

ML UK Capital Holdings Limited
Including Merrill Lynch International

Pillar 3 Disclosure

For the Quarter Ended 30 September 2018

ML UK Capital Holdings Limited – Including Merrill Lynch International

Pillar 3 Disclosure for the Quarter Ended 30 September 2018

1. Overview and Purpose of Document

This document contains certain Pillar 3 disclosures for the quarter ended 30 September 2018 of ML UK Capital Holdings Limited (“MLUKCH” or “the Company”), its sole operating subsidiary Merrill Lynch International (“MLI”) and its other non-operating subsidiaries (together “the Group” or “the MLUKCH Group”).

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”) MLUKCH complies with the Pillar 3 requirements on a consolidated basis.

In accordance with the European Banking Authority (“EBA”) guidelines on materiality, proprietary and confidentiality and on disclosure frequency relating to Pillar 3 disclosures (“the Guidelines”), MLUKCH as the parent of MLI has determined that it is appropriate to disclose the information prescribed by these guidelines on a quarterly basis. This document contains these disclosures, which includes information on capital adequacy, leverage and liquidity.

The information contained herein predominantly relates to MLI as the sole operating subsidiary of MLUKCH. For further information on MLI’s risk management objectives and policies, liquidity and asset encumbrance, please refer to the MLUKCH Group annual Pillar 3 disclosure for the year ended 31 December 2017 on BAC’s corporate website:

<http://investor.bankofamerica.com>

1.1 ML UK Capital Holdings

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.

1.2 Merrill Lynch International

MLI is a wholly owned subsidiary of MLUKCH. MLI’s ultimate parent is BAC. MLI is BAC’s largest operating subsidiary outside of the US and serves the core financial needs of global corporations and institutional investors.

MLI’s head office is in the United Kingdom with branches in Stockholm, Dubai and Qatar along with a representative office in Zurich. The firm has the ability to trade throughout the European Economic Area (“EEA”) and conduct business with international clients. MLI is authorised by the PRA and regulated by the FCA and PRA.

As at 30 September 2018, MLI was rated by Fitch Ratings, Inc (“Fitch”) (A+ / F1) and Standard & Poor’s (“S&P”) (A+ / A-1).

1.3 Other Entities

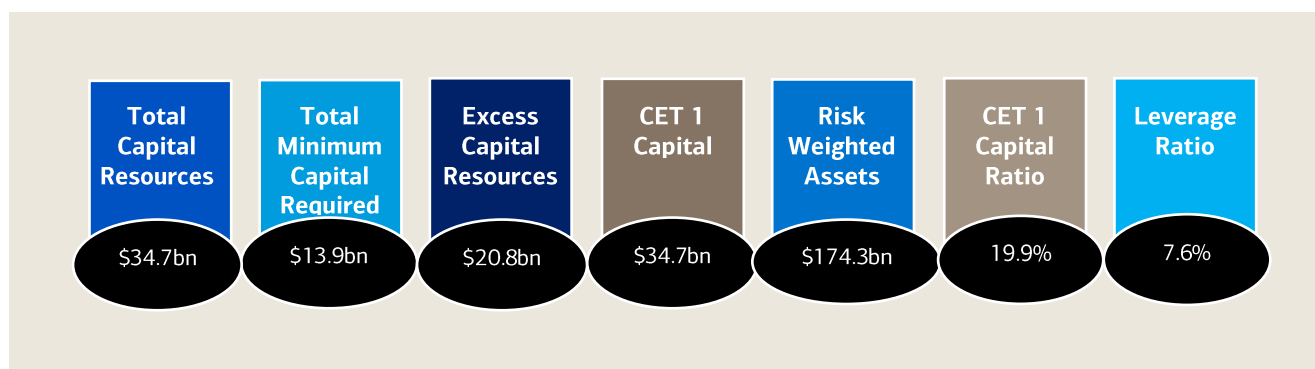
Other entities, although consolidated into the Group, are not separately disclosed in this document on the grounds of materiality.

1.4 MLI’s Capital Position at 30 September 2018

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

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Figure 1. Summary of MLI's Key Metrics as at 30 September 2018



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

2. Basis of Preparation

The information contained in this disclosure has been prepared in accordance with the Basel III rule framework, for the purpose of explaining the basis on which the MLUKCH Group and MLI have prepared and disclosed certain information about the application of regulatory capital adequacy rules and concepts. It therefore does not constitute any form of financial statement on MLUKCH or its subsidiaries, or of the wider Enterprise, and as such, is not required to be prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Therefore the information is not directly comparable with the annual 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 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. Any financial information included herein is unaudited.

The basis of consolidation used for the MLUKCH Group 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>.

Transitional Impact of IFRS9

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 – Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

Based on materiality no further disclosures for the transitional impact of IFRS9 are made in this document.

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3. Capital Resources

Capital resources represent the amount of regulatory capital available to an entity to cover all risks. Defined under Capital Requirements Directive (“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. Table 1 shows a breakdown of the capital resources of MLI and the Group.

Table 1. Regulatory Capital Resources and Ratios Summary

<i>(Dollars in Millions)</i>	MLI	MLUKCH Group
Common Equity Tier 1 (CET1) capital before regulatory adjustments	36,361	35,019
Total Regulatory Adjustments to Common Equity Tier 1 (CET1)	(1,669)	(1,669)
Common Equity Tier 1 (CET1) Capital	34,692	33,350
Additional Tier 1 (AT1) capital	-	-
Tier 1 Capital (T1 = CET1 + AT1)	34,692	33,350
Tier 2 (T2) Capital	-	800
Total Capital (TC = T1 + T2)	34,692	34,150
Total Risk Weighted Assets	174,314	174,822
Common Equity Tier 1 (as a percentage of risk exposure amount)	19.9%	19.1%
Tier 1 (as a percentage of risk exposure amount)	19.9%	19.1%
Total Capital (as a percentage of risk exposure amount)	19.9%	19.5%

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4. Minimum 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.

Table 2. Overview of RWAs and Minimum Capital Requirement

	MLI			MLUKCH Group		
	RWAs		Minimum capital requirements	RWAs		Minimum capital requirements
	Q3 2018	Q2 2018	Q3 2018	Q3 2018	Q2 2018	Q3 2018
<i>(Dollars in Millions)</i>						
Credit risk (excluding CCR)	5,377	5,173	430	5,161	5,016	413
Of which the standardised approach	5,377	5,173	430	5,161	5,016	413
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	120,643	123,137	9,651	120,578	123,174	9,646
Of which mark to market	56,111	56,965	4,489	56,101	57,044	4,488
Of which original exposure	-	-	-	-	-	-
Of which: comprehensive approach for credit risk mitigation (for SFTs)	38,042	38,962	3,043	37,988	38,920	3,039
Of which internal model method (IMM)	-	-	-	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	1,416	1,236	113	1,416	1,236	113
Of which CVA	25,074	25,974	2,006	25,074	25,974	2,006
Settlement risk	184	138	15	184	138	15
Securitisation exposures in the banking book (after the cap)	3,452	3,629	276	3,452	3,629	276
Of which IRB approach	-	-	-	-	-	-
Of which IRB supervisory formula approach (SFA)	-	-	-	-	-	-
Of which internal assessment approach (IAA)	-	-	-	-	-	-
Of which standardised approach	3,452	3,629	276	3,452	3,629	276
Market risk	33,862	40,340	2,709	34,778	41,312	2,782
Of which the standardised approach	15,066	17,470	1,205	15,983	18,441	1,279
Of which IMA	18,795	22,870	1,504	18,795	22,870	1,504
Large exposures	-	-	-	-	-	-
Operational risk	10,670	10,670	854	10,670	10,670	854
Of which basic indicator approach	-	-	-	-	-	-
Of which standardised approach	10,670	10,670	854	10,670	10,670	854
Of which advanced measurement approach	-	-	-	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	127	127	10	-	-	-
Floor adjustment	-	-	-	-	-	-
Total	174,314	183,214	13,945	174,822	183,939	13,986

4.1 Key Movements in the Quarter

MLI and the MLUKCH Group's Minimum Capital Requirement decreased during the quarter. The decrease was primarily driven by a reduction in market risk capital requirements under the Internal Model Approach.

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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 where available from External Credit Assessment Institutions (“ECAIs”) based on a combination of Moody’s Investors Service, Inc. (“Moody’s”), S&P and Fitch.

The approach used for Market Risk is a combination of models approved by the PRA, including Value at Risk (“VaR”) and the standardised approach. The Group applies the standardised approach to all other exposures.

Table 3 shows a reconciliation of movements in RWAs under the Internal Model Approach (“IMA”) for MLI’s Market Risk.

Table 3. EU MR 2-B RWA Flow Statements of Market Risk Exposures under the IMA

	MLI						Total RWAs	Total Capital Requirements
	VaR	SVaR	IRC	CRM	Other			
<i>(Dollars in Millions)</i>								
RWAs at previous quarter end	2,113	3,523	5,445	2,747	9,042	22,870	1,830	
Movement in the risk levels	(538)	316	(1,983)	(1,365)	(505)	(4,075)	(326)	
RWAs at the end of the reporting period	1,575	3,839	3,462	1,382	8,537	18,795	1,504	

Market risk capital requirements under the IMA decreased during the quarter, mainly driven by a reduction in Incremental Risk Charge and Comprehensive Risk Measure.

6. Leverage Ratio

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 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 7.6% and 7.4% respectively.

Table 4. Leverage Ratio Summary

<i>(Dollars in Millions)</i>	MLI	MLUKCH Group
Tier 1 Capital	34,692	33,350
Total Leverage Ratio Exposures	455,824	450,726
Leverage Ratio	7.6%	7.4%

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7. Liquidity Coverage Ratio (“LCR”) Disclosure

The MLUKCH Group is subject to the 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.

Table 5 discloses average weighted values of the liquidity buffer, total net cash outflows and the LCR of MLI and of the MLUKCH Group.

Table 5. LCR Disclosure

<i>(Dollars in Millions)</i>	MLI			
	Total weighted value (average)			
Quarter ending on	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18
Number of data points used in the calculation of averages	12	12	12	12
Liquidity Buffer	25,857	26,233	26,358	26,473
Total Net Cash Outflows	13,383	13,967	14,090	13,758
Liquidity Coverage Ratio (%)	197%	191%	190%	195%

<i>(Dollars in Millions)</i>	MLUKCH Group			
	Total weighted value (average)			
Quarter ending on	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18
Number of data points used in the calculation of averages	12	12	12	12
Liquidity Buffer	25,857	26,233	26,358	26,473
Total Net Cash Outflows	13,383	13,967	14,091	13,755
Liquidity Coverage Ratio (%)	197%	191%	190%	195%

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.