Collective Investment Undertakings risk (general and specific) | 3,560 | 284 | 4,054 | 324 |
| Foreign exchange risk | 1,200 | 96 | 1,147 | 92 |
| Commodity risk | 2,358 | 189 | 2,358 | 188 |
| **Options** | | | | |
| Simplified approach | - | - | - | - |
| Delta-plus method | 807 | 65 | 807 | 65 |
| Scenario approach | - | - | - | - |
| Securitisation (specific risk) | 3,612 | 289 | 3,612 | 289 |
| **Total** | **18,718** | **1,497** | **19,330** | **1,546** |

Table 12. EU MR 2-A Market Risk under the IMA

| | 2017 | |
|---|---|---|
| *(Dollars in Millions)* | RWAs | Capital requirements |
| **VaR** | **2,458** | **197** |
| Previous day's VaR (Article 365(1) of the CRR (VaRt-1)) | | 90 |
| Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR | | 197 |
| **SVaR** | **5,717** | **457** |
| Latest SVaR (Article 365(2) of the CRR (SVaRt-1)) | | 126 |
| Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR) | | 457 |
| **IRC** | **4,783** | **383** |
| Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR) | | 383 |
| Average of the IRC number over the preceding 12 weeks | | 359 |
| **Comprehensive risk measure** | **3,068** | **245** |
| Most recent risk number for the correlation trading portfolio (Article 377 of the CRR) | | 118 |
| Average of the risk number for the correlation trading portfolio over the preceding 12 weeks | | 94 |
| 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR) | | 245 |
| **Other** | **13,745** | **1,100** |
| **Total** | **29,771** | **2,382** |

Table 13. EU MR 2-B RWA Flow Statements of Market Risk Exposures under the IMA

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | VaR | SVaR | IRC | CRM | Other | Total RWAs | Total capital requirements |
| **RWAs at previous quarter end** | 1,900 | 3,716 | 3,812 | 2,798 | 10,745 | 22,971 | 1,838 |
| Movement in the risk levels | 558 | 2,001 | 971 | 270 | 3,000 | 6,800 | 544 |
| **RWAs at the end of the reporting period** | **2,458** | **5,717** | **4,783** | **3,068** | **13,745** | **29,771** | **2,382** |

### 5.2.1 Internal Model Based Capital Requirement

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

#### VaR

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. 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.

For further details on VaR and how MLI uses VaR as a risk management tool, please refer to the Market Risk key risk type in 4.3 Key Risk Types.

#### Regulatory VaR

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

#### Backtesting

The VaR methodology is evaluated through a daily backtesting process, which compares the daily VaR results, utilizing a one-day holding period, against a comparable subset of trading Profit and Loss ("P&L").

As required by the CRR, backtesting uses the 'Hypothetical' and 'Actual' definitions of the P&L. Hypothetical P&L is the P&L from the move in the value of the portfolio on the current day assuming unchanged positions from the end of the previous day. Actual P&L and Hypothetical P&L exclude fees, commissions and net interest income.

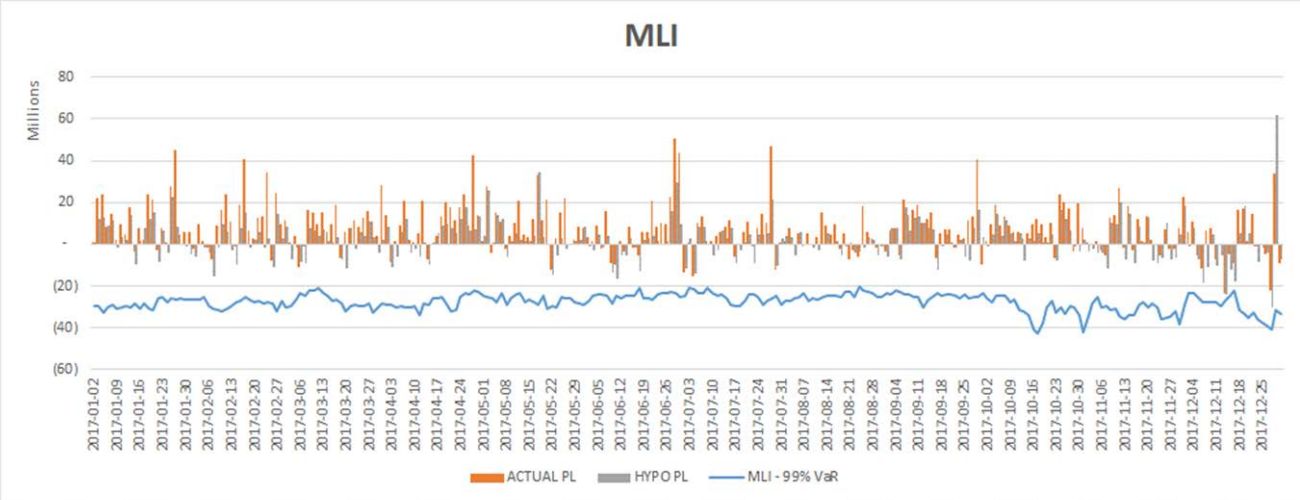
A backtesting overshooting occurs when a trading loss on day N exceeds the VaR value of the portfolio on day N-1. These overshoots are evaluated to understand the positions and market moves that produced the trading loss and to ensure that the VaR methodology accurately represents those losses.

The number of backtesting overshootings observed can differ from the statistically expected number of overshootings for a number of reasons. When this occurs, analysis is done to assess the model's performance.

There have been no downside overshootings in the year ending 31 December 2017 on either hypothetical or actual P&L backtesting.

Figure 8. EU MR 4 Comparison of VaR Estimates with Gains/Losses

Actual and Hypothetical Backtesting Results




The actual and hypothetical P&L shown in the above graph is only for positions covered by the VaR model, and not for the entirely of MLI. The VaR measure shown is for regulatory VaR using a three year look-back period, and one day holding period. Capital requirements covered by the VaR model (Pillar 1 capital requirements for VaR and Stressed VaR) total 17% of MLI's Pillar 1 capital requirements for market risk, and 4% of MLI's total Pillar 1 capital requirements.

### Trading Portfolio Stress Testing

Given the very nature of a VaR model, results can exceed the model's estimates and it is dependent on a limited historical window. As such, our portfolio is also stress tested using scenario analysis. This analysis estimates the change in value of the trading portfolio that may result from abnormal market movements.

For further details on how MLI performs stress testing to the trading portfolio, please refer to the Market Risk key risk type in 4.3 Key Risk Types.

### Stressed VaR

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

### RNIV Framework

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

### IRC

The IRC model is one component of the regulatory capital calculation for market risk. The model is intended to capture the potential losses that non-securitised credit products in the trading portfolio might experience over a one-year period of financial stress from defaults, ratings migration and significant basis risk factors. To calculate potential losses at the required 99.9 percent confidence level, the Company utilises a Monte-Carlo simulation calibrated using relevant, available historical data for each risk factor in order to sample potential market scenarios.

The model reflects the impact of concentrated risks, including issuer, sector, region and product basis risks, and assigns a higher potential loss to a concentrated portfolio than a more diversified portfolio with a similar credit profile. The model framework also captures the broad relationships between the different risk factors and is flexible enough to allow additional dependencies or risk factors to be incorporated in the future. The IRC model assumes a constant position and a liquidity horizon of one year.

### Comprehensive Risk Measure

The Company's CRM is the modelled component of the All Price Risks regulatory capital requirement for market risk for positions which are eligible to be included in the correlation trading portfolio, primarily tranches on indices and bespoke portfolios and their corresponding hedges. The CRM takes into account all of the risk factors that materially impact the value of the positions within the correlation trading portfolio.

The model captures the complexity of these positions including the non-linear nature of the trade valuations, particularly during periods of market stress, and the impact of the joint evolution of the risk factors. The CRM utilises the same Monte-Carlo simulation framework as our IRC model with the additional risk factors required for the correlation products in order to calculate the potential losses at the required 99.9 percent confidence level. The modelled component of the CRM, like the IRC model, assumes a constant position and a liquidity horizon of one year.

For the All Price Risk regulatory capital requirement purposes, the point in time modelled CRM value is compared to its 12 week average and to the correlation trading portfolio floor calculated under the standardised approach for market risk per the CRR. The highest of these three numbers will be the All Price Risk regulatory capital requirement used for the correlation trading portfolio.

Table 14 shows MLI's maximum, minimum, average and period-end values for regulatory VaR and Stressed VaR, and risk numbers for the IRC and CRM models for 2017. Both VaR and Stressed VaR include a price volatility cross risk add-on.

Table 14. MR 3 IMA Values for Trading Portfolios

| *(Dollars in Millions)* | 2017 |
|---|---|
| **VaR (10 day 99%)** | |
| Maximum value | 118 |
| Average value | 60 |
| Minimum value | 33 |
| Period end | 90 |
| **SVaR (10 day 99%)** | |
| Maximum value | 414 |
| Average value | 121 |
| Minimum value | 58 |
| Period end | 126 |
| **IRC (99.9%)** | |
| Maximum value | 470 |
| Average value | 326 |
| Minimum value | 210 |
| Period end | 383 |
| **Comprehensive risk capital charge (99.9%)** | |
| Maximum value | 287 |
| Average value | 160 |
| Minimum value | 40 |
| Period end | 118 |

### 5.2.2 Capital Requirement under Standardised Approaches

Within the MLUKCH Group regulatory capital required is calculated on traded debt instruments that are not part of the scope of the internal models permission granted by the PRA to MLI. The requirement is split into two components: General Market Risk and Specific Risk:

- General Market Risk is based on a currency portfolio basis. Positions are grouped into maturity bands ranging from less than one month to more than 20 years, with a different weighting applied to each maturity band.
- Specific risk looks at each security in terms of type of issuer (e.g. corporate / government), credit quality and maturity.

#### Equity Market Risk

Within the Group, Equity Market Risk is the regulatory capital requirement calculated on equity positions that are out of scope of the internal models permission granted by the PRA to MLI.

#### Commodity Market Risk

Within the Group, Commodity Market Risk is the regulatory capital requirement calculated on the global commodities investor product business in MLI. The positions are grouped by maturity with a different weighting applied to each maturity band.

#### FX Market Risk

Within the Group, FX Market Risk Requirement is the regulatory capital requirement calculated on the open net foreign currency exposure of the balance sheet.

#### Option Market Risk Requirement

Within the Group, Option Market Risk Requirement is the regulatory capital requirement calculated on options which are not in scope of the internal models permission granted by the PRA to MLI, and attract a delta equivalent treatment, with additional regulatory capital requirement calculated for convexity risk (gamma risk) and volatility risk (vega risk).

## 5.3 Counterparty and Credit Risk

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

Within the MLUKCH Group, MLI measures counterparty and credit risk exposure on derivatives using mark-to-market method, defined as mark-to-market plus a notional add-on.

The following section provides detailed information on MLI and the MLUKCH Group's regulatory counterparty and credit risk exposures using the above mentioned approach. All exposures, unless stated otherwise, are post Credit Risk Mitigation and the application of Credit Conversion Factors.

### 5.3.1 Counterparty and Credit Risk by Type

Table 15 sets out MLI and the Group's counterparty and credit risk exposure by industry distribution. The majority of exposures of MLI and the Group are against banks, broker-dealers and clearing houses. The ratings of counterparties are derived by referring to external credit ratings provided by Moody's, Fitch and S&P for all exposure classes.

Counterparty and Credit Risk are combined for reporting purposes.

Table 15. Counterparty and Credit Risk Exposure by Industry Distribution

| *(Dollars in Millions)* | MLI | MLUKCH Group |
|---|---|---|
| Bank | 49,711 | 49,890 |
| Broker Dealer | 36,895 | 36,652 |
| Central Counterparty, Clearing House/Exchange | 42,218 | 42,218 |
| Industrial and Commercial Companies | 3,575 | 3,575 |
| Energy and Commodities | 1,417 | 1,417 |
| Hedge Fund | 13,836 | 13,836 |
| Insurance | 4,424 | 4,424 |
| Sovereign & Government Related | 25,510 | 25,509 |
| Other Financial | 37,973 | 37,896 |
| **Total Exposure Value** | **215,559** | **215,417** |

### 5.3.2 Counterparty and Credit Exposure Geographic Distribution and Maturity Profile Detail

Further analysis for MLI and the Group showing the geographical distribution of the exposure value is shown in Table 16.

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

Table 16. Counterparty and Credit Risk Exposure by Geographical Distribution

| | 2017 | | | |
|---|---|---|---|---|
| | MLI | | | |
| *(Dollars in Millions)* | Asia | Americas | EMEA | Total |
| Corporates | 9,713 | 25,598 | 32,451 | **67,762** |
| Institutions | 8,017 | 13,466 | 67,354 | **88,837** |
| Short-term Claims on institutions and corporate | 3,004 | 20,151 | 9,581 | **32,736** |
| Central Governments or Central Banks | 1,617 | 270 | 18,765 | **20,652** |
| Other [(1)] | 794 | 247 | 4,531 | **5,572** |
| **Total Exposures** | **23,145** | **59,732** | **132,682** | **215,559** |

| | 2017 | | | |
|---|---|---|---|---|
| | MLUKCH Group | | | |
| *(Dollars in Millions)* | Asia | Americas | EMEA | Total |
| Corporates | 9,713 | 25,412 | 32,367 | **67,492** |
| Institutions | 8,017 | 13,473 | 67,356 | **88,846** |
| Short-term Claims on institutions and corporate | 3,004 | 20,311 | 9,591 | **32,906** |
| Central Governments or Central Banks | 1,617 | 270 | 18,765 | **20,652** |
| Other [(1)] | 794 | 196 | 4,531 | **5,521** |
| **Total Exposures** | **23,145** | **59,662** | **132,610** | **215,417** |

[(1)] Other comprises of exposures to international organisations, multilateral development banks, public sector entities, regional governments or local authorities, exposures secured by mortgages on immovable property, exposures in default, equity exposures, items associated with particularly high risk, items representing securitisation positions and other items.

Table 17 splits MLI and the Group's Counterparty and Credit Risk exposure values at the end of the year by residual maturity and exposure class.

Table 17. Counterparty and Credit Risk Exposure by Residual Maturity

| | 2017 | | | |
|---|---|---|---|---|
| | MLI | | | |
| *(Dollars in Millions)* | Under 1 Year | One - Five Years | Over Five Years | Total |
| Corporates | 53,536 | 8,052 | 6,174 | 67,762 |
| Institutions | 46,762 | 27,827 | 14,248 | 88,837 |
| Short-term Claims on institutions and corporate | 32,736 | - | - | 32,736 |
| Central Governments or Central Banks | 19,089 | 586 | 977 | 20,652 |
| Other [(1)] | 4,798 | 122 | 652 | 5,572 |
| **Total Exposure Value** | **156,921** | **36,587** | **22,051** | **215,559** |

| | 2017 | | | |
|---|---|---|---|---|
| | MLUKCH Group | | | |
| *(Dollars in Millions)* | Under 1 Year | One - Five Years | Over Five Years | Total |
| Corporates | 53,335 | 7,985 | 6,172 | 67,492 |
| Institutions | 46,771 | 27,827 | 14,248 | 88,846 |
| Short-term Claims on institutions and corporate | 32,906 | - | - | 32,906 |
| Central Governments or Central Banks | 19,089 | 586 | 977 | 20,652 |
| Other [(1)] | 4,747 | 122 | 652 | 5,521 |
| **Total Exposure Value** | **156,848** | **36,520** | **22,049** | **215,417** |

[(1)] Other comprises of exposures to international organisations, multilateral development banks, public sector entities, regional governments or local authorities, exposures secured by mortgages on immovable property, exposures in default, equity exposures, items associated with particularly high risk, items representing securitisation positions and other items.

### 5.3.3 Counterparty and Credit Exposure by Credit Quality Step

Table 19 analyses exposure values by exposure class and Credit Quality Step ("CQS"), showing the position Pre and Post Credit Risk Mitigation. For MLI and the Group, Credit Risk Mitigation comprises of collateral only.

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

http://www.fca.org.uk/static/documents/fsa-ecais-standardised.pdf

The CQS is derived by referring to ECAIs including Moody's, Fitch and S&P, where available.

The Group and MLI both have over 33% of exposures with counterparties externally rated between AAA and A- or equivalent. Although generally assessed internally as being of high quality, 61% of exposure in the Group and MLI is to counterparties not rated by external rating agencies. Credit risk is assessed as outlined at 4.3 Key Risk Types.

Table 18. Counterparty and Credit Risk Exposure by CQS

| | MLI | | MLUKCH Group | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Pre-Credit Risk Mitigation [1] | Post-Credit Risk Mitigation | Pre-Credit Risk Mitigation [1] | Post-Credit Risk Mitigation |
| **Central and Regional Governments or Central Banks** | | | | |
| CQS | | | | |
| 1 | 9,476 | 6,229 | 9,476 | 6,228 |
| 2 | 332 | 336 | 332 | 336 |
| 3 | 18 | 18 | 18 | 18 |
| 4 | 183 | 183 | 183 | 183 |
| 5 | 209 | 209 | 209 | 209 |
| 6 | - | - | - | - |
| NR-Non Rated | 13,778 | 14,072 | 13,778 | 14,072 |
| **Total Exposure Value** | **23,996** | **21,047** | **23,996** | **21,046** |
| **Corporates** | | | | |
| CQS | | | | |
| 1 | 2,238 | 1,757 | 2,238 | 1,757 |
| 2 | 3,769 | 3,323 | 3,769 | 3,323 |
| 3 | 1,603 | 1,428 | 1,603 | 1,427 |
| 4 | 833 | 383 | 833 | 383 |
| 5 | 129 | 129 | 129 | 129 |
| 6 | - | - | - | - |
| NR-Non Rated | 77,878 | 60,742 | 72,366 | 60,473 |
| **Total Exposure Value** | **86,450** | **67,762** | **80,938** | **67,492** |
| **Institutions** | | | | |
| CQS | | | | |
| 1 | 11,538 | 8,326 | 11,539 | 8,328 |
| 2 | 32,552 | 21,692 | 32,552 | 21,691 |
| 3 | 9,754 | 5,762 | 9,754 | 5,762 |
| 4 | 1,329 | 970 | 1,336 | 978 |
| 5 | 139 | 139 | 139 | 139 |
| 6 | 179 | 1 | 179 | 1 |
| NR-Non Rated | 55,158 | 51,946 | 55,158 | 51,946 |
| **Total Exposure Value** | **110,649** | **88,836** | **110,657** | **88,845** |
| **Other [2]** | | | | |
| CQS | | | | |
| 1 | 1,380 | 1,399 | 1,380 | 1,399 |
| 2 | 27,792 | 27,940 | 27,815 | 27,963 |
| 3 | 2,094 | 2,191 | 2,094 | 2,191 |
| 4 | 2,064 | 2,234 | 2,212 | 2,382 |
| 5 | 24 | 24 | 24 | 24 |
| 6 | 160 | 133 | 160 | 133 |
| NR-Non Rated | 3,853 | 3,993 | 3,802 | 3,942 |
| **Total Exposure Value** | **37,367** | **37,914** | **37,487** | **38,034** |
| **Combined Total Exposure Value** | **258,462** | **215,559** | **253,078** | **215,417** |

[1] Exposure Pre CRM includes the effect of Funded Credit Protection in the form of master netting agreements for Securities Financing Transactions
[2] Other comprises of exposures to International Organisations, Multilateral Development Banks, Public Sector Entities, Short-term Claims on Institutions and Corporates, Exposures Secured by Mortgages on Immovable Property, Exposures in Default, Equity Exposures, Items Associated with Particularly High Risk, Other Items and Items Representing Securitisation Positions

### 5.3.4 Credit Quality of Assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

All trade and non-trade related receivables measured at amortised cost are considered within the scope of assessment of past due and impaired exposures.

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

The Group did not have any impairments for credit losses in the year.

For regulatory purposes, a default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

a) the Group considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Group to actions such as realising security;
b) the obligor is past due more than 90 days on any material credit obligation to the Group.

As at 31 December 2017, the Group had $3m of third party credit exposures that were more than 90 days past due but not impaired. These exposures relate to trades with third parties that have failed settlement, and the amounts presented in the balance sheet relate to trade receivables whereby MLI will deliver securities or cash to the obligor upon receipt of the amounts due.

As there is still an expectation that settlement will take place, and that MLI has not / will not deliver on its part of the transaction prior to full settlement taking place, these amounts are not considered to be impaired. For regulatory purposes, these exposures are included within the scope of settlement risk for calculation of own funds requirements.

## 5.4 Securitisation

### 5.4.1 Securitisation Activities

Within the Group, MLI acts as investor[1] in securitisations. MLI has also historically acted as originator[2] of securitisations, but did not originate any securitisations in 2017. MLI does not currently act as sponsor[3] for any securitisations.

MLI's main involvement in relation to securitisation activity is to act as a secondary market maker. MLI has engaged in securitisation activities related to commercial and residential mortgage loans, corporate loans, and other types of financial instruments. Where MLI acts as derivative counterparty to a securitisation, the derivatives are typically interest rate swaps.

### 5.4.2 Regulatory Capital Treatment

MLI uses the Standardised Approach to calculate the capital requirements on its securitisation positions that are not held in the correlation trading portfolio, in accordance with Part Three, Title II, Chapter 5 and Article 337 of the CRR. This approach uses rating agency credit ratings to determine risk weights. MLI uses ratings from three ECAIs: Moody's, S&P and Fitch.

[1] Investor is not defined in the CRR, however the scope of the rule is inferred from the guidance therein. Investor is deemed to include activity as derivative counterparty to, and investor in securitisation vehicle.

[2] Originator is defined by CRR Article 4(13) as "an entity which: (a) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or (b) purchases a third party's exposures for its own account and then securitises them".

[3] Sponsor is defined by CRR Article 4(14) as "an institution other than an originator institution that establishes and manages an asset-backed commercial paper programme or other securitisation scheme that purchases exposures from third-party entities".

The approach used for the calculation of capital requirements for the correlation trading portfolio is discussed in 5.2 Market Risk.

### 5.4.3 Accounting Treatment

MLI accounts for its interests in Special Purpose Entities ("SPEs") in accordance with IFRS 10: *Consolidated Financial Statements*, which establishes the criteria for when it is deemed to control another entity. IFRS 10 defines control as follows: "an investor controls an investee when it is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". In assessing control all relevant factors are considered including qualitative and quantitative aspects.

The consolidation analysis is reassessed whenever there is a change in the substance of the relationship between MLI and an SPE, for example, when the nature of the MLI's involvement or the governing rules, contractual arrangements or capital structure of the SPE change. Further, the full population is reassessed every quarter-end. The review process includes all stakeholders, including FLUs.

Whether the transfer of assets to an SPE in a securitisation transaction is treated as a sale or financing depends on whether the derecognition requirements of IAS 39 - *Financial Instruments: recognition and measurement* are met.

The 'derecognition' criteria are satisfied if:

a) substantially all the risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
b) MLI neither transfers nor retains substantially all the risks and rewards of ownership, and has not retained control, in which case the assets are derecognised in their entirety and the Group, through MLI recognises separately as assets or liabilities any rights and obligations created or retained in the transfer, otherwise if MLI has retained control, the assets continue to be recognised to the extent of the MLI's continuing involvement.

Transactions where derecognition of the assets transferred to a SPE has occurred are treated as sales or partial sales of those assets. The difference between the carrying amount of the assets transferred and the consideration received is recorded in current period net operating income.

Assets that have been transferred to an unconsolidated SPE which fail the 'derecognition' requirements in IAS 39 are treated as financing arrangements and will remain on MLI's balance sheet, with a corresponding liability recognised for the proceeds received. These assets are classified as trading assets and the corresponding liabilities are classified as Creditors: Amounts falling due after one year. The assets are measured at fair value through P&L and the liabilities at amortised cost or fair value through P&L under a fair value option election.

Synthetic securitisations arise where the underlying assets are not sold to the SPE, instead credit derivatives are used to transfer the economic risk of the underlying assets. The Group, through MLI may or may not hold the underlying assets and may or may not transfer other HQLAs to the SPE as security for the principal of the notes issued. Synthetic securitisations are accounted for under the same accounting policies to those summarised above, with the associated credit derivatives accounted for at fair value through P&L in accordance with the requirements of IAS 39.

MLI's retained interests in securitisation transactions are valued in accordance with the Accounting Policies, as set out in MLI's Annual Financial Statements. These interests comprise loans and securities, which are classified as trading assets and measured at fair value through P&L. These will accordingly be included within the fair value disclosures in Note 26 in the MLI Annual Financial Statements. Other interests include for example, agreement between MLI to receive the fee payable by the SPE over several years (at an increased rate) and off-balance sheet liquidity facilities (e.g. in a credit-linked note structure) provided to the SPE. Neither MLUKCH nor MLI provide financial support to its SPEs.

### 5.4.4 Securitisation Risk Governance and Reporting

Please refer to section 4 for securitisation risk governance and reporting process.

### 5.4.5 Securitisation Exposures

The following table provide a summary of the outstanding exposures securitised by the Group to which the Group continues to have exposure as at 31 December 2017 and the aggregate amount of such securitisation exposure in the trading book and non-trading book.

The Group does not have any exposures to securitisations which are subject to early amortisation treatment.

Table 19. Outstanding Exposures Securitised (Originator)

| *(Dollars in Millions)* | Outstanding Exposures Securitised |
|---|---|
| **Traditional Securitisations** | |
| Residential Mortgages | - |
| Commercial Mortgages | - |
| Loans to Corporates or SMEs | 116 |
| Other Assets | 2,649 |
| **Traditional Total** | **2,765** |
| **Synthetic Securitisations** | |
| Residential Mortgages | - |
| Commercial Mortgages | - |
| Loans to Corporates or SMEs | - |
| Other Assets | 3,802 |
| **Synthetic Total** | **3,802** |

Table 20. Current Exposure by Exposure Type to Securitisations

| | Current Exposure | | | |
|---|---|---|---|---|
| | Trading Book | | Non-trading Book | |
| *(Dollars in Millions)* | Purchased | Off BS / Derivatives | Purchased | Off BS / Derivatives |
| **Traditional Securitisations** | | | | |
| Residential Mortgages | 273 | 11 | 6 | 39 |
| Commercial Mortgages | 278 | 3 | 7 | 12 |
| Loans to Corporates or SMEs | 17 | 7 | 17 | - |
| Other Assets | 59 | 2 | 336 | 74 |
| **Traditional Total** | 627 | 23 | 366 | 125 |
| **Synthetic Securitisations** | | | | |
| Residential Mortgages | - | - | - | - |
| Commercial Mortgages | - | - | - | - |
| Loans to Corporates or SMEs | - | - | - | - |
| Other Assets | - | - | 14 | 17 |
| **Synthetic Total** | - | - | 14 | 17 |

Table 21. Securitisation Positions Risk Weighted at 1,250%

| *(Dollars in Millions)* | Trading Book Exposure | Non-trading Book Exposure |
|---|---|---|
| Residential Mortgages | 88 | - |
| Commercial Mortgages | 158 | 7 |
| Loans to Corporates or SMEs | 13 | 5 |
| Other Assets | 1 | 276 |
| **Total** | **260** | **288** |

Table 22. Securitisation Exposures and Capital Requirements by Credit Quality

| | Trading | | Non-Trading | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Exposure | Capital | Exposure | Capital |
| **Securitisations** | | | | |
| 1 | 140 | 2 | 128 | 2 |
| 2 | 162 | 6 | 7 | - |
| 3 | 24 | 2 | 36 | 3 |
| 4 | 62 | 17 | 62 | 17 |
| All Other CQS | 261 | 261 | 135 | 135 |
| **Securitisations Total** | **649** | **288** | **368** | **157** |
| **Re-securitisations** | | | | |
| 1 | 2 | - | - | - |
| 2 | - | - | - | - |
| 3 | - | - | - | - |
| 4 | - | - | - | - |
| All Other CQS | - | - | 154 | 154 |
| **Re-Securitisations Total** | **2** | **-** | **154** | **154** |

The Group has gross exposure of $2m to re-securitisations in the trading book which is unhedged.
The exposure to non-trading book re-securitisations in the above table is shown net of credit risk mitigation, which reduced the exposure by $26m. This credit risk mitigation is not provided by financial guarantor.

## 5.5 Capital Buffers

The CCYB was introduced through CRD IV and is defined as the amount of CET1 capital MLI and the Group must calculate in accordance with CRD IV as implemented by the PRA. The CCYB is equal to MLI and the Group's total risk exposure amount multiplied by the weighted average of the CCYB rates that apply to exposures in the jurisdictions where MLI and the Group's relevant credit exposures are located.

The aim of the CCYB is to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The CCYB requirements may also help to limit the build-up of credit in jurisdictions in the first place, by raising the cost of credit and dampening its demand. Thus jurisdictions will be required to monitor credit growth in relation to measures such as GDP and assess whether growth is excessive and leading to the build-up of system-wide risk. Based on this assessment a countercyclical buffer requirement, ranging from 0% to 2.5% of RWAs, may be put in place for specified jurisdictions.

Under CRD IV, MLI and the Group should face the same CCYB rates as domestic institutions on its cross-border exposures under the international reciprocation process. The UK CCYB rate was 0% effective as at 31 December 2017. The Bank of England's Financial Policy Committee ("FPC") announced in 2017 that a 0.5% UK CCYB rate will have binding effect from June 2018, and this will be raised to 1% with binding effect from November 2018. In terms of other jurisdictions, the FPC recognised the CCYB rates of Hong Kong (1.25%), Norway (2%), Sweden (2%), Czech Republic (0.5%), Iceland (1.25%) and Slovakia (0.5%) on exposures of UK institutions, which were applicable as at 31 December 2017.

Table 23 outlines the components of relevant credit exposures used in the calculation of CCYB by country.

Table 23. MLI CCYB

MLI CCYB - Exposures

| | MLI | | | |
|---|---|---|---|---|
| | General Credit Exposures | Trading Book Exposures | | Securitisation Exposures |
| *(Dollars in Millions)* | Exposure value for Standardised Approach | Sum of long and short positions of trading book exposures for Standardised Approach | Value of trading book exposures for internal models | Exposure value for Standardised Approach |
| Norway | 46 | 6 | 9 | - |
| Sweden | 721 | 3 | 1 | - |
| Hong Kong | 257 | 91 | 73 | - |
| Slovakia | - | - | - | - |
| Czech Republic | 29 | - | 1 | - |
| Iceland | - | - | - | - |
| United Kingdom | 8,981 | 705 | 47 | 341 |
| United States Of America | 13,394 | 297 | 97 | 61 |
| Other (own funds requirement individually less than $1bn) | 46,303 | 897 | 2,117 | 120 |
| Total | **69,731** | **1,999** | **2,345** | **522** |

MLI CCYB - Own Fund Requirements

| | MLI | | | | | |
|---|---|---|---|---|---|---|
| | Own Funds Requirements | | | | Own funds requirements weights | Countercyclical Capital Buffer rate |
| *(Dollars in Millions)* | of which: General credit exposures | of which: Trading book exposures | of which: Securitisation exposures | Total | | |
| Norway | 3 | 1 | - | 4 | 0.001 | 2.000% |
| Sweden | 46 | 24 | - | 70 | 0.010 | 2.000% |
| Hong Kong | 21 | 40 | - | 61 | 0.009 | 1.250% |
| Slovakia | - | - | - | - | 0.000 | 0.500% |
| Czech Republic | 2 | 0 | - | 2 | 0.000 | 0.500% |
| Iceland | - | - | - | - | 0.000 | 1.250% |
| United Kingdom | 689 | 248 | 236 | 1,173 | 0.170 | 0.000% |
| United States Of America | 1,009 | 107 | 30 | 1,146 | 0.166 | 0.000% |
| Other (own funds requirement individually less than $1bn) | 3,535 | 861 | 46 | 4,442 | 0.644 | 0.000% |
| Total | **5,305** | **1,281** | **312** | **6,898** | **1.000** | |

MLI CCYB - Amount of institution-specific CCYB

| *(Dollars in Millions)* | |
|---|---|
| Total risk exposure amount | 206,187 |
| Institution specific countercyclical capital buffer rate | 0.033% |
| Institution specific countercyclical capital buffer requirement | 68 |

Table 24. MLUKCH Group CCYB

MLUKCH Group CCYB - Exposures

| | General Credit Exposures | Trading Book Exposures | | Securitisation Exposures |
|---|---|---|---|---|
| *(Dollars in Millions)* | Exposure value for Standardised Approach | Sum of long and short positions of trading book exposures for Standardised Approach | Value of trading book exposures for internal models | Exposure value for Standardised Approach |
| Norway | 46 | 6 | 9 | - |
| Sweden | 721 | 3 | 1 | - |
| Hong Kong | 257 | 91 | 73 | - |
| Slovakia | - | - | - | - |
| Czech Republic | 29 | - | 1 | - |
| Iceland | - | - | - | - |
| United Kingdom | 8,974 | 790 | 47 | 341 |
| United States Of America | 13,208 | 297 | 97 | 61 |
| Other (own funds requirement individually less than $1bn) | 46,175 | 897 | 2,117 | 120 |
| Total | **69,410** | **2,084** | **2,345** | **522** |

MLUKCH Group CCYB - Own Fund Requirements

| *(Dollars in Millions)* | MLUKCH Group: Own Funds Requirements: of which: General credit exposures | of which: Trading book exposures | of which: Securitisation exposures | Total | Own funds requirements weights | Countercyclical Capital Buffer rate |
|---|---|---|---|---|---|---|
| Norway | 3 | 1 | - | 4 | 0.001 | 2.000% |
| Sweden | 46 | 24 | - | 70 | 0.010 | 2.000% |
| Hong Kong | 21 | 40 | - | 61 | 0.009 | 1.250% |
| Slovakia | - | - | - | - | 0.000 | 0.500% |
| Czech Republic | 2 | 0 | - | 2 | 0.000 | 0.500% |
| Iceland | - | - | - | - | 0.000 | 1.250% |
| United Kingdom | 688 | 251 | 236 | 1,175 | 0.171 | 0.000% |
| United States Of America | 994 | 107 | 30 | 1,131 | 0.165 | 0.000% |
| Other (own funds requirement individually less than $1bn) | 3,518 | 861 | 46 | 4,425 | 0.644 | 0.000% |
| Total | 5,272 | 1,284 | 312 | 6,868 | 1.000 | |

MLUKCH Group CCYB - Amount of institution-specific CCYB

| *(Dollars in Millions)* | |
|---|---|
| Total risk exposure amount | 206,643 |
| Institution specific countercyclical capital buffer rate | 0.033% |
| Institution specific countercyclical capital buffer requirement | 68 |

## 5.6 Capital Resources

Table 25 shows a reconciliation between the accounting balance sheet values and the regulatory capital values of the items included in MLI and the Group's Capital Resources. Further details on the composition of MLI and the Group's capital resources are shown in tables 26, 27 and 28.

Table 25. Regulatory Capital Resources Reconciliation to Accounting Balance Sheet

| *(Dollars in Millions)* | 2017 MLI | 2017 MLUKCH Group |
|---|---|---|
| Ordinary Share Capital | 7,933 | 2,926 |
| Share Premium | 4,499 | - |
| Capital Contribution | 9,193 | 1,082 |
| Profit and Loss Account | 13,987 | 30,261 |
| *Profit and Loss Account (Accounting Balance Sheet Value)* | *15,386* | *31,661* |
| *Dividends declared in respect of year end profits* | *(650)* | *(650)* |
| *Debit Valuation Adjustment* | *(220)* | *(220)* |
| *Prudential Valuation Adjustment* | *(529)* | *(530)* |
| Tier 1 Capital Before Deductions | 35,612 | 34,269 |
| *Deferred Tax Asset* | (420) | (420) |
| *Defined Benefit Pension Fund Asset (net of associated deferred tax liability)* | (403) | (403) |
| **Tier 1 Capital** | 34,789 | 33,446 |
| Subordinated Liabilities (After Regulatory Adjustments) | 436 | 1,473 |
| *Subordinated Liabilities (Accounting Balance Sheet Value)* | *1,479* | *2,649* |
| *Amortisation and Other Adjustments* | *(1,043)* | *(1,176)* |
| **Tier 2 Capital** | 436 | 1,473 |
| **Total Capital Resources (net of deductions)** | 35,225 | 34,919 |

## Table 26. MLUKCH Group Capital Instrument Features

| | | MLUKCH Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Capital Instruments Main Features | | CET1 | AT1 | T2 | T2 | T2 | T2 | T2 | T2 |
| 1 | Issuer | ML UK Capital Holdings | N/a | Merrill Lynch International | ML UK Capital Holdings | ML UK Capital Holdings | Merrill Lynch International | Merrill Lynch International | ML UK Capital Holdings |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | Private Placement | N/a | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement | Private Placement |
| 3 | Governing law(s) of the instrument | English | N/a | English | English | English | English | English | English |
| **Regulatory Treatment** | | | | | | | | | |
| 4 | Transitional CRR rules | CET1 | N/a | T2 | T2 | T2 | T2 | T2 | T2 |
| 5 | Post-transitional CRR rules | CET1 | N/a | T2 | T2 | T2 | T2 | T2 | T2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated | Consolidated | N/a | Solo and Consolidated | Consolidated | Consolidated | Solo and Consolidated | Solo and Consolidated | Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares with full voting rights | N/a | Subordinated Loan | Subordinated Loan | Subordinated Loan | Subordinated Loan | Subordinated Loan | Subordinated Loan |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | $2,926m comprising nominal and premium | N/a | USD 153m | USD 349m | USD 171m | USD 0m | USD 0m | USD 800m |
| 9 | Nominal amount of instrument | $1.00 | N/a | USD 676m | USD 1,000m | USD 171m | USD 1m | USD 1m | USD 800m |
| 9a | Issue price | $1.00 30 Dec 2015 | N/a | USD 676m | USD 1,000m | USD 171m | USD 1m | USD 1m | USD 800m |
| 9b | Redemption price | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 10 | Accounting classification | Shareholders equity | N/a | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 30-Dec-15 | N/a | 21-Jun-13 | 28-Sep-09 | 31-Mar-11 | 31-Jan-13 | 31-Mar-11 | 27-Nov-15 |
| 12 | Perpetual or dated | Perpetual | N/a | Dated | Dated | Dated | Dated | Dated | Dated |
| 13 | Original maturity date | No maturity | N/a | 21-Jun-19 | 28-Sep-19 | 21-Dec-30 | 31-Jan-19 | 31-Aug-18 | 27-Nov-26 |
| 14 | Issuer call subject to prior supervisory approval | No | N/a | No | No | No | No | No | No |
| 15 | Optional call date, contingent call dates and redemption amount | N/a | N/a | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. |
| 16 | Subsequent call dates, if applicable | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| **Coupons / Dividends** | | | | | | | | | |
| 17 | Fixed or floating dividend/coupon | N/a | N/a | Floating | Floating | Floating | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | N/a | N/a | 3month GBP LIBOR plus 213 bps per annum | 1month USD LIBOR plus 331 bps per annum | 1month USD LIBOR plus 337 bps per annum | 1month USD LIBOR plus 187 bps per annum | 1month USD LIBOR plus 328 bps per annum | 1month USD LIBOR plus 227 bps per annum |
| 19 | Existence of a dividend stopper | No | N/a | No | No | No | No | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | N/a | No | No | No | No | No | No |
| 22 | Noncumulative or cumulative | Non-cumulative | N/a | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | N/a | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 25 | If convertible, fully or partially | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 26 | If convertible, conversion rate | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 27 | If convertible, mandatory or optional conversion | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 28 | If convertible, specify instrument type convertible into | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 29 | If convertible, specify issuer of instrument it converts into | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 30 | Write-down features | No | N/a | No | No | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 32 | If write-down, full or partial | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 33 | If write-down, permanent or temporary | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 34 | If temporary write-down, description of write-up mechanism | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All subordinated liabilities - Columns 3-8 | N/a | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities |
| 36 | Non-compliant transitioned features | No | N/a | No | No | No | No | No | No |
| 37 | If yes, specify non-compliant features | N/a | N/a | N/a | N/a | N/a | N/a | N/a | N/a |

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

## Table 27. MLI Capital Instrument Features

| | | MLI | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Instruments Main Features** | **CET1** | **AT1** | **T2** | **T2** | **T2** | **T2** |
| 1 | Issuer | Merrill Lynch International | N/a | Merrill Lynch International | Merrill Lynch International | Merrill Lynch International | Merrill Lynch International |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | Private Placement | N/a | Private Placement | Private Placement | Private Placement | Private Placement |
| 3 | Governing law(s) of the instrument | English | N/a | English | English | English | English |
| **Regulatory Treatment** | | | | | | | |
| 4 | Transitional CRR rules | CET1 | N/a | T2 | T2 | T2 | T2 |
| 5 | Post-transitional CRR rules | CET1 | N/a | T2 | T2 | T2 | T2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated | Solo | N/a | Solo | Solo | Solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares with full voting rights | N/a | Subordinated Loan | Subordinated Loan | Subordinated Loan | Subordinated Loan |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | $12,432m comprising nominal and premium | N/a | USD 200m | USD 236m | USD 0m | USD 0m |
| 9 | Nominal amount of instrument | $1.00 | N/a | USD 676m | USD 800m | USD 1m | USD 1m |
| 9a | Issue price | $1.00 19 Dec 2012<br>$4.76 18 Nov 2014 | N/a | USD 676m | USD 800m | USD 1m | USD 1m |
| 9b | Redemption price | N/a | N/a | N/a | N/a | N/a | N/a |
| 10 | Accounting classification | Shareholders equity | N/a | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | $6,735m 19 Dec 2012<br>$1,198m 18 Nov 2014 | N/a | 21-Jun-13 | 21-Jun-13 | 31-Jan-13 | 31-Mar-11 |
| 12 | Perpetual or dated | Perpetual | N/a | Dated | Dated | Dated | Dated |
| 13 | Original maturity date | No maturity | N/a | 21-Jun-19 | 21-Jun-19 | 31-Jan-19 | 31-Aug-18 |
| 14 | Issuer call subject to prior supervisory approval | No | N/a | No | No | No | No |
| 15 | Optional call date, contingent call dates and redemption amount | N/a | N/a | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. | No issuer call date. However, may repay in whole or in part at par on any date if a Regulatory Event or Tax Event occurs, subject to prior supervisory approval. |
| 16 | Subsequent call dates, if applicable | N/a | N/a | N/a | N/a | N/a | N/a |
| **Coupons / Dividends** | | | | | | | |
| 17 | Fixed or floating dividend/coupon | N/a | N/a | Floating | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | N/a | N/a | 3month GBP LIBOR plus 213 bps per annum | 3month USD LIBOR plus 221 bps per annum | 1month USD LIBOR plus 187 bps per annum | 1month USD LIBOR plus 328 bps per annum |
| 19 | Existence of a dividend stopper | No | N/a | No | No | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | N/a | Mandatory | Mandatory | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | N/a | No | No | No | No |
| 22 | Noncumulative or cumulative | Non-cumulative | N/a | Cumulative | Cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | N/a | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/a | N/a | N/a | N/a | N/a | N/a |
| 25 | If convertible, fully or partially | N/a | N/a | N/a | N/a | N/a | N/a |
| 26 | If convertible, conversion rate | N/a | N/a | N/a | N/a | N/a | N/a |
| 27 | If convertible, mandatory or optional conversion | N/a | N/a | N/a | N/a | N/a | N/a |
| 28 | If convertible, specify instrument type convertible into | N/a | N/a | N/a | N/a | N/a | N/a |
| 29 | If convertible, specify issuer of instrument it converts into | N/a | N/a | N/a | N/a | N/a | N/a |
| 30 | Write-down features | No | N/a | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | N/a | N/a | N/a | N/a | N/a | N/a |
| 32 | If write-down, full or partial | N/a | N/a | N/a | N/a | N/a | N/a |
| 33 | If write-down, permanent or temporary | N/a | N/a | N/a | N/a | N/a | N/a |
| 34 | If temporary write-down, description of write-up mechanism | N/a | N/a | N/a | N/a | N/a | N/a |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All subordinated liabilities - Columns 3-6 | N/a | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities | All liabilities except the subordinated liabilities |
| 36 | Non-compliant transitioned features | No | N/a | No | No | No | No |
| 37 | If yes, specify non-compliant features | N/a | N/a | N/a | N/a | N/a | N/a |
| **(') Insert 'N/A' if the question is not applicable** | | | | | | | |

Table 28. Own Funds Disclosure Template

| Transitional Own Funds Disclosure Template | Amount at Disclosure Date | |
|---|---|---|
| | MLI | MLUKCH Group |
| Capital instruments and the related share premium accounts | 12,432 | 2,926 |
| of which: Ordinary shares with full voting rights | 12,432 | 2,926 |
| Retained earnings | 14,710 | 30,984 |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 9,219 | 1,108 |
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 36,361 | 35,018 |
| **Common Equity Tier 1 (CET1) Capital: Regulatory Adjustments** | | |
| Prudential valuation adjustment | (529) | (529) |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | (201) | (201) |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | (220) | (220) |
| Defined-benefit pension fund assets (negative amount) | (403) | (403) |
| Deferred tax assets arising from temporary differences | (219) | (219) |
| Total Regulatory Adjustments to Common Equity Tier 1 (CET1) | (1,572) | (1,572) |
| **Common Equity Tier 1 (CET1) Capital** | 34,789 | 33,446 |
| Additional Tier 1 (AT1) capital: Instruments | - | - |
| Tier 1 Capital (T1 = CET1 + AT1) | 34,789 | 33,446 |
| **Tier 2 (T2) Capital: Instruments and Provisions** | | |
| Capital instruments and the related share premium accounts | 436 | 1,319 |
| Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | - | 154 |
| Tier 2 (T2) Capital | 436 | 1,473 |
| **Total Capital (TC = T1 + T2)** | 35,225 | 34,919 |
| **Total Risk Weighted Assets** | 206,187 | 206,643 |
| **Capital Ratios and Buffers** | | |
| Common Equity Tier 1 (as a percentage of risk exposure amount) | 16.9% | 16.2% |
| Tier 1 (as a percentage of risk exposure amount) | 16.9% | 16.2% |
| Total Capital (as a percentage of risk exposure amount) | 17.1% | 16.9% |
| Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 5.8% | 5.8% |
| of which: capital conservation buffer requirement | 1.3% | 1.3% |
| of which: countercyclical buffer requirement | 0.0% | 0.0% |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 9.1% | 8.9% |
| **Amounts below the thresholds for deduction (before risk weighting)** | | |
| Direct, indirect and synthetic holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 2,518 | 2,518 |
| Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the insti-tution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 51 | - |
| **Applicable caps on the Inclusion of provisions In Tier 2** | | |
| Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap) | - | - |
| Cap on inclusion of credit risk adjustments in T2 under standardised approach | 114,305 | 114,150 |

There are no own funds items or adjustments that are subject to pre-regulation (EU) No 575 / 2013 treatment or prescribed residual amount of regulation (EU) No 575 / 2013 in MLI or the Group.

## 5.7 Leverage

### 5.7.1 Leverage Approach

The leverage ratio for a quarter end is calculated using regulatory capital and on / off balance sheet figures at a point in time. The measure of Tier 1 capital used in the computation of the Group's ratio is the same under both transitional and fully phased in definitions of Tier 1 capital per CRD IV.

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

### 5.7.2 Additional Detail on Leverage Ratio

Table 29. Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

| *(Dollars in Millions)* | MLI |
|---|---|
| Total Assets as per Balance Sheet | 394,113 |
| Adjustments for Derivative Financial Instruments | (14,791) |
| Adjustments for Securities Financing Transactions | 44,386 |
| Adjustment for Off-Balance Sheet Items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 594 |
| Other Adjustments | (9,032) |
| **Leverage Ratio Exposure** | **415,270** |

In accordance with article 4(2) of Regulation (EU) 2016/200 on the disclosure of leverage ratio, this table is not disclosed for the Group as the Group does not publish financial statements at the consolidated level.

Table 30. Leverage Ratio Common Disclosure

| *(Dollars in Millions)* | MLI | MLUKCH Group |
|---|---|---|
| **On-Balance Sheet Exposures (excluding derivatives and Secured Financing Transactions ("SFTs"))** | | |
| On-balance Sheet Items (excluding Derivatives, SFTs and fiduciary assets, but including Collateral) | 113,879 | 108,728 |
| Asset Amounts Deducted in Determining Tier 1 Capital | (1,353) | (1,353) |
| **Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)** | **112,526** | **107,375** |
| **Derivative Exposures** | | |
| Replacement Cost Associated with Derivatives Transactions (net of Eligible Cash Variation Margin) | 15,920 | 15,910 |
| Add-on Amounts for PFE Associated with Derivatives Transactions (Mark-to-Market method) | 115,488 | 115,499 |
| Exposure Determined under Original Exposure Method | - | - |
| Gross-up for Derivatives Collateral provided where deducted from the Balance Sheet Assets pursuant to the Applicable Accounting Framework | 48 | 48 |
| (Deductions of Receivables Assets for Cash Variation Margin provided in Derivatives Transactions) | (25,535) | (25,535) |
| (Exempted CCP leg of Client-Cleared Trade Exposures) | (12,406) | (12,406) |
| Adjusted Effective Notional Amount of Written Credit Derivatives | 191,288 | 191,287 |
| (Adjusted Effective Notional Offsets and Add-On Deductions for Written Credit Derivatives) | (141,627) | (141,626) |
| **Total Derivative Exposure** | **143,176** | **143,177** |
| **Securities Financing Transaction Exposures** | | |
| Gross SFT Assets (With No Recognition of Netting), after Adjusting for Sales Accounting Transactions | 206,597 | 206,597 |
| (Netted Amounts of Cash Payables and Cash Receivables of Gross SFT Assets) | (83,852) | (83,852) |
| Counterparty Credit Risk Exposure for SFT Assets | 36,229 | 36,257 |
| **Total Securities Financing Transaction Exposures** | **158,974** | **159,002** |
| **Off-Balance Sheet Exposures** | | |
| Off-balance Sheet Exposures at Gross Notional Amount | 5,055 | 4,480 |
| Adjustments for Conversion to Credit Equivalent Amounts | (4,461) | (3,944) |
| **Total Off-Balance Sheet Exposures** | **594** | **536** |
| **Exempted Exposures** | | |
| **Capital and Total Exposures** | | |
| Tier 1 Capital | 34,789 | 33,446 |
| **Total Leverage Ratio Exposures** | **415,270** | **410,090** |
| **Leverage Ratio** | | |
| Leverage Ratio | 8.4% | 8.2% |
| Leverage Ratio (avg of the monthly leverage ratios over the quarter) | | |
| **Choice on Transional Arrangements and Amount of Derecognised Fiduciary Items** | | |
| Choice on Transitional Arrangements for the Definition of the Capital Measure | Fully phased-in | Fully phased-in |

Table 31. Split of On-Balance Sheet Exposures (Excluding Derivatives, SFTs and exempted exposures)

| *(Dollars in Millions)* | MLI | MLUKCH Group |
|---|---|---|
| **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **83,008** | **77,859** |
| Trading Book Exposures | 64,143 | 63,877 |
| Banking Book Exposures, of which: | 18,865 | 13,980 |
| Exposures treated as Sovereigns | 4,090 | 4,091 |
| Exposures to Regional Governments, MDB, International Organisations and PSE not treated as Sovereigns | 95 | 95 |
| Institutions | 2,185 | 2,185 |
| Secured by Mortgages of Immovable Properties | 3 | 3 |
| Corporate | 7,943 | 3,085 |
| Exposures in Default | 22 | 22 |
| Other Exposures (Eg Equity, Securitisations, and other Non-Credit Obligation Assets) | 4,527 | 4,500 |

# 6. Additional Information on Remuneration Disclosure

## 6.1 Remuneration Disclosure

Remuneration disclosures are reported at a UK level in respect of the Remuneration Code and as required under CRD IV. These remuneration policies include the breakdown of remuneration of staff by business collectively for all BAC entities operating in the UK and are not specific to the Group or its subsidiaries.

These remuneration disclosures are separately published on BAC's corporate website (http://investor.bankofamerica.com) and should be deemed part of the Pillar 3 Disclosure for the Group.

# 7. Appendices

## Appendix I – MLUKCH and MLI Directors Board Membership and Experience

| | | No. Of Directorships | |
|---|---|---|---|
| | | Total | Excluding non-commercial and counting group appointments as one |
| **Martin Butler**<br>EMEA CFO | Joined the organisation in 1988, becoming CFO for European Debt in 1997. Further senior management roles followed, including head of Global Equity ISS and head of European Business Finance. CFO EMEA since the Bank of America - Merrill Lynch merger in 2009, assuming the additional role of International Treasury Executive in 2012. A member of the EMEA Executive Committee. Additional internal board memberships include Bank of America Merrill Lynch International Limited ("BAMLI Ltd"), MLI and Bank of America Merrill Lynch International Limited Designated Activity Company ("BAMLI DAC"). | 7 | 1 |
| **Bernard Mensah**<br>Co-Head of FICC Trading | Joined the organisation in 2011 to lead the Emerging Markets Global FICC Trading group, prior to becoming Head of EMEA FICC Trading in 2012. Was then appointed as Global Co-Head of FICC Trading in January 2015. Before joining the organisation, he was a Partner and Global Head of Bank Loans and Distressed Debt at Goldman Sachs. Also a member of the EMEA Executive Committee. Additional internal board memberships include BAMLI Ltd and MLI. | 3 | 1 |
| **Jennifer Taylor**<br>Head of EMEA Compliance and EMEA Operational Risk | Joined the organisation in 1997, responsible for the legal coverage of structured finance transactions. Held various General Counsel roles across Asia Pacific (APAC) before assuming the role of General Counsel for all Merrill Lynch businesses in the APAC region. Assumed the role of Chief Administration Officer for Asia in 2006, later being appointed COO of the region before returning to the UK to act as COO in EMEA. Appointed Head of EMEA Compliance and Operational Risk in March 2017. Also a member of the EMEA Executive Committee. Also board member of BAMLI DAC. | 3 | 1 |
| **Alex Wilmot-Sitwell**<br>EMEA President | Joined the organisation in 2012 as the president for EMEA. Responsible for the execution and development of the bank's business activities and support functions in the EMEA region. Based at the bank's European headquarters in London, he chairs the bank's EMEA Executive Committee and is a member of the Global Banking and Markets Committee. Additional internal board memberships include MLI, BAMLI DAC and BAMLI Ltd. | 4 | 1 |
| **Jan Przewozniak**<br>EMEA Chief Risk Officer | Joined the organisation in 2013, being appointed EMEA Deputy CRO in January 2014, prior to becoming EMEA CRO in September 2014. Over 30 years of banking and risk management experience, focussed on Emerging Markets, Financial Institutions and Corporate Credit Risk. Also a member of the EMEA Executive Committee. | 1 | 1 |

Note: The table outlines the directors that served at 27 March 2018.

### MLI Directors Board Membership and Experience

With the exception of Jan Przewozniak and Jennifer Taylor, the above directors of MLUKCH also serve on the MLI Board.

In addition, the following directors serve on the MLI Board:

| | | | |
|---|---|---|---|
| **Richard Keys**<br>Non Executive Director | A chartered accountant with international experience and over 30 years of senior management experience. Non-executive director, chairman of the Audit and Risk committee and member of the Nominations and Technical Review Committees of NATS Holding Limited; non-executive director and member of the Audit Committee, Remuneration and Nominations committees of Wessex Water Limited; non-executive director and Chair of the Audit and Risk Committee of the Department for International Development and non-executive director and chair delegate of the Group Audit and Risk Committee at the Department of Transport. Formerly a non-executive director, Chair of the Audit Committee and Risk Committee member at Sainsbury's Bank plc and Council member and Chair of the Audit Committee of the University of Birmingham. | 7 | 4 |
| **Susan Bies**<br>Chair / Non Executive Director | Current board member of BAC and BANA and a member of the Risk and Governance Committees. Board member of Zurich Insurance Group, chair of Risk Committee and member of Audit Committee. Member of Federal Reserve Board of Governors 2001-2007. Executive officer for First Tennessee National Corporation, including CFO, CRO, auditor, chair of asset/liability committee, 1979-2001. | 7 | 2 |
| **John Gollan**<br>Non Executive Director | A chartered accountant with international experience across banking, investment management, financial markets and management consultancy. Holds or has held non-executive directorships of various financial services organisations including Euronext, LIFFE, healthcare companies and higher education institutions. Board experience as an executive comprises four roles as CFO, two as CEO and one as Chairman. Also a board member of BAMLI Ltd. | 4 | 2 |
| **Claire Ighodaro CBE**<br>Non Executive Director | Chair of XL Catlin UK entities, Board Member and Audit Committee Chair of Flood Re and previously Board member and Audit Committee Chair of Lloyd's of London, Past President of the Chartered Institute of Management Accountants and member of the International Ethics Standards Board for Accountants. | 6 | 3 |
| **Rosemary Thorne**<br>Non Executive Director | Board member and Chair of the Audit Committee of Smurfit Kappa Group plc and board member Chair designate of the Audit Committee of Solvay SA. Previously non-executive directorship positions include Chair of Audit and Risk Committees of Santander UK plc, Senior Independent Director and Chair of the Audit Committee for Virgin Radio Holdings Limited, Chair of the Audit Committee for Royal Mail plc and for the Department for Education and Employment, and Cadbury Schweppes plc board member. Formerly executive director and CFO of J Sainsbury plc, Bradford & Bingley plc and Ladbrokes Coral Group plc and a member of the Financial Reporting Council. | 3 | 3 |
| **Julien Bahurel**<br>Head of Equities | Joined the organisation in 2013, becoming Head of Equities in 2014. He was formerly Global Head of Equity Derivatives Sales and Head of European Equity Distribution. Also a member of the Global Equities Senior Leadership Team, EMEA Executive Committee, EMEA Conduct Risk Council, EMEA Reputational Risk Committee, MLI Risk Management Committee and EMEA Regional Risk Committee. | 1 | 1 |

Note: The table outlines the directors that served at 27 March 2018.

## Appendix 2 – Supplementary Disclosure Templates

### Table 32. EU LI3 Outline of the Differences in the Scopes of Consolidation (Entity by Entity)

| Name of the entity | Method of accounting consolidation | Method of regulatory consolidation | | | | Description of the entity |
|---|---|---|---|---|---|---|
| | | Full consolidation | Proportional consolidation | Neither consolidated nor deducted | Deducted | |
| ML UK Capital Holdings Limited | Full consolidation | X | | | | Holding Company |
| Merrill Lynch International | Full consolidation | X | | | | Investment Firm |
| MLPF&S Ltd | Full consolidation | X | | | | Entity used for intercompany funding |
| Bank of America Merrill Lynch UK Pension Plan Trustees Limited | Full consolidation | X | | | | Trustee of the Bank of America Merrill Lynch UK Pension Plan and Merrill Lynch (UK) Defined Contribution Plan |
| Merrill Lynch Nominees Limited | Full consolidation | X | | | | Nominee company for affiliated companies |
| Citygate Nominees Limited | Full consolidation | X | | | | Nominee company for affiliated companies |
| S. N. C. Nominees Limited | Full consolidation | X | | | | Nominee company for affiliated companies |
| N.Y. Nominees Limited | Full consolidation | X | | | | Nominee company for affiliated companies |
| Chetwynd Nominees Limited | Full consolidation | X | | | | Nominee company for affiliated companies |
| Iceberg | Full consolidation | X | | | | Brazilian multi-market investment fund |
| Azusa Limited - Series 471 and 491 | Full consolidation | X | | | | Special purpose entity |
| Calculus CMBS 2006-4 | Full consolidation | X | | | | Special purpose entity |
| Libra A Limited - Series 81 | Full consolidation | X | | | | Special purpose entity |
| Pyxis LTD | Full consolidation | X | | | | Special purpose entity |
| Stratus Capital Public Limited Company - Series 4 | Full consolidation | X | | | | Special purpose entity |
| Ironwood Trustee (Pty) Ltd | Full consolidation | X | | | | Special purpose entity |
| Global Funding 22 and 23 | Full consolidation | X | | | | Special purpose entity |
| Libra Series 136 | Full consolidation | X | | | | Special purpose entity |

### Table 33. EU CRB-B Total and Average Net Amount of Exposures

| *(Dollars in Millions)* | Net value of exposures at the end of the period | Average net exposures over the period |
|---|---|---|
| Central governments or central banks | 4,000 | 7,782 |
| Institutions | 3,586 | 4,057 |
| Corporates | 10,669 | 10,631 |
| Claims on institutions and corporate with a short-term credit assessment | 3,922 | 3,256 |
| Other exposures | 196 | 205 |
| **Total** | **22,373** | **25,931** |

## Table 34. EU CRB-C Geographical Breakdown of Exposures

| | 2017 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EMEA | United Kingdom | Luxembourg | France | Other EMEA Countries [1] | Americas | United States Of America | Other American Countries [1] | Asia | Singapore | Other Asia Countries [1] | Total |
| *(Dollars in Millions)* | Net value | | | | | | | | | | | |
| Central governments or central banks | **3,968** | 1,456 | - | 1,735 | 777 | **-** | - | - | **32** | - | 32 | **4,000** |
| Institutions | **2,280** | 70 | 750 | - | 1,460 | **109** | 73 | 36 | **1,197** | 1,030 | 167 | **3,586** |
| Corporates | **8,869** | 6,544 | 1,402 | 24 | 899 | **1,481** | 1,341 | 140 | **319** | 2 | 317 | **10,669** |
| Claims on institutions and corporate with a short-term credit assessment | **393** | 29 | - | 79 | 285 | **3,403** | 3,403 | - | **126** | - | 126 | **3,922** |
| Other exposures | **91** | 25 | 1 | 6 | 59 | **99** | 44 | 55 | **6** | 1 | 5 | **196** |
| Total | 15,601 | 8,124 | 2,153 | 1,844 | 3,480 | 5,092 | 4,861 | 231 | 1,680 | 1,033 | 647 | 22,373 |

[1] Only countries which have exposures greater than $1bn have been disclosed separately. Other countries within a given region have been aggregated together as "Other Countries"

## Table 35. EU CRB-D Concentration of Exposures by Industry or Counterparty Types

| *(Dollars in Millions)* | Bank | Broker Dealer | Other Financial | Sovereign & Government Related | Other | Total |
|---|---|---|---|---|---|---|
| Central governments or central banks | - | - | - | 4,000 | - | **4,000** |
| Institutions | 1,537 | 2,049 | - | - | - | **3,586** |
| Corporates | 78 | 1,239 | 8,858 | - | 493 | **10,669** |
| Claims on institutions and corporate with a short-term credit assessment | 3,276 | 646 | - | - | - | **3,922** |
| Other exposures [1] | 38 | 6 | 126 | 3 | 24 | **196** |
| **Total** | **4,929** | **3,940** | **8,984** | **4,003** | **517** | **22,373** |

[1] Industry classification of "Other" comprises of, Energy & Commodities, Industrial & Commercial, Insurance and Central Counterparties

## Table 36. EU CRB-E Maturity of Exposures

| | 2017 | | | | |
|---|---|---|---|---|---|
| | On demand | <= 1 year | > 1 year <= 5 years | > 5 years & No stated maturity | Total |
| *(Dollars in Millions)* | Net exposure value | | | | |
| Central governments or central banks | 704 | 3,295 | - | 1 | **4,000** |
| Institutions | 799 | 399 | 312 | 28 | **1,538** |
| Corporates | 318 | 6,867 | 289 | 188 | **7,662** |
| Claims on institutions and corporate with a short-term credit assessment | 3,838 | 84 | - | - | **3,922** |
| Other exposures | 1 | 12 | 4 | 179 | **196** |
| **Total** | **5,660** | **10,657** | **605** | **396** | **17,318** |

## Table 37. EU CR1-A Credit quality of Exposures by Exposure Class and Instrument

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| *(Dollars in Millions)* | Defaulted exposures | Non-defaulted exposures | | | | | |
| Central governments or central banks | 2 | 4,000 | - | - | - | - | 4,002 |
| Institutions | 11 | 3,586 | - | - | - | - | 3,597 |
| Corporates | 7 | 10,669 | - | - | - | - | 10,676 |
| Claims on institutions and corporate with a short-term credit assessment | - | 3,922 | - | - | - | - | 3,922 |
| Other exposures | 2 | 174 | - | - | - | - | 176 |
| Exposures in default [(1)] | 22 | - | - | - | - | - | 22 |
| **Total** | **22** | **22,351** | **-** | **-** | **-** | **-** | **22,373** |
| of which: Loans | 1 | 6,594 | - | - | - | - | 6,595 |
| of which: Debt Securities | 21 | 4,021 | - | - | - | - | 4,042 |
| of which: Off-balance-sheet exposures | - | 5,055 | - | - | - | - | 5,055 |

[(1)] In line with EBA guidance, Defaulted exposures are shown both as "Exposures in Default" and in the Exposure Class that corresponded to the exposure before default. Any duplication is not included in the "Total" row

## Table 38. EU CR1-B Credit Quality of Exposures by Industry or Counterparty Types

| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | Defaulted exposures | Non-defaulted exposures | | | | | |
| Bank | 11 | 4,918 | - | - | - | - | 4,929 |
| Broker Dealer | - | 3,940 | - | - | - | - | 3,940 |
| Other Financial | 2 | 8,982 | - | - | - | - | 8,984 |
| Sovereign & Government Related | 3 | 4,000 | - | - | - | - | 4,003 |
| Other [(1)] | 6 | 511 | - | - | - | - | 517 |
| Total | **22** | **22,351** | **-** | **-** | **-** | **-** | **22,373** |

[(1)] Industry classification of "Other" comprises of, Energy & Commodities, Industrial & Commercial, Insurance and Central Counterparties

### Table 39. EU CR1-C Credit Quality of Exposures by Geography

| (Dollars in Millions) | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | | | |
| **EMEA** | **13** | **15,588** | **-** | **-** | **-** | **-** | **15,601** |
| United Kingdom | - | 8,124 | - | - | - | - | 8,124 |
| Luxembourg | - | 2,153 | - | - | - | - | 2,153 |
| France | - | 1,844 | - | - | - | - | 1,844 |
| Other EMEA Countries [1] | 13 | 3,467 | - | - | - | - | 3,480 |
| **Americas** | **5** | **5,087** | **-** | **-** | **-** | **-** | **5,092** |
| United States Of America | 2 | 4,859 | - | - | - | - | 4,861 |
| Other Americas Countries [1] | 3 | 228 | - | - | - | - | 231 |
| **Asia** | **4** | **1,676** | **-** | **-** | **-** | **-** | **1,680** |
| Singapore | - | 1,033 | - | - | - | - | 1,033 |
| Other Asia Countries [1] | 4 | 643 | - | - | - | - | 647 |
| **Other Geographical Areas** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **22** | **22,351** | **-** | **-** | **-** | **-** | **22,373** |

[1] Only countries which have exposures greater than $1bn have been disclosed separately. Other countries within a given region have been aggregated together as "Other Countries"

No template for EU CR1-D Ageing of Past-Due Exposures is included in document because there are no balances past due to disclose.

### Table 40. EU CR1-E Non-Performing and Forborne Exposures

| (Dollars in Millions) | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collateral and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Loans | 6,595 | - | - | 1 | 1 | - | - | - | - | - | - | - | - |
| Debt Securities | 4,042 | - | - | 21 | 21 | - | - | - | - | - | - | - | - |
| Off-balance-sheet exposures | 5,055 | - | - | - | - | - | - | - | - | - | - | - | - |

No template for EU CR2-A Changes in Stock of General and Specific Credit Risk Adjustment is included in the document because there are no credit risk adjustments to disclose.

### Table 41. EU CR2-B Changes in the Stock of Defaulted and Impaired Loans and Debt Securities

| (Dollars in Millions) | Gross carrying value defaulted exposures |
|---|---|
| **Opening balance** | **31** |
| Loans and debt securities that have defaulted or impaired since the last reporting period | - |
| Returned to non-defaulted status | - |
| Amounts written off | - |
| Other changes | (9) |
| **Closing balance** | **22** |

### Table 42. EU CR3 CRM Techniques – Overview

| (Dollars in Millions) | 2017 | | | | |
|---|---|---|---|---|---|
| | Exposures unsecured – Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
| Total loans | 1,903 | - | 4,692 | - | - |
| Total debt securities | 4,042 | - | - | - | - |
| **Total exposures** | **5,945** | **-** | **4,692** | **-** | **-** |
| Of which defaulted | 22 | - | - | - | - |

Table 43. EU CR4 Standardised approach – Credit Risk Exposure and CRM Effects

| | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 4,000 | - | 4,000 | - | 8 | 0% |
| Regional governments or local authorities | - | - | - | - | - | 0% |
| Public sector entities | - | - | - | - | - | 0% |
| Multilateral development banks | - | - | - | - | - | 0% |
| International organisations | - | - | - | - | - | 0% |
| Institutions | 1,538 | 2,048 | 1,514 | 34 | 1,334 | 86% |
| Corporates | 7,662 | 3,007 | 3,019 | 74 | 3,098 | 100% |
| Retail | - | - | - | - | - | 0% |
| Secured by mortgages on immovable property | 3 | - | 3 | - | 3 | 100% |
| Exposures in default | 22 | - | 22 | - | 33 | 150% |
| Items associated with particularly high risk | 107 | - | 107 | - | 161 | 150% |
| Covered bonds | - | - | - | - | - | 0% |
| Claims on institutions and corporate with a short-term credit assessment | 3,922 | - | 3,922 | - | 2,170 | 55% |
| Collective investments undertakings | - | - | - | - | - | 0% |
| Equity exposures | 51 | - | 51 | - | 127 | 250% |
| Other Items | 13 | - | 13 | - | 13 | 100% |
| **Total** | **17,318** | **5,055** | **12,651** | **108** | **6,947** | **54%** |

## Table 44. EU CR5 Standardised Approach

| | Risk Weight | | | | | | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| Central governments or central banks | 3,966 | - | - | - | 32 | - | - | - | - | 2 | - | - | - | - | - | - | **4,000** | 1 |
| Regional governments or local authorities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Public sector entities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Institutions | - | - | - | - | 938 | - | 314 | - | - | 236 | - | - | - | 60 | - | - | **1,548** | 451 |
| Corporates | - | - | - | - | 4 | - | - | - | - | 3,073 | 16 | - | - | - | - | - | **3,093** | 2,984 |
| Retail | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Secured by mortgages on immovable property | - | - | - | - | - | - | - | - | - | 3 | - | - | - | - | - | - | **3** | 3 |
| Exposures in default | - | - | - | - | - | - | - | - | - | - | 22 | - | - | - | - | - | **22** | 12 |
| Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | 107 | - | - | - | - | - | **107** | 80 |
| Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Claims on institutions and corporate with a short-term credit assessment | - | - | - | - | - | - | 3,667 | - | - | 91 | 164 | - | - | - | - | - | **3,922** | - |
| Collective investments undertakings | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Equity exposures | - | - | - | - | - | - | - | - | - | - | - | 51 | - | - | - | - | **51** | 51 |
| Other Items | - | - | - | - | - | - | - | - | - | 13 | - | - | - | - | - | - | **13** | 13 |
| **Total** | **3,966** | **-** | **-** | **-** | **974** | **-** | **3,981** | **-** | **-** | **3,418** | **309** | **51** | **-** | **60** | **-** | **-** | **12,759** | **3,595** |

## Table 45. EU CCR1 Analysis of CCR Exposure by Approach

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | Notional | Replacement Cost/Current market value | Potential future credit exposure | EEPE | Multiplier | EAD post CRM | RWAs |
| Mark to market | | 36,739 | 232,098 | | | 106,830 | 52,141 |
| Original exposure | - | | | | | n/a | n/a |
| Standardised approach | | - | | | - | n/a | n/a |
| IMM (for derivatives & SFTs) | | | | - | - | n/a | n/a |
| Financial collateral simple method (for SFTs) | | | | | | n/a | n/a |
| Financial collateral comprehensive method (for SFTs) | | | | | | 75,509 | 49,539 |
| VaR for SFTs | | | | | | n/a | n/a |
| **Total** | | | | | | | 101,680 |

## Table 46. EU CCR2 CVA Capital Charge

| | 2017 | |
|---|---|---|
| *(Dollars in Millions)* | Exposure value | RWAs |
| Total portfolios subject to the advanced method | - | - |
| (i) VaR component (including the 3× multiplier) | - | - |
| (ii) SVaR component (including the 3× multiplier) | - | - |
| All portfolios subject to the standardised method | 63,998 | 28,201 |
| Based on the original exposure method | - | - |
| **Total subject to the CVA capital charge** | **63,998** | **28,201** |

## Table 47. EU CCR8 Exposures to CCPs

| | 2017 | |
|---|---|---|
| *(Dollars in Millions)* | EAD post CRM | RWAs |
| **Exposures to QCCPs (total)** | | **1,840** |
| Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 32,688 | 655 |
| (i) OTC derivatives | 15,476 | 310 |
| (ii) Exchange-traded derivatives | 12,636 | 253 |
| (iii) SFTs | 4,576 | 92 |
| (iv) Netting sets where cross-product netting has been approved | - | - |
| Segregated initial margin | - | |
| Non-segregated initial margin | 5,470 | 109 |
| Prefunded default fund contributions | 1,306 | 1,076 |
| Alternative calculation of own funds requirements for exposures | - | 5,485 |
| **Exposures to non-QCCPs (total)** | | **-** |

### Table 48. EU CCR3 Standardised Approach – CCR Exposures by Regulatory Portfolio and Risk

| | Risk Weight | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in Millions)* | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | | |
| Central governments or central banks | 8,093 | - | - | - | 303 | 18 | - | - | 8,237 | - | - | **16,651** | 13,677 |
| Regional governments or local authorities | - | - | - | - | 169 | 6 | - | - | 219 | - | - | **394** | 394 |
| Public sector entities | - | - | - | - | 3,519 | - | - | - | 140 | - | - | **3,659** | 3,659 |
| Multilateral development banks | 745 | - | - | - | 11 | 6 | - | - | - | - | - | **762** | - |
| International organisations | 39 | - | - | - | - | - | - | - | - | - | - | **39** | 39 |
| Institutions | - | 40,599 | - | - | 16,622 | 27,795 | - | - | 939 | 1 | - | **85,956** | 50,178 |
| Corporates | - | - | - | - | 1,754 | 3,298 | - | - | 59,463 | 140 | - | **64,655** | 57,744 |
| Retail | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| Claims on institutions and corporate with a short-term credit assessment | - | - | - | - | 481 | 24,267 | - | - | 2,058 | 2,008 | - | **28,814** | - |
| Other Items | - | - | - | - | - | - | - | - | - | - | - | **-** | - |
| **Total** | **8,877** | **40,599** | **-** | **-** | **22,859** | **55,390** | **-** | **-** | **71,056** | **2,149** | **-** | **200,930** | **125,691** |

### Table 49. EU CCR5-A Impact of Netting and Collateral Held on Exposure Values

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross positive fair value or net carrying amount | Netting benefits | | Netted current credit exposure | Collateral held | | Net credit exposure |
| *(Dollars in Millions)* | | Applied | Not Applied | | Used | Not Used | |
| Derivatives | 248,954 | (212,215) | (694) | 36,739 | (27,414) | (22,874) | 9,325 |
| SFTs | 487,135 | (448,958) | (24,494) | 38,177 | - | (28,309) | 38,177 |
| **Total** | **736,089** | **(661,173)** | **(25,188)** | **74,916** | **(27,414)** | **(51,183)** | **47,502** |

These values can differ from the accounting balance sheet for example, due to differences in netting and off balance sheet items.

### Table 50. EU CCR5-B Composition of Collateral for Exposures to CCR

| | Collateral used in derivative transactions | | Collateral used in SFTs | |
|---|---|---|---|---|
| *(Dollars in Millions)* | Fair Value of collateral received | Fair Value of collateral posted | Fair Value of collateral received | Fair Value of collateral posted |
| Cash | 41,751 | 39,573 | 199,107 | 240,363 |
| Non Cash | 13,453 | 8,310 | 324,543 | 246,772 |
| **Total** | **55,204** | **47,883** | **523,650** | **487,135** |

### Table 51. EU CCR6 Credit Derivatives Exposures

| | Credit derivative hedges | | Other credit derivatives |
|---|---|---|---|
| *(Dollars in Millions)* | Protection bought | Protection sold | |
| **Notionals** | | | |
| Single-name credit default swaps | 11,779 | 10,612 | 151,587 |
| Index credit default swaps | 6,909 | 2,272 | 178,703 |
| Other credit derivatives | 579 | - | 24,092 |
| **Total Notional** | **19,267** | **12,884** | **354,382** |
| **Fair Values** | - | - | - |
| Positive fair value (asset) | 1,483 | 107 | 5,881 |
| Negative fair value (liability) | (245) | (744) | (5,473) |

## Appendix 3 – Index

| Article | Article Name | Article Reference Detail | Description | Document Reference | Page Number(s) |
|---|---|---|---|---|---|
| 431 | Scope of disclosure requirements | 431(1) | Requirement to publish Pillar 3 disclosures | MLI and MLUKCH Group publish Pillar 3 disclosures | n/a |
| | | 431(2) | Firms with permission to use specific operational risk methodologies must disclose operational risk information | Not Applicable | n/a |
| | | 431(3) | Institutions shall adopt a formal policy to comply with the disclosure requirements in Part Eight of CRR | Section 1.3 Disclosure Policy | 7 |
| | | 431(4) | Explanation of ratings decision upon request | Not Applicable | n/a |
| 432 | Non-material, proprietary or confidential information | 432(1) | Institutions may omit information that is not material if certain conditions are respected | Where disclosures are omitted on the basis of materiality it is stated in the relevant document sections | n/a |
| | | 432(2) | Institutions may omit information that is proprietary or confidential if certain conditions are respected | Not applicable | n/a |
| | | 432(3) | Where 432(2) applies this must be stated in the disclosures, and more general information must be disclosed | Not applicable | n/a |
| | | 432(4) | Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information | Not applicable | n/a |
| 433 | Frequency of disclosure | 433 | Disclosures must be published once a year at a minimum, and more frequently if necessary | MLI and MLUKCH Group publish Pillar 3 disclosures annually at minimum, with quarterly disclosures also published in accordance with EBA guidelines EBA/GL/2014/14 | n/a |
| 434 | Means of disclosures | 434(1) | To include all disclosures in one appropriate medium, or provide clear cross-references | All of the Pillar 3 disclosures required under Part Eight of CRR are included in this document with the exception of the disclosure for remuneration policy required under CRR article 450. The remuneration disclosure is published seperately and is signposted in Section 6. (Additional Information on Remuneration Disclosure) of this document. | n/a |
| | | 434(2) | Disclosures made under other requirements (e.g. accounting) can be used to satisfy the Pillar 3 disclosure requirements if appropriate | Not Applicable | n/a |
| 435 | Risk management objectives and policies | 435(1)(a)-(d) | Objectives and policies for each separate category of risk | Section 4. Risk Management, Objectives and Policy | 22 |
| | | 435(1)(e) | Risk declaration | Section 4.2.5 Risk Governance | 26 |
| | | 435(1)(f) | Risk statement | Section 4.2.2 Risk Profile and Appetite | 24 |
| | | 435(2)(a) | Number of directorships held by Board members | Appendix I – Directors Board Membership and Experience | 66 |
| | | 435(2)(b) | Directors' knowledge, skills and experience | Appendix I – Directors Board Membership and Experience | 66 |
| | | 435(2)(b)-(c) | Board recruitment and diversity policy | Section 4.2.5 Risk Governance | 26 |
| | | 435(2)(d)-(e) | Risk committees and risk information | Section 4.2.5 Risk Governance | 26 |
| | | | | Figure 5. MLI Risk Governance Structure | 27 |
| 436 | Scope of application | 436(a) | Name of institution | Section 1.1 Overview and Purpose of Document | 6 |
| | | 436(b) | Basis of consolidation | Section 1.2 Basis of Preparation | 7 |
| | | | | Table 4. EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories | 13 |
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| | | | | Table 32. EU LI 3 - Outlines of the differences in the scope of consolidation – entity by entity | 67 |
| | | | | Explanations of Differences between Accounting and Regulatory Exposure Amounts | 14 |
| | | 436(c) | Impediments to transfer of own funds between parent and subsidiaries | 2.1.3 Transferability of Capital within the Group | 11 |
| | | 436(d) | Capital shortfalls in any subsidiaries outside the scope of consolidation | Not Applicable | n/a |
| | | 436(e) | Use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries | Not Applicable | n/a |
| 437 | Own funds | 437(1)(a) | Reconciliation of regulatory capital amounts to balance sheet | Table 25: Regulatory Capital Resources Reconciliation to Accounting Balance Sheet | 57 |
| | | 437(1)(b) | Description of the main features of Capital Instruments issued | Table 26: MLUKCH Group Capital Instrument Features; Table 27: MLI Capital Instrument Features | 58, 59 |
| | | 437(1)(c) | Full terms and conditions of Capital Instruments issued | | |
| | | 437(1)(d)-(e) | Disclosure of prudential filters, deductions, and any restrictions applied to the calculation of own funds | Table 28: Own Funds Disclosure Template | 60 |
| | | 437(1)(f) | Where institutions disclose capital ratios calculated using elements of own funds determined on a different basis | Not Applicable | n/a |
| 438 | Capital requirements | 438(a) | Approach to assessing adequacy of capital levels | Section 4.4: Internal Capital Adequacy Assessment Process ("ICAAP") | 41 |
| | | 438(b) | Result of ICAAP on demand from authorities. | Not Applicable | n/a |
| | | 438(c) | Capital requirement amounts for credit risk for each Standardised approach exposure class. | Table 2: EU OV1 – RWAs and Minimum Capital Requirement<br>Table 43. EU CR4 Standardised approach – Credit Risk Exposure and CRM Effects | 12, 71 |
| | | 438(d) | Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class | Not Applicable | n/a |
| | | 438(e) | Capital requirements amounts for market risk, settlement risk, or large exposures | Table 2: EU OV1 – RWAs and Minimum Capital Requirement | 12 |
| | | 438(f) | Capital requirement amounts for operational risk | | |
| | | 438 last paragraph | Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach | Not Applicable | n/a |

| Article | Article Name | Article Reference Detail | Description | Document Reference | Page Number(s) |
|---|---|---|---|---|---|
| 439 | Exposure to counterparty credit risk | 439(a) | Discussion of process to assign internal capital and credit limits to CCR exposures | Section 4. Risk Management, Objectives and Policy | 22 |
| | | 439(b) | Discussion of process to secure collateral and establishing reserves | | |
| | | 439(c) | Discussion of management of wrong-way exposures | 4.4 Other Risk Considerations | 40 |
| | | 439(d) | Discussion of collateral to be provided in the event of a ratings downgrade | | |
| | | 439(e) | Derivation of net derivative credit exposure | Table 49: EU CCR5-A – Impact of netting and collateral held on exposure values | 74 |
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| | | 439(e) and (f) | Derivation of derivative exposures and exposure values for applicable counterparty credit risk methods | Table 45: EU CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach | 73 |
| | | | | Table 46: EU CCR2 – Credit valuation adjustment (CVA) capital charge | 73 |
| | | | | Table 47: EU CCR8 – Exposures to central counterparties | 73 |
| | | 439(g) and (h) | Notional amounts of credit derivatives | Table 51: EU CCR6 – Credit derivatives exposures | 75 |
| | | 439(i) | Estimate of alpha, if applicable | Not Applicable | n/a |
| 440 | Capital buffers | 440 | Countercyclical buffer | Table 23: MLI Countercyclical Capital Buffer;<br>Table 24: MLUKCH Group Countercyclical Capital Buffer | 56 |
| 441 | Indicators of global systemic importance | 441 | Disclosure of the indicators of global systemic importance | Not required for UK firms that are not G-SIIs | n/a |
| 442 | Credit risk adjustments | 442(a) | Definitions of past due and impaired | Section 5.3.4: Credit Quality of Assets | 52 |
| | | 442(b) | Approaches for calculating specific and general credit risk adjustments | | |
| | | 442(c) | Total and average net credit risk exposures pre-CRM and by exposure class | Table 33: EU CRB-B – Total and average net amount of exposures<br>Table 37: EU CR1-A – Credit quality of exposures by exposure classes and instruments | 67, 69 |
| | | 442(d) | Geographical breakdown of credit risk exposures pre-CRM and by exposure class | Table 34: EU CRB-C – Geographical breakdown of exposures | 68 |
| | | 442(e) | Industry breakdown of credit risk exposures pre-CRM and by exposure class | Table 35: EU CRB-D – Concentration of exposures by industry or counterparty types | 68 |
| | | 442(f) | Breakdown of credit risk exposures pre-CRM by residual maturity and exposure class | Table 36: EU CRB-E – Maturity of exposures | 69 |
| | | 442(g) | Impaired and past due exposures, specific and general credit risk adjustments, and impairment charges for the period, by industry | Table 37: EU CR1-A – Credit quality of exposures by exposure classes and instruments<br>Table 38: EU CR1-B – Credit quality of exposures by industry or counterparty types<br>Table 39: EU CR1-C – Credit quality of exposures by geography<br>Table 40: EU CR1-E – Non-performing and forborne exposures | 69, 70 |
| | | 442(h) | Impaired and past due exposures, and amounts of specific and general credit risk adjustments by geographical area | | |
| | | 442(i) | Reconciliation of changes in specific and general credit risk adjustments for impaired exposures | Table 41: EU CR2-B – Changes in stock of defaulted loans and debt securities | 70 |
| 443 | Unencumbered assets | 443 | Encumbered and unencumbered assets | Section 3.2 Encumbered and Unencumbered Assets | 18 |
| 444 | Use of ECAIs | 444(a) | Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes | Section 2.2.3 Minimum Capital Requirement Approach;<br>5.3.1 Counterparty and Credit Risk by Type;<br>5.3.3 Counterparty and Credit Exposure by Credit Quality Step | 12, 49, 50 |
| | | 444(b) | Exposure classes associated with each ECAI | | |
| | | 444(c) | Description of the process used to transfer credit assessments to non-trading book items | | |
| | | 444(d) | Mapping of external rating to CQS | 5.3.3 Counterparty and Credit Exposure by Credit Quality Step | 50 |
| | | 444(e) | Exposure value pre and post-credit risk mitigation, by CQS | Table 44. EU CR5 – Standardised approach<br>Table 48. EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk | 72, 74 |
| 445 | Exposure to market risk | 445 | Position risk, large exposures, FX, settlement risk, commodities risk and specific interest rate risk of securitisation positions | Table 11. EU MR 1 Market Risk under the Standardised Approach<br>Table 2: EU OV1 – RWAs and Minimum Capital Requirement | 44, 12 |
| 446 | Operational risk | 446 | Approaches used to calculate own funds requirements for operational risk | Section 2.2.3 Minimum Capital Requirement Approach | 12 |
| 447 | Exposures in equities not included in the trading book | 447 | Exposures in equities not included in the trading book | Section 4.4 Other Risk Considerations | 40 |
| 448 | Exposure to interest rate risk on positions not included in the trading book | 448 | Exposure to interest rate risk on positions not included in the trading book | Section 4.4 Other Risk Considerations | 40 |

| Article | Article Name | Article Reference Detail | Description | Document Reference | Page Number(s) |
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| 449 | Exposure to securitisation positions | 449(a) | Objectives in relation to securitisation activity | Section 5.4.1 Securitisation Activities | 52 |
| | | 449(b) | Nature of other risks in securitised assets, including liquidity | Section 4.4 Other Risk Considerations - Securitisation Risk Governance and Reporting | 41 |
| | | 449(c) | Risks in re-securitisation activity from seniority of underlying securitisations and underlying assets | | |
| | | 449(d) | The different roles played by the institution in the securitisation process | Section 5.4.1 Securitisation Activities | 52 |
| | | 449(e) | Indication of the extent of involvement in roles played | | |
| | | 449(f) | Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures | Section 4.4 Other Risk Considerations - Securitisation Risk Governance and Reporting | 41 |
| | | 449(g) | Description of the institution's policies with respect to hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures | Not applicable. MLI has no retained exposures. | n/a |
| | | 449(h) | Approaches to the calculation of risk-weighted assets for securitisations | Section 5.4.2 Regulatory Capital Treatment | 52 |
| | | 449(i) | Types of SSPEs used to securitise third-party exposures as a sponsor | Not applicable. MLI does not currently act as sponsor. | n/a |
| | | 449(j) | Summary of accounting policies for securitisations | Section 5.4.3 Accounting Treatment | 53 |
| | | 449(k) | Names of the ECAIs used for securitisations | Section 5.4.2 Regulatory Capital Treatment | 52 |
| | | 449(l) | Description of Internal Assessment Approach where the IRB approach is used | Not applicable. MLI uses standardised approach not IRB. | n/a |
| | | 449(m) | Explanation of significant changes in quantitative disclosures | For any changes that are significant in quantitative disclosures, key movements are explained where applicable under the relevant tables | n/a |
| | | 449(n) | As appropriate, separately for the Banking and trading book securitisation exposures: | | n/a |
| | | 449(n)(i) | Amount of outstanding exposures securitised | Table 19. Outstanding Exposures Securitised (Originator) | 54 |
| | | 449(n)(ii) | On balance sheet securitisation retained or purchased, and off balance sheet exposures | Table 20. Current Exposure by Exposure Type to Securitisations | 54 |
| | | 449(n)(iii) | Amount of assets awaiting securitisation | None | n/a |
| | | 449(n)(iv) | Early amortisation treatment; aggregate drawn exposures, capital requirements | Not applicable. See Section 5.4.5 Securitisation Exposures. | n/a |
| | | 449(n)(v) | Deducted or 1,250%-weighted securitisation positions | Table 21. Securitisation Positions Risk Weighted at 1,250% | 55 |
| | | 449(n)(vi) | A summary of securitisation activity of the current period, including the amount of exposures securitised and recognised gains or losses on sales | Section 5.4.1 Securitisation Activities | 52 |
| | | 449(o) | Separately for the trading and the non-trading book: | Table 22. Securitisation Exposures and Capital Requirements by Credit Quality | 55 |
| | | 449(o)(i) | Retained and purchased positions and associated capital requirements, broken down by risk-weight bands | | |
| | | 449(o)(ii) | Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by credit worthiness | | |
| | | 449(p) | Impaired assets and recognised losses related to exposures securitised by the institution and held in the banking book, by exposure type. | Not applicable. All trading book and non-trading book exposures originated and securitised by MLI have been derecognised. | n/a |
| | | 449(q) | Outstanding exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional and synthetic, by exposure type; | | |
| | | 449(r) | Whether the institution has provided non-contractual financial support to securitisation vehicles | No non-contractual financial support provided | n/a |
| 450 | Remuneration policy | 450 | Remuneration Disclosure | Section 6.1 Remuneration Disclosure | 64 |

| Article | Article Name | Article Reference Detail | Description | Document Reference | Page Number(s) |
|---|---|---|---|---|---|
| 451 | Leverage | 451(1)(a) | The leverage ratio, and whether any transitional provisions are applied | Section 2.5.1 Leverage Ratio Summary<br>Table 6. Transitional and Fully Phased-In Leverage Ratio | 15, 16 |
| | | 451(1)(b) | Breakdown of leverage ratio exposure measure and reconciliation to financial statements | Table 29. Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures<br>Table 30. Leverage Ratio Common Disclosure<br>Table 31. Split of On-Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures) | 61, 62 |
| | | 451(1)(c) | Where applicable, the amount of derecognised fiduciary items | Not Applicable | n/a |
| | | 451(1)(d) | Description of the processes used to manage the risk of excessive leverage | Section 5.7.1 Leverage Approach | 61 |
| | | 451(1)(e) | Factors that impacted the leverage ratio during the year | Section 2.5.2 Leverage Ratio Key Movements | 16 |
| 452 | Use of the IRB Approach to credit risk | 452(a) | Permission for use of the IRB approach from the competent authority | Not applicable.<br>MLI does not usethe IRB approach. | n/a |
| | | 452(b) | Explanation of: | | |
| | | 452(b)(i) | Internal rating scales, mapped to external ratings; | | |
| | | 452(b)(ii) | Use of internal ratings for purposes other than capital requirement calculations; | | |
| | | 452(b)(iii) | Management and recognition of credit risk mitigation; | | |
| | | 452(b)(iv) | Controls around ratings systems. | | |
| | | 452(c)(i)-(v) | Description of ratings processes for each IRB asset class, provided separately. | | |
| | | 452(d) | Exposure values by IRB exposure class, separately for Advanced and Foundation IRB. | | |
| | | 452(e)-(f) | For each exposure class, disclosed separately by obligor grade: Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight. | | |
| | | 452(g) | Actual specific risk adjustments for the period and explanation of changes. | | |
| | | 452(h) | Commentary on drivers of losses in preceding period. | | |
| | | 452(i) | Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period. | | |
| | | 452(j) | For all IRB exposure classes: | | |
| | | 452(j) (i)-(ii) | Where applicable, PD and LGD by each country where the bank operates. | | |
| 453 | Use of credit risk mitigation techniques | 453(a) | Use of on and off-balance sheet netting | Section 4.3 Key Risk Types; Credit Risk; Loss and Credit Risk Mitigation Activities | 31 |
| | | 453(b) | Collateral valuation management | | |
| | | 453(c) | Types of collateral used | | |
| | | 453(d) | Main types of guarantor and credit derivative counterparty, and creditworthiness | | |
| | | 453(e) | Market or credit risk concentrations within credit mitigation taken | | |
| | | 453(f) | Exposure value covered by eligible collateral | Table 42. EU CR3 – CRM techniques – Overview<br>Table 43. EU CR4 – Standardised approach – credit risk exposure and CRM effects | 70, 71 |
| | | 453(g) | Exposures covered by guarantees or credit derivatives | | |
| 454 | Use of the Advanced Measurement Approaches to operational risk | 454 | For institutions using the Advanced Measurement Approaches to operational risk, a description of the use of insurance or other risk transfer mechanisms to mitigate operational risk | Not Applicable | n/a |
| 455 | Use of Internal Market Risk Models | 455(a)(i) | Characteristics of the market risk models | Section 4.3.3 Market Risk<br>Section 5.2 Market Risk | 32, 43 |
| | | 455(a)(ii) | Methodologies used to measure incremental default and migration risk (IRC) and comprehensive risk measure (CRM) | | |
| | | 455(a)(iii) | Stress testing applied to the portfolios | | |
| | | 455(a)(iv) | Approaches used for back-testing and model validation | | |
| | | 455(b) | Scope of the internal model permission | | |
| | | 455(c) | Policies and procedures for determining trading book classification and compliance with prudential valuation requirements | Explanations of Differences between Accounting and Regulatory Exposure Amounts;<br>Section 5.2.1 Internal Model Based Capital Requirement | 14, 45 |
| | | 455(d) | Highest, lowest and mean values over the year of VaR, SVaR, IRC and CRM | Table 14: EU MR3 – IMA values for trading portfolios | 47 |
| | | 455(e) | Market risk internal model based own funds requirements | Table 12: EU MR2-A – Market risk under the IMA<br>Table 13: EU MR2-B – RWA flow statements of market risk exposures under the IMA | 44 |
| | | 455(f) | Weighted average liquidity horizon for portfolios covered by internal models for IRC and CRM | Section 5.2.1 Internal Model Based Capital Requirement<br>Incremental Risk Charge; Comprehensive Risk Measure | 45 |
| | | 455(g) | Comparison of end-of-day VaR measures compared with one day changes in the portfolio's value | Figure 8: EU MR4 – Comparison of VaR estimates with gains/losses | 46 |