
**BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DESIGNATED
ACTIVITY COMPANY**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

COMPANY INFORMATION

| | |
|-----------------------------|---|
| DIRECTORS | G.C. Carp (appointed 1 December 2018) A.M. Finucane (appointed 3 July 2018) D.F. Guest S.A. James (appointed 5 September 2018) P.P. Keegan J.G. Murphy B.R. Thompson (appointed 3 May 2018) |
| COMPANY SECRETARY | Merrill Lynch Corporate Services Limited |
| REGISTERED NUMBER | 229165 |
| REGISTERED OFFICE | Two Park Place Hatch Street Dublin 2 |
| INDEPENDENT AUDITORS | PricewaterhouseCoopers Chartered Accountants and Statutory Audit Firm One Spencer Dock |

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BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements of Bank of America Merrill Lynch International Designated Activity Company ("Bank of America Merrill Lynch International DAC", "BAMLI DAC", the "Company") for the year ended 31 December 2018.

The Company is a registered credit institution in the Republic of Ireland which is authorised and regulated by the Central Bank of Ireland ("CBI") and supervised under the single supervisory mechanism ("SSM"). The Company is a wholly owned subsidiary of Bank of America, National Association ("BANA") and the ultimate parent of the Company is Bank of America Corporation (NYSE:BAC) ("BAC").

On 1 December 2018, BANA, the immediate parent company of both Bank of America Merrill Lynch International Limited ("BAMLI Ltd"), and BAMLI DAC, merged BAMLI Ltd into BAMLI DAC by means of 'merger by acquisition' (Irish Merger Regulations), utilising the European Union ("EU") Cross Border Merger Directive (the "CBM") to create a scalable EU-domiciled credit institution owned by BANA. The merger was undertaken as part of the BAC response to the expected 2019 UK exit from EU membership. Prior to the merger, BAMLI DAC operated its head office in Dublin and a single branch in London. The merger resulted in the addition of seven branches across Europe (Frankfurt, Amsterdam, Brussels, Paris, Zurich, Madrid and Milan) and ownership of a subsidiary in the UK, Merrill Lynch (Camberley) Limited.

These financial statements of BAMLI DAC recognise the merger at carrying value using predecessor accounting; the assets, liabilities and results of BAMLI Ltd have been incorporated into the results of BAMLI DAC from the date of the merger, 1 December 2018. Prior year results have not been restated. Disclosure has been made in note 3 to the financial statements of the carrying values of assets and liabilities transferred to the Company as part of the merger along with the contribution to the operating income and profit after taxation. Group reconstruction relief has been applied and share premium has been recognised accordingly.

The Company is a wholly owned subsidiary of BAC, which prepares consolidated financial statements that include the Company (see note 1.6). As a result the Company has taken advantage of the exemption in Section 300 of the Companies Act 2014 from the obligation to prepare and deliver consolidated financial statements. The activity of the subsidiary company is set out in note 24 of the financial statements.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Irish company law requires the directors to prepare the financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with the Companies Act 2014 and Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the assets, liabilities and financial position of the Company as at the financial year end date, of the profit or loss for that financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on BAC's website. Legislation in Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRINCIPAL ACTIVITIES

The Company provides a range of financial services and forms part of BAC's Global Banking and Markets ("GBAM") operations in the Europe, Middle East and Africa ("EMEA") region. Clients principally include large multinational groups, financial institutions, governments and government entities. The Company has the ability to conduct business with international clients and to trade throughout the European Economic Area ("EEA"). As well as providing financial services the Company is currently the primary EMEA region service company to other companies in the BAC group. Services include management of personnel, property, technology assets, intellectual property and vendor contracts.

As at 31 December 2018, the Company was rated by Fitch (A+/F1) and Standard & Poor's (A+/A-1).

FUTURE DEVELOPMENTS

It is anticipated that BAMLI DAC will commence certain Fixed Income, Currencies and Commodities ("FICC") business activities from Q2 2019 in response to BAC's restructuring of its EEA business booking model as a consequence of UK exit from EU membership. This activity is currently undertaken in Merrill Lynch International.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

MARKET ENVIRONMENT

The UK government triggered Article 50 on 29 March 2017, which marked the start of the formal process of the UK's exit from the European Union ("EU"). Negotiations between the EU and UK regarding this exit are ongoing and at the date of signing these Financial Statements consist of three phases: a withdrawal agreement, a new trade deal and an arrangement for a transition period. Consequently, there remains a high degree of uncertainty around the Brexit process, including the timing and the details of a future trade agreement and transition phase. In this context, the terms and impact of the UK's exit from the EU remains unclear, and episodes of economic and market volatility may continue to occur. If uncertainty resulting from the UK's exit negatively impacts economic conditions, financial markets and consumer confidence, the Company's business, results of performance, financial position and/or operational model could be adversely affected.

Reforms to the London InterBank Offered Rate (LIBOR), and certain other rates and indices have resulted in uncertainty about the future of interest rate linked financial products. It is anticipated that these changes may adversely affect the value of, return on, and trading market for LIBOR-based securities, loans and derivatives. In turn, the financial condition and results of operations with exposure to these products may be affected due to an unpredictable impact on the contractual mechanics of outstanding securities, and uncertainties surrounding the future market for securities. The Company is engaged in ongoing discussions with regulatory bodies regarding these reforms and their impact.

Eurozone growth remained healthy although not as strong as in 2017. GDP Growth was supported by private consumption and government spending which served to insulate the economy from external influences and uncertainties. Core inflation increased during the year but remained outside the European Central Bank ("ECB") target of 2%. In March 2019 the ECB outlined intentions to continue supportive monetary policy through 2019 in response to downwards revision of growth forecasts.

CORPORATE GOVERNANCE

The Company is subject to the CBI Corporate Governance Requirements for Credit Institutions 2015. The Board formally reviews the corporate governance structure of the Company, including its branches, on an annual basis to ensure that it meets regulatory and legal requirements and industry best practice.

PRINCIPAL RISKS AND UNCERTAINTIES

BAMLI DAC faces seven key risks in its daily operations; market, credit, operational, liquidity, reputational, strategic and compliance risk. The Company's risk management objectives and policies as well as exposures in relation to the seven key risk types are described in the notes to the financial statements (see note 44).

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

RISK GOVERNANCE

The BAMLI DAC Board ensures suitable risk management and controls through the BAMLI DAC Board Risk Committee ("BAMLI DAC BRC"), the BAMLI DAC Audit Committee, the BAMLI DAC Nominations Committee, the BAMLI DAC Remuneration Committee and BAMLI DAC Management Risk Committee.

The BAMLI DAC BRC assists the BAMLI DAC Board in fulfilling its oversight responsibilities relating to senior management's responsibilities regarding the identification of, management of, and planning for key risks of the Company.

The BAMLI DAC Audit Committee assists the BAMLI DAC Board in fulfilling its oversight responsibilities relating to BAMLI DAC's internal financial controls; the preparation and integrity of BAMLI DAC's financial statements and statement of adherence; BAMLI DAC's relationship with its External Auditor, including pre-approval of any non-audit services; and the performance and independence of BAMLI DAC's Internal Audit and Compliance functions.

The BAMLI DAC Nominations Committee shall assist the Board in fulfilling its oversight responsibilities in relation to the governance of the Board of Directors of the Company relating to nominations to the Board and reviewing and reporting to the Board on senior management talent planning and succession planning.

The BAMLI DAC Remuneration Committee is charged with oversight of compliance with remuneration policies and related regulatory requirements.

The BAMLI DAC Management Risk Committee ("BAMLI DAC MRC") reports to the BAMLI DAC BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the BAMLI DAC BRC, the BAMLI DAC Board or other committees, as appropriate) market risk, credit risk, (in conjunction with the Credit Risk Committee ("CRC"), operational risk (in conjunction with the Operational Risk Committee ("ORC"), balance sheet, capital and liquidity management (in conjunction with the Asset and Liability Committee ("ALCO"), country risk, stress testing and concentration risk management activities of the Bank (including any branches and subsidiaries).

REVIEW OF FINANCIAL STATEMENTS AND RELATED ESTIMATES AND JUDGEMENTS

The Audit Committee discharges its responsibility for the monitoring and integrity of the financial statements through:

- review of the financial statements for completeness and compliance with relevant accounting standards and other regulatory and legal requirements;
- reporting to the Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking into account the views of the external auditor;
- review of any correspondence from regulators in relation to financial reporting;
- review of the going concern statement;
- review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management including those in respect of valuation of financial instruments.

Further detail on the critical accounting estimates and judgements is provided in note 2.

RESULTS AND DIVIDENDS

The Company's profit on ordinary activities after taxation was \$64 million (2017: \$6 million) as set out in the income statement.

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: \$nil).

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

BUSINESS REVIEW

The Company has seen a significant increase in profit as a result of the CBM. In addition to the financial services it provides, BAMLI DAC generates revenue through providing support service functions to BAC group affiliates. Costs of these shared services are recharged to group entities under arm's length principles reflecting the economic contribution of the affiliate by way of service fees (including mark-up) determined in accordance with BAC's global transfer pricing policy.

Divisional Performance

Results are derived from the Company's core Global Banking and Markets activities and its Support Services activities which represent reportable segments as disclosed in note 4.

The Global Banking and Markets segment contributed \$161 million (2017: \$14 million) in terms of total operating income driven primarily by increased corporate and asset backed lending activities following the CBM.

The Support Services segment contributed \$91 million (2017: \$nil) to total operating income.

Summary income statement

| | 2018 \$M | 2017 \$M | Change \$M |
|--|-------------|-------------|---------------|
| Net interest, fee and commission income | 76 | 12 | 64 |
| Dealing profits and fair value income | 57 | (12) | 69 |
| Other operating income | 119 | 14 | 105 |
| Total operating income | 252 | 14 | 238 |
| Administrative expenses | (145) | (8) | (137) |
| Depreciation and other operating expense | (25) | - | (25) |
| Impairment charge for credit losses | (6) | - | (6) |
| Profit before taxation | 76 | 6 | 70 |

Net interest, fee and commission income

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

Dealing profits and fair value income

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

Other operating income

This income is generated primarily through BAMLI DAC's Support Services activity to the broader BAC group.

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

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Administrative expenses

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

Depreciation and other operating expenses

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

Impairment charge for credit losses

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

Taxation

The Company's effective tax rate for the year is 15.8% (2017: 5.2%) driven mainly by the current year charge. The factors affecting the tax charge for the year are detailed in note 15.

Capital

Total eligible regulatory capital increased from \$2,239 million as at 31 December 2017 to \$12,736 million as at 31 December 2018, which consisted of \$10,736 million Tier 1 capital (2017: \$2,239 million) and \$2,000 million Tier 2 capital (2017: \$nil).

The Company's total capital ratio at 31 December 2018 as reported to the CBI was 24% (2017: 93%), exceeding the minimum capital requirement.

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

Liquidity

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

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

POLITICAL CONTRIBUTIONS

The directors have satisfied themselves that there were no political contributions during the year (2017: \$nil) that require disclosure under the Electoral Act 1997.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

NON FINANCIAL STATEMENT**Overview of Company and policies**

As detailed earlier in this report, BAMLI DAC's business model creates value for its stakeholders by providing banking and financing services to customers across EMEA. These operations expose the Company to a number of risks, including those of an environmental or social nature. BAC has established an Environmental and Social Risk Policy Framework (the "ESRP Framework") which forms the basis of how environmental and social risks facing BAC and its subsidiaries (including BAMLI DAC) are identified, measured, monitored and controlled. The ESRP Framework applies to all BAC employees as part of their wider responsibilities for managing risk (see note 44 for further detail on the Company's approach to risk management) under the BAC risk governance framework. Environmental and social issues can cross many of the seven key risk types faced by the Company.

Leadership under the ESRP Framework is delivered through both regional and global Environmental, Social and Governance ("ESG") committees with focus on ESG embedded across the business to reflect how BAC deploys capital to drive economic and environmental progress in its communities; how the Company builds trust and credibility; and how it creates a place that people want to work at, invest in and do business with. The ESG committees engage with risk management and other management committees as necessary on environmental and social issues.

Front line units ("FLUs") and risk teams determine if a proposed transaction or relationship presents potential environmental or social risks as part of Know Your Customer ("KYC"), due diligence and other onboarding processes. This determination is driven by a number of factors, including: cross-referencing BAC's prohibition list and heightened sensitivity list, which are both part of the ESRP Framework; understanding the customers' business, industry, management and reputation; application of BAC policies; adherence to regulation; and consultation with subject matter experts and those teams focused on customer screening and onboarding.

Set out below is a summary of the Company's approach to each of the main ESG components. Further information about BAC's approach to ESG matters can be accessed via the ESRPF at <https://about.bankofamerica.com/assets/pdf/Environmental-and-Social-Risk-Policy-Framework.pdf>

Environmental matters

The Company complies with and reports to Energy and Environment Agencies on the Article 8 Energy Efficiency Directive ("Article 8 EDD") and the ISPRa Registration, and operates towards overall BAC operational goals including becoming carbon-neutral and purchasing 100% renewable electricity by 2020 (including purchasing carbon credits where renewable energy is not available).

As part of its climate financing efforts, BAC established a global environmental business commitment to direct \$125 billion in financing for low-carbon and sustainable business by 2025. As at the end of 2018, BAC has delivered \$66 billion globally towards this goal. In EMEA, BAC entities, including BAMLI DAC, delivered \$12.1 billion towards these efforts.

Employee matters

The Company's Human Resources function deals with talent acquisition, diversity and inclusion, learning and development, compensation and benefits and employee relations issues.

- Talent acquisition - The Talent Acquisition team manages talent fulfilment needs through both internal movement and through the identification and selection of external talent. All hiring activity is supported by the International Talent Operations team which provides the infrastructure and control environment to ensure hiring activity is consistent, compliant with applicable laws and internal policies, guidelines and procedures and appropriately monitored.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

• **Diversity and inclusion** - The Company is committed to creating an inclusive workplace where everyone has the same opportunities regardless of their gender, gender identity, gender expression, marital status, race, colour, nationality ethnic or national origins, age, religion, sexual orientation, responsibility for dependants or physical or mental disability. This is reflected in its Human Resources policies, guidelines and procedures. The Company also has nine employee networks which provide development and networking opportunities for the diverse employee population. BAMLI DAC has voluntarily signed up to the UK HM Treasury Women in Finance Charter, signalling its commitment to increasing the number of women at senior levels, and complies with disclosure requirements under the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. There are a number of programs in BAMLI DAC to support this outcome, including a development program for all female Vice Presidents.

• **Learning and development** - The Company maintains a mandatory training programme, underpinned by a standard operating procedure and process, which is owned and monitored by the Compliance team. This includes training on, amongst other things, the Company's Code of Conduct, whistleblowing, anti-money laundering, market abuse. In addition, other training courses are made available to individuals to support applicable development in their individual roles. A further suite of training is provided to managers to ensure they are appropriately trained on how to communicate and have crucial conversations, effective delegation, giving feedback and coaching, promoting teamwork and inclusion and managing risk responsibly.

• **Compensation and benefits** - The Compensation and Benefits team support the financial management, communication and administration of BAC enterprise-wide incentive plans. All activities are underpinned by policies with training, monitoring and evaluation processes in place to ensure that roles are fulfilled in an effective and consistent manner and in compliance with all applicable regulatory and legal requirements. Pay at the Company is performance-linked in line with the Company's overall goals and to ensure the highest rewards are given to the best performers. There are also opportunities for employees to share in the Company's success through its incentive schemes. Employee roles, performance and rewards are aligned with a focus on total compensation.

• **Other employee matters** - The Employee Relations team provides consultative expertise and tools to prevent, manage and resolve employment risks. It is responsible for administering the Company's disciplinary, grievance, performance management, redundancy and long-term sickness processes in line with its internal standard operating procedures.

Social matters

Respect for Human Rights:

BAC supports fundamental human rights and demonstrates leadership in responsible workplace practices across the enterprise and in all regions where the Company conducts business. BAC's commitment to fair, ethical and responsible business practices, as it engages with employees, clients, vendors and communities around the world, is embodied in its values and Code of Conduct. In addition, BAC has issued a Modern Slavery Statement on behalf of itself and its subsidiaries, including BAMLI DAC, in accordance with the UK Modern Slavery Act 2015, see <https://about.bankofamerica.com/assets/pdf/Modern-Slavery-Act.pdf>

Community Engagement:

The Company offers its employees an array of opportunities to share their skills and to volunteer with charities. During 2018 in EMEA, the BAC Foundation supported 50 charities and social enterprises. 2,110 employees shared their time and skills with community organisations. In EMEA, the BAC Foundation is focus on building pathways to economic mobility by supporting initiatives that help young people transition from education into sustained employment.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Vendor Management:

BAC expects suppliers to operate in ways that promote beneficial social and environmental outcomes. The Company pledges to treat all suppliers with respect, provide development opportunities and work as long-term partners. Further information on how the Company, as part of BAC, approaches vendor management can be obtained at <https://about.bankofamerica.com/en-us/what-guides-us/vendor-management.html>

Global compliance, anti-bribery, anti-corruption and financial crime

BAMLI DAC's overall approach to managing risk, including compliance risk, is governed by the Risk Framework. As part of this, the Global Compliance teams work in partnership to offer continuous challenge and oversight in order to minimise the risk of legal or regulatory sanctions, material financial loss or reputational damage, including but not limited to, the risks associated with bribery and corruption, economic sanctions, money laundering, terrorist and criminal financing, and internal and external fraud.

The Enterprise Anti-Bribery and Anti-Corruption ("ABAC") Policy and the Code of Conduct prohibits all forms of corruption conducted by BAMLI DAC's employees and third parties. The ABAC Compliance programme considers the risks associated with BAMLI DAC's business and the markets in which it operates, the provisions of gifts and entertainment, third party relationships and due diligence, hiring practices, political contributions, charitable donations and employee conduct. In addition, ABAC Compliance considers transactions posing heightened risks, particularly in markets and economies that are more susceptible to corruption and financial crime.

Outcomes and non-financial key performance indicators ("KPIs")

As the Company adopts BAC's global approach to ESG issues, related non-financial KPIs are typically measured on a regional or global basis as such specific metrics are considered to be less relevant to reporting at the BAMLI DAC level. Further information on BAC reporting of ESG performance, of which BAMLI DAC is a part, can be obtained at <https://about.bankofamerica.com/assets/pdf/Bank-of-America-2017-ESG-Performance-Data-Summary.pdf>

AUDITORS

The auditors, PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm, have indicated their willingness to continue in office in accordance with section 383(2), of Companies Act 2014 and a resolution that they be reappointed will be proposed at the Annual General Meeting.

ACCOUNTING RECORDS

The measures taken by the directors to ensure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

DIRECTORS

The directors who served during the year were:

Executive directors

G. Carp (appointed 01 December 2018)

J.D. Preddy (resigned 30 November 2018)

B.R. Thompson (Chief Executive Officer) (appointed 3 May 2018)

Group non-executive directors

M. Butler (resigned 10 October 2018)

A.M. Finucane (Chair) (appointed 3 July 2018)

P.P. Keegan

J.M. Taylor (resigned 31 July 2018)

A.S. Wilmot-Sitwell (resigned 13 March 2018)

Independent non-executive directors

D.F. Guest

S.A. James (appointed 5 September 2018)

J.G. Murphy

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

DIRECTORS' COMPLIANCE STATEMENT

As required by section 225(2) of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The directors confirm that:

- a compliance policy statement (as defined in section 225(3)(a)) has been drawn up setting out the Company's policies, which, in the in the directors' opinion, are appropriate to ensure compliance with the Company's relevant obligations;
- appropriate arrangements or structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and
- a review of those arrangements or structures has been conducted in the financial year to which this report relates.

ELECTRONIC DISTRIBUTION

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

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

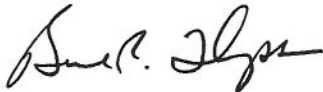
**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

SUBSEQUENT EVENTS

BAMLI DAC established a branch in Stockholm, Sweden. The branch commenced its business activities on 1 February 2019, following regulatory approval. The branch acts as a client coverage office, delivering an in-country presence for Investment Banking and offering advisory services. Previously this coverage was provided by an affiliated Company.

On 28 January 2019, the Board approved a motion to transfer certain UK based support staff and related assets and liabilities to an affiliated entity, subject to obtaining the required regulatory approvals. As a result, associated support service revenues and expenses are expected to decrease, along with a reduction in total assets and liabilities of approximately \$320 million.

This report was approved by the board on 22 March 2019 and signed on its behalf.



B.R. Thompson
Director



G.C. Carp
Director



Independent auditors' report to the members of Bank of America Merrill Lynch International Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion Bank of America Merrill Lynch International Designated Activity Company's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise:

- the Statement of Financial Position as at 31 December 2018;
- the Income Statement for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard, as applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



Materiality

- Overall materiality: \$131 million – based on c. 1% of total capital resources

Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels

Key audit matters

- Valuation of traded loans
- Impairment of loans and advances to customers and banks

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Valuation of traded loans</p> <p><i>Refer to note 1, note 2, note 22, note 44 and note 45 to the financial statements</i></p> <p>The Company trades a portfolio of loans which are acquired and then held at fair value through profit and loss until disposal. Within the portfolio there are loans which by their nature are less liquid or which may show signs of distress. These are inherently more complex to value as there is often limited or no external comparable market transactions upon which to base the fair value.</p> <p>Management use modelling techniques which incorporate both observable and unobservable inputs. Certain loans can be directly priced and other loans are valued using mainly unobservable inputs.</p> <p>We focused on this area as the methodology to determine the fair values for traded loans is subjective in nature and involves assumptions which are highly judgemental.</p> | <p>Management operate an independent price verification ("IPV") control which tests the fair values of the traded loans on a monthly basis. The operation of this control either includes performing direct price testing to external market price sources or reperforming the valuation used by the front office using observable inputs, where available, and unobservable inputs. We performed testing of this control across a sample of positions held.</p> <p>We agreed, on sample basis, the inputs for directly priced loans to external pricing sources.</p> <p>For a sample of other loans, our valuation experts revalued the positions using independent assumptions with independently sourced inputs.</p> <p>We concluded that the valuation of traded loans is within an acceptable range of reasonable estimates.</p> |

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Impairment of loans and advances to customers and banks</p> <p><i>Refer to note 1, note 2, note 16, note 17, note 18 and note 44 to the financial statements</i></p> <p>2018 is the first year of adoption of IFRS 9 which, as set out in the financial statements, introduces significant changes including new impairment models where losses are recognised on an expected, forward looking basis including reflecting the Company's view of potential future economic events. As a result, a new methodology encompassing new estimates and judgements is required to calculate impairment provisions under IFRS 9 and there are new disclosure requirements.</p> <p>The ECL calculation is a very complex estimation which requires significant management judgement and we focussed on the areas which required the greatest level of management judgement including:</p> <ol style="list-style-type: none"> 1. The consideration of the need for post model overlays to address known model limitations, latent risks and emerging trends. These adjustments are by their nature inherently uncertain and the most judgmental. 2. The application of forward looking information which is a critical part of the determination of ECL. The consideration and selection of appropriate macroeconomic factors and in particular determining the appropriate economic scenarios (base, two downside and two upside) and their associated probability weightings is a key driver of the overall ECL provision. 3. The determination of when there has been a Significant Increase in Credit Risk (SICR), is one of the key judgements in the ECL process because a SICR requires the related impairment provision to be measured using a lifetime ECL rather than 12 month ECL. <p>We focused on this area as impairment of loans and advances to customers and banks requires a high level of judgement to determine the required expected credit loss provision.</p> | <p>With the assistance of our internal credit modelling specialists, we understood and critically assessed the overall methodology applied, including individual models used, in the measurement of ECL for the loans and advances to customers and banks to ensure that the provision was in accordance with IFRS 9. This included an end to end review to understand the key systems and controls used in the process.</p> <p>We considered the overall control framework and tested key controls including controls relating to model performance/ calibration, approval of model changes, input data, credit risk rating, SICR triggers, approval of material macroeconomic variables for forward looking information and approval of post model overlays.</p> <p>We tested on sample basis the statistical validity of model estimation and performance.</p> <p>We understood and assessed the appropriateness of post model overlays made by management to adjust their model output for known limitations and specific risk aspects of the portfolio including risk concentration.</p> <p>We compared the base case forward looking macroeconomic assumptions to publically available benchmark information where applicable. We also considered the reasonableness of management's downside and upside assumptions.</p> <p>We assessed the SICR triggers identified by management for appropriateness and completeness and we re-performed key aspects of the SICR calculation.</p> <p>We concluded that the ECL provision is within an acceptable range of reasonable estimates.</p> |



How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We determined whether the work would be performed by us or by other PwC network firms operating under our instruction (component auditors) in relation to controls and activities outside of Ireland. The most significant overseas territory is the UK.

In establishing the overall approach to the audit, we determined the type of work that needed to be performed at each branch by us or by component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

The nature, timing and extent of the work impacting the audit opinion was set and monitored in Ireland. Where work was performed by component auditors, our involvement in that work included meetings between the component auditors and senior members of the engagement teams, review of the results of their audit procedures including the nature, timing and extent of the work impacting our audit opinion and frequent communications by the engagement team to corroborate that our audit plan was appropriately executed.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|---|
| Overall materiality | \$131 million |
| How we determined it | c.1% of total capital resources |
| Rationale for benchmark applied | The use of total capital resources is appropriate as it reflects the key area of focus of management and users of the financial statements who are focused on the level of capital resources as the Company is a regulated bank entity. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$6.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report).

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at: www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditors' report.



Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Companies Act 2014 exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 15 September 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2009 to 31 December 2018.

A handwritten signature in black ink, appearing to read 'John McDonnell'.

John McDonnell
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

22 March 2019

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 2018 \$M | 2017 \$M |
|--|------|--------------|-------------|
| Interest income | | 105 | 14 |
| Interest expense | | (44) | (2) |
| NET INTEREST INCOME | 5 | 61 | 12 |
| Fee and commission income | | 17 | - |
| Fee and commission expense | | (2) | - |
| NET FEE AND COMMISSION INCOME | 6 | 15 | - |
| Dealing profits/(losses) | | 12 | (12) |
| Net income from other financial instruments at FVPL | 7 | 45 | - |
| Other operating income | 8 | 119 | 14 |
| TOTAL OPERATING INCOME | | 252 | 14 |
| Administrative expense | 9 | (145) | (8) |
| Depreciation and amortisation | 25 | (4) | - |
| Other operating expense | 10 | (21) | - |
| Impairment charge for credit losses | 16 | (6) | - |
| TOTAL OPERATING EXPENSES | | (176) | (8) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 76 | 6 |
| Taxation on profit on ordinary activities | 15 | (12) | - |
| PROFIT FOR THE FINANCIAL YEAR | | 64 | 6 |

The notes on pages 24 to 103 form part of these financial statements.

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 2018 \$M | 2017 \$M |
|---|-------------|---------------------|---------------------|
| Profit for the financial year | | 64 | 6 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Currency translation differences | | 1 | - |
| Actuarial gain/(loss) on retirement benefit obligations | | - | (1) |
| | | 1 | (1) |
| Total comprehensive income for the financial year | | 65 | 5 |

The notes on pages 24 to 103 form part of these financial statements.

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

| | Note | 2018 \$M | 2017 \$M |
|--|-------------|---------------------|---------------------|
| ASSETS | | | |
| Cash held at central banks | | 11,517 | 473 |
| Loans and advances to banks | 17 | 3,662 | 388 |
| Loans and advances to customers | 18 | 27,244 | - |
| Reverse repurchase agreements | 20 | 6,000 | 12 |
| Market and client receivables | 21 | 1,825 | 1,205 |
| Trading assets | 22 | 1,682 | 1,477 |
| Investment securities | 23 | 1,314 | - |
| Derivative financial instruments | | 1,442 | 1,505 |
| Investments in group undertakings | 24 | 180 | - |
| Property, plant and equipment | 25 | 192 | - |
| Other assets | 26 | 473 | 39 |
| Prepayments and accrued income | 28 | 109 | - |
| TOTAL ASSETS | | 55,640 | 5,099 |
| LIABILITIES | | | |
| Deposits by banks | 29 | 22,631 | 33 |
| Deposits by customers | 30 | 15,319 | - |
| Market and client payables | 31 | 1,247 | 531 |
| Derivative financial instruments | | 1,775 | 2,172 |
| Financial liabilities designated at fair value | | 28 | - |
| Other liabilities | 32 | 862 | 18 |
| Accruals and deferred income | 34 | 253 | 2 |
| Subordinated liabilities | 35 | 2,000 | - |
| Retirement benefit obligations | 36 | 141 | 98 |
| TOTAL LIABILITIES | | 44,256 | 2,854 |

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2018**

| | Note | 2018 \$M | 2017 \$M |
|-------------------------------------|------|---------------|--------------|
| CAPITAL AND RESERVES | | | |
| Called up share capital | 37 | 32 | 32 |
| Share premium account | 38 | 9,061 | - |
| Foreign exchange reserve | 38 | 1 | - |
| Capital contribution reserve | 38 | 59 | 59 |
| Profit and loss account | 38 | 2,231 | 2,154 |
| TOTAL EQUITY | | 11,384 | 2,245 |
| TOTAL LIABILITIES AND EQUITY | | 55,640 | 5,099 |

The financial statements were approved and authorised for issue by the board on 22 March 2019.


B.R. Thompson
Director


G.C. Carp
Director


A.M. Finucane
Director


for and on behalf of:
Merrill Lynch Corporate
Services Limited
Company secretary

The notes on pages 24 to 103 form part of these financial statements.

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Called up share capital | Share premium account | Foreign exchange reserve | Other reserves | Profit and loss account | Total equity |
|---|----------------------------|-----------------------------|--------------------------------|-------------------|----------------------------|---------------|
| | \$M | \$M | \$M | \$M | \$M | \$M |
| At 1 January 2018 | 32 | - | - | 59 | 2,154 | 2,245 |
| Impact of transition to IFRS 9 | - | - | - | - | 13 | 13 |
| At 1 January 2018 following IFRS 9 transition | 32 | - | - | 59 | 2,167 | 2,258 |
| Comprehensive income for the year | | | | | | |
| Profit for the year | - | - | - | - | 64 | 64 |
| Currency translation differences | - | - | 1 | - | - | 1 |
| Total comprehensive income for the year | - | - | 1 | - | 64 | 65 |
| Contributions by and distributions to owners | | | | | | |
| Premium on share issued | - | 9,061 | - | - | - | 9,061 |
| At 31 December 2018 | 32 | 9,061 | 1 | 59 | 2,231 | 11,384 |

The notes on pages 24 to 103 form part of these financial statements.

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

| | Called up share capital | Other reserves | Profit and loss account | Total equity |
|---|------------------------------------|---------------------------|------------------------------------|---------------------|
| | \$M | \$M | \$M | \$M |
| At 1 January 2017 | 32 | 59 | 2,149 | 2,240 |
| Comprehensive income for the year | | | | |
| Profit for the year | - | - | 6 | 6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Actuarial losses relating to retirement schemes | - | - | (1) | (1) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total comprehensive income for the year | - | - | 5 | 5 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2017 | 32 | 59 | 2,154 | 2,245 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 24 to 103 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the Companies Act 2014, Financial Reporting Standard 100 ("FRS 100") - Application of Financial Reporting Requirements and Financial Reporting Standard 101 ("FRS 101") - Reduced Disclosure Framework.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.2 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

(i) New standards, amendments and interpretations

Below is a summary of standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2018 that have had a material impact on the Company.

(a) IFRS 9 Financial Instruments ("IFRS 9")

The Company has applied IFRS 9 Financial Instruments for the first time with a date of initial application of 1 January 2018. The Company did not early adopt any of IFRS 9 in previous periods. The requirements of IFRS 9 represent a significant change from IAS 39: Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes for the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below:

Classification of financial assets and liabilities

IFRS 9 replaces the existing IAS 39 categorisations for financial assets and replaces them with three principal categories: measured at amortised cost; fair value through other comprehensive income ("FVOCI"); and fair value through profit or loss ("FVPL"). Classification is based on the business in which a financial asset is managed and its contractual cash flows. See note 1.19 for further information about how the Company applies the classification and measurement criteria under the new standard.

IFRS 9 largely retains the existing requirement in IAS 39 for the classification of financial liabilities, with the exception that for financial liabilities designated at fair value, changes in the credit risk of the liability are presented in other comprehensive income ("OCI"). This change does not have a material impact on the Company.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see note 1.22.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, with the exception of certain transitional provisions of IFRS 9 as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9
 - The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held
 - The designation and revocation of previous designations of certain financial assets and financial

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

liabilities as measured at FVPL

- For financial liabilities designated as at FVPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the effects and impacts of adoption IFRS 9, see notes 16 and 49.

(b) IFRS 15 Revenue from contracts with customers ("IFRS 15")

The Company has applied IFRS 15 Revenue from contracts with customers for the first time with a date of initial application of 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced existing accounting standards and interpretations in relation to revenue recognition, including IAS 18 Revenue.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated and so is presented as previously reported, under IAS 18 and related interpretations.

The new standard does not impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the standard. As such the adoption of IFRS 15 resulted in no change in assets, liabilities, or equity as at the date of initial application.

(ii) New standards, amendments and interpretations not yet adopted

IFRS 16 – Leases ("IFRS 16") addresses the definition of a lease, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard replaces IAS 17 - Leases, and related interpretations. A key change arising from IFRS 16 is that most leases will be accounted for on balance sheet for lessees by recognising a liability for future lease payments and a corresponding 'right-of-use' asset. Lessor accounting under IFRS 16 is not expected to change substantially from the previous requirements under IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted.

For lease contracts where the Company is a lessee, the initial right of use asset and lease liability recorded on adoption of IFRS 16 is approximately \$550 million. Lease expense previously presented within administrative expenses will be replaced by amortisation of the right of use asset and accrual of finance costs relating to the lease liability presented within interest expense. Whilst the recognition of finance costs on an effective interest rate basis will result in lease expenses being recognised earlier under the new standard, this is not expected to have a material impact.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.3 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

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

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

1.4 GOING CONCERN

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

1.5 INCORPORATION AND DOMICILE INFORMATION

The Company is a designated activity company and is incorporated and domiciled in the Republic of Ireland, with branches operating in London, Paris, Madrid, Amsterdam, Brussels, Frankfurt, Zurich and Milan. Subsequent to the period end the Company opened a branch in Stockholm. The registered office is located at Two Park Place, Hatch Street, Dublin 2.

1.6 CONSOLIDATED FINANCIAL STATEMENTS

The Company has taken advantage of the exemption in Section 300 of the Companies Act 2014 from the obligation to prepare and deliver consolidated financial statements as the Company is a wholly owned subsidiary of BAC, which prepares consolidated financial statements that include the Company. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.7 FOREIGN CURRENCIES

The financial statements have been presented in US dollars which is also the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the income statement.

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

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

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

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

1.8 SEGMENTAL REPORTING

The Company conducts two operational activities, comprising Global Banking and Markets and the Support Services business. Segment performance is not analysed geographically as the Company operates primarily within a single region (EMEA).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.9 INTEREST INCOME AND EXPENSE

Policy applicable from 1 January 2018

Amortised cost and effective interest rate

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (that is to say, the amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider expected credit losses. For financial assets that are credit-impaired at initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument, and all other premiums and discounts.

Calculation of interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised on an accruals basis using the effective interest method. The effective interest rate is applied to the gross carrying amount of the financial asset (for non-credit impaired assets) or to the amortised cost of the liability.

For financial assets that have become credit-impaired subsequent to initial recognition, the effective interest rate is applied to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Policy applicable before 1 January 2018

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

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

When calculating the effective interest rate the Company estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

1.10 DEALING PROFITS

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

1.11 FEES AND COMMISSIONS

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

Investment banking income includes loan syndication fees and financial advisory services income which are recognised when services for the transactions are substantially completed. Loan syndication fees represent fees earned as the agent or lead lender responsible for structuring, arranging and administering a loan syndication. Loan syndication fees are recognised as revenue when syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Financial advisory services consist of fees earned for assisting customers with transactions related to mergers and acquisitions and financial restructurings. Revenue varies depending on the size and number of services performed for each contract and is generally contingent on successful execution of the transaction. Revenue is typically recognized once the transaction is completed and all services have been rendered. Additionally, the Company may earn a fixed fee in merger and acquisition transactions to provide a fairness opinion, with the fees recognised when the opinion is delivered to the customer.

1.12 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FVPL

Net income from other financial instruments at FVPL relates to financial assets and financial liabilities designated as at FVPL and, from 1 January 2018, non-trading assets and liabilities measured mandatorily at FVPL. The net income includes fair value changes, interest, dividends, and foreign exchange differences.

1.13 SERVICE FEE INCOME

Service fee income consist of charges made to affiliated undertakings to remunerate the Company for services provided or to reimburse the Company for expenditure incurred. Service fee income is recognised on an accruals basis when the transactions occurred or as the service is provided, and is recorded within other operating income.

1.14 OPERATING LEASES

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.15 FINANCE LEASES

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

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

Finance leases are included within loans and advances to customers.

1.16 RETIREMENT BENEFIT SCHEMES

The Company participates in defined benefit and defined contribution pension schemes in the Republic of Ireland and across Europe.

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

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

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

The Company also operates defined contribution plans which receive contributions calculated as a percentage of each employee's plan salary based on their length of service. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as employee benefit expense when they are due.

1.17 MERGERS UNDER COMMON CONTROL

The Company applies predecessor accounting to business combinations between entities under common control, as these transaction fall outside of the scope of IFRS 3 – Business Combinations. Accordingly, the Company recognises the assets acquired and liabilities assumed of the absorbed entity at their carrying value as at the date of the merger. Group reconstruction relief has been applied and share premium has been recognised accordingly.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.18 INVESTMENTS IN SUBSIDIARY

A subsidiary is defined as an entity that is controlled by another entity. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investments in subsidiaries are held at cost less provision for impairment.

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

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

Profit or loss on disposal of investments and dividends received from investments are disclosed in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.19 FINANCIAL ASSETS

Policy applicable from 1 January 2018

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Company classifies its financial assets as measured at: amortised cost, FVOCI or FVPL. A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company initially measures a financial asset at its fair value plus or minus, in the case of a financial asset not subsequently measured at FVPL, transaction costs that are incremental and directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Immediately after initial recognition, the Company recognises an expected credit loss allowance for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 1.22, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

A debt instrument is classified as measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Business model:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (eg. financial assets are held for trading purposes, are held to maximise cash flows through sale, or are managed on a fair value basis), then the financial assets are classified as part of 'other' business model and are measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include:

- Past experience on how the cash flows for the assets were collected
- How the asset's performance is evaluated and reported to key management personnel
- How risks are assessed and managed
- How managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, that is to say that interest includes only consideration for the time value of money, credit risks, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on an investment-by-investment basis. The Company has not taken this election for its equity investments.

All other financial assets, including derivative assets, are classified as measured at FVPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Policy applicable before 1 January 2018

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

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

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

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

The Company classifies certain securities and loans as held for trading or designates them as at fair value through profit or loss. All derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. All remaining financial assets are classified either as loans and receivables or as available for sale.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses relating to trading instruments are presented as dealing profits. Gains and losses relating to derivatives held for non-trading activities are presented within operating income or expense respectively.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss or available for sale.

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

1.20 FINANCIAL LIABILITIES

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

From 1 January 2018, when the Company designates a financial liability as at FVPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a debt valuation adjustments reserve. However, if on initial recognition of the financial liability the Company assesses that presentation in OCI would create, or enlarge, an accounting mismatch, then the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

Amounts presented in the debt valuation adjustments reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

1.21 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less depreciation.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.22 IMPAIRMENT OF FINANCIAL ASSETS HELD AT AMORTISED COST AND FVOCI

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit loss ("ECL") on the following financial instruments that are not measured at FVPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued;

The Company measures loss allowances at an amount equal to 12-month ECL for financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses, measured as follows:

For financial assets that are not credit-impaired at the reporting date, the present value of all cash shortfalls (ie. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);

For financial assets that are credit-impaired at the reporting date, the difference between the gross carrying amount and the present value of estimated future cash flows;

For undrawn loan commitments, the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn upon and the cash flows that the Company expects to receive; and

For financial guarantee contracts, the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified, or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

For financial assets measured at amortised cost, the loss allowance for ECL is presented as a deduction from the gross carrying amount of the assets. For loan commitments and financial guarantee contracts, the loss allowance is presented as a provision.

For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position as the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write offs

Loans and debt securities are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

The Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at each reporting date. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that are not deemed to have been incurred) discounted at the financial asset's original effective interest rate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

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.

1.23 CURRENT AND DEFERRED TAXATION

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

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

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

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

1.24 SECURITIES FINANCING TRANSACTIONS

Resale agreements are accounted for as secured financing transactions. Resale agreements are recorded at amortised cost, being their contractual amounts plus accrued interest, as a result of the business model assessment under IFRS 9. Contractual interest coupon on resale agreements at amortised cost is recorded as interest revenue.

Securities financing transactions give rise to negligible credit risk as a result of these collateral provisions. These instruments therefore are managed based on market risk rather than credit risk.

All resale activities are transacted under master agreements that give the Company the right, in the event of default of the counterparty, to liquidate collateral held and to offset receivables and payables with the same counterparty.

Prior to 1 January 2018 repurchase agreements and securities borrowed transactions were classified as loans and receivables in accordance with IAS 39, and were recorded at amortised cost.

Securities received under resale agreements are not recognised in the statement of financial position as the risks and rewards of ownership are not obtained from the counterparty.

1.25 OFFSETTING

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)**1.26 DERECOGNITION OF FINANCIAL ASSETS**

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received and any cumulative gain that had been recognised in OCI is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modifications to the terms of financial assets and liabilities may result in derecognition if it is deemed that the modification results in an expiry of the contractual rights and obligations of the original instrument, see note 1.30 for further details.

1.27 TRADE AND SETTLEMENT DATED TRANSACTIONS

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

1.28 SHARE BASED PAYMENTS

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

For most awards, expense is generally recognised proportionately over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, BAC accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, BAC recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.29 FINANCIAL GUARANTEES AND COMMITMENTS

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured as follows:

From 1 January 2018, at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee, and the amount determined in accordance with the ECL model as detailed in note 1.22.

Before 1 January 2018, at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

Loan commitments that the Company designates as financial liabilities at fair value through profit or loss are recognised as disclosed in note 1.20.

Other loan commitments provided by the Company are measured, from 1 January 2018, as the amount of the loss allowance calculated in accordance with note 1.22. The Company has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

Prior to 1 January 2018 the Company recognised a provision in accordance with IAS 37 if the loan commitment contract was considered to be onerous.

Loss allowance arising from financial guarantees and loan commitments are included within other liabilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

1.30 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Policy applicable from 1 January 2018

If the terms of a financial asset or financial liability are modified, the Company evaluates whether the new terms of the modified instrument are substantially different to the original terms. If the new terms are substantially different, then the original instrument is derecognised and a new instrument, based on the modified terms, is recognised at fair value. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

In relation to financial assets, if the contractual terms of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition. Instead the Company recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases it is presented as interest income.

Where modification does result in derecognition, the date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining where a significant increase in credit risk has occurred.

Policy applicable before 1 January 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then the Company first considers whether there has been objective evidence of impairment, and if so recognises an impairment loss in accordance with note 1.22.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRS 101 requires the use of accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below, along with the judgements made by the Company in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements.

(a) Impairment of financial instruments

The Company's accounting policy for losses in relation to the impairment of financial instruments is described in note 1.22. The measurement of the expected credit loss allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and customer behaviour. An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is provided in note 16, which also sets out the key sensitivities of the ECL to changes in these elements.

In applying the accounting requirements for calculating impairment, the Company has made significant judgements such as in relation to establishing groups of similar financial assets for the purposes of measuring ECL, and establishing the number and relative weightings for forward-looking scenarios used in the calculation.

As part of the staging assessment required under IFRS 9, the Company applies judgement in establishing criteria for determining whether the risk of default on a financial instrument has increased significantly since initial recognition, considering reasonable and supportable information that is relevant and available without undue cost or effort.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Note 16 provides additional detail on the Company's approach to determining significant increase in credit risk.

(b) Valuation of financial instruments

The Company's accounting policy for valuation of financial instruments is included in notes 1.19 and 1.20. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs.

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions. Note 45 further discusses the valuation of financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(c) Classification of financial assets (from 1 January 2018 only)

The Company follows the guidance of IFRS 9 in conducting an assessment of the business model within which the assets are held and an assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. In some cases this determination requires significant judgement, for example when grouping portfolios of assets managed under the same business model or when assessing the impact of contractual terms for contractually linked instruments.

In order to perform the business model assessment, the Company evaluates, among other factors, the strategy of the business and types of management information used to measure performance of the portfolio as well as information regarding sales from the portfolio to ensure that the appropriate contractual cash flow information is considered by reviewing transaction and structure documentation in conjunction with line of business experts to ensure that relevant terms are analysed. See accounting policy note 1.19 for further details regarding classification of financial assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. CROSS BORDER MERGER

As noted in the Directors report, on 1 December 2018 BANA merged the Company with BAMLI Ltd.

Under the terms of the merger, an ordinary share of nominal value \$1 was issued by BAMLI DAC to the immediate parent BANA as consideration for the net assets of BAMLI Limited. Group reconstruction relief has been applied to limit the increase in share premium on BAMLI DAC to \$9,061 million (see note 38).

BAMLI DAC has applied predecessor accounting whereby the assets, liabilities and results of BAMLI Limited have been incorporated into the results of BAMLI DAC from the date of the merger, 1 December 2018.

Assets and liabilities have been transferred at carrying value and the prior year results have not been restated. Consequently, BAMLI DAC's financial statements for 2018 include the results of the merged entity from the merger date, and before that date do not include the results of BAMLI Limited.

The carrying values of the assets and liabilities transferred to the Company as part of the merger on 1 December 2018 were as follows:

| | 1 December 2018 |
|----------------------------------|----------------------------|
| | \$M |
| Cash held at central banks | 7,239 |
| Loans and advances to banks | 4,620 |
| Loans and advances to customers | 25,208 |
| Reverse repurchase agreements | 7,300 |
| Market and client receivables | 1,666 |
| Trading assets | 1,760 |
| Derivative financial instruments | 33 |
| Other assets | 2,512 |
| | <hr/> |
| Total assets | 50,338 |
| | <hr/> |
| Deposits by banks | 25,439 |
| Deposits by customers | 10,828 |
| Market and client payables | 1,589 |
| Derivative financial instrument | 46 |
| Subordinated liabilities | 2,000 |
| Other liabilities | 1,375 |
| | <hr/> |
| Total liabilities | 41,277 |
| | <hr/> |
| Net assets at date of merger | 9,061 |
| | <hr/> |

From the date of merger, BAMLI Limited has contributed \$206 million of operating income and \$54 million of profit after taxation. If the merger date had been on the first day of the financial year, BAMLI Limited would have contributed \$2,687 million of operating income and \$497 million of profit after taxation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. SEGMENTAL ANALYSIS

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

| | Global Banking and Markets | Support Services | Total |
|--|---|-----------------------------|--------------|
| | \$M | \$M | \$M |
| 2018 | | | |
| Net interest income | 61 | - | 61 |
| Net fee and commission income | 15 | - | 15 |
| Dealing profits | 12 | - | 12 |
| Net income from financial instruments designated at fair value | 45 | - | 45 |
| Other operating income | 28 | 91 | 119 |
| Total operating income | 161 | 91 | 252 |
| Total operating expenses | (90) | (86) | (176) |
| Profit before taxation | 71 | 5 | 76 |

Due to the support services activity being merged into BAMLI DAC as part of the CBM, all revenues and expenses for 2017 relate to the Global Banking and Markets segment.

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

The below table shows a disaggregation of revenues under the scope of IFRS 15 by operating segment.

| | Global Banking and Markets | Support services | Total |
|---------------------------------|---|-----------------------------|--------------|
| | \$M | \$M | \$M |
| 2018 | | | |
| Investment banking fees | 8 | - | 8 |
| Other fee and commission income | 9 | - | 9 |
| Service fee income | 25 | 91 | 116 |
| | 42 | 91 | 133 |

See note 6 for further detail on Investment banking fees and Other fee and commission income. See note 8 for Service fee income within other operating income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. NET INTEREST INCOME

| | 2018 | 2017 |
|--|-------------|------|
| | \$M | \$M |
| Loans and advances to customers and banks | 71 | 2 |
| Debt instruments at FVOCI (2017: available for sale) | 1 | - |
| Other | 33 | 12 |
| Interest receivable and similar income | 105 | 14 |
| Deposits by banks and customers | (29) | - |
| Subordinated debt | (7) | - |
| Interest expense on assets | (8) | (2) |
| Interest payable and similar expense | (44) | (2) |
| Net interest income | 61 | 12 |
| Amounts above include: | | |
| Net interest (expense) / income due to / from affiliated companies | 5 | 11 |

All amounts included within net interest income are calculated using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. NET FEE AND COMMISSION INCOME

| | 2018 \$M | 2017 \$M |
|--|-------------|-------------|
| Investment banking | | |
| Financial advisory services | 3 | - |
| Loan syndication fees | 5 | - |
| | <u>8</u> | <u>-</u> |
| Other fee and commission income | 9 | - |
| | <u>17</u> | <u>-</u> |
| Total fee and commission income | | |
| | <u>17</u> | <u>-</u> |
| Fee and commission expense | (2) | - |
| | <u>(2)</u> | <u>-</u> |
| Net fee and commission income | <u>15</u> | <u>-</u> |

Other fees and commission income is comprised primarily of loan fees.

The net fee and commission income above includes income of \$17 million (2017: \$nil) and expense of \$2 million (2017: \$nil) relating to financial assets and liabilities not measured at FVPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

7. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FVPL

The table below shows net income from financial instruments mandatorily measured at FVPL, other than those included in "dealing profits".

| | 2018 \$M | 2017 \$M |
|--------------------|-------------|-------------|
| Derivatives | 35 | - |
| Loans and advances | 10 | - |
| | <u>45</u> | <u>-</u> |

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. OTHER OPERATING INCOME

| | 2018 | 2017 |
|--------------------|-------------------|-----------|
| | \$M | \$M |
| Service fee income | 116 | 2 |
| Other | 3 | 12 |
| | <u>119</u> | <u>14</u> |

9. ADMINISTRATIVE EXPENSES

| | 2018 | 2017 |
|---|-------------------|----------|
| | \$M | \$M |
| Staff costs (see note 12) | 98 | 8 |
| Operating lease rentals: Land and buildings | 8 | - |
| Bank and investment firm resolution repayment | (4) | (4) |
| Other | 43 | 4 |
| | <u>145</u> | <u>8</u> |

For contractual commitment in relation to operating leases, see note 39.

10. OTHER OPERATING EXPENSES

| | 2018 | 2017 |
|---------------------|-------------|------|
| | \$M | \$M |
| Service fee expense | 21 | - |

11. AUDITORS' REMUNERATION

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

| | 2018 | 2017 |
|---|---------------------|------------|
| | \$000 | \$000 |
| Fees for the audit of the Company | 1,843 | 324 |
| Fees for audit related assurance services | 330 | 24 |
| | <u>2,173</u> | <u>348</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. STAFF COSTS

| | 2018 | 2017 |
|---|------------------|----------|
| | \$M | \$M |
| Wages and salaries | 90 | 5 |
| Social security costs | 7 | - |
| Defined benefit and contribution pension scheme costs | 1 | 3 |
| | <u>98</u> | <u>8</u> |

Included within wages and salaries are charges relating to share based compensation plans, see note 14 for further details.

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

| | 2018 | 2017 |
|------------------------------------|-------------------|-----------|
| | No. | No. |
| Support, operations and technology | 582 | 18 |
| Trading, sales and advisory | 31 | - |
| | <u>613</u> | <u>18</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. DIRECTORS' REMUNERATION

Of the directors that served during the year, 11 (2017: 7) were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company based on an estimated time allocation basis.

| | 2018 | 2017 |
|------------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Non-executive directors fees | 305 | 134 |
| Emoluments | 8,137 | 1,678 |
| Pension contributions | 43 | 39 |
| | <hr/> | <hr/> |
| | 8,485 | 1,851 |
| | <hr/> | <hr/> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

14. SHARE BASED PAYMENTS

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, BAC grants stock-based awards, including stock options, restricted stock and restricted stock units ("RSUs").

For most awards, expense is generally recognised proportionately over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, BAML I DAC accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, BAML I DAC recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

Certain awards contain claw back provisions which permit BAC to cancel all or a portion of the award under specified circumstances.

The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for the period to 31 December 2018 was \$13 million (2017: \$2 million).

Restricted stock units

An RSU is deemed equivalent in fair market value to one share of BAC common stock.

In 2018 the RSUs are authorised to settle predominantly in shares of common stock of BAC which generally vest in three equal annual instalments beginning one year from the grant date. Awards granted in prior years were predominantly cash settled.

Certain recipients of RSU awards may receive cash payments equivalent to dividends.

Other stock plans

At 31 December 2018, non-qualified stock options remain outstanding under the legacy Merrill Lynch Long-Term Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan.

No options were exercised during the current or preceding year.

All options outstanding as of 31 December 2018 were vested and exercisable with a weighted-average remaining contractual term of 0.10 years (2017: 0.13 years), and have no aggregate intrinsic value.

The range of exercises prices for all options outstanding are \$40 - \$50 and \$60 - \$70.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. TAXATION

| | 2018 \$M | 2017 \$M |
|--|---------------------|-------------|
| Current tax | | |
| Irish corporation tax on profits of the period | 10 | - |
| Double taxation relief | (10) | - |
| Adjustments in respect of previous periods | - | (3) |
| | - | (3) |
| Foreign tax on income for the year | 13 | 3 |
| Total current tax | 13 | - |
| Deferred tax | | |
| Origination and reversal of Timing differences (see note 27) | (1) | - |
| Total deferred tax | (1) | - |
| Income tax expense | 12 | - |

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

| | 2018 \$M | 2017 \$M |
|--|---------------------|-------------|
| Profit before tax | 76 | 6 |
| Tax calculated at Irish tax rates applicable of 12.50% | 10 | 1 |
| Tax effects of: | | |
| Impact of foreign taxes | 2 | 2 |
| Adjustments in respect of previous periods | - | (3) |
| Total tax charge for the period | 12 | - |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. TAXATION (CONTINUED)**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

Management is currently unable to conclude that it is probable that the Company's Irish tax losses will reduce future taxes payable considering the operation of double taxation agreements. At the balance sheet date, the Company has unrecognised deferred tax assets totalling \$473 million (2017:\$459 million), primarily in relation to these losses.

16. PROVISION FOR LOAN LOSS*Measurement of ECL*

The key inputs in the measurement of ECL are the term structure of the following variables:

- Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation
- Loss given default ("LGD"): the magnitude of the likely loss if there is a default
- Exposure at default ("EAD"): the expected exposure in the event of a default.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. The Company generally derives these parameters from internally developed statistical models based on internally compiled data comprising quantitative and qualitative factors, as well as other historical data such as recovery rates of claims against defaulted counterparties.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses a variety of actual and forecast information to formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Company leverages its existing forecasting processes in developing multiple economic scenarios for IFRS 9, internally derived through a Monte Carlo simulation engine. Five economic scenarios have been utilised in order to support an unbiased and probability weighted approach.

The base case scenario represents a most-likely outcome and is also used by the Company for other purposes such as strategic planning and budgeting. The other four scenarios capture the non-linearity of possible upside and downside scenarios on the ECL measurement. The two upside scenarios represent a strong inflationary expansion and an above-trend growth outcome, while the two downside scenarios respectively represent a moderate recession and a below-trend growth outcome.

The Company has identified and documented the key economic assumptions that drive credit risk and credit losses for each portfolio of financial instruments. These economic assumptions include, among other things, corporate bond spreads, GDP growth, and unemployment rates. In order to calculate life-time ECL for loans classified as Stage 2 or Stage 3, the Company uses existing forecast horizon followed by extrapolation to cover the lifetime of the financial asset.

**NOTES TO THE FINANCIAL STATEMENTS
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As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent the best estimate of the possible outcomes and the chosen scenarios are appropriately representative of the range of possible scenarios.

Credit risk ratings

As part of its risk management process, the Company assigns numeric risk ratings to its corporate loan facilities based on quantitative and qualitative assessments of the obligor and facility. These risk ratings are reviewed at least annually or more often if material events have occurred related to the obligor or facility.

Credit risk ratings are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk rating. The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining a significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company compares the remaining lifetime PD as at the reporting date with the remaining lifetime PD for this point in time as estimated at the time of initial recognition of the exposure (adjusted as relevant for changes in prepayment expectations). The Company calculates the remaining lifetime PD using the same methodology, obligor-level data elements, and forecasted macroeconomic scenarios and scenario weights used to calculate ECL. In addition to quantitative review of PD and risk rating changes, qualitative factors leveraging internal credit risk officers' risk assessment are considered as well as a 30 days past due backstop based on delinquency.

Sensitivity analysis

The calculation of the ECL allowance is dependent on a number of judgements and estimates as to the inputs and assumptions inherent in the model. Variables around stage determination, scenario weighting, and other macroeconomic forecast assumptions are considered to have the most significant impact on the ECL calculations for the Company's primary third party loan and lease population. Review of the assumptions is integrated into the Company's risk and governance processes. As part of these governance processes, the Company has adopted a framework to assess certain risks, such as concentration of exposure to single names, sectors or geographies, that may not be fully captured in the modelled ECL computation. The results of this assessment are then overlaid to the modelled output to result in the overall ECL provision. Whilst overlays to the modelled output are intended to ensure that the Company has appropriately captured the risks from which credit losses may be expected to arise, the ECL provision remains sensitive to changes in the model assumptions, for example:

- In relation to stage determination, moving all loans to stage 1 and calculating ECL on a 12-month basis would reduce the allowance by approximately \$19 million, whereas moving all loans to the lifetime loss horizon (stage 2 or 3) would increase the ECL allowance by approximately \$33 million.
- Running staging and ECL calculations using only the strong inflationary expansion scenario would reduce the ECL allowance by approximately \$14 million, whereas using only the moderate recession scenario would increase ECL allowance by approximately \$20 million.

Note that this disclosure is intended to illustrate the relative sensitivity of the ECL allowance calculation and is not predictive or indicative of future loss experience.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Collective based and other loss allowance assessment

The primary credit exposures of the Company falling within the impairment provisions of IFRS 9 relate to the Company's portfolio of loans and advances to third party customers and banks, as well as its third party loan commitments. Loss allowances for these financial instruments is modelled on an instrument by instrument basis, determining the relevant PD, LGD and EAD using statistical data as described above and throughout this note.

For other financial instruments the Company assesses the ECL on either a collective or an individual basis using a reduced-complexity calculation, whilst still incorporating as relevant quantitative historical loss experience data and forward-looking information as well as qualitative information as to the nature of risks inherent in the instruments. In the case of the Company's reverse repurchase agreement the credit exposure is over-collateralised, and the Company's customer and other receivables are typically short-dated. The Company's investment securities at FVOCI are held in high investment grade assets. As a result the PD, LGD, or both are such that the resulting ECL is not significant to the Company. Actual amounts written off during the year on these other financial instruments are also not significant to the Company. In light of this, separate disclosure of ECL allowance or amounts written off on these instruments is not considered necessary in the financial statements.

Reconciliation of loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. An explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired is included within the accounting policy note 1.22.

Loans and advances to banks

| | 12 month ECL \$M |
|---|---------------------------------|
| As at 1 January 2018 | - |
| Migrated in due to the CBM on 1 December 2018 | 1 |
| | <hr/> |
| As at 31 December 2018 | 1 |
| | <hr/> |

Loans and advances to customers

| | 12 month ECL \$M | Lifetime ECLs Not credit- impaired loans \$M | Lifetime ECLs Credit- impaired loans \$M | Total \$M |
|---|---------------------------------|---|---|----------------------|
| As at 1 January 2018 | - | - | - | - |
| Migrated in due to the CBM on 1 December 2018 | 7 | 54 | 12 | 73 |
| New financial assets originated or purchased | 6 | - | - | 6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 December 2018 | 13 | 54 | 12 | 79 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Guarantees and commitments

| | 12 month ECL | Lifetime ECLs Not credit- impaired loans | Lifetime ECLs Credit- impaired loans | Total |
|---|-----------------|--|--|-------|
| | \$M | \$M | \$M | \$M |
| As at 1 January 2018 | - | - | - | - |
| Migrated in due to the CBM on 1 December 2018 | 4 | 13 | 4 | 21 |
| As at 31 December 2018 | 4 | 13 | 4 | 21 |

There was no undiscounted ECL at initial recognition on purchased or originated credit-impaired assets.

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is \$nil.

The following table represents comparative disclosures for the movement in the allowance for credit losses and reflect measurement basis under IAS 39.

| | 2017 \$M |
|---------------------------------|-------------|
| At 1 January | 5 |
| Charge off on impaired loans | (5) |
| Impairment release for the year | - |
| | - |

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for guarantees and commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

| | 31 December 2017 (IAS 39/ IAS 37) | Impact of change in allowance methodology | 1 January 2018 (IFRS 9) |
|---|--|--|----------------------------|
| | \$'000 | \$'000 | \$'000 |
| Loans and advances to banks measured under IAS 39 | - | - | - |
| Guarantees and commitments | 145 | (136) | 9 |
| Guarantees and commitments | 145 | (136) | 9 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The impact to reserves of the above change in measurement of the loss allowance is included in note 49.

Impact to the loss allowance of significant changes in the gross carrying amount

The overall allowance increased from an amount of \$9,000 as at initial application of IFRS 9 to \$81 million as at 31 December 2018. The increase in all categories were primarily driven by growth in the Company's portfolio resulting from the CBM.

Definition of default

The Company considers a financial asset to be in default when:

- Material exposures are more than 90 days past-due and / or;
- The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due;.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Company considers qualitative indicators such as breaches of covenants, as well as quantitative indicators such as overdue status and non-payment on other obligations of the same issuer. Data from external sources is also used in the consideration of whether a borrower is in default.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 1.30

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

Following the CBM on 1 December 2018, there were no assets modified subsequent to initial recognition.

For further information on the Company's exposure to and management of credit risk, see note 44.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

17. LOANS AND ADVANCES TO BANKS

| | 2018 \$M | 2017 \$M |
|--|---------------------|-------------|
| Gross carrying amount of loans and advances to banks at amortised cost | 3,663 | 388 |
| Allowance for impairment | (1) | - |
| | <u>3,662</u> | <u>388</u> |
| | <u>3,662</u> | <u>388</u> |
| | 2018 \$M | 2017 \$M |
| Analysed by maturity: | | |
| On demand | 1,364 | 66 |
| Within three months | 568 | 322 |
| Between three months and one year | 583 | - |
| Between one year and five years | 1,148 | - |
| More than five years | - | - |
| | <u>3,663</u> | <u>388</u> |
| Allowance for impairment (see note 16) | <u>(1)</u> | <u>-</u> |
| Total loans and advances to banks | <u>3,662</u> | <u>388</u> |
| Amounts above include: | | |
| Due from affiliated companies | <u>1,508</u> | <u>380</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

18. LOANS AND ADVANCES TO CUSTOMERS

| | 2018 \$M | 2017 \$M |
|--|---------------------|-------------|
| Gross carrying amount of loans and advances to customers at amortised cost | 24,871 | - |
| Allowance for impairment (see note 16) | (79) | - |
| | 24,792 | - |
| Loans and advances to customers at FVPL | 2,452 | - |
| | 27,244 | - |
| | 2018 \$M | 2017 \$M |
| Analysed by maturity: | | |
| On demand | 274 | - |
| Within three months | 1,598 | - |
| Between three months and one year | 2,852 | - |
| Between one year and five years | 19,449 | - |
| More than five years | 3,150 | - |
| | 27,323 | - |
| Allowance for impairment | (79) | - |
| Total loans and advances to customers | 27,244 | - |
| Amounts above include: | | |
| Due from affiliated companies | 9 | - |

Loans and advances to customers includes \$72 million (2017: \$nil) of finance lease receivables. See note 19 for further details regarding these finance leases.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. FINANCE LEASE RECEIVABLES

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

31 December 2018

| | Total future payments | Unearned interest income | Present value |
|----------------------------|----------------------------------|---|----------------------|
| | \$M | \$M | \$M |
| Not later than one year | 19 | - | 19 |
| Between one and five years | 46 | - | 46 |
| Later than five years | 7 | - | 7 |
| | 72 | - | 72 |

Unguaranteed residual values of assets leased under finance leasing arrangements at the reporting date are estimated at \$1 million (2017: \$nil).

The Company had no finance lease receivables at the end of 2017 and all finance leases were migrated in during the CBM.

20. REVERSE REPURCHASE AGREEMENTS

| | 2018 \$M | 2017 \$M |
|-------------------------------|---------------------|---------------------|
| Reverse repurchase agreements | 6,000 | 12 |

All reverse repurchase agreements are held with an affiliated company and are repayable on demand.

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

21. MARKET AND CLIENT RECEIVABLES

| | 2018 | 2017 |
|------------------------------|--------------|-------|
| | \$M | \$M |
| Analysed by maturity: | | |
| On Demand | 1,825 | 1,205 |

Market and client receivables relate to cash collateral and trades pending settlement.

22. TRADING ASSETS

| | 2018 | 2017 |
|----------------------------|--------------|-------|
| | \$M | \$M |
| Government debt securities | 241 | 1,420 |
| Traded loans | 1,330 | 10 |
| Other debt securities | 111 | 47 |
| | 1,682 | 1,477 |

| | 2018 | 2017 |
|-----------------------------------|--------------|-------|
| | \$M | \$M |
| Analysed by maturity: | | |
| On demand | 273 | 523 |
| Within three months | 73 | 619 |
| Between three months and one year | 232 | - |
| Between one year and five years | 325 | - |
| More than five years | 779 | 335 |
| | 1,682 | 1,477 |

**NOTES TO THE FINANCIAL STATEMENTS
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23. INVESTMENT SECURITIES

| | 2018 | 2017 |
|---------------------------------|----------------------------|-----------------|
| | \$M | \$M |
| Debt instruments held at FVOCI | 1,269 | - |
| Equity instruments held at FVPL | 45 | - |
| | <u>1,314</u> | <u>-</u> |
| | <u><u>1,314</u></u> | <u><u>-</u></u> |

| | 2018 | 2017 |
|------------------------------|----------------------------|-----------------|
| | \$M | \$M |
| Analysed by maturity: | | |
| Equity instruments | 45 | - |
| Within three months | 1,269 | - |
| | <u>1,314</u> | <u>-</u> |
| | <u><u>1,314</u></u> | <u><u>-</u></u> |

24. INVESTMENT IN GROUP UNDERTAKINGS

| | Investments in group undertakings \$M |
|---|--|
| Cost | |
| At 1 January 2018 | - |
| Migrated in due to the CBM on 1 December 2018 | 180 |
| | <u>180</u> |
| At 31 December 2018 | <u>180</u> |
| Net book value | |
| At 31 December 2018 | <u>180</u> |
| | <u><u>180</u></u> |
| At 31 December 2017 | <u>-</u> |
| | <u><u>-</u></u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

24. INVESTMENT IN GROUP UNDERTAKINGS (CONTINUED)

As part of the CBM, the Company acquired the entire ordinary share capital of Merrill Lynch (Camberley) Limited, which had a fair value of \$180 million at the point of acquisition.

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the Company:

| Name | Country of incorporation | Class of shares | Holding | Principal activity |
|-----------------------------------|---------------------------------|------------------------|----------------|---------------------------|
| Merrill Lynch (Camberley) Limited | United Kingdom | Ordinary | 100 % | Owner of data centre |

25. PROPERTY, PLANT AND EQUIPMENT

| | Freehold property \$M | Leasehold improvements \$M | Office equipment \$M | Total \$M |
|---|----------------------------------|---------------------------------------|---------------------------------|----------------------|
| Cost or valuation | | | | |
| Additions | - | 13 | 8 | 21 |
| Migrated in due to the CBM on 1 December 2018 | 95 | 156 | 390 | 641 |
| At 31 December 2018 | 95 | 169 | 398 | 662 |
| Depreciation | | | | |
| Charge for the year on owned assets | - | 1 | 3 | 4 |
| Migrated in due to the CBM on 1 December 2018 | 67 | 115 | 284 | 466 |
| | 67 | 116 | 287 | 470 |
| Net book value | | | | |
| At 31 December 2018 | 28 | 53 | 111 | 192 |
| At 31 December 2017 | - | - | - | - |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

26. OTHER ASSETS

| | 2018 | 2017 |
|--------------------------------------|-------------------|-----------|
| | \$M | \$M |
| Amounts owed by affiliated companies | 221 | 6 |
| Deferred tax (see note 27) | 88 | - |
| Taxation | 22 | 17 |
| Other | 142 | 16 |
| | <u>473</u> | <u>39</u> |

27. DEFERRED TAXATION

| | 2018 |
|--|------------------|
| | \$M |
| At beginning of year | - |
| Charged/(credited) to profit or loss (see note 15) | (1) |
| Migrated in due to the CBM on 1 December 2018 | 89 |
| At 31 December | <u>88</u> |

The deferred tax asset is made up as follows:

| | 2018 | 2017 |
|---|------------------|----------|
| | \$M | \$M |
| Accelerated capital allowances | 58 | - |
| Timing differences relating to compensation and social security costs | 27 | - |
| Timing differences in relation to the provision for loans | 3 | - |
| | <u>88</u> | <u>-</u> |

**NOTES TO THE FINANCIAL STATEMENTS
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28. PREPAYMENTS AND ACCRUED INCOME

| | 2018 \$M | 2017 \$M |
|----------------|-------------|-------------|
| Accrued income | 85 | - |
| Other | 24 | - |
| | <u>109</u> | <u>-</u> |

29. DEPOSITS BY BANKS

| | 2018 \$M | 2017 \$M |
|-----------------------------------|---------------|-------------|
| Analysed by maturity: | | |
| On demand | 726 | 4 |
| Within three months | 4 | - |
| Between three months and one year | 8,548 | 29 |
| Between one year and five years | 12,152 | - |
| After five years | 1,201 | - |
| | <u>22,631</u> | <u>33</u> |
| Amounts above include: | | |
| Due to affiliated companies | <u>22,566</u> | <u>33</u> |

30. DEPOSITS BY CUSTOMERS

| | 2018 \$M | 2017 \$M |
|-----------------------------------|---------------|-------------|
| Analysed by maturity: | | |
| On demand | 8,299 | - |
| Within three months | 42 | - |
| Between three months and one year | 5,507 | - |
| Between one year and five years | 1,462 | - |
| After five years | 9 | - |
| | <u>15,319</u> | <u>-</u> |
| Amounts above include: | | |
| Due to affiliated companies | <u>7,640</u> | <u>-</u> |

**NOTES TO THE FINANCIAL STATEMENTS
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31. MARKET AND CLIENT PAYABLES

| | 2018 \$M | 2017 \$M |
|------------------------------|---------------------|-------------|
| Analysed by maturity: | | |
| On Demand | 1,247 | 531 |

Market and client payables relate to cash collateral and trades pending settlement.

32. OTHER LIABILITIES

| | 2018 \$M | 2017 \$M |
|--------------------------------------|---------------------|-------------|
| Amounts owed to affiliated companies | 571 | 12 |
| Tax creditor | 91 | 3 |
| Provisions (see note 33) | 21 | - |
| Other | 179 | 3 |
| | 862 | 18 |

33. PROVISIONS

| | 2018 \$M | 2017 \$M |
|-------------------------|---------------------|-------------|
| Loan commitments issued | 21 | - |
| | 21 | - |

The provision for financial guarantee contracts issued represents the amounts recognised at issuance less cumulative amortisation, plus (for 31 December 2018 only) an ECL provision of \$nil.

The provision for loan commitments issued represents the amounts recognised as issuance of loan commitments to provide a loan at below market rates less cumulative amortisation, plus (for 31 December 2018 only) an ECL provision of \$21 million.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

34. ACCRUALS AND DEFERRED INCOME

| | 2018 \$M | 2017 \$M |
|--------------------------|-------------|-------------|
| Accrued interest payable | 27 | - |
| Other accruals | 226 | 2 |
| | <u>253</u> | <u>2</u> |

35. SUBORDINATED LIABILITIES

| | 2018 \$M | 2017 \$M |
|---|--------------|-------------|
| US Dollar denominated loan notes maturing in 2027 and bearing interest at 3 month USD LIBOR plus 176 basis points | 1,000 | - |
| US Dollar denominated loan notes maturing in 2028 and bearing interest at 3 month USD LIBOR plus 133 basis points | 1,000 | - |
| | <u>2,000</u> | <u>-</u> |

The subordinated liabilities are with affiliated companies and are contractually repayable at any time at the Company's option.

36. RETIREMENT BENEFIT SCHEMES

The Company participates in a number of defined benefit and defined contribution pension schemes.

Defined contribution schemes

Prior to the CBM, the major defined contribution pension scheme was the Bank of America Merrill Lynch Ireland Pension Scheme. Following the CBM, the main defined contribution pension scheme is the Bank of America Merrill Lynch UK Pension Plan (formerly the ML UK Pension Plan) ("the Plan") which is generally available to the employees of the London branch of BAML DAC. The principal employer of the Plan is Merrill Lynch International ("MLI").

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

The Company's pension cost for the year in respect of defined contribution schemes was \$1 million (2017: \$nil).

Defined benefit schemes

The Company participates in defined benefit plans relating to former BAC group branches and legal entities. The plans consist of both funded and unfunded arrangements.

**NOTES TO THE FINANCIAL STATEMENTS
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The main defined benefit obligations of the Company are in respect of German and Swiss employees. In addition, following the CBM, there are defined benefit obligations relating to Dutch and Italian employees.

Defined benefit scheme - Switzerland

Following the CBM, the Swiss plan held by BAMLI Ltd ("the Zurich Plan") was migrated into BAMLI DAC. The Zurich Plan is a stand-alone pension foundation providing cash balance benefits in accordance with mandatory Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge/Loi Fédérale sur la Prévoyance Professionnelle Vieillesse, Survivants et Invalidité ("LPP/BVG") requirements. The retirement benefits are provided either as a lump sum at retirement, or as an annuity, and there are associated benefits on death or disability. The Foundation is governed by a Board, which is legally responsible for all aspects of the operation of the Foundation including overseeing the investments and the distribution of the benefits. There is equal representation of Board members with half appointed by the employer and half elected by the membership. The participating employers in the Foundation consist of BAMLI DAC and other Swiss subsidiaries of the Bank of America Group and BAMLI DAC is the principal employer in Switzerland. The employer contributions are generally made in accordance with the benefit formula. Total defined benefit employer contributions made in 2018 were \$nil million and expected total 2019 contributions are \$1 million.

In respect of future funding:

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

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

Defined benefit schemes – Germany

Prior to the CBM, the Company was responsible for certain defined benefit obligations relating to former employees of the Frankfurt branch of BAMLI DAC. Employer contributions related to the payment of benefits. The portion of the liabilities relating to active employees was held by the Frankfurt branch of BAMLI Ltd rather than BAMLI DAC.

Following the CBM, defined benefit obligations relating to active employees of the Frankfurt branch of BAMLI Ltd were migrated into the Company.

The plans are as follows:

ML International Bank Defined Pension Plan is sponsored by the BAMLI DAC London Branch. The Plan relates to the former German Global Wealth and Investment Management ("GWIM") employees. These defined benefit obligations are unfunded.

ML Capital Markets Bank Defined Benefit Plan is sponsored by BAMLI DAC head office and consists of liabilities for non-active members following the transfer of the active German employees and liabilities to BAMLI Ltd Frankfurt branch in 2016. Following the CBM, the active employee liability of the plan held within BAMLI Ltd was migrated to BAMLI DAC, and is sponsored by BAMLI DAC Frankfurt branch.

ML Capital Markets Bank Deferred Compensation Plan ("DCP") is also sponsored by BAMLI DAC head office and also consists of liabilities for non-active members following the transfer of the active German employees and liabilities to BAMLI Ltd Frankfurt branch in 2016. This DCP is partially funded by insurance contracts. Following the CBM, the active employee liability of the plan was migrated to BAMLI DAC and is sponsored by BAMLI DAC Frankfurt branch.

**NOTES TO THE FINANCIAL STATEMENTS
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Further to the CBM, the following schemes relating to German employees were added to the Company's retirement benefit obligations:

ML Management GmbH DB Plan is sponsored by the BAMLI DAC Frankfurt branch and consists of liabilities in respect of German employees following the dissolution of ML Management GmbH during 2016. These defined benefit obligations are unfunded.

ML IM Defined Benefit Plan and ML IM DCPs are sponsored by the BAMLI DAC Frankfurt Branch. These plans relate to German GWIM employees. The defined benefit obligations are unfunded.

Total defined benefit employer contributions made in 2018 were \$2 million and expected total 2019 employer contributions are \$4 million.

Defined benefit schemes - Other

The Other plans migrated to the Company following the CBM and consist of a funded defined benefit pension arrangement in The Netherlands administered via an insurance contract held by the Company, and unfunded Termination Indemnity ("TFR") benefits in Italy.

Employer contributions in the Netherlands plan are equal to the ongoing insurance premiums and in the unfunded plans, are equal to the benefits due, which the employer pays directly. Total defined benefit employer contributions in respect of the Other Plans made in 2018 were \$nil and expected total 2019 contributions are also \$nil.

The below table shows the net pension liability on the statement of financial position and associated expense in the income statement.

| | 2018 | 2017 |
|---|--------------|-------|
| | \$M | \$M |
| Fair value of scheme assets | 84 | 4 |
| Present value of defined benefit obligations | (225) | (102) |
| Net pension liability on statement of financial position | (141) | (98) |
| Interest expense | 2 | 2 |
| Statutory pension debt expense | - | 1 |
| Net defined benefit pension expense on income statement | 2 | 3 |

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NOTES TO THE FINANCIAL STATEMENTS
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| | Present value of obligation | | | Fair value of plan assets | | | Fair value of plan assets | | | Fair value of plan assets | | | Present value of obligation | | | Fair value of plan assets | | | Net pension liability | | |
|---------------------------------------|-----------------------------|---------|-------|---------------------------|---------|-------|---------------------------|---------|-------|---------------------------|---------|-------|-----------------------------|-------|-------|---------------------------|-------|-------|-----------------------|-------|--|
| | Switzerland | Germany | Other | Switzerland | Germany | Other | Switzerland | Germany | Other | Switzerland | Germany | Other | Total | Total | Total | Total | Total | Total | Total | Total | |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | |
| At 1 January 2018 | - | (102) | - | - | - | 4 | - | (102) | 4 | (98) | | | | | | | | | | | |
| Transferred in | (95) | (28) | (5) | 76 | - | 4 | | (128) | 80 | (48) | | | | | | | | | | | |
| | (95) | (130) | (5) | 76 | 4 | 4 | | (230) | 84 | (146) | | | | | | | | | | | |
| Amounts recognised in P&L: | | | | | | | | | | | | | | | | | | | | | |
| Interest (expense)/income | - | (2) | - | - | - | - | | (2) | - | (2) | | | | | | | | | | | |
| | - | (2) | - | - | - | - | | (2) | - | (2) | | | | | | | | | | | |
| Foreign exchange differences | (1) | 5 | - | 1 | - | - | | 4 | 1 | 5 | | | | | | | | | | | |
| Contributions | | | | | | | | | | | | | | | | | | | | | |
| Employer | - | - | - | - | 2 | - | | - | 2 | 2 | | | | | | | | | | | |
| | (1) | 5 | - | 1 | 2 | - | | 4 | 3 | 7 | | | | | | | | | | | |
| Payments from plan | | | | | | | | | | | | | | | | | | | | | |
| Benefit payments | 1 | 2 | - | (1) | (2) | - | | 3 | (3) | - | | | | | | | | | | | |
| At 31 December 2018 | (95) | (125) | (5) | 76 | 4 | 4 | | (225) | 84 | (141) | | | | | | | | | | | |

**NOTES TO THE FINANCIAL STATEMENTS
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| | Present value of obligation | Fair value of plan assets | Total |
|--|--------------------------------|------------------------------|-------|
| | \$M | \$M | \$M |
| At 1 January 2017 | (92) | 4 | (88) |
| | (92) | 4 | (88) |
| Amounts recognised in P&L: | | | |
| Interest (expense)/income | (2) | - | (2) |
| Statutory pension debt expense | (1) | - | (1) |
| | (3) | - | (3) |
| Amounts recognised in OCI: | | | |
| Gain from change in experience assumptions | (1) | - | (1) |
| | (1) | - | (1) |
| Foreign exchange differences | (12) | - | (12) |
| | (12) | - | (12) |
| Contributions | | | |
| Employer | 4 | 1 | 5 |
| | 4 | 1 | 5 |
| Payments from plan | | | |
| Benefit payments | 2 | (1) | 1 |
| | 2 | (1) | 1 |
| At 31 December 2017 | (102) | 4 | (98) |

The principal actuarial assumptions for all the schemes were as follows:

| | 2018 | 2017 |
|---------------------|-------|-------|
| Discount rate | 1.42% | 1.75% |
| Pension growth rate | 0.95% | 2.00% |
| CPI Inflation | 1.67% | 2.00% |

**NOTES TO THE FINANCIAL STATEMENTS
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| | 2018 | 2017 |
|---|------|------|
| Life expectancy for males aged 65 | 19.4 | 19.4 |
| Life expectancy for females aged 65 | 23.5 | 23.5 |
| Life expectancy at 65 for male currently aged 50 | 21.2 | 21.2 |
| Life expectancy at 65 for females currently aged 50 | 25.4 | 25.4 |

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

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

| | Total | Quoted market price | un-quoted market price |
|-------------|-----------|------------------------|---------------------------|
| | \$M | \$M | \$M |
| Equities | 26 | 26 | - |
| Debt | 29 | 29 | - |
| Real Estate | 13 | 13 | - |
| Other | 16 | 16 | - |
| | <u>84</u> | <u>84</u> | <u>-</u> |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Defined benefit obligation 2018 | Defined benefit obligation 2017 |
|--|--|--|
| | \$M | \$M |
| Current value as at 31 December | 225 | 102 |
| Following a 1.0% increase in the discount rate | | |
| Change | (34) | (16) |
| New value | 191 | 86 |
| Following a 1.0% increase in the inflation assumption | | |
| Change | 18 | 13 |
| New value | 243 | 115 |
| Following an increase in life expectancy of one year | | |
| Change | 8 | 3 |
| New value | 233 | 105 |

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

Changes in bond yields

Corporate bond yields of a term and currency similar to the liabilities are used to as a basis for setting the discount rate for each plan. A decrease in Eurozone corporate bond yields will increase the value placed on the plans' liabilities for accounting purposes.

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Inflation risk

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

Life expectancy

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

37. SHARE CAPITAL

| | 2018 \$M | 2017 \$M |
|--|---------------------|---------------------|
| 32,067,011 (2017: 32,067,010) Ordinary shares of \$1.00 each | 32 | 32 |

38. RESERVES**Share premium account**

Under the terms of the merger, a share of nominal value \$1 was issued by BAMLI DAC to the immediate parent BANA as consideration for the net assets of BAMLI Ltd. Group reconstruction relief has been applied to limit the increase in share premium on BAMLI DAC to \$9,061 million.

Foreign exchange reserve

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

Other reserves

Merrill Lynch Europe Limited released the Company of intra-group pension obligation recharges of \$59 million in 2015. This was treated as a capital contribution.

Profit and loss account

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

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39. OPERATING LEASE COMMITMENTS

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

| | Land and buildings | Other | Total | Land and buildings | Other | Total |
|-----------------------------------|-------------------------------|--------------|--------------|-------------------------------|--------------|--------------|
| | 2018 | 2018 | | 2017 | 2017 | |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Due within one year | 67 | 6 | 73 | - | - | - |
| Due between one and five years | 180 | 9 | 189 | - | - | - |
| Due after five years | 385 | - | 385 | - | - | - |
| Overall Total | 632 | 15 | 647 | - | - | - |

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

40. OTHER FINANCIAL COMMITMENTS

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

| | 2018 | 2017 |
|----------------------|---------------|-------------|
| | \$M | \$M |
| Undrawn commitments | 32,820 | 272 |
| Purchase commitments | 315 | 3 |
| Financial guarantees | 748 | 3 |
| | 33,883 | 278 |

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

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31 December 2018

| | Amortised cost | Mandatorily at FVPL | Designated at FVPL | FVOCI - debt instruments | FVPL - equity instruments | Total |
|---------------------------------------|-------------------|------------------------|-----------------------|-----------------------------|------------------------------|---------------|
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Cash at central banks | 11,517 | - | - | - | - | 11,517 |
| Loans and advances to banks | 3,662 | - | - | - | - | 3,662 |
| Loans and advances to customers | 24,792 | 2,452 | - | - | - | 27,244 |
| Reverse repurchase agreements | 6,000 | - | - | - | - | 6,000 |
| Market and client receivables | 1,825 | - | - | - | - | 1,825 |
| Trading assets | - | 1,682 | - | - | - | 1,682 |
| Investment securities | - | - | - | 1,269 | 45 | 1,314 |
| Derivative financial instruments | - | 1,442 | - | - | - | 1,442 |
| Prepayments and accrued income | 109 | - | - | - | - | 109 |
| Financial Assets | 47,905 | 5,576 | - | 1,269 | 45 | 54,795 |
| Deposits by banks | 22,631 | - | - | - | - | 22,631 |
| Deposits by customers | 15,319 | - | - | - | - | 15,319 |
| Market and client payables | 1,247 | - | - | - | - | 1,247 |
| Derivative financial instruments | - | 1,775 | - | - | - | 1,775 |
| Financial liabilities designated FVPL | - | - | 28 | - | - | 28 |
| Accruals and deferred income | 253 | - | - | - | - | 253 |
| Subordinated liabilities | 2,000 | - | - | - | - | 2,000 |
| Financial Liabilities | 41,450 | 1,775 | 28 | - | - | 43,253 |

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31 December 2017

| | Held for trading | Loans and receivables | Other financial liabilities | Total |
|----------------------------------|------------------|--------------------------|--------------------------------|----------------|
| | \$M | \$M | \$M | \$M |
| Cash held at central banks | - | 473 | - | 473 |
| Loans and advances to banks | - | 388 | - | 388 |
| Reverse repurchase agreements | - | 12 | - | 12 |
| Market and client receivables | - | 1,205 | - | 1,205 |
| Trading assets | 1,477 | - | - | 1,477 |
| Derivative financial instruments | 1,505 | - | - | 1,505 |
| Financial assets | 2,982 | 2,078 | - | 5,060 |
| Deposits by banks | - | - | (33) | (33) |
| Market and client payables | - | - | (531) | (531) |
| Derivative financial instruments | (2,172) | - | - | (2,172) |
| Financial liabilities | (2,172) | - | (564) | (2,736) |

For details around the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018, see note 49.

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42. TRANSFERRED ASSETS AND UNCONSOLIDATED STRUCTURED ENTITIES**Transfers of financial assets**

The Company enters into transactions in the normal course of business in which it transfers financial assets to third parties and to Special Purpose Entities ("SPE"). These transactions may result in the financial assets continuing to be recognised or being derecognised. Refer to note 1.19 and 1.26 for the accounting policy that governs recognition and de-recognition of financial assets.

In 2016, BAMLI Ltd derecognised in full a portfolio of traded loans transferred to an SPE. Following the CBM, the Company now has ongoing exposure to the SPE by virtue of a loan made as part of the initial transaction. The carrying amount and fair value of this involvement as at 31 December 2018 was \$9 million (2017: \$nil). The maximum exposure to loss for this transaction is equal to the carrying value of the loan on the Company's statement of financial position, and the total size of the SPE transaction was \$34 million (2017: \$nil). There has been no material income received by the Company during this year.

Interest in unconsolidated structured entities

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

This includes activity where the Company uses structured entities to securitise commercial real estate loans and advances as a source of finance and a means of risk transfer. The loans and advances are transferred by BAMLI DAC to the structured entities for cash, and the structured entities issue debt securities to investors. As part of this activity, the Company retains a portion of the original loan, which represents an ongoing exposure of the Company to unconsolidated SPE's.

The Company considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity; and further where the Company transfers assets to the structured entity; markets products associated with the structured entity in its own name; provides operational support to ensure the SPE's continue operation and/or provides guarantees regarding the structured entity's performance. BAMLI DAC's exposure within its loans and advances portfolio with respect to unconsolidated SPE's totalled \$8,879 million (2017: \$nil) with a maximum exposure to loss of \$11,045 million (2017: \$nil).

The Company typically has either an interest or control over sponsored SPE's, and instances where it has neither are rare.

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

**NOTES TO THE FINANCIAL STATEMENTS
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43. OFFSETTING

The following table presents financial instruments that are subject to enforceable master netting arrangements and other similar agreements but not offset:

31 December 2018

| | Gross amount presented \$M | Financial instrument netting \$M | Cash collateral \$M | Net amount \$M |
|----------------------------------|---|---|------------------------------------|-------------------------------|
| Assets | | | | |
| Derivative financial instruments | <u>1,442</u> | <u>(280)</u> | <u>(460)</u> | <u>702</u> |
| Liabilities | | | | |
| Derivative financial instruments | <u>1,775</u> | <u>(280)</u> | <u>(1,055)</u> | <u>440</u> |

31 December 2017

| | Gross amount presented \$M | Financial instrument netting \$M | Cash collateral \$M | Net amount \$M |
|----------------------------------|---|---|------------------------------------|-------------------------------|
| Assets | | | | |
| Derivative financial instruments | <u>1,505</u> | <u>(306)</u> | <u>(467)</u> | <u>732</u> |
| Liabilities | | | | |
| Derivative financial instruments | <u>2,172</u> | <u>(306)</u> | <u>(1,193)</u> | <u>673</u> |

Financial instruments

The Company can undertake a number of financial instrument transactions with a single counterparty and may enter into an ISDA master netting agreement or their equivalent ("master netting agreements") with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These agreements are commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

The Company enters into master netting agreements with the Company's major derivative counterparties. Where there is not an intention to settle on a net basis in the normal course of business, the balances have not been offset in the statement of financial position and have been presented separately in the table above.

Cash collateral

Cash collateral relates to collateral received and pledged against derivatives and which have not been offset in the statement of financial position.

**NOTES TO THE FINANCIAL STATEMENTS
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44. RISK MANAGEMENT**Legal entity risk governance**

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

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

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

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

Market risk

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

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

Price risk: is the risk to current or projected financial condition and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market-making, dealing and capital markets activity in interest rate, foreign exchange and credit markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility.

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 BAML I DAC'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 Value at Risk ("VaR") models. BAML I DAC's aggregate potential economic exposure, as well as earnings and capital sensitivity, to interest rate risk in the banking book is also assessed.

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Value at Risk

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

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

The table that follows presents the Company's average and year-end VaR for 2018 and 2017. Additionally, high and low VaR is presented independently for each risk category and overall.

| | Year end 2018 \$000 | High 2018 \$000 | Average 2018 \$000 | Low 2018 \$000 |
|----------------------|------------------------------------|--------------------------------|-----------------------------------|-------------------------------|
| 99% Daily VaR | | | | |
| Credit spread risk | 6,635 | 6,792 | 553 | - |
| Currency risk | 327 | 405 | 43 | 4 |
| Interest rate risk | 756 | 786 | 247 | 33 |
| Total | 6,665 | 6,792 | 649 | 70 |
| | | | | |
| | Year end 2017 \$000 | High 2017 \$000 | Average 2017 \$000 | Low 2017 \$000 |
| 99% Daily VaR | | | | |
| Credit spread risk | 125 | 187 | 123 | 56 |
| Currency risk | 25 | 193 | 110 | 25 |
| Interest rate risk | 154 | 160 | 119 | 68 |
| Total | 193 | 230 | 193 | 132 |

Credit risk

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 BAMLI DAC commits to, or enters in to, an agreement with a borrower or counterparty.

BAMLI DAC 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

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

In its commercial front line units ('FLUs'), BAMLI DAC 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.

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Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

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

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

Commercial lending

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

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

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

Derivatives trading

The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master agreements or their equivalent ("master netting agreements") with derivative counterparties. Master netting agreements provide risk mitigation in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset when closing out the trades upon event of default. Master Netting Agreements are standardised in the industry but are negotiated bilaterally with some terms, credit terms in particular negotiated by the parties. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

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

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Credit quality analysis

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

| | AAA to AA | A to BBB | BB and lower | Not rated | Total gross amount | Impairment allowance | Overall exposure |
|----------------------------------|--------------|---------------|---------------|--------------|--------------------|----------------------|------------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| 31 December 2018 | | | | | | | |
| Cash held at central banks | 5,642 | 5,865 | 10 | - | 11,517 | - | 11,517 |
| Loans and advances to banks | 23 | 2,959 | 681 | - | 3,663 | (1) | 3,662 |
| Loans and advances to customers | 915 | 15,169 | 10,951 | 288 | 27,323 | (79) | 27,244 |
| Reverse repurchase agreements | - | 6,000 | - | - | 6,000 | - | 6,000 |
| Market and client receivables | - | 98 | 1,643 | 84 | 1,825 | - | 1,825 |
| Trading assets | 55 | 23 | 366 | 1,238 | 1,682 | - | 1,682 |
| Investment securities | 1,269 | - | - | 45 | 1,314 | - | 1,314 |
| Derivative financial instruments | - | 960 | 472 | 10 | 1,442 | - | 1,442 |
| | <u>7,904</u> | <u>31,074</u> | <u>14,123</u> | <u>1,665</u> | <u>54,766</u> | <u>(80)</u> | <u>54,686</u> |
| Guarantees and commitments | 1,436 | 23,309 | 7,620 | 1,518 | 33,883 | (21) | 33,862 |
| | <u>9,340</u> | <u>54,383</u> | <u>21,743</u> | <u>3,183</u> | <u>88,649</u> | <u>(101)</u> | <u>88,548</u> |

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For financial instruments within the scope of the impairment provisions of IFRS 9, the below tables further analyse the credit quality of the instrument by its staging within the impairment process, between Stage 1 (12-month ECL), Stage 2 (lifetime ECL not credit-impaired) and Stage 3 (lifetime ECL credit-impaired).

| | AAA to AA | A to BBBB and lower | Not rated | Total gross amount | Impairment Allowance | Total |
|---------------------------------|--------------|------------------------|---------------|-----------------------|-------------------------|-------------|
| | \$M | \$M | \$M | \$M | \$M | \$M |
| 31 December 2018 | | | | | | |
| - Stage 1 | | | | | | |
| Cash held at central banks | 5,642 | 5,865 | 10 | - | 11,517 | - |
| Loans and advances to banks | 23 | 2,959 | 681 | - | 3,663 | (1) |
| Loans and advances to customers | 915 | 14,252 | 7,807 | 190 | 23,164 | (13) |
| Reverse repurchase agreements | - | 6,000 | - | - | 6,000 | - |
| Market and client receivables | - | 98 | 1,643 | 84 | 1,825 | - |
| Investment securities | 1,269 | - | - | - | 1,269 | - |
| | <u>7,849</u> | <u>29,174</u> | <u>10,141</u> | <u>274</u> | <u>47,438</u> | <u>(14)</u> |
| Guarantees and commitments | 1,436 | 23,309 | 6,711 | 1,518 | 32,974 | (4) |
| | <u>9,285</u> | <u>52,483</u> | <u>16,852</u> | <u>1,792</u> | <u>80,412</u> | <u>(18)</u> |

| | AAA to AA | A to BBBB and lower | Not rated | Total gross amount | Impairment Allowance | Total | |
|---------------------------------------|--------------|------------------------|--------------|-----------------------|-------------------------|-------------|--------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | |
| 31 December 2018 | | | | | | | |
| - Stage 2 | | | | | | | |
| Loans and advances to customers | - | 362 | 1,069 | 1 | 1,432 | (54) | 1,378 |
| | <u>-</u> | <u>362</u> | <u>1,069</u> | <u>1</u> | <u>1,432</u> | <u>(54)</u> | <u>1,378</u> |
| Guarantees and commitments | - | - | 781 | - | 781 | (13) | 768 |
| | <u>-</u> | <u>362</u> | <u>1,850</u> | <u>1</u> | <u>2,213</u> | <u>(67)</u> | <u>2,146</u> |

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| | AAA to AA | A to BBBB and lower | Not rated | Total gross amount | Impairment Allowance | Total |
|---------------------------------|--------------|------------------------|-----------|-----------------------|-------------------------|-------|
| | \$M | \$M | \$M | \$M | \$M | \$M |
| 31 December 2018 | | | | | | |
| - Stage 3 | | | | | | |
| Loans and advances to customers | - | - | 275 | - | 275 | (12) |
| | - | - | 275 | - | 275 | (12) |
| Guarantees and commitments | - | - | 128 | - | 128 | (4) |
| | - | - | 403 | - | 403 | (16) |

During the year, there have been no transfers of financial instruments between stages 1, 2 or 3. The below table shows comparative credit ratings for BAMLI DAC's exposures at 31 December 2017.

| | AAA to AA | A to BBB | BB and lower | Not rated | Total |
|----------------------------------|-----------|----------|--------------|-----------|-------|
| | \$M | \$M | \$M | \$M | \$M |
| 31 December 2017 | | | | | |
| Cash held at central banks | - | 473 | - | - | 473 |
| Loans and advances to banks | - | 383 | - | 5 | 388 |
| Reverse repurchase agreements | - | 12 | - | - | 12 |
| Market and client receivables | - | 1,195 | - | 10 | 1,205 |
| Trading assets | 845 | 574 | 47 | 11 | 1,477 |
| Derivative financial instruments | - | 997 | 508 | - | 1,505 |
| | 845 | 3,634 | 555 | 26 | 5,060 |
| Guarantees and commitments | - | 232 | - | 47 | 279 |
| | 845 | 3,866 | 555 | 73 | 5,339 |

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Collateral held and other credit enhancements

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

| | 2018 Maximum exposure to credit risk \$M | 2018 Identifiable mitigation \$M | 2017 Maximum exposure to credit risk \$M | 2017 Identifiable mitigation \$M |
|----------------------------------|--|---|--|---|
| Cash held at central banks | 11,517 | - | 473 | - |
| Loans and advances to banks | 3,662 | - | 388 | - |
| Loans and advances to customers | 27,244 | 3,727 | - | - |
| Reverse repurchase agreements | 6,000 | 6,000 | 12 | 12 |
| Market and client receivables | 1,825 | 1,789 | 1,205 | 1,195 |
| Trading assets | 1,682 | 277 | 1,477 | 631 |
| Investment securities | 1,314 | - | - | - |
| Derivative financial instruments | 1,442 | 745 | 1,505 | 1,013 |
| Other assets | 473 | - | 39 | - |
| Prepayments and accrued income | 109 | - | - | - |
| | 55,268 | 12,538 | 5,099 | 2,851 |
| Guarantees and commitments | 33,883 | 393 | 279 | - |
| | 89,151 | 12,931 | 5,378 | 2,851 |

Market and client receivables primarily represent receivables in relation to collateral posted by the Company to cover derivative liabilities or other short term receivables as a result of pending trade settlements. Credit risk on these positions is mitigated to the extent of the offsetting short trading position or the value of the underlying unsettled bond transaction.

Where the Company does not routinely update the valuation of the collateral held, or where specific values are not generally available for the value of collateral, no offset has been included in the identified mitigation column in the above table.

For loans and advances, the Company may request that corporate borrowers provide collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. In general the Company does not routinely update the valuation of the collateral held against all loans to corporate customers as its focus is on the overall creditworthiness of the customer. Valuation of collateral for these loans is updated when a loan is put on a watch list for closer monitoring. For credit-impaired loans, the Company obtains appraisals of collateral as it provides input into determining the management credit risk actions.

Trading assets represent primarily traded positions corporate loans and other bonds and securities. Certain traded loan positions are secured against real estate or other assets, and the Company monitors the value of the underlying collateral in determining the fair value of the position.

The Company mitigates the credit risk of derivatives and reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable

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securities.

Investment securities primarily relate to government bonds held for liquidity purposes and equity holdings in strategic investments.

The following table sets out the carrying amount of credit-impaired financial assets and the value of identifiable collateral and other credit mitigants.

| | Amount of credit impaired financial assets | Identifiable collateral | Other credit mitigants |
|---------------------------------|---|------------------------------------|-----------------------------------|
| 31 December 2018 | \$M | \$M | \$M |
| Loans and advances to customers | 275 | - | - |

As 31 December 2018 the Company has not recognised a loss allowance in relation to its reverse sale and repurchase agreements as a result of the collateral held on these positions.

The Company did not obtain any financial or non-financial assets through taking possession of collateral held as security against loans and advances.

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company does not generally use the non-cash collateral for its own operations.

The maximum exposure to credit risk on financial assets designated as at FVPL is as per the table at the beginning of this section. The Company has mitigated the credit risk exposure on some of these investments by purchasing credit risk protection in the form of credit derivatives. As at 31 December 2018, these derivative contracts provided notional principal protection of \$300 million (2017: \$nil).

The maximum exposure to credit risk on loan commitments designated as at FVPL is \$2,452 million (2017: \$nil). The Company has mitigated the credit risk exposure on some of these commitments by purchasing credit risk protection in the form of credit derivatives. As at 31 December 2018, these derivative contracts provided notional principal protection of \$300 million (2017: \$nil).

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Concentrations of credit risk

The Company monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments and guarantees is shown below.

| | Loans and advances to banks \$M | Loans and advances to customers \$M | Reverse repurchase agreements \$M | Debt financial instruments at FVOCI \$M | Guarantees and commitments \$M |
|---|--|--|--|--|---|
| As at 31 December 2018 | | | | | |
| Carry amount | 3,662 | 27,324 | 6,000 | 1,269 | - |
| Amount committed / guaranteed | - | - | - | - | 33,883 |
| | <u>3,662</u> | <u>27,324</u> | <u>6,000</u> | <u>1,269</u> | <u>33,883</u> |
| Portfolio concentration by geography | | | | | |
| UK | 1,074 | 7,124 | - | 1,269 | 9,353 |
| Luxembourg | 300 | 2,911 | - | - | 2,060 |
| Spain | 3 | 2,473 | - | - | 1,206 |
| Ireland | 44 | 2,332 | - | - | 814 |
| Netherlands | - | 2,010 | - | - | 2,087 |
| Other | 2,241 | 10,474 | 6,000 | - | 18,363 |
| | <u>3,662</u> | <u>27,324</u> | <u>6,000</u> | <u>1,269</u> | <u>33,883</u> |
| Portfolio concentration by sector | | | | | |
| Central banks | - | - | - | - | - |
| Central governments | - | 552 | - | 1,269 | - |
| Non financial corporations | - | 15,570 | - | - | 22,951 |
| Credit institutions | 3,662 | - | 6,000 | - | 652 |
| Other financial corporations | - | 11,202 | - | - | 10,280 |
| | <u>3,662</u> | <u>27,324</u> | <u>6,000</u> | <u>1,269</u> | <u>33,883</u> |

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Past due status of customer receivables

For customer receivables, the Company calculates loss allowance based on a provision matrix, as the short term nature of the positions are such that the past due status is the primary driver in the loss calculation (adjusted as relevant for available forward-looking information). The table below provides a breakdown of customer receivables by past due status.

| | More than 30 days | More than 60 days | More than 90 days | Total |
|---------------------------------|----------------------|----------------------|----------------------|-----------|
| | \$M | \$M | \$M | \$M |
| Loans and advances to banks | - | - | - | - |
| Loans and advances to customers | 9 | 2 | 1 | 12 |
| | <u>9</u> | <u>2</u> | <u>1</u> | <u>12</u> |

Compliance and Operational risk

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

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. The Company has designed an operational risk management program, in compliance with Basel II Advanced Measurement Approach requirements, that incorporates and documents the process for identifying, measuring, monitoring, controlling and reporting operational risk information to executive management and the board of directors, or appropriate board-level committees. The Company manages operational risk by establishing permissible thresholds to reduce exposure to financial loss, reputational harm or regulatory sanctions.

Compliance and Operational Risk Management Process

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

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Liquidity risk

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

The BAMLI DAC Liquidity Risk Policy (“LRP”) defines the approach to managing BAMLI DAC’s liquidity, aligned to group processes and tailored to meet BAMLI DAC’s business mix, strategy, activity profile, risk appetite and regulatory requirements and is approved by the BAMLI DAC Board. The MRC reviews and recommends Risk Appetite limits to the BRC, which in turn reviews and recommends to the BAMLI DAC Board for approval.

Each of the FLUs are accountable for managing liquidity risk within the BAMLI DAC Liquidity Risk Appetite. Global Risk Management (“GRM”) provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of BAMLI DAC’s liquidity risk management processes.

GRM works with Treasury and the Businesses to monitor actual and forecast liquidity and funding requirements with a focus on limit utilisation and trends, and any change in business / market behaviour may require a change in liquidity risk management.

The BAMLI DAC LRP further describes the Liquidity Risk roles and responsibilities including requirements for liquidity risk limits, stress testing, analytics and reporting, and recovery and resolution planning.

Liquidity Risk Governance

The BAMLI DAC 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 and appropriate funding metrics. GRM is responsible for maintaining a liquidity risk limits framework to ensure that the entity is managed within its liquidity risk appetite. In line with the BAC Risk Framework, liquidity risk limits are classified as:

- Board-owned Risk Appetite
- MRC-owned Management Level Appetite Limits
- Non-Risk Appetite Limits
- Early Warning Indicators

Limits are monitored daily and reported and a clear escalation path to Senior Management, the BAMLI DAC MRC, the BAMLI DAC BRC and the BAMLI DAC Board by limit category and breach type exists.

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 BAMLI DAC Board, the BAMLI DAC BRC and the Senior Management.

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The following table shows the liability maturity profile of the Company:

| | On demand \$M | < 3 mths \$M | > 3mths < 1yr \$M | > 1 yr < 5 yrs \$M | > 5yrs \$M | Total \$M |
|--|------------------|-----------------|----------------------|-----------------------|---------------|---------------|
| 31 December 2018 | | | | | | |
| Non-trading financial liabilities | | | | | | |
| Deposits by banks | 726 | 4 | 8,548 | 12,152 | 1,201 | 22,631 |
| Deposits by customers | 8,299 | 42 | 5,507 | 1,462 | 9 | 15,319 |
| Market and client payables | 1,247 | - | - | - | - | 1,247 |
| Financial liabilities designated at fair value | 28 | - | - | - | - | 28 |
| Subordinated liabilities | - | - | 45 | 193 | 2,206 | 2,444 |
| | <u>10,300</u> | <u>46</u> | <u>14,100</u> | <u>13,807</u> | <u>3,416</u> | <u>41,669</u> |
| Guarantees and commitments | 34,236 | 315 | - | - | - | 34,551 |
| | <u>44,536</u> | <u>361</u> | <u>14,100</u> | <u>13,807</u> | <u>3,416</u> | <u>76,220</u> |
| Trading liabilities | | | | | | |
| Derivative financial instruments | <u>1,775</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,775</u> |

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| | On demand | Due within 1 year | Total |
|--|--------------|----------------------|---------------------|
| | \$M | \$M | \$M |
| 31 December 2017 | | | |
| Non-trading financial liabilities | | | |
| Deposits by banks | 4 | 29 | 33 |
| Market and client payables | 531 | - | 531 |
| | <u>535</u> | <u>29</u> | <u>564</u> |
| Guarantees and commitments | 279 | - | 279 |
| | <u>814</u> | <u>29</u> | <u>843</u> |
| Trading liabilities | | | |
| Derivative financial instruments | 2,172 | - | 2,172 |
| | <u>2,172</u> | <u>-</u> | <u>2,172</u> |

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

Reputational risk

Reputational risk is the risk that negative perceptions of the Company’s conduct or business practices may adversely impact its profitability or operations.

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

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

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

At the enterprise level, reputational risk is reviewed by the Enterprise Risk Committee (“ERC”) and the Management Risk Committee (“MRC”), which provide primary oversight of reputational risk. Additionally, top reputational risks are reviewed by the GRM Leadership team and the BAC Board.

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

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Reputational risk items relating to BAMLI DAC are considered as part of the EU Reputational Risk Committee.

Items requiring increased attention may be escalated from the EU Reputational Risk Committee to the Global Reputational Risk Committee as appropriate. Reputational risk items relating to BAMLI DAC are reported to the BAMLI DAC BRC.

Strategic risk

Strategic Risk is the risk that results from incorrect assumptions about external or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus, ambiguous), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments in the geographic locations in which BAMLI DAC operates (such as competitor actions, changing customer preferences, product obsolescence, and technology developments).

Strategic Risk is managed through the ongoing 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 BAMLI DAC 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.

BAMLI DAC strategy execution and risk management are aligned to the overall BAC strategic plans through a formal planning and approval process. The BAMLI DAC 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 the group's strengths, weaknesses, opportunities and threats.

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 and consistent with detailed planning undertaken at the business unit, regional and BAMLI DAC level.

BAMLI DAC's strategic plan is reviewed and approved annually by the BAMLI DAC Board in consideration of the capital plan, financial operating plan, liquidity requirements and risk appetite. Strategic decisions relating to BAMLI DAC are presented and discussed at the BAMLI DAC BRC and the BAMLI DAC 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 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 BAMLI DAC Board and the BAC Board as necessary regarding the impact to the control environment.

Focused regional performance updates are provided to executive leadership and the BAMLI DAC Board on a periodic basis. 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).

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Security and collateral

At 31 December 2018 the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was \$6,659 million (2017: \$529 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was \$539 million (2017: \$528 million). The collateral obtained is composed of cash and government and agency securities. The Company is obliged to return cash or equivalent securities as appropriate.

Security has been given by the Company by way of specific and general charges in respect of certain contractual commitments. The collateral pledged is in the form of cash. At 31 December 2018 the Company had delivered cash collateral of \$1,092 million (2017: \$1,196 million) against contractual commitments under derivative liability positions.

Capital Management

The Company's objective when managing capital is to ensure sufficient level and composition of capital to support the Company's business activities and associated risk during both normal economic environment and under stress conditions.

A strong capital position is essential to the Company's business strategy and competitive position, this is supported through its capital management framework designed to ensure that the Company is adequately capitalised at all times in relation to:

- Minimum risk-based regulatory capital requirements (Pillar 1 capital under CRD IV) and Pillar 2 / individual capital guidance ("ICG") set by the CBI and relevant CRD IV and CBI buffers and the application of an Internal capital buffer above those prescribed in regulation
- The risks faced by the Company through regular review of the current and future business activities
- Upcoming and future regulations impacting the Company

The framework used to manage capital within the Company is supported by regular point in time capital calculations and reporting, supplemented by forward-looking projection and stress testing. Each step of the process is supported by established controls. This includes weekly, monthly and quarterly reporting to ensure there is sufficient oversight to enabling effective management of its capital adequacy position within the Company's risk appetite limits. Escalation of issues are driven by specific triggers.

The composition of the Company's regulatory capital is as follows.

| | 2018 | 2017 |
|--|---------------|-------|
| | \$M | \$M |
| Common Equity Tier 1 (equity share capital and reserves) | 10,736 | 2,239 |
| Tier 2 (qualifying long-term subordinated liabilities) | 2,000 | - |
| Total capital resources | 12,736 | 2,239 |

As at 31 December 2018 the Company was adequately capitalised and met all external capital requirements. Capital resources are inclusive of audited current year profits.

Company information is included as part of the Pillar 3 disclosures of BAMLI DAC made available on the firm's website in accordance with part eight of the capital requirements regulations, this can be

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obtained via <http://investor.bankofamerica.com>.

The Company makes country by country reporting disclosures as required under capital requirements can be obtained via <http://investor.bankofamerica.com>.

45. FAIR VALUE DISCLOSURES

In accordance with IFRS 13 – Fair Value Measurement, financial instruments carried at fair value have been categorised into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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

Trading account assets, financial liabilities designated at fair value and investment securities

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

Derivative assets and liabilities

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

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Fair value measurement as at 31 December 2018

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------|--------------|------------|--------------|
| | \$M | \$M | \$M | \$M |
| Loans and advances to customers | - | 2,422 | 30 | 2,452 |
| Trading assets | 241 | 593 | 848 | 1,682 |
| Derivative financial instruments | - | 1,437 | 5 | 1,442 |
| Investment securities | - | 1,269 | 45 | 1,314 |
| Total assets | 241 | 5,721 | 928 | 6,890 |
| Derivative financial instruments | - | 1,770 | 5 | 1,775 |
| Financial liabilities designated at fair value | - | 24 | 4 | 28 |
| Total liabilities | - | 1,794 | 9 | 1,803 |

Fair value measurement as at 31 December 2017

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|--------------|--------------|-----------|--------------|
| | \$M | \$M | \$M | \$M |
| Trading assets | 1,420 | 47 | 10 | 1,477 |
| Derivative financial instruments | - | 1,498 | 7 | 1,505 |
| Total assets | 1,420 | 1,545 | 17 | 2,982 |
| Derivative financial instruments | - | 2,165 | 7 | 2,172 |
| Total liabilities | - | 2,165 | 7 | 2,172 |

During 2018, the Company chose to recategorise certain investment securities totalling \$1,269 million (2017: \$845 million) related to short term government bonds held for liquidity purposes as Level 2, rather than Level 1 due to limited market activity on these securities. There have been no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2018 and 2017.

Fair values of Level 3 assets and liabilities

Level 3 derivative contracts primarily relate to interest rate and inflation-linked derivatives that are long dated and/or have unobservable model valuation inputs (e.g. unobservable correlation).

Level 3 trading assets primarily relate to loans that have unobservable model valuation inputs.

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

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

The table below presents a reconciliation of all Level 3 financial instruments measured at fair value. Level 3 assets were \$928 million as of 31 December 2018 (2017: \$17 million) and represented 13 percent (2017: less than 1 percent) of assets measured at fair value and total assets for the current and prior year. Level 3 liabilities were \$9 million as of 31 December 2018 (2017: \$7 million).

| | Loans and advances to customers | Trading assets | Derivative assets | Investment securities | Derivative liabilities | Financial liabilities designated at fair value | Total |
|--|---------------------------------------|-------------------|----------------------|--------------------------|---------------------------|---|------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Balance at 1 January 2018 | - | 10 | 7 | - | (7) | - | 10 |
| Impact of transition to IFRS 9 | - | - | - | 25 | - | - | 25 |
| Balances migrated due to the CBM on 1 December 2018 | 30 | 855 | - | 19 | - | (4) | 900 |
| Total gains/(losses) recognised within dealing profits | - | 12 | (1) | 1 | 1 | - | 13 |
| Sales | - | (20) | - | - | - | - | (20) |
| Settlements | - | (30) | (1) | - | 1 | - | (30) |
| Transfer into level 3 | - | 21 | - | - | - | - | 21 |
| Balance at 31 December 2018 | 30 | 848 | 5 | 45 | (5) | (4) | 919 |
| Unrealised gains/(losses) | - | 10 | (1) | 1 | 1 | - | 11 |

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

| | Derivative financial instrument assets | Trading assets | Derivative financial instrument liabilities | Total |
|---|---|---------------------------|--|--------------|
| | \$M | \$M | \$M | \$M |
| Balance at 1 January 2017 | 9 | 10 | (9) | 10 |
| Total gains/(losses) recognised within dealing profits | (1) | - | 1 | - |
| Settlements | (1) | - | 1 | - |
| Balance at 31 December 2017 | 7 | 10 | (7) | 10 |
| Unrealised gains/(losses) | (1) | - | 1 | - |

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

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

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| Financial instrument value technique | Inputs | | | |
|--|--|---|---|---------------------------------|
| | Fair valuation | Significant unobservable inputs | Ranges of inputs | Weighted average |
| Loans | | | | |
| Instruments backed by residential real estate assets Trading account assets – Mortgage trading loans and ABS Loans and leases | Discounted cash flow, Market comparables | Yield Prepayment speed Default rate Loss severity Price | 0% to 25% 0% to 21% CPR 0% to 3% CDR 0% to 51% \$0 to \$128 | 8% 12% 1% 17% \$72 |
| Instruments backed by commercial real estate assets Trading account assets – Corporate securities, trading loans and other Trading account assets – Mortgage trading loans and ABS | Discounted cash flow, Market comparables | Yield Price | 0 to 25% \$0 to \$100 | 7% \$79 |
| Commercial loans, debt securities and other including assets designated at fair value Trading account assets – Corporate securities, trading loans and other Trading account assets – Non U.S. sovereign debt Trading account assets – Mortgage trading loans and ABS FVOCI debt securities –Other taxable securities Loans and leases including financial assets designated at fair value | Discounted cash flow, Market comparables | Yield Prepayment speed Default rate Loss severity Price | 1% to 18% 10% to 20% 3% to 4% 35% to 40% \$0 to \$141 | 13% 15% 4% 38% \$68 |

CPR = Constant Prepayment Rate
CDR = Constant Default Rate

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The Company uses multiple market approaches in valuing certain Level 3 financial instruments. For example, market comparables and discounted cash flows are used together. For a given product, such as corporate debt securities, market comparables may be used to estimate some of the unobservable inputs and then these inputs are incorporated into a discounted cash flow model. Therefore, the balances disclosed encompass both of these techniques.

The level of aggregation and diversity within the products disclosed in the tables result in certain ranges of inputs being wide and unevenly distributed across asset and liability categories.

Loans and Securities

For instruments backed by residential real estate assets, commercial real estate assets and commercial loans, debt securities and other, a significant increase in market yields, default rates, loss severities or duration would result in a significantly lower fair value for long positions. Short positions would be impacted in a directionally opposite way. The impact of changes in prepayment speeds would have differing impacts depending on the seniority of the instrument and, in the case of Collateralised Loan Obligations, whether prepayments can be reinvested.

For instruments backed by commercial real estate assets, a significant increase in price would result in a significantly higher fair value.

Derivative assets and liabilities

For credit derivatives, a significant increase in market yield, upfront points (i.e., a single upfront payment made by a protection buyer at inception), credit spreads, default rates or loss severities would result in a significantly lower fair value for protection sellers and higher fair value for protection buyers. The impact of changes in prepayment speeds would have differing impacts depending on the seniority of the instrument.

For interest rate derivatives a significant change in long-dated rates and volatilities and correlation inputs (e.g., the degree of correlation between an equity security and an index, between two different commodities, between two different interest rates, or between interest rates and foreign exchange rates) would result in a significant impact to the fair value; however, the magnitude and direction of the impact depends on whether the Company is long or short the exposure.

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the balance sheet date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at 31 December 2018, they could have increased fair value by as much as \$116 million (2017: \$nil) or decreased fair value by as much as \$32 million (2017: \$nil).

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

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Financial assets and liabilities carried at amortised cost

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

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

Loans and advances to banks and customers held at amortised cost are classified as level 2 and have a fair value of \$27,931 million (2017: \$388 million).

The fair value of subordinated liabilities and other long term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities and other long term funding are classified as level 2 and have a fair value of \$1,929 million (2017: \$nil).

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

46. RELATED PARTY TRANSACTIONS

As detailed in note 1.3, the Company has elected to take advantage of the exemption available under FRS 101 for the requirements in IAS 24 - Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of a group.

Management consider key management personnel to be represented by the board of directors of the Company. Details of the remuneration of the directors are included in note 13.

47. SUBSEQUENT EVENTS

BAMLI DAC established a branch in Stockholm, Sweden, which commenced its business activities on 1 February 2019, following regulatory approval. The branch acts as client coverage office, delivering an in-country presence for Investment Banking and offering advisory services. Previously this coverage was provided by an affiliated Company.

On 28 January 2019, the Board approved a motion to transfer certain UK based support staff and related assets and liabilities to an affiliated entity, subject to obtaining the required regulatory approvals. As a result, associated support service revenues and expenses are expected to decrease, along with a reduction in total assets and liabilities of approximately \$320 million.

48. CONTROLLING PARTY

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

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

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49. IMPACT OF TRANSITION TO IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018, for the line items where a change in classification or measurement has occurred.

| | | Original classification under IAS 39 | Classification under IFRS 9 | Original amount under IAS 39 \$M | IFRS 9 reclassification \$M | IFRS 9 remeasurement \$M | Carrying amount under IFRS 9 \$M |
|-----------------------------------|---|---|--------------------------------|--|-----------------------------------|--------------------------------|--|
| Financial assets | | | | | | | |
| Cash held at central banks | | Amortised cost (loans and receivables) | Amortised cost | 473 | - | - | 473 |
| Loans and advances to banks | | Amortised cost (loans and receivables) | Amortised cost | 388 | - | - | 388 |
| Reverse repurchase agreements | | Amortised cost (loans and receivables) | Amortised cost | 12 | - | - | 12 |
| Market and client receivables | | Amortised cost (loans and receivables) | Amortised cost | 1,205 | - | - | 1,205 |
| Trading assets | a | FVPL (held for trading) | FVPL (mandatory) | 1,477 | (845) | - | 632 |
| Investment securities - debt | a | - | FVOCI | - | 845 | - | 845 |
| Investment securities - equity | b | - | FVPL (mandatory) | - | 7 | 13 | 20 |
| Derivative financial instruments | | FVPL (held for trading) | FVPL (mandatory) | 1,505 | - | - | 1,505 |
| Other assets - equity instruments | b | Cost | FVPL (mandatory) | 7 | (7) | - | - |
| | | | | 5,067 | - | 13 | 5,080 |
| Financial liabilities | | | | | | | |
| Deposits by banks | | Amortised cost | Amortised cost | 33 | - | - | 33 |
| Market and client payables | | Amortised cost | Amortised cost | 531 | - | - | 531 |
| Derivative financial instruments | | Held for trading | FVPL (mandatory) | 2,172 | - | - | 2,172 |
| | | | | 2,736 | - | - | 2,736 |

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There were no reclassifications of financial assets nor financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

- a. Other investments in unlisted equity securities held by the Company are classified under IFRS 9 as mandatorily measured at FVPL. Before the adoption of IFRS 9, these instruments were measured at cost.
- b. Certain debt securities are held by the Company in separate portfolios to meet everyday and regulatory liquidity requirements. These securities are held within a business model that involves both collecting contractual cash flows and selling the securities. Before the adoption of IFRS 9, these instruments were classified as part of trading assets.

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The following table analyses the impact, net of tax, of transition to IFRS 9 on retained earnings

| | \$M |
|---|--------------|
| Retained earnings | |
| Closing balance under IAS 39 (31 December 2017) | 2,154 |
| Recognition of investment securities to FVPL | 13 |
| | <hr/> |
| Opening balance under IFRS 9 (1 January 2018) | 2,167 |
| | <hr/> <hr/> |