Registered number: 2312079

MERRILL LYNCH INTERNATIONAL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

COMPANY INFORMATION

Directors	M. Butler R.J. Keys B.A. Mensah H.J. O'Neil M. Slowey R.P. Thorne P.J.P. de Weck (Chair) T.D. Woods
Company secretary	Merrill Lynch Corporate Services Limited
Registered number	2312079
Registered office	2 King Edward Street London EC1A 1HQ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT
Accounting reference date	31 December

CONTENTS

The directors present their Strategic Report for Merrill Lynch International ("MLI", "the Company") for the year ended 31 December 2022.

NATURE OF BUSINESS ACTIVITY

The principal activities of the Company are to provide a wide range of financial services globally for business originated in Europe, the Middle East and Africa ("EMEA"), Asia Pacific ("APAC") and the Americas, to act as a broker and dealer in financial instruments and to provide corporate financial services. The Company also provides a number of post trade related services to third party clients, including settlement and clearing services.

The Company's immediate parent is ML UK Capital Holdings Limited ("MLUKCH"). The ultimate parent of the Company is Bank of America Corporation (NYSE: BAC) ("BAC" or "the Corporation"). The Company is BAC's largest entity outside the United States ("US") and helps serve the core financial needs of global corporations and institutional investors.

The Company's head office is in the United Kingdom ("UK") with branches in Dubai and Qatar, along with a representative office in Zurich.

The Company is authorised and regulated by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA").

As at 31 December 2022, the Company was rated by Fitch (AA/F1+) (2021: AA/F1+) and Standard & Poor's (A+/A-1) (2021: A+/A-1).

MARKET ENVIRONMENT

Geopolitical and macroeconomic factors

Global market conditions in 2022 were markedly different from the prior year – volatility dominated (both in markets and in politics) amidst growing concern over geopolitics, record inflation, and rising rates. Volatility was particularly pronounced in the UK where three different prime ministers held office, and a mini budget announcement in September led to turmoil in the UK pension sector as gilt yields rose to the highest level since 2002. The political events caused significant market volatility and forced intervention by the Bank of England to prevent broader financial instability.

Geopolitical risks were heightened in 2022, driven by conflict between Russia and Ukraine, tensions between China and Hong Kong/Taiwan, and tensions between the US and China. Due to the ongoing conflict between Russia and Ukraine there was significant volatility in financial and commodities markets, and multiple jurisdictions implemented various economic sanctions. The Company's direct exposure to Russia remains immaterial.

Meanwhile, consumer prices continued to accelerate driven by elevated food and energy prices, with the UK Consumer Price Index at a 40-year high and Euro Area inflation reaching a record high. Most central banks responded by tightening monetary policies, hiking interest rates to fight inflation which led to an increased cost of borrowing.

In Equities, global market capitalisation returned to pre-COVID levels and volatility remained elevated, while the technology sector in particular faced a challenging year. The high interest rate environment impacted cash and secondary Equities, putting pressure on company valuations. In Fixed Income, Currencies and Commodities ("FICC"), credit spreads widened, translating to higher borrowing costs for companies. In primary markets, activity was down across the board. Market activities within the Investment Banking ("IBK") was lower in 2022 as compared to 2021 especially in Equity Capital Markets ("ECM").

Looking ahead, BAC's Global Research analysts are predicting slower growth in the Euro Area in 2023 – although a mild winter and sufficient energy inventories helped avoid a winter recession, BAC Research believes the growth outlook will continue to be challenging until the energy crisis is resolved. The UK is forecasted to undergo a mild recession as supply chain difficulties and energy prices ease and translate into lower inflation.

MARKET ENVIRONMENT (continued)

Geopolitical and macroeconomic factors (continued)

The Company's branches in Dubai and Qatar do not trigger specific geopolitical considerations for that region due to the immaterial size of those branches to the Company's operations.

The Company is subject to numerous geopolitical, economic, and other risks in the jurisdictions in which it operates. The Company does business throughout the world including emerging markets. Economic or geopolitical stress in one or more countries could have a negative global impact, resulting in reduced market activity and economic output. The Company's businesses and revenue of the Company are also at risk of losses from multiple factors: currency fluctuations, financial, social or judicial instability, electoral outcomes, changes in governmental policies or policies of central banks, price controls, high inflation, protectionist trade policies, continued trade tensions and changes in legislation. The businesses and revenue of the Company are also at risk of losses as tariffs continue to rise and other restrictive actions are taken that weigh heavily on regional trade volumes and domestic demand through falling business sentiment and lower consumer confidence. These risks are especially elevated in the emerging markets.

Interbank Offered Rates ("IBOR")

After 31 December 2021, ICE Benchmark Administration ("IBA") ceased publishing British Pound Sterling ("GBP"), Euro, Swiss Franc, and Japanese Yen ("JPY") IBOR settings and one-week and two-month U.S. dollar ("USD") IBOR settings. However, certain IBOR settings that became no longer representative are being published using a modified calculation (i.e., on a “synthetic” basis). The remaining USD IBOR settings (i.e., overnight, one-month, three-month, six-month and twelve month) will cease or become non-representative immediately after 30 June 2023. The FCA has issued a consultation seeking views on whether to compel publication of the one-month, three-month and six-month USD IBOR settings on a “synthetic” basis for a short time after 30 June 2023 (i.e., through 30 September 2024).

The Company continues to be part of the BAC-wide transition programme with respect to IBOR and other impacted benchmark rates. The Company, as part of this program, also continues to monitor a variety of market scenarios as part of its transition efforts, including risks associated with insufficient preparation by individual market participants or the overall market ecosystem, ability of market participants to transition away from impacted benchmarks, and access and demand by clients and market participants to liquidity in certain products, including IBOR products.

The Company has remediated a significant majority of its notional contractual exposure to IBOR products referencing USD IBOR settings that will cease or become non-representative immediately after 30 June 2023 (i.e., updated to include fallback provisions to alternative reference rates ("ARRs"), such as the Secured Overnight Financing Rate for USD, that are based on market-driven protocols, regulatory guidance, and industry-recommended fallback provisions and related mechanisms). The remaining non-remediated USD IBOR exposure, a majority of which is made up of derivatives, represents a small minority of outstanding USD IBOR notional contractual exposure of the Company and will require active dialogue with clients to modify the contracts. For any residual exposures after 30 June 2023 that continue to have no fallback provisions, the Company is assessing and planning to leverage relevant contractual and statutory solutions, including the Adjustable Interest Rate (LIBOR) Act, enacted in March 2022 at the federal level in the U.S., and other relevant legislation, to transition such exposure to ARRs.

For further information on the status of the Company’s IBOR transition, see note 34 Interest Rate Benchmark Reform.

SECTION 172 (1) STATEMENT

The directors of MLI act and take decisions in accordance with their statutory duties under Section 172 of the Companies Act 2006 (the “Act”). The following, as well as relevant information provided in the "Statement on Corporate Governance" in the Directors' Report, detail the way in which the Board of directors (the "Board") has regard to the matters set out in Section 172 (1) (a) to (f) of the Act in overseeing and promoting the success of the Company.

SECTION 172 (1) STATEMENT (continued)

As required by relevant corporate law, financial regulation and internal governing policies and procedures, the Board is responsible for defining, overseeing, making decisions where relevant and being accountable for the implementation of the Company's governance arrangements to ensure effective, prudent and ethical management and oversight of the Company. As a wholly-owned subsidiary of BAC, the interests of the Company are substantially aligned with those of BAC and during the year the Board considered and adopted relevant BAC level policies and standards, including the BAC Code of Conduct and the BAC Risk Framework. Further, its staff are subject to relevant conduct of business policies specific to the lines of business and control functions where they are employed as well as the regulatory UK Senior Managers' and Certification Regime ("SMCR") and Conduct rules.

The Board sets operational resilience and overall risk appetite for MLI and has delegated authority for the day to day management of MLI and key business decisions to appropriate Senior Management, in accordance with the MLI Corporate Governance Guidelines and the SMCR. The Board and its Committees monitor and receive regular reporting on and oversee financial performance including ensuring that capital and liquidity are appropriately managed; risk management; regulatory compliance; employee matters including remuneration; inter-affiliate and vendor outsourcing and business conduct. They also ensure that MLI's organisational structure and internal control framework remain effective, while considering the interests of key stakeholders, including the Company's shareholder.

The "Statement on Corporate Governance", "Employee Engagement" and "Stakeholder Engagement" sections of the Directors' Report on pages 10 - 16 provide further information on the manner in which the Board has had regard to the matters set out in Section 172 (1) (a) to (f) of the Act.

During 2022, in addition to the above, the Board and its Committees have overseen and received regular reporting on matters which could have an adverse impact to the company.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 30 Risk Management).

RISK GOVERNANCE

The Board ensures suitable risk management and controls through its Committees, the MLI Board Risk Committee ("MLI BRC"), the MLI Audit Committee and the MLI Governance Committee.

The MLI BRC assists the Board in fulfilling its responsibility for reviewing all Company-wide risk-creating activities and ensuring that they are restricted to those activities that can be prudently managed.

The MLI Management Risk Committee ("MLI MRC") reports to the MLI BRC which is a committee appointed by the Merrill Lynch International Board of Directors (the "MLI Board"), and is responsible for management oversight of key risks facing MLI, including strategic, credit, market, liquidity, operational, compliance and reputational risks, in addition to balance sheet, capital, liquidity management and stress testing activities.

The MLI Audit Committee assists the Board in fulfilling its oversight responsibility relating to the: oversight of the Company's internal financial controls; preparation and integrity of the Company's financial statements, compliance statement and oversight of related disclosure matters; qualifications, independence and performance of, and the Company's relationship with, the independent auditors and reviewing the scope and engagement terms of the independent auditors; performance and independence of the Company's Internal Audit function; and performance and independence of the Company's Compliance function.

The MLI Governance Committee assists the Board in fulfilling its oversight responsibility relating to the governance of the Board, including nominations to the Board, reviewing and reporting to the Board on matters

RISK GOVERNANCE (continued)

of corporate governance principles applicable to the Company, reviewing and reporting to the Board on senior management talent planning and succession and leading the Board and its committees in their assessments of their performance. The Committee is also charged with the oversight, and development and implementation of the firm’s remuneration policies and practices. The Committee acts as the Nomination Committee and the Remuneration Committee of the Company.

MANAGEMENT OF CLIMATE CHANGE RISK

Climate-related risks are divided into two major categories:

(1) risks related to the transition to a low-carbon economy, which may entail extensive policy, legal, technology and market changes, and

(2) risks related to the physical impacts of climate change, driven by extreme weather events, such as hurricanes and floods, as well as chronic longer-term shifts, such as rising average global temperatures and sea levels.

These changes and events can have broad impacts on operations, supply chains, distribution networks, customers, and markets and are otherwise referred to, respectively, as transition risk and physical risk. These risks can impact both financial and non-financial risk types.

The Company embeds climate risk considerations into its existing risk management programmes, including credit risk. For financial instruments held at fair value, there have not been any adjustments to fair value specifically for climate related risks. For financial assets held at amortised cost, there has been no material impact of climate related risks on the Company’s loss allowances for expected credit losses.

No material climate-related risk variables impacting the financial position of the Company as at 31 December 2022 have been identified.

The following sections provide more details on strategy, governance, and risk management.

Strategy

MLI forms part of BAC, and BAC’s three-pronged climate strategy is part of the overall focus on Responsible Growth and centres on close partnership with internal and external parties.

- Minimising BAC’s impact on the environment by striving to achieve Net Zero before 2050,
- Inspiring and enabling clients to achieve Net Zero before 2050 and
- Assessing and managing climate-related risks, including those risks associated with not achieving Net Zero.

To help ensure a harmonised approach across the enterprise, BAC has established an Enterprise Climate Program. The programme brings together executives across lines of business ("LOB"), Environmental, Social and Governance ("ESG"), Public Policy, Global Risk Management (“GRM”), Global Sustainable Finance, and Enterprise Credit to drive climate action across its LOBs and seven risk types. Under this enterprise-wide programme, climate strategy is being integrated across all aspects of BAC’s business, from client onboarding and underwriting to deal selection and risk management.

A key part of the enterprise-wide climate strategy is developing risk assessment capabilities such as through the use of scenario analyses. BAC incorporates climate risks into scenario analysis, which leverage scenarios designed by the Network of Central Banks and Supervisors for Greening the Financial System (“NGFS”), to assess how these risks could affect BAC and its clients across a range of physical and transition risk scenarios. Through the application of scenario analysis, potential pathways in the transition to a net zero economy are assessed. This includes assessing the impact of changes across both physical and transition

MANAGEMENT OF CLIMATE CHANGE RISK (continued)

Strategy (continued)

related risks and events, and providing deeper insight into how climate-related risks and opportunities may evolve.

In 2022, MLI continued to enhance its scenario analysis capabilities. For example, scenario analysis is used to understand the impact of “sudden transition” risks on trading portfolios with a particular focus on identifying concentrations of risk within the portfolio.

Governance

BAC’s Risk Framework (as adopted by MLI) establishes clear ownership and accountability for managing risk across the three lines of defence: LOBs, independent risk management and Internal Audit. The same approach to ownership and accountability is followed for climate risk as for other risks facing BAC.

As part of the Enterprise Climate Program, which MLI is integrated into, BAC has established an Enterprise Climate Steering Council which is responsible for overseeing execution of climate-related priorities.

The Board of MLI ensures suitable risk management, governance and controls for MLI through appropriate committees and alignment to BAC Group policies where appropriate. This includes consideration of climate-related risks and opportunities. The MLI BRC assists the Board in fulfilling its oversight responsibility relating to the management of climate risk. The MLI BRC has received a number of briefings at their quarterly meetings on the topic of climate risk and the progress being made to further embed climate risk management into the Risk Framework and to meet regulatory expectations on managing climate-related financial risk.

The MLI MRC is responsible for providing management review and assessment of exposure to climate risk and overseeing the approach and processes implemented to manage climate risk. The MLI MRC receives updates on the progress being made to further embed climate into the risk management framework and to meet regulatory expectations. To support the Board and committees in overseeing the management of climate risk, MLI developed and continues to enhance reporting capabilities, including regular reporting to the MLI MRC and quarterly reporting to the MLI BRC. This reporting includes a climate risk dashboard that consolidates information on how climate risk manifests across the key risk types.

The Chief Risk Officer of MLI has been appointed as the Senior Manager responsible for the financial risk of climate change under the PRA/FCA Senior Managers Regime. The CRO reports to the MLI Board and MLI BRC and provides updates to the MLI MRC on matters related to climate risk.

Within the EMEA region, the EMEA Environmental, Social and Governance Risk and Regulatory Steering Group (“Steering Group”) is responsible for providing management oversight of activities related to the financial risks from climate change and ESG-related regulatory requirements impacting BAC's EMEA legal entities. The Steering Group is attended by senior leaders from across the three lines of defence including the ESG team and is connected to the enterprise ESG and climate risk governance framework. The Steering Group generally meets monthly and is chaired by Chief Risk Officer of MLI.

Risk Management

As climate risk spans across multiple risk types, MLI has developed and continues to enhance processes to embed climate risk considerations into risk management programmes established for strategic, credit, market, liquidity, compliance, operational and reputational risks.

Effective management of climate risk requires coordinated governance, clearly defined roles and responsibilities, and well-developed processes to identify, measure, monitor and control risks.

- *Risk Identification* - A key element of how MLI manages climate risk is the risk identification process through which climate and other risks are identified across all LOBs and control functions, prioritised in its

MANAGEMENT OF CLIMATE CHANGE RISK (continued)

Risk Management (continued)

risk inventory and evaluated to determine estimated severity and likelihood of occurrence. Once identified, climate risks are assessed for potential impacts.

- *Risk Measurement* - Measurement of climate risk is conducted using a range of methods with key examples including scenario analysis and stress testing and industry and country level assessments. Industry and country level assessments are conducted by Credit Risk and leveraged across a broad spectrum of climate-related functions.

- *Risk Monitoring* - MLI has developed climate-related risk metrics to enable monitoring of exposure to climate risk as part of ongoing risk management routines. These metrics are reported to the MLI MRC and BRC on an ongoing basis.

- *Risk Controls* - MLI establishes and communicates climate-related risk controls through policies, standards, procedures and processes. MLI has incorporated climate considerations into its Risk Appetite Statement ("RAS"). Qualitative statements have been supplemented by monitoring metrics such as MLI's credit exposure to "High" and "Moderate" climate sensitive industries, and non-legal operational losses from physical climate-related risks.

MLI continues to build out and enhance its climate risk management capabilities in line with the expectations set out in the PRA's Supervisory Statement 3/19 "Enhancing banks' and insurers' approaches to managing the financial risks from climate change" in a way that is proportionate to the nature, scale, complexity and risk profile of the Company. For example, MLI has taken a number of key actions to assess and manage the impacts of climate-related risks:

- Climate risk management is being embedded into the credit risk framework. Credit and risk officers are being trained on climate change and its impact on credit risk. High, moderate, or low climate risk designations have been assigned to industry segments and countries in BAC's coverage universe. Climate risk supplements have been developed for high and moderate risk industries and incorporated into Enterprise Industry Risk Guidance documents. These provide credit underwriters and risk officers with guidance for clients in the relevant industries and countries. The climate risk designations are supplemented by client level assessments of climate and environmental risk (Climate and Environmental Risk Assessment ("CERA") process) since two companies in the same sector/country may be impacted differently by climate change based on their unique business model, management awareness, strategy and preparedness to deal with the risks.

- The existing market risk management framework has been expanded to incorporate consideration of climate risks. MLI has created daily risk reporting and monthly dashboards that track climate Key Risk Indicators and climate stress scenario(s) to analyse the impact of "sudden transition" risks on trading portfolios with a particular focus on identifying concentrations of risk within the portfolio.

- Climate risk assessments of the key drivers of liquidity risk for MLI have been performed. Reporting has been enhanced to include monitoring metrics that track concentrations in funding sources and uses by climate sensitive industries / sectors.

MANAGEMENT OF CLIMATE CHANGE RISK (continued)

Risk Management (continued)

- Climate risk considerations have been integrated into key elements of the Compliance and Operational Risk programme, including conducting risk assessments; assessing monitoring and testing opportunities; analysing issues for broader themes; managing regulatory change; developing metrics and reporting; and incorporating climate topics in training and awareness messaging. In addition, through the Operational Risk Scenario Analysis programme, risk management and front line unit and control function teams consider a number of climate related scenarios to further understand the impact of transition risk, in addition to acute and chronic climate-related physical risk, on the Company's operations.

- The EMEA Reputational Risk Committee is responsible for reviewing all business activities which may impact reputational risk in the region, including those related to climate risk.

For further information on BAC's ESG approach and Environmental and Social Risk Policy Framework ("ESRPF"), refer to the section titled "Stakeholder Engagement" in the Directors' report and BAC's Task Force for Climate-related Financial Disclosures available at www.bankofamerica.com/TCFD.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Company's profit before taxation was $1,222 million, an increase of $833 million compared with the year ended 31 December 2021.

Net operating revenue was $6,432 million, an increase of $316 million compared with the year ended 31 December 2021.

The directors expect the principal activities of the Company will continue throughout 2023.

Divisional performance

The Company's results are derived from the Global Banking and Markets business which represent a single class of business. Within Global Banking and Markets business activities, there are three principal business divisions being FICC, Equities and Investment Banking ("IBK") supported by the Treasury business.

Profit before tax improved by $833 million as compared to 2021 driven by higher FICC and Treasury revenues and lower administrative expenses.

FICC revenues were higher by $395 million as compared to 2021, largely from positive performance in Foreign Exchange and Local Currency Trading ("FX & LCT") and Commodities. This was driven by increased client activity due to market volatility as central banks increased interest rates at record paces and the war in Ukraine created significant uncertainty in Commodities markets.

Equities were lower by $240 million as compared to 2021 and IBK revenues were lower by $90 million as compared to 2021 following a market wide slowdown in 2022.

Within Global Markets, the Company has also seen Treasury revenues increase by $250 million as compared to 2021 due to a higher return on MLI's capital base, following increased interest rates.

Administrative expenses were lower by $517 million as compared to 2021. This was largely due to a reduction in the value of unvested Share Based Payments accrual expense as the BAC share price fell in 2022 compared to an increase in 2021.

Capital

The Company makes "Pillar 3" disclosures as required under the PRA Rulebook Disclosure (Capital Requirements Regulation "CRR"). Company information is included as part of the Pillar 3 disclosures of MLI as required under local laws, rules and regulations and made available on the firm's website in accordance

Capital (continued)

with the aforementioned PRA Rules. This can be obtained via http://investor.bankofamerica.com. As at 31 December 2022, the Company was adequately capitalised and met all external capital requirements. The Company's capital resources were $33,521 million as at 31 December 2022 (2021: $33,650 million).

Liquidity

The Company is subject to the UK onshored requirements originally implemented in the European Union ("EU") via the Capital Requirements Directive ("CRD") and the CRR, alongside associated binding technical standards that were created by the European Union (Withdrawal) Act 2018, and the relevant PRA rules; through which it must demonstrate self-sufficiency for liquidity purposes. The EU Withdrawal Act (2018) acts as the facilitator through which EU rules, as at the time of onshoring, continue to apply.

The Company must maintain a minimum portfolio of unencumbered High Quality Liquid Assets as defined by the Delegated Act on the Liquidity Coverage Ratio ("LCR"). The Company was in excess of its regulatory liquidity requirement throughout 2022 and 2021.

KEY PERFORMANCE INDICATORS

The results of the Company were as follows:

Profit before taxation amounted to $1,222 million (2021: $389 million).

Net operating revenue for the year amounted to $6,432 million (2021: $6,116 million).

Return on Assets ("RoA") was 0.28% (2021: 0.10%). RoA is calculated as profit after tax ("PAT") divided by total assets. Return on Equity ("RoE") was 3.0% (2021: 1.0%). RoE is calculated as PAT divided by total equity.

Administrative expenses for the year amounted to $5,210 million (2021: $5,727 million).

Net assets as at 31 December 2022 were $36,559 million (2021: $35,935 million).

The Company's capital resources were $33,521 million as at 31 December 2022 (2021: $33,650 million).

As the Company adopts BAC's global approach to ESG issues, some related non-financial key performance indicators are typically measured on a global basis. Certain MLI-specific non-financial climate indicators are included in the "Streamlined Energy and Carbon Reporting" section in the Directors' report.

This report was approved by the Board on 16 March 2023 and signed on its behalf.

B.A. Mensah
Chief Executive Officer
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATION

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors of the Company who were in office during the year and up to the date of approval of this report, except where noted, were:

M. Butler
R.J. Keys
B.A. Mensah
H.J. O'Neil
M. Slowey (appointed on 22 September 2022)
R.P. Thorne
P.J.P. de Weck
L.M. White (resigned on 26 September 2022)
T.D. Woods

DIRECTORS' THIRD PARTY INDEMNITY PROVISIONS

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and remains in force.

MATTERS COVERED IN THE STRATEGIC REPORT

Details regarding a review of the business, including future developments, existence of branches outside of the UK, and principal risks and uncertainties are provided in the Strategic Report on pages 1 - 8.

STATEMENT ON CORPORATE GOVERNANCE

In accordance with The Companies (Miscellaneous Reporting) Regulations 2018, the Board has adopted the FRC Wates Corporate Governance Principles for Large Private Companies ("the Wates Principles"). The following provides details on how the Board has followed the Wates Principles over the course of the year.

Principle One - Purpose and Leadership

As noted in the Strategic Report, the Company is BAC’s largest entity outside the United States ("US") and helps serve the core financial needs of global corporations and institutional investors. The Company’s head office is in the UK with branches in Dubai and Qatar, and a representative office in Zurich, and is licensed to undertake business in a number of other countries or territories around the world.

The Board develops and promotes the purpose of the Company and ensures that its values, strategy and culture are aligned to it. The Board also approves the strategy for the Company on an annual basis. The 2022 MLI Strategy, in keeping with the broad BAC strategy of “Responsible Growth”, was developed taking into account the impact of the Company’s activities on its clients, employees, regulators, vendors and the wider community, and ensuring any decisions take the following into account:

- Responsible Growth: Grow and win in the market, within our client-focused strategy, within our risk framework and in a sustainable manner.
- Operational Excellence: Work smarter for our clients and optimise the way we do business.
- Culture: Make MLI the best place to work: drive diversity, respect, meritocracy, maintaining and continuing to progress an inclusive environment for all and give back to the communities in which we work.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Principle One - Purpose and Leadership (continued)

The Board also formally adopted the BAC Code of Conduct, to which all employees are required to adhere and which defines the culture of the organisation as follows: “Our culture comes from how we run the company every day, by acting responsibly and managing risk well, which includes our commitments to honest and ethical behaviour, acting with integrity, and complying with applicable laws, rules, regulations and policies. We recognise that cultivating a strong culture is an ongoing effort, fostered day after day in both formal and informal ways. Building a unified culture requires thoughtful, purposeful action, and we do this by ensuring all of our employees from different businesses, companies, and countries are aligned to our purpose of making financial lives better through the power of every connection.”

The Code of Conduct contains detailed requirements to ensure that employees abide by the principles of managing risk well, acting ethically, being fair and honest in communications, safeguarding and not misusing information, protecting the Company’s assets, conducting financial affairs responsibly, complying with all applicable laws and regulations, valuing each and every teammate and growing the business responsibly.

The Code of Conduct also details the Company’s approach to discrimination and harassment. It confirms that MLI is committed to promoting an inclusive and respectful work environment. Discrimination and harassment are unacceptable and contrary to the Company’s values. The Company does not tolerate unlawful discrimination or harassment of any kind, including but not limited to verbal, physical, visual, sexual and abusive conduct (bullying) as outlined in our Harassment and Discrimination Prevention Policy.

See the “Employee Engagement” section for further details of how the Board engages with employees on matters related to the purpose and culture of the Company.

Principle Two - Board Composition

The Board comprises of executive, non-executive and also independent non-executive directors, who bring extensive experience and the ability to challenge and be fully independent of the executive directors. The independent non-executive Board Chair provides a level of independent oversight to the proper execution of the governance activities of the Company and the Board. As required under relevant regulation, the Chairs of the Board and each of its Committees are independent non-executive directors. The Chair of the Board has responsibility of chairing and overseeing the role of the Board and is responsible for leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board, for leading the development of the Company’s culture by the Board as a whole and is responsible for ensuring that the Company’s non-executive directors maintain their obligations with respect to applicable Fitness and Propriety regulations.

The Board delegates to the Chief Executive Officer ("CEO" and Senior Management Function ("SMF1") for the purposes of the UK SMCR) the management of the Company. The CEO may exercise all the powers of the Board except for those matters reserved to the Board or any other matter specifically delegated to any committee of the Board. The CEO is authorised to delegate a further proportion of his authority to other senior executives as considered consistent with the roles and responsibilities attributed to those individuals and as defined through the Company’s responsibilities map, which is shared with the Board periodically, or following significant changes.

MLI is subject to requirements under UK regulation regarding Board composition and director suitability. The MLI Governance Committee, in consultation with the Company’s shareholder, the Company’s CEO and the Chair of the Board, identifies and evaluates individual candidates for their qualifications to become directors and recommends qualified candidates to the Board to fill vacancies as the need arises. Before any appointment is made by the Board, the MLI Governance Committee considers the overall knowledge, skills, experience and expertise represented on the Board, as well as the qualifications and suitability of each candidate, taking care that appointees have sufficient time available to devote to the position.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Principle Two - Board Composition (continued)

Furthermore, the MLI Governance Committee considers candidates from a wide range of backgrounds and considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including, but not limited to, gender. In addition, pursuant to the terms of its charter, the MLI Governance Committee is responsible for deciding on a target for the representation of the underrepresented gender on the Board and how to meet it.

All Board members, including the non-executive and independent non-executive directors participate in regular training and development activities appropriate to their roles. The effectiveness of the Board is regularly assessed by way of a formal review, and output from such reviews is used to develop actions to further enhance governance processes. In light of the above processes, the current directors collectively possess a broad range of skills, backgrounds, experience and knowledge appropriate for the effective oversight of the Company's business.

Principle Three - Director Responsibilities

MLI's directors execute their responsibilities by way of appropriate governance structures including the Board and its Committees, in order to hold management to account.

Examples of key activities performed by the directors through the Board and its Committees include annual review and approval of MLI's strategic plan, consideration of the capital plan, financial operating plan, liquidity requirements and risk appetite.

Strategic decisions relating to the Company are presented and discussed at the MLI BRC and the Board. The Board ensures suitable risk management and controls through the MLI BRC, the MLI Audit Committee, the MLI Governance Committee and the MLI MRC, also conducting periodic reviews of risk management strategies to ensure their continuing effectiveness. The Risk Governance section of the Strategic Report on pages 3 - 4 contains further details.

Principle Four - Opportunity and Risk

The Board is annually asked to consider and, if it sees fit, adopt the BAC Risk Framework, which sets out the responsibility of the Board and its Committees for managing risk across the seven defined risk types: strategic, credit, market, liquidity, operational, compliance and reputational risk. This also includes climate risk, which can span across the seven key risk types. Compliance with the Risk Framework is required to be assessed annually. The Board through the MLI BRC has a risk identification process, which through the application of the Risk Framework, guides the development of the risk appetite for the Company and the setting of risk limits which provide a structure for setting direction for the Company. The Board is responsible for approving the Company's Risk Appetite Statement on an annual basis and monitors compliance with it on an ongoing basis. The Company's Risk Appetite Statement is developed in consideration with the BAC Risk Appetite, BAC Risk Framework and the principles of Responsible Growth. This overall Risk Framework enables the Board and its Committees to be able to identify the impact of decision-making on its stakeholders over the longer term.

The main strategic opportunity for MLI is to continue to serve the core financial needs of global corporations and institutional investors and operate to grow and win in the market, with a client-focused strategy, within the Risk Framework and Risk Appetite, and in a sustainable manner, to provide long-term value to stakeholders.

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

STATEMENT ON CORPORATE GOVERNANCE (continued)

Principle Four - Opportunity and Risk (continued)

uncertainties and how the risk environment is managed, see the Strategic Report and note 30 Risk Management.

Principle Five - Remuneration

As a wholly owned subsidiary of BAC, MLI's remuneration policies are aligned to BAC's policies, while being fully compliant with applicable remuneration regulation. The MLI Governance Committee is charged with oversight of the development, and implementation of the Company's remuneration policies and practices to support risk management goals and also to encourage alignment with shareholder interests and the achievement of long- term, sustainable results in an appropriate manner.

The cornerstone of MLI's remuneration philosophy across all lines of business is to pay for performance – BAC Group, MLI, line of business and individual performance. Through the Company's performance management process, employees understand performance expectations for their role through ongoing dialogue with their manager. The performance management process is designed and monitored by the Leadership Development function in Human Resources ("HR"). This process is reviewed periodically so that it meets the needs of managers to assess and communicate performance expectations. Throughout the year, employees receive coaching on their performance and ultimately receive a rating for their full year of performance based upon their achievement of goals for their job. Each employee's performance is assessed on quantitative and qualitative objectives as well as specific behaviours, and performance is factored into each employee's incentive remuneration award. Depending on the employee, quantitative performance objectives may be focused on BAC Group-wide, line of business, or product results. Qualitative performance objectives may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture/ adherence to risk framework and operating principles in relation to conduct risk, adherence to the BAC Code of Conduct and other core values of the Company. The Company does not remunerate or assess employees' performance in a way that encourages employees to act in a manner that conflicts with the duties owed to the Company's clients.

Refer to the "Employee Engagement" section on the next page for further information.

Principle Six - Stakeholder Relationships and Engagement

MLI considers its key stakeholders to be its clients, shareholders, employees, regulators, tax authorities, vendors and the wider community.

Stakeholders are apprised of the Company's position and prospects by structured reporting and communications. These include by way of example: public filings and disclosures (including Pillar 3 information); specific filings to regulators and tax authorities; and internal updates and meetings for employees. The Board is kept apprised of stakeholder communication.

The Board reviews metrics associated with stakeholder interests including, for example: business results, risk and control metrics, employee engagement, client complaints and compliance reports.

Refer to the "Section 172 (1) Statement" in the Strategic Report on pages 2 - 3 and the sections titled "Employee Engagement" and "Stakeholder Engagement" below and on pages 14 - 16 for further information.

EMPLOYEE ENGAGEMENT

The employees of the Company are fundamental to its success and the Board is responsible for overseeing meaningful engagement with the workforce. All activities are underpinned by policies with training, monitoring and evaluation processes in place to ensure that employees are paid in an effective and consistent manner and in compliance with all applicable regulatory and legal requirements. In addition, the Board and its Committees have a key role in the oversight of MLI’s culture, setting the tone at the top and holding management accountable for maintaining high ethical standards. They do this in a number of ways, including:

1) requesting and receiving quarterly updates from senior management on matters related to how MLI manages conduct risk, such as regular reporting on the workings and findings of the Conduct Risk Council including its FLU and ECF conduct task forces and thematic conduct working groups, employee training and issue prevention, detection, escalation, management and reporting;

2) overseeing MLI’s incentive plan design and governance processes to provide an appropriate balance of risk and compensation outcomes;

3) evaluating performance for senior management across a range of factors, such as the manner in which results are achieved and accountability in driving a strong risk-management culture;

4) meeting with key managers below the senior-most management level to assess for themselves how conduct and culture expectations are cascaded throughout the organisation; and

5) reviewing on an annual basis the results of the global Employee Engagement Survey that are relevant to MLI, including the Engagement and Diversity and Inclusion data. In addition, the Board and its Committees are routinely briefed on the metrics, benefits, programmes and policies designed to support the MLI workforce.

The Company is committed to creating an inclusive workplace where everyone can bring their whole self to work regardless of 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 provides applicants and employees with equal opportunity under the Company''s human resources practices, including, but not limited to, recruiting, hiring, training, compensation, promotion and facilities access. The bank focuses on eliminating artificial barriers to employment or advancement and fostering a diverse environment. In addition, we also promote ongoing development and implementation of programmes and services that anticipate and respond to the needs of individuals with disabilities. The applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the Company. Training, career development and promotion of disabled persons is, as far as possible, identical to that of employees who are not disabled.

The Company has seven employee networks which encourage advocacy and learning and provide development and networking opportunities for our employee population. MLI has signed up to the 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 initiatives in MLI to support this outcome, including development programmes, councils and networks in order to drive our progress. The MLI Governance Committee receives regular information on these programmes and initiatives.

The Company maintains an annual 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, and 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 workplace conversations, effective delegation, giving feedback and coaching, promoting teamwork and inclusion and managing risk responsibly.

See also "Principle Five - Remuneration", in the "Statement on Corporate Governance".

STAKEHOLDER ENGAGEMENT

As set out in "Principle Six – Stakeholder Relationships and Engagement" in the "Statement on Corporate Governance" above, the Company considers its key stakeholders to be its clients, shareholders, employees, regulators, vendors and the wider community.

There is regular engagement with clients from executive directors and management, with reporting to the Board on key aspects of client engagement and compliance with regulatory requirements regarding treating customers fairly and other matters. Furthermore, as required under relevant legislation, the Company has a client complaints procedure and there is reporting to the Board regarding client complaints. The Company's sole shareholder is represented by independent non-executive directors of the Company who are also directors of BAC, as well as by management's engagement with BAC senior management. The Board engages with employees through the employee engagement processes discussed in more detail in the "Employee Engagement" section above. Regulators have regular communication and dialogue with the Board to discuss their views on risks to the Company and the industry.

The Board reviews reports on vendor management programmes. MLI as a wholly owned subsidiary of BAC participates in BAC's global Third Party and Inter-affiliate outsourcing programmes. On behalf of the Board, there are MLI Senior Management routines in place to provide governance and oversight of outsourcing programmes, both Third Party and Inter-affiliate, ensuring a comprehensive approach for service monitoring and the identification, mitigation and escalation of risk. Furthermore, the MLI Technology and Operations Executive provides monitoring and enforces adherence to the firm's Third Party policies and Inter-affiliate policies.

BAC has established a broad ESG programme to deliver on its purpose to help make financial lives better through the power of every connection and through Responsible Growth. It also uses this programme to drive its interaction with the community.

MLI as a wholly owned subsidiary of BAC, participates and actively engages in the ESG programme. The BAC ESG programme is discussed further below.

Environment
- Investing in the transition to a low carbon economy
- Financing sustainable projects, energy efficiency, greenhouse gas emissions
- Reducing our environmental footprint in part through BAC's goal to achieve net zero greenhouse gas emissions in financing, operations and supply chain before 2050

Social
- Advancing racial equality, economic mobility and social progress
- Offering responsible products and services
- Creating a supportive and inclusive workplace

Governance
- Holding ourselves accountable
- Managing risk well
- Providing transparency

ESG leadership enables BAC to pursue growing business opportunities and manage risks associated with addressing the world's biggest environmental and social challenges. It defines how BAC deploys its capital and resources, informs its business practices, and helps determine how and when BAC uses its voice in support of its values. Integrated across BAC's lines of business, the ESG focus reflects how BAC is held accountable and is allowed to create shared success with its clients and communities.

ESG underscores how BAC seeks growth within its Risk Framework, including how it engages external stakeholders and provides strong oversight of environmental and social risks that present themselves through

STAKEHOLDER ENGAGEMENT (continued)

its business activities. This includes the responsible products and services delivered to clients; how business opportunities are evaluated; and how BAC helps enable social progress and economic mobility in local communities around the world. Ultimately, through BAC's commitment to ESG principles it builds trust and credibility as a company people want to work for, invest in, and do business with.

BAC's ESRPF provides additional clarity and transparency around how it approaches environmental and social risks, which touch almost every aspect of its business. Like all risks, environmental and social risks require coordinated governance, clearly defined roles and responsibilities, and well-developed processes to ensure they are identified, measured, monitored and managed appropriately and in a timely manner.

The ESRPF is aligned with the Enterprise Risk Framework, which outlines BAC's approach to risk management and each employee’s responsibilities for risk management.

BAC consistently engages external stakeholders for advice and guidance in shaping its ESG practices and priorities. This process includes formal and informal engagement with both internal and external stakeholders, including clients, shareholders, socially responsible investment firms, and experts from civil rights, consumer, community development and environmental organisations. BAC weighs the importance of risk issues related to its stakeholders and to its business success.

BAC engages with key stakeholders, including governments, regulators, and trade bodies to help promote a consistent regulatory framework that will enable a just and smooth transition to a low carbon economy.

As part of its strategy to address climate change and drive sustainable use of natural resources, BAC is committed to mobilising and deploying $1.5 trillion to sustainable finance by 2030; $1 trillion to accelerate the transition toward a low-carbon economy; and $500 billion for inclusive social development. BAC is also committed to achieving Net Zero before 2050.

MLI participates on the EMEA ESG Strategic Council. The objective of the Council is to facilitate dialogue and raise awareness across lines of business to accelerate the mobilisation of capital deployment towards BAC's $1.5 trillion sustainable finance commitment, through lending, capital raising, advisory, and investment services, and by developing innovative financial solutions aligned with recognised industry standards.

Further information about BAC’s approach to ESG matters can be accessed via the ESRPF at www.bankofamerica.com/ESRPF. Reporting of the ESG metrics aligned with external frameworks and the ESG Performance Data Summary can be found online at www.bankofamerica.com/ESGdata2021.

STREAMLINED ENERGY AND CARBON REPORTING ("SECR")

The UK government’s Streamlined Energy and Carbon Reporting ("SECR") policy was implemented on 1 April 2019, when the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 came into force.

MLI meets the criteria of a “large, unquoted company” under the scheme and is therefore required to include UK energy use and carbon emissions within the Directors’ Report.

At present, MLI does not directly own, lease or manage any assets that use energy which generates emissions as all UK business activities are carried out using office facilities and data centres owned, or leased by other BAC affiliate entities. As a result, MLI does not purchase any energy or transport fuels for its own direct use. MLI, as one of BAC’s principal European entities, is committed to improving energy efficiency and reducing greenhouse gas emissions associated with its operations. Under the SECR requirements, MLI makes disclosure in the tables below of the energy and carbon information attributable to BAC activities in the UK.

STREAMLINED ENERGY AND CARBON REPORTING (continued)

Energy consumption

	2022	2021
	kWh	kWh
Energy use impacting Scope 1 GHG emissions*		
Gas consumption	**9,051,532**	10,787,622
Gas oil consumption	**1,526,531**	883,368
Total impacting scope 1 GHG emissions	**10,578,063**	11,670,990
Energy use impacting Scope 2 GHG emissions**		
Electricity	**76,808,450**	74,015,414
Energy use impacting Scope 3 GHG emissions***		
Business travel	**603,145**	88,930
Total energy consumption	**87,989,658**	85,775,334

* Energy use impacting Scope 1 GHG emissions relates to sources (consumption) that are owned or controlled by BAC activities in the UK and which result in direct emission from those activities. Under the SECR requirements such sources and related emissions required to be disclosed are restricted to gas usage for heating purposes and gas oil for back-up generators.

** Energy use impacting Scope 2 GHG emissions relates to purchased electricity consumed by BAC activities in the UK. Scope 2 emissions physically occur at the facility where electricity is generated.

*** Energy use impacting Scope 3 GHG emissions required to be disclosed under the SECR requirements are solely in respect of business travel emissions related to rental cars or employee-owned vehicles where the company reimburses employees for business mileage expenses. Other sources of Scope 3 emissions are not in scope for this reporting and are not therefore reported.

Energy data is based on utility invoices, generator run times and business travel mileage records. Where actual data is not available, estimates are made based on actual data collected in the previous year.

STREAMLINED ENERGY AND CARBON REPORTING (continued)

Greenhouse gas emissions*

	2022 Gross Location based**	**2022 Gross Market*** based**	2021 Gross Location based	2021 Gross Market based
Scope 1 direct emissions (tCO_2e)				
Gas consumption	**1,641**	**1,641**	1,956	1,956
Gas oil consumption	**387**	**387**	224	224
Total scope 1	**2,028**	**2,028**	2,180	2,180
Scope 2 indirect emissions (tCO_2e)				
Electricity	**14,853**	—	15,716	—
Scope 3 indirect emissions (tCO_2e)				
Business Travel	**199**	**199**	22	22
Total	**17,080**	**2,227**	17,918	2,202
Intensity ratio tonnes of CO_2e per m^2 floor area (tCO_2e/m^2)	**0.196**	**0.026**	0.206	0.025

* Gas relates to heating office buildings. Gas oil relates to fuel to run back-up generators. Electricity relates to usage to support UK operations. Business travel relates to travel in employee-owned and rented vehicles. Intensity ratio represents how many tonnes of GHG emissions are produced per m^2 of occupied space.

**A location-based method reflects the average emissions intensity of the UK energy grid.

***A market-based method reflects emissions from electricity that the Company has purposefully chosen and takes into account the impact of green contracts or other renewable energy products. The Company is able to report zero emissions under Scope 2 using the GHG Protocol Corporate Standards' market-based approach due to the executed contract that confirms 100% renewable electricity.

The above has been produced in line with the World Resources Institute's "Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard". Location-based grid average emission factors have been used to report the emissions from electricity, and the Environmental Protection Agency conversion factors for gas, gas oil and rental cars. To calculate Greenhouse Gas ("GHG") emissions related to the use of personal vehicles for business travel, the annual Government Emission Conversion Factors for Company Reporting produced by The Department of Business, Energy and Industrial Strategy have been used.

The Company considers that the most appropriate intensity metric to reflect performance is gross emissions in tonnes of CO_2e per m^2 of floor area as BAC's energy consumption and associated GHG emissions in the UK are primarily driven by its real estate portfolio.

While in 2022, the Company continued the policy of bringing employees back to offices resulting in a 4% increase in electricity consumption, operational emissions decreased, primarily due to lower gas usage and decarbonisation of the UK utility grid.

Scope 1 and 2 greenhouse gas emissions were independently assured to a "reasonable" level, and Scope 3 were assured to a "limited" level.

Energy efficiency measures

In line with these objectives BAC Group actively pursues energy and GHG emission reductions in the UK primarily through energy efficiency initiatives and office consolidation projects. The main activity completed in 2022 reduced the real estate footprint by decommissioning approx. 67k sq. ft of office space in the London 2

STREAMLINED ENERGY AND CARBON REPORTING (continued)

Energy efficiency measures (continued)

King Edward Street campus.

Across sites where BAC is responsible for the energy procurement, BAC continues to purchase renewable energy through a green contract with a utility supplier. The contract is covered by the UK Renewable Energy Guarantees of Origin ("REGO") scheme administered by Office of the Gas and Electricity Markets ("OFGEM"). The programme provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation. OFGEM issues a REGO certificate for each MWh of electricity generated from eligible generation sources.

Otherwise for facilities not covered by the green contract (primarily leased Data Centres space in the UK) BAC purchases unbundled REGOs.

Carbon offsets are purchased for other unavoidable emissions.

DONATIONS

The Company made no political donations for the year ended 31 December 2022 (2021: $0).

EVENTS AFTER THE END OF THE REPORTING PERIOD

There have been no significant events affecting the Company since the year end which would have impacted the financial position of the Company if retrospectively applied since the year end.

At the end of February 2023, the Company repaid $2.5 billion of subordinated debt with the corresponding increase in amounts owed to affiliates.

DIVIDEND

In 2022, an interim dividend of $0 (2021: $872 million) was paid in respect to the year ended 31 December 2021. A final dividend of $375 million (2021: $373 million) was also paid in respect of the year ended 31 December 2021.

The directors recommend the payment of a final dividend for the year ended 31 December 2022 of $948 million ($0.12 per share).

This report was approved by the Board on 16 March 2023 and signed on its behalf.

B.A. Mensah
Chief Executive Officer
Director

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Merrill Lynch International's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2022; the income statement, the statement of comprehensive income and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) 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 the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, 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 the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7, we have provided no non-audit services to the Company in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting;
- Understanding and evaluating the Company's current financial position and financial forecasts;
- Understanding and reviewing the Company's current and forecast capital and liquidity position. This included reviewing the results of stress testing performed by management of both liquidity and regulatory capital, including considering the severity of the stress scenarios that were used; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

<u>Strategic report and Directors' report</u>

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

<u>Responsibilities of the directors for the financial statements</u>

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL

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 (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the rules of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and United Kingdom tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiring with management, including Internal Audit, and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of Board, Audit Committee and Risk Committee meeting minutes;
- Review of Internal Audit reports in so far as they related to the financial statements;
- Review of key correspondence with the regulators, in particular the PRA and FCA;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular those related to the valuation of certain complex level 3 financial instrument portfolios;
- Identifying and testing journal entries meeting specific fraud criteria, including post close journals and those journal entries posted by senior management or with other unusual characteristics;
- Testing of information security controls relating to system access and change management; and
- Incorporating unpredictability into the nature, timing and extent of audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. 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 Chapter 3 of Part 16 of the Companies Act 2006 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 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 March 2023

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 $M	2021 $M
Interest income	3	**1,825**	625
Interest expense	3	**(2,183)**	(928)
Net interest expense		**(358)**	(303)
Net trading revenues		**3,032**	3,514
Net gains from other financial instruments at fair value through profit or loss	4	**1,369**	435
Other operating revenues	5	**2,389**	2,470
Net operating revenue		**6,432**	6,116
Administrative expenses	6	**(5,210)**	(5,727)
Operating profit		**1,222**	389
Profit before tax		**1,222**	389
Tax expense on profit	10	**(111)**	(14)
Profit for the financial year		**1,111**	375

The notes on pages 29 to 109 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 $M	2021 $M
Profit for the financial year		**1,111**	375
Other comprehensive (expense)/ income:			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of debt securities at FVOCI		**(28)**	1
		(28)	1
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/ gain on defined benefit schemes	15	**(134)**	63
Movement of deferred tax relating to pension deficit	19	**30**	(8)
Movement in debit valuation reserve ("DVA")	25	**—**	(3)
		(104)	52
Total other comprehensive (expense)/ income for the year, net of tax		**(132)**	53
Total comprehensive income for the year		**979**	428

The notes on pages 29 to 109 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 $M	2021 $M
Non-Current assets			
Investments	13	**339**	257
Debtors: Amounts owed from affiliated companies	18	**3,289**	3,563
Deferred tax	19	**533**	396
		4,161	4,216
Current assets			
Pension	15	**252**	423
Trading assets *	16	**216,842**	214,288
Debt securities at FVOCI		**4,389**	4,901
Resale agreements and securities borrowed	17	**98,929**	104,612
Debtors	18	**61,924**	61,435
Cash at bank and in hand		**5,610**	4,552
		387,946	390,211
Creditors: Amounts falling due within one year			
Bank loans and overdrafts		**85**	75
Trading liabilities	20	**188,914**	194,833
Repurchase agreements and securities loaned	21	**74,847**	72,471
Creditors	22	**66,158**	61,154
Net current assets		**57,942**	61,678
Total assets less current liabilities		**62,103**	65,894
Creditors: Amounts falling due after more than one year			
Repurchase agreements and securities loaned	21	**3,114**	3,493
Creditors	23	**22,430**	26,466
Net assets		**36,559**	35,935
Capital and reserves			
Called up share capital	24	**7,933**	7,933
Share premium account		**4,499**	4,499
Other reserves	25	**9,162**	9,190
Profit and loss account	25	**14,965**	14,313
Total equity		**36,559**	35,935

*Company's financial assets that have been pledged are $31.3 billion (2021: $34.1 billion). Please see note 28 Collateral Received And Pledged for further details.

The financial statements on pages 24 to 109 were approved and authorised for issue by the Board and were signed on its behalf on 16 March 2023.

M. Butler
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note(s)	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
		$M	$M	$M	$M	$M
At 1 January 2022	24, 25	**7,933**	**4,499**	**9,190**	**14,313**	**35,935**
Profit for the financial year		**—**	**—**	**—**	**1,111**	**1,111**
Losses related to defined benefit plan assets and actuarial valuation of defined benefit obligations (net of deferred tax)	15	**—**	**—**	**—**	**(104)**	**(104)**
Movement in fair value of debt securities at FVOCI	25	**—**	**—**	**(28)**	**—**	**(28)**
Total comprehensive income		**—**	**—**	**(28)**	**1,007**	**979**
Dividends paid	12	**—**	**—**	**—**	**(375)**	**(375)**
Group share based payment costs		**—**	**—**	**—**	**214**	**214**
Group share based payment costs recharged		**—**	**—**	**—**	**(194)**	**(194)**
At 31 December 2022		**7,933**	**4,499**	**9,162**	**14,965**	**36,559**

The notes on pages 29 to 109 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note(s)	Called up share capital $M	Share premium account $M	Other reserves $M	Profit and loss account $M	Total equity $M
At 1 January 2021	24, 25	7,933	4,499	9,192	15,133	36,757
Profit for the financial year		—	—	—	375	375
Gains related to defined benefit plan assets and actuarial valuation of defined benefit obligations (net of deferred tax)	15	—	—	—	55	55
Movement in fair value of debt securities at FVOCI	25	—	—	1	—	1
Movement in debit valuation reserve ("DVA")	25	—	—	(3)	—	(3)
Total Comprehensive income	—	—	—	(2)	430	428
Dividends paid	12	—	—	—	(1,245)	(1,245)
Group share based payment costs		—	—	—	227	227
Group share based payment costs recharged		—	—	—	(232)	(232)
At 31 December 2021		**7,933**	**4,499**	**9,190**	**14,313**	**35,935**

The notes on pages 29 to 109 form part of these financial statements.

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 2006 and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising 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 UK adopted International Accounting Standards. 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 held 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 Critical Accounting Estimates And Judgements.

1.2 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

The IASB has issued a number of amendments to IFRS that are first effective for the current accounting period. None of these developments have significant impact on the Company’s financial statements. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1.3 FRS 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 paragraphs 40 (A-D) of IAS 1 Presentation of Financial Statements to disclose a third balance sheet on retrospective accounting policy changes, restatements, or reclassifications
- 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. ACCOUNTING POLICIES (continued)

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 and has sufficient resources to meet its liabilities as they fall due for a period of 12 months from the date of approval of the annual report and financial statements. The financial statements of the Company have, therefore, been prepared on a going concern basis. Disclosures in respect of liquidity risk and capital management are set out in note 30 Risk Management.

1.5 INCORPORATION AND DOMICILE INFORMATION

The Company is a private unlimited company incorporated and domiciled in England and Wales, with branches in Dubai and Qatar along with a representative office in Zurich.

1.6 CONSOLIDATED FINANCIAL STATEMENTS

The Company has taken advantage of the exemption in Section 401 of the Companies Act 2006 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.

1.7 FOREIGN CURRENCIES

a. Functional and presentation Currency

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.

b. Transactions and balances

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 FVOCI 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 ("FVPL") are recognised in the income statement 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.

1. ACCOUNTING POLICIES (continued)

1.8 INTEREST INCOME AND EXPENSE

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 financial instruments measured at amortised cost are recognised on an accrual basis using the effective interest method. Interest income on interest bearing financial assets measured at fair value through other comprehensive income "(FVOCI)" under IFRS 9 'Financial instruments' is also recorded using the effective interest rate 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.

Interest income and expense on all trading assets and liabilities, and other financial instruments measured at FVPL, are recognised using the contractual interest rate in net trading revenues and net gains and losses on other financial instruments at FVPL, respectively.

Negative interest on financial assets measured at amortised cost or FVOCI is recognised through interest expense, and negative interest on financial liabilities measured at amortised cost is recognised through interest income.

1. ACCOUNTING POLICIES (continued)

1.9 OPERATING REVENUES

The Company has disclosed operating revenues instead of turnover as this more accurately reflects the results and nature of the Company's activities.

Net trading revenues

Trading revenue comprises realised and unrealised gains and losses on trading, interest income and expense on FVPL investments, dividends, and gains and losses on derivatives held for the purpose of hedging foreign currency exposure and gains and losses on commodities. Unrealised gains and losses, which represent changes in fair value of inventories are also recognised within trading revenue as they arise.

Net gains and losses from other financial instruments at FVPL

Net income from other financial instruments at FVPL relates to financial assets and financial liabilities designated as FVPL, non-trading assets and liabilities measured mandatorily at fair value through profit or loss. The net income includes fair value changes and interest.

Other operating revenues includes:

Service fee income

Service fee income consists 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.

Investment and brokerage services

Profit earned on fulfilling customer orders is recognised on an accruals basis. Commission revenue earned from certain customer equity transactions is recorded net of related brokerage, clearing and exchange fees. However, if the Company is principal to the transaction, the Company recognises revenue on contracts with clients, gross of expenses incurred to satisfy some or all of its performance obligations. The Company is principal to the transaction if it has the primary obligation to provide the service to the client. Transactional costs directly attributable to acquisition of MLI's own trading assets are recognised in administrative expenses.

Investment banking income

Investment banking income includes underwriting, financial advisory services, and syndication fee income. In accordance with IFRS 15 Revenue from contracts with customers, revenues from these services are recognised when the performance obligations related to the underlying transactions are completed, as detailed below.

Underwriting income consists of fees earned for the placement of a customer’s debt or equity securities. The revenue is generally earned based on a percentage of the fixed number of shares or principal placed. Once the number of shares or notes is determined and the service is completed, the underwriting fees are recognised.

Financial advisory services income consists of fees earned for advising customers with transactions related to mergers and acquisitions and financial restructuring. 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 recognised 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 fair opinion, with the fees recognised when the opinion is delivered to the customer.

1. ACCOUNTING POLICIES (continued)

1.9 OPERATING REVENUES (continued)

Investment banking income (continued)

Syndication fee income represent fees earned as the agent responsible for structuring, arranging and administering a loan syndication. Revenue is typically recognised once the transaction is completed and all services have been rendered.

Other income

Other income includes items not determined to be part of normal trading activities.

1.10 RETIREMENT BENEFIT SCHEMES

The Company participates in defined benefit and defined contribution pension schemes in the UK.

For the defined benefit scheme, 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 UK corporate bonds 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 ("OCI") in the period in which they arise.

The income statement includes interest charged or credited on the defined benefit assets and liabilities, the impact of foreign currency revaluation and service costs. This cost is included in administrative expenses in the statement of profit or loss.

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 staff costs when they are due.

1.11 INVESTMENTS

Investments in subsidiary companies

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. Where the Company holds equity or equity-like instruments in a subsidiary, the balance is held within investments in subsidiaries. Investments in subsidiaries are held at cost less provision for impairment. Other non-equity holdings in special purpose entities are recognised at fair value within trading assets.

At each reporting date, the Company reviews the carrying amounts of its investments in subsidiary companies 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

1. ACCOUNTING POLICIES (continued)

1.11 INVESTMENTS (continued)

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 recognised in the income statement.

Other investments

Other investments represent investments in unlisted equity investments which are mandatorily classified at FVPL in accordance with IFRS 9 Financial Instruments. Profit or loss on disposal of investments and dividends received from investments are disclosed in the income statement within net gains and losses from other financial instruments at FVPL.

1.12 FINANCIAL ASSETS

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Management determines the classification of the Company's financial assets at initial recognition. 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:

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and,
2. 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.

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:

1. The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
2. 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's cash and debtors, securities borrowed for cash, and reverse repurchase agreements that are not considered to be managed on a fair value basis, meet the requirements to be measured at amortised cost. In addition, investments in debt securities held to meet every day and regulatory liquidity requirements meet the requirements to be measured at FVOCI.

All other financial assets, including trading assets, are classified as measured at FVPL. IFRS 9 allows an entity to irrevocably elect to present subsequent changes in FVOCI. The Company has not elected to present changes in the fair value of non-trading equity investments in OCI.

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 those financial assets.

The Company presents client cleared derivatives on balance sheet consistent with financial instrument recognition rules and supported by the client clearing legal framework which considers

1. ACCOUNTING POLICIES (continued)

1.12 FINANCIAL ASSETS (continued)

such arrangements as meaning that the clearing member becomes a contractual party to the contracts cleared through a Central Clearing Counterparties ("CCP").

1.13 CASH AT BANK AND IN HAND

Cash at bank and in hand includes cash on hand and deposits held with financial institutions.

1.14 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. The Company classifies its financial liabilities in the following categories: amortised cost or FVPL.

Financial liabilities are classified as measured at amortised cost, except for those classified at FVPL which comprise of those held for trading or designated at FVPL.

A financial liability is classified at FVPL when it is held for trading. A liability is held for trading if it is incurred principally for the purpose of repurchasing 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 liabilities are designated at FVPL to significantly reduce measurement inconsistencies that would arise if related instruments were treated as held for trading and the underlying financial liabilities were carried at amortised cost, or when doing so is consistent with the Company's risk management strategy.

Trading liabilities, including derivative liabilities held for trading or held for risk management purposes, are measured at FVPL. Structured debt and similar instruments that do not meet the definition of a derivative are presented as creditors and are designated as at FVPL. Repurchase agreements and securities loaned transactions are either designated at FVPL or held at amortised cost. All remaining financial liabilities including customer payables, amounts owed to brokers, dealers and clearing houses and other creditors are held at amortised cost.

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

1.15 IMPAIRMENT

The Company calculates a probability-weighted loss allowance for Expected Credit Loss ("ECL") on its financial assets that are debt instruments, financial guarantees, and commitments that are not measured at FVPL. The Company's credit exposures under these instruments are typically significantly less than twelve months in duration or otherwise are generally assessed as having no significant increase in credit risk since initial recognition. As a result, ECL is calculated on a twelve-month basis. In the event that significant financial difficulty or default of a counterparty indicates that an asset is credit-impaired, the ECL allowance is assessed on a lifetime basis, taking into account ECL that result from all possible default events over the expected life of the financial instrument.

1. ACCOUNTING POLICIES (continued)

1.15 IMPAIRMENT (continued)

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.

1.16 RECOGNITION OF DAY ONE PROFIT OR LOSS

Evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets.

The Company has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. The difference between the transaction price and the model valuation, commonly referred to as "day one profit or loss", is not recognised immediately in the income statement. It is kept in either the debtor or creditor account in the balance sheet depending upon whether it's a loss or a gain.

The timing of recognition of deferred day one profit or loss is determined individually and is either deferred until the instrument's fair value can be determined using market observable inputs or realised through disposal or settlement. Day one profit or loss is deferred on instruments classified as level 3 within the hierarchy defined in IFRS 13 - Fair Value Measurement (see note 32 Fair Value Disclosures), and a minimum threshold is applied per trade which on an aggregate basis is immaterial to the Company.

The financial instrument is subsequently measured at fair value. Subsequent changes in fair value are recognised immediately in the income statement.

1.17 DIVIDEND DISTRIBUTION

Dividend distributions to the Company's shareholder are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholder.

1.18 PHYSICAL COMMODITIES

Physical commodity contracts are considered inventory items in the scope of IAS 2 Inventories and therefore are not considered financial instruments. However, in line with IAS 2, as a broker dealer inventory is held at fair value less costs to sell with changes in value recognised as net trading revenue as they arise.

1.19 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 OCI or directly in shareholders' funds. In this case, the tax is recognised in OCI or directly in shareholders' funds, respectively.

1. ACCOUNTING POLICIES (continued)

1.19 CURRENT AND DEFERRED TAXATION (continued)

Current tax, including UK 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 profits will be available against which the temporary differences can be utilised over the Company's planning horizon which is three years.

1.20 SECURITIES FINANCING TRANSACTIONS

The Company enters into secured financing transactions to accommodate customers and earn interest rate spreads (also referred to as "matched-book transactions"), to obtain securities for settlement and to finance trading positions. Such transactions are primarily entered in connection with resale and repurchase agreements, securities borrowed and loaned transactions and margin loans.

Resale and repurchase agreements are accounted for as secured financing transactions. Resale agreements are recorded at amortised cost, being their contractual amounts plus accrued interest, or mandatorily at FVPL, as a result of the business model assessment under IFRS 9. Repurchase agreements are recorded at amortised cost or at fair value under the fair value option election to eliminate accounting mismatch. Resale and repurchase agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency.

Contractual interest coupon on resale and repurchase agreements at amortised cost are recorded as interest income or interest expense, as appropriate. Where resale and repurchase agreements are recorded at FVPL, interest is included with changes in the fair value of resale and repurchase agreements and presented in net gains and losses from other financial instruments at FVPL.

Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions. Securities borrowed transactions are recorded at amortised cost, being the amount of cash collateral advanced. Securities loaned transactions are recorded at amortised cost or at FVPL under the fair value option election. Where transactions are at FVPL, the fees paid or received by the Company are included with changes in the fair value and presented in net gains and losses from other financial instruments at FVPL. For all other securities loaned transactions, the fees paid or received by the Company are recorded as interest income or expense, as these instruments are accounted at amortised cost.

Customer margin loans provided by the Company to clients are collateralised by assets of the clients including securities. In many cases, the Company is permitted by contract or practice to sell or repledge the collateral. Customer margin loans are recorded at amortised cost.

The Company’s policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Company

1. ACCOUNTING POLICIES (continued)

1.20 SECURITIES FINANCING TRANSACTIONS (continued)

may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

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.

Substantially all repurchase and resale and securities borrowed and loaned 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. The Company offsets certain repurchase and resale agreement balances with the same counterparty on the statement of financial position (see note 29 Offsetting).

Securities received under resale and securities borrowed agreements and securities delivered under repurchase and securities lending agreements are generally not recognised on or derecognised from the statement of financial position as the risks and rewards of ownership are not obtained from or relinquished to the counterparty. Subsequent sales of securities that the Company has borrowed are recognised as trading liabilities and are measured at fair value.

1.21 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. Counterparties are assessed to identify if net settlement criteria are met. Where this is achieved, assets and liabilities facing the counterparty are offset (see note 29 Offsetting).

CCP are individually assessed to identify if net settlement criteria are met. Where this is achieved, assets and liabilities facing the CCP are offset.

1.22 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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 1.26 Modifications Of Financial Assets And Financial Liabilities for further details.

1. ACCOUNTING POLICIES (continued)

1.23 TRADE AND SETTLEMENT DATED TRANSACTIONS

Funding financial instruments (e.g. securities financing transactions) are recognised and derecognised on the statement of financial position on a settlement date basis. Trading financial instruments (e.g. debt securities, equities, derivatives, etc.) are recognised and derecognised on the statement of financial position on a trade date basis and trading loans are recognised and derecognised on a settlement date basis.

1.24 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, the Company accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, the Company 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 these awards 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. The share based payment transaction and chargeback agreement creates a total charge to the profit and loss based on the grant date fair value of the awards adjusted for subsequent movements in the fair value of those awards prior to delivery. This is recorded in service fee income or service fee expense.

The fair value determined at the grant date expensed over the vesting period is recognised under staff cost whereas the subsequent movement in the fair value prior to delivery is recorded in service fee income or service fee expense.

1.25 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 at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight light basis over the life of the guarantee, and the amount determined in accordance with the ECL model.

1.26 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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.

1. ACCOUNTING POLICIES (continued)

1.26 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

If the contractual terms of the modified asset or liability 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 instrument based on the revised cash flows of the financial instrument 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 of a financial asset 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.

A restructure can be considered substantial on a qualitative or quantitative basis.

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 an adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates

a) Valuation of financial instruments

Fair value is defined under IFRS 13 - Fair Value Measurement, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's policy for valuation of financial instruments is included in note 32 Fair Value Disclosures. 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 rates, commodity prices or equity prices 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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

b) Pensions

The Company has an obligation to pay pension benefits to certain employees and former employees of the BAC group. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management utilises the valuation provided by actuaries and estimates these factors in determining the net pension obligation or surplus in the statement of financial position. The assumptions reflect historical experience and current trends. See note 15 Pension for further information concerning the defined benefit pension scheme.

Judgements

a) Classification of financial assets

The classification of financial assets is based on an assessment of the business model within which the assets are held. The Company follows the guidance of IFRS 9 in determining 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. 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 1.12 Financial Assets for further details regarding classification of financial assets.

b) Deferred tax

The Company has recognised a deferred tax asset in its financial statements which requires judgement for determining the extent of its recoverability at each reporting point. The Company assesses recoverability with reference to Board approved forecasts of future taxable profits. These forecasts require the use of assumptions and estimates. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. See note 19 Deferred tax for further information concerning deferred tax.

3. INTEREST INCOME AND EXPENSE

	2022 $M	2021 $M
Interest income		
Resale agreements and securities borrowed transactions	**733**	103
Debtors, cash at bank and in hand	**1,092**	522
	1,825	625
Interest expense		
Repurchase agreements and securities loaned transactions	**(910)**	(582)
Creditors, bank loans and overdrafts	**(1,256)**	(322)
Negative interest on debt securities at FVOCI	**(17)**	(24)
	(2,183)	(928)
Net interest expense	**(358)**	(303)

Interest income due from affiliated companies within resale agreements and securities borrowed transactions was $653 million (2021: $76 million), and within debtors, cash at bank and in hand was $302 million (2021: $96 million).

Interest expense due to affiliated companies within repurchase agreements and securities loaned transactions was $364 million (2021: $200 million), and within creditors, bank loans and overdrafts was $670 million (2021: $167 million).

4. NET GAINS FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 **$M**	2021 $M
Gains/ (losses) from other financial instruments mandatorily at fair value through profit or loss	**434**	(176)
Gains from other financial instruments designated at fair value through profit or loss	**935**	611
	1,369	435

5. OTHER OPERATING REVENUES

	2022 **$M**	2021 $M
Service fee income	**1,466**	1,076
Investment and brokerage services	**482**	608
Investment banking income		
Underwriting income	**157**	583
Financial advisory services	**145**	89
Syndication fees	**12**	22
Other income	**127**	92
Total other operating revenues	**2,389**	2,470

Service fee income includes Remote Trading fees of $492 million (2021: $340 million), IBK fees of $310 million (2021: $274 million) and Equity Network Support fees of $286 million (2021: $296 million).

Remote trading services occur where a trader is employed in one legal entity and is managing risk and positions on a different legal entity.

IBK fees consist of $162 million IBK Franchise fees and $148 million IBK service fees booked in affiliates. IBK Franchise fees are paid by BAC and US affiliates to compensate the Company for operating the Global Banking business from which BAC and other US affiliates accrue benefits. IBK service fees reflect the revenues earned by the Company's investment banking business initially recorded in other affiliates.

The Equity Network Support fees are being paid by US affiliates to compensate the Company for operating its Cash Equities business, as part of BAC's Global Markets business, from which those US affiliates accrue benefits.

6. ADMINISTRATIVE EXPENSES

	2022 $M	2021 $M
Staff costs (see note 8)	**1,113**	1,171
Service fee expenses	**2,594**	2,859
Foreign exchange losses	**167**	188
Brokerage, clearing and exchange fees	**962**	1,193
Impairment on investment in subsidiaries (see note 13)	**14**	—
Other operating expenses	**360**	316
	5,210	5,727

7. AUDITORS' REMUNERATION

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

	2022 $M	2021 $M
Fees payable to the Company's auditors for the audit of the Company's financial statements	**2.5**	2.3
Fees payable to the Company's auditors for audit related assurance services	**0.9**	0.8
	3.4	3.1

Included within fees payable to the Company's auditors for audit related assurance services was $0.4 million (2021: $0.5 million) in relation to services provided for client money (Client Assets Assurance Standard) reporting to the FCA.

8. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2022	2021
	$M	$M
Wages and salaries	**970**	970
Social security costs	**104**	161
Other pension costs	**39**	40
	1,113	1,171

Included within wages and salaries are charges relating to share-based compensation plans, see note 33 Share Based Payments for further details.

Included within other pension costs is a credit of $2 million (2021: credit of $1 million) relating to the defined benefit pension scheme. For further details see note 15 Pension.

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

	2022	2021
	No.	No.
Trading, sales and advisory	**1,084**	1,036
Support, operations and technology	**1,011**	938
	2,095	1,974

9. DIRECTORS' REMUNERATION

Of the directors that served during the year and up to the date of approval of this report 9 (2021: 8) directors were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company and its subsidiaries based on a time allocation basis. Emoluments in relation to services performed for other group companies are not disclosed in the Company's financial statements.

Remuneration paid to directors of the Company was:

	2022	2021
	$	$
Emoluments	**9,005,392**	8,271,702
Contributions to defined contribution pension schemes	**5,439**	4,139

	2022	2021
Number of directors who:	**No.**	No.
By whom shares are receivable or have been received under long term incentive schemes	**5**	4
Were members of a defined benefit pension scheme	**1**	1
Were members of a defined contribution pension scheme	**5**	4

Remuneration disclosed includes amounts paid to the highest paid director as follows:

	2022	2021
	$	$
Emoluments	**4,296,126**	4,586,146
Contributions to defined contribution pension schemes	**1,749**	1,925

The highest paid director did not exercise share options in the current or prior year.

During the current and preceding year the highest paid director received shares under a long-term incentive scheme.

10. TAX ON PROFIT

	2022 $M	2021 $M
Corporation tax		
UK corporation tax	**59**	15
Adjustments in respect of prior periods	**12**	29
Foreign tax on income for the year	**66**	53
Bank surcharge	**68**	35
Total current tax	**205**	132
Deferred tax		
Origination and reversal of temporary difference	**(68)**	(84)
Impact of change in tax rates	**(31)**	(38)
Impact of bank surcharge	**5**	4
Total deferred tax	**(94)**	(118)
Total tax expense for the year	**111**	14

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10. TAX ON PROFIT (continued)

Factors affecting tax expense for the year

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

	2022 **$M**	2021 $M
Profit before tax	**1,222**	389
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**232**	74
Effects of:		
Expenses not deductible for tax purposes	**8**	8
Non-taxable income	**(1)**	—
Adjustments in respect of prior periods	**12**	29
Impact of bank surcharge on deferred tax	**5**	4
Impact of bank surcharge on current tax	**68**	35
Changes in deferred tax recognised on tax losses	**(120)**	(108)
Changes in deferred tax recognised on temporary difference	**(67)**	4
Impact of foreign taxes	**5**	6
Tax rate changes	**(31)**	(38)
Total tax expense for the year	**111**	14

The Company's effective tax rate for the year is 9.06% (2021: 3.62%).

Factors that may affect future tax charges

Factors that may affect future tax charges are disclosed in note 19 Deferred Tax.

11. SEGMENTAL REPORTING

The Company operates in three geographic regions, being EMEA, the Americas and APAC. Due to the highly integrated nature of international financial markets, the Company identifies its geographic performance based on the regional business unit structure. The methodology for allocating revenue to geographic regions is dependent on estimates and management judgement.

The table below presents the total net operating revenues of the Company by geographic region:

	2022 **$M**	2021 $M
EMEA	**3,806**	3,382
Americas	**794**	643
APAC	**1,832**	2,091
Total net operating revenues	**6,432**	6,116

12. DIVIDENDS PAID

	2022 **$M**	2021 $M
Dividends paid: $0.05 per share (2021: $0.15 per share)	**375**	1,245

13. INVESTMENTS

	Investments in subsidiary companies	Other investments	Total
	$M	$M	$M
Cost or valuation			
At 1 January 2022	**156**	**101**	**257**
Capital Injection	**101**	**—**	**101**
Impairment	**(14)**	**—**	**(14)**
Fair value movements	**—**	**(2)**	**(2)**
Disposal of investments	**—**	**(3)**	**(3)**
At 31 December 2022	**243**	**96**	**339**

Investments in subsidiary companies

Investments in subsidiaries are measured at cost. The Company has an investment of $243 million (2021: $156 million) in Fundo de Investimento Multimercado Iceberg - Credito Privado - Investimento No Exterior ("Iceberg"). The Company exercises power and control over Iceberg. It is therefore disclosed as a subsidiary undertaking in accordance with IFRS 10 - Consolidated Financial Statements. Under its legal form, Iceberg would not be classified as a subsidiary. During the year, there was a net capital injection of $101 million (2021: $24 million withdrawal), and an impairment of $14 million (2021: $0) in relation to Iceberg, as the recoverable amount of Iceberg was less than the carrying value of investment in the Company's books.

The Company has an investment of $0.1 million (2021: $0.1 million) in Merrill Lynch, Pierce, Fenner & Smith Limited ("MLPF&S Limited").

The Company's remaining investments in subsidiaries amount to $381 (2021: $381).

For further details on the Company's investments in subsidiaries, see note 14 Subsidiary Undertakings.

Other investments

Other investments, which are held at fair value through profit and loss in accordance with IFRS 9, consist of unlisted equity securities valued at $96 million (2021: $101 million). During the year, there was a $2 million decrease in fair market value of these securities (2021: $2 million). Additionally, securities of $3 million were sold during the year (2021: $0).

The following table relates to comparatives for the year ended 31 December 2021:

	Investments in subsidiary companies	Other investments	Total
	$M	$M	$M
Cost or valuation			
At 1 January 2021	180	103	283
Decapitalisation	(24)	—	(24)
Fair value movements	—	(2)	(2)
At 31 December 2021	156	101	257

14. SUBSIDIARY UNDERTAKINGS

The following are subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Bank of America UK Retirement Plan Trustees Limited	Ordinary	100%	Trustee of the Bank of America UK Retirement Plan and the Merrill Lynch (UK) Defined Contribution Plan
Chetwynd Nominees Limited	Ordinary	100%	Nominee company for affiliated companies
Citygate Nominees Limited	Ordinary	100%	Nominee company for affiliated companies
Iceberg	Quotas	100%	Government bonds, futures, stocks-equity cash and Bovespa index flexible options
Merrill Lynch Nominees Limited	Ordinary	100%	Nominee company for affiliated companies
MLPF&S Limited	Ordinary	100%	Intercompany funding
N. Y. Nominees Limited	Ordinary	100%	Nominee company for affiliated companies
S. N. C. Nominees Limited	Ordinary	100%	Nominee company for affiliated companies

There was a capitalisation of Iceberg during the year (refer to note 13 Investments for additional information). There were no changes to subsidiary undertakings and/or holding % during the year.

All of the above, except Iceberg, are incorporated in the UK and registered at: 2 King Edward Street, London, EC1A 1HQ. Iceberg is incorporated in Brazil and registered at: Av Pres Juscelino Kubitschek, 1909, 9th - 11th Floors, Torre Sul, Vila Nova Conceicao, Sao Paulo - 04543-907, Brazil.

14. SUBSIDIARY UNDERTAKINGS (continued)

The Company also holds the controlling interests in the following special purpose entities ("SPEs") which are included at fair value in trading assets.

Name	Country of incorporation	Registered address	Principal activity
Atena Limited Series 37 and 39	Cayman Islands	MAPLESFS LIMITED, P. O. Box 1093, Queensgate House, 113 South Church Street, Grand Cayman, KY1-1102, Cayman Islands	Callable JGB repackaged loan
Calculus ABS Resecuritisation Trust – Series 2006-1 and 2006-3	United States	Walker House, 87 Mary Street, George Town, Grand Cayman, Cayman Islands	Issuing debt securities
Ironwood Trustee (Pty) Limited	South Africa	Glyn Marais Inc. 2nd Floor, The Place, 1 Sandton Drive, Sandton, 2196	100% Consolidated Trust
Oxygen Capital Limited Series 17, 21, 43, 86, 87 and 112	Cayman Islands	PO Box 309 Ugland House, South Church Street, George Town, KY1-1104, Cayman Islands	Callable JGB repackaged loan
Pyxis Limited	Cayman Islands	250 Vesey Steet, NY, NY, 10281	Source funding
Single Platform Investment Repackaging Entity SA, in respect of its compartment 2020-21 and 2022-174	Luxembourg	51, avenue John F. Kennedy, L-1855	Repackaging inventory and issuing as note
Starsia Capital Limited Series 11, 12 and 13	Cayman Islands	PO Box 309 Ugland House, South Church Street, George Town, KY1-1104, Cayman Islands	Callable JGB repackaged loan

The total assets on the Company's statement of financial position relating to controlling interests in SPEs are $630 million (2021: $631 million). The total size of those SPEs, which is calculated as the principal outstanding of the SPE, is $630 million (2021: $633 million).

The principal activity of all of the above SPEs is to act as structured issuance vehicles.

15. PENSION

The Company participates in a number of defined benefit and defined contribution pension schemes in the UK. The schemes are funded with the assets held in separate trustee administered funds.

Defined benefit scheme

The major defined benefit scheme is the final salary section of the Bank of America UK Retirement Plan (the “Plan”), which was closed to new entrants with effect from 30 June 1997 and to future accrual from existing members with effect from 30 June 2004. The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

The Company is one of a number of BAC employer companies based in the UK which participate in the Plan.

The Plan operates under the UK statutory Scheme Funding Regime established by the Pensions Act 2004. The last formal triennial funding valuation of the Plan’s assets was carried out by a qualified actuary as at 31 December 2018 and showed the Plan's assets were in excess of its technical provisions. The formal triennial funding valuation as of 31 December 2021 is currently in progress due for completion by 31 March 2023.

IFRIC 14 is an interpretation of IAS 19 - Employee Benefits which relates to the recognition of pension plan surpluses. As currently disclosed, the Company is able to utilise the whole of the Plan surplus in scenarios set out in IFRIC 14. Accordingly, there is no asset ceiling on the amount of surplus that is currently recognised in the statement of financial position.

The defined benefit plan is administered by a separate trust that is legally separated from the Company. By law, the board of trustees is required to act in the best interests of participants to the Plan and has the responsibility of setting investment, contribution, and other relevant policies.

The Company is deemed to be the sponsoring entity to the Plan and as a result, the Company recognises the present value of the defined benefit obligation, the fair value of the Plan assets, and the associated costs of the Plan.

	2022	2021
	$M	$M
Amounts recognised on the statement of financial position:		
Fair value of scheme assets	**1,218**	2,313
Present value of funded defined benefit obligations	**(966)**	(1,890)
Net pension asset recognised in the statement of financial position	**252**	423

Over 2022, both the assets and liabilities of the Plan reduced significantly. The major factor driving this movement was a significant increase in the yields on government and corporate bonds over the year. The discount rate used to value the accounting liabilities is based on the yields on corporate bonds, so the increase in yields lead to a fall in the value of the Plan's liabilities. The Plan's assets are hedged against movements in government bond yields in order to reduce the volatility of the Plan‘s funding against its long-term government bond-based funding measure, so asset values also fell as government bond yields rose. Assets fell by more than the accounting liabilities as the hedging is designed to match movements in the higher long-term funding target liabilities rather than the lower accounting liabilities. Consequently, the surplus on the accounting basis decreased.

15. PENSION (continued)

The movement in the defined benefit net asset over the year is as follows:

	Present value of obligation	**Fair value of plan assets**	**Total**
	$M	**$M**	**$M**
2022			
As at 1 January 2022	**(1,890)**	**2,313**	**423**
Service cost	**(6)**	**—**	**(6)**
Interest (expense)/income	**(32)**	**40**	**8**
Pension (expense)/income recognised in income statement	**(38)**	**40**	**2**
Remeasurements in OCI:			
Losses on plan assets, excluding amounts included in interest (expense)/income	**—**	**(839)**	**(839)**
Gains from change in demographic assumptions	**3**	**—**	**3**
Gains from change in financial assumptions	**730**	**—**	**730**
Losses from plan experience	**(28)**	**—**	**(28)**
Total amount recognised in OCI	**705**	**(839)**	**(134)**
Exchange differences	**190**	**(234)**	**(44)**
Contributions:			
Employer	**—**	**5**	**5**
Payments from plan:			
Benefit payments	**67**	**(67)**	**—**
As at 31 December 2022	**(966)**	**1,218**	**252**

Approximately 5% of the liabilities are attributable to current employees, 59% to former employees and 36% to current pensioners.

Employer contributions of $5 million were paid into the Plan in the year by the Company. No recharge was made for these costs to the other scheme participants. It is estimated that the Company will also pay contributions of $1 million into the Plan in 2023.

15. PENSION (continued)

	Present value of obligation	Fair value of plan assets	Total
	$M	$M	$M
2021			
As at 1 January 2021	**(2,017)**	**2,378**	**361**
Service cost	**(4)**	**—**	**(4)**
Interest (expense)/income	**(28)**	**33**	**5**
Pension (expense)/income recognised in income statement	**(32)**	**33**	**1**
Remeasurements in OCI:			
Losses on plan assets, excluding amounts included in interest (expense)/income	**—**	**(27)**	**(27)**
Gains from change in demographic assumptions	**5**	**—**	**5**
Gains from change in financial assumptions	**83**	**—**	**83**
Gains from plan experience	**2**	**—**	**2**
Total amount recognised in OCI	**90**	**(27)**	**63**
Exchange differences	**19**	**(22)**	**(3)**
Contributions:			
Employer	**—**	**1**	**1**
Payments from plan:			
Benefit payments	**50**	**(50)**	**—**
As at December 2021	**(1,890)**	**2,313**	**423**

Approximately 8% of the liabilities are attributable to current employees, 63% to former employees and 29% to current pensioners.

Employer contributions of $1 million were paid in 2021 into the Plan in the year by the Company. No recharge was made for these costs to the other scheme participants.

15. PENSION (continued)

The significant actuarial assumptions were as follows:

	2022	2021
Discount rate	**4.95%**	1.90%
RPI inflation	**3.20%**	3.45%
CPI inflation	**2.40%**	2.75%
Salary growth rate	**4.70%**	4.95%
Pension growth rate - subject to a 5% cap in any year	**2.95%**	3.25%
Pension growth rate - subject to a 3% cap in any year	**1.95%**	2.20%
Pension growth rate - fixed at 3%	**3.00%**	3.00%
Average life expectancy:		
Life expectancy for male aged 62	**26.1**	26.5
Life expectancy for female aged 62	**27.8**	28.5
Life expectancy at 62 for male currently aged 45	**27.1**	27.6
Life expectancy at 62 for female currently aged 45	**28.9**	29.8

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 salary and pension growth rates are all linked to inflation, with the exception of the fixed increase of 3%.

15. PENSION (continued)

The Plan assets are invested in the following asset classes:

	2022	2021
	$M	$M
Return-seeking funds	**181**	583
Fixed-interest funds	**112**	327
Liability driven investments and money market instruments	**638**	945
Annuity buy-in	**287**	458
Total Plan assets	**1,218**	2,313

Of the $1,218 million Plan assets, $882 million (2021: $1,761 million) are quoted within an active market which is split between return-seeking funds of $132 million (2021: $489 million) and fixed-interest funds of $112 million (2021: $327 million) and liability driven investments and money market instruments of $638 million (2021: $945).

In 2018, the Trustees of the Plan bought a bulk annuity to meet the future pension payments for all of its then retired members. The annuity is written in the name of the Trustees and remains an asset of the Plan. It is valued for accounting purposes using the same assumptions set out on page 56 and its value is the same for both plan asset and present value of obligation purposes.

The Plan exposes the Company to a number of risks, the most significant of which are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Plan holds a proportion of return-seeking assets which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Plan's long-term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the Plan's liabilities for accounting purposes. Although the Plan's assets include a significant liability driven instruments portfolio that are designed to mitigate against a fall in government bond yields on a long-term funding measure, changes in credit spreads and differences between the long-term funding and accounting liabilities may mean that movements in the Plan's liabilities and assets do not match each other.

Inflation risk

A significant proportion of the Plan’s benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). However, the Plan's protection assets are also designed to protect the Plan against an increase in inflation.

Life expectancy

The majority of the Plan’s liabilities are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities, although the Plan's annuity policy provides this protection on the corresponding part of the Plan's liabilities.

15. PENSION (continued)

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

	Defined benefit obligation 2022	Estimated 2023 service cost	Defined benefit obligation 2021	Estimated 2022 service cost
	$M	$M	$M	$M
Current figures as at 31 December	**966**	**1**	1,890	3
Following a 1.0% decrease in the discount rate				
Change	**168**	**—**	437	2
New value	**1,134**	**1**	2,327	5
Following a 1.0% increase in the inflation assumption				
Change	**89**	**—**	245	1
New value	**1,055**	**1**	2,135	4
Following an increase in life expectancy of one year				
Change	**37**	**—**	70	—
New value	**1,003**	**1**	1,960	3

The above sensitivity analyses are based on a change in assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension liability recognised within the statement of financial position.

The discount rate and inflation sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the statement of financial position date. The inflation sensitivity takes account of the corresponding impacts on both salary and pension growth and is based on both RPI and CPI inflation assumptions.

The life expectancy sensitivity information shown above is approximate and has been determined taking into account the duration of the liabilities and the overall profile of the Plan membership.

15. PENSION (continued)

The history of asset values, defined benefit obligation and surplus is set out below:

	2022 $M	2021 $M	2020 $M	2019 $M
Fair value of scheme assets	**1,218**	2,313	2,378	2,086
Defined benefit obligation	**(966)**	(1,890)	(2,017)	(1,762)
Net pension asset value	**252**	423	361	324

Following the 31 December 2018 actuarial funding valuation, it was agreed on the basis of actuarial advice that the participating companies would pay the following:

- The agreed contributions for members to the Money Purchase Section of the Plan;
- 0.5% of Plan salaries in respect of spouses' death in service pensions for relevant members of the Plan;
- Lump sum death in service premiums;
- Any levies due to the Pension Protection Fund; and
- Other expenses.

The contribution requirement is monitored following each annual funding review and any contribution payments may be adjusted accordingly.

The Plan duration is an indicator of the weighted-average time until benefit payments are paid. For the Plan as a whole, the duration is approximately 16 years.

Defined contribution schemes

The major defined contribution scheme is the Bank of America UK Retirement Plan – Money Purchase Section. The cost is a percentage of each employee’s plan salary based on their length of service and these costs 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 $41 million (2021: $41 million).

16. TRADING ASSETS

	2022	2021
	$M	$M
Derivative assets	**163,862**	156,498
Equities and convertible debentures	**31,115**	37,315
Corporate debt and preferred stock	**6,767**	6,067
Mortgage-backed and asset-backed securities	**1,182**	1,088
Non-US governments and agencies	**9,777**	10,207
US government and agencies	**11**	27
Commodities	**4,128**	3,086
	216,842	214,288

Balances with affiliated companies within trading assets were $56,819 million (2021: $34,912 million).

Commodities trading assets consist of $4,128 million (2021: $3,069 million) of commodities in inventory. Commodities in inventory largely consist of European Allowance Certificates. Other commodity assets include precious metals.

17. RESALE AGREEMENTS AND SECURITIES BORROWED

	2022 $M	2021 $M
Resale agreements and securities borrowed transactions	**98,929**	104,612

Balances with affiliated companies within resale agreements and securities borrowed transactions were $47,939 million (2021: $55,126 million).

Included within resale agreements and securities borrowed transactions, $51,564 million were mandatorily at FVPL (2021: $50,514 million), the remaining balance is held at amortised cost.

18. DEBTORS

	2022 $M	2021 $M
Debtors due within 1 year:		
Trade debtors		
Customer receivables	**38,370**	39,907
Brokers, dealers and clearing houses	**20,676**	17,738
	59,046	57,645
Other debtors		
Amounts owed from affiliated companies	**2,258**	2,069
Other debtors and prepayments	**620**	1,721
	2,878	3,790
Debtors due after 1 year:		
Amounts owed from affiliated companies	**3,289**	3,563
	65,213	64,998

Balances with affiliated companies within customer receivables were $10,997 million (2021: $13,920 million), and within brokers, dealers and clearing houses were $13,148 million (2021: $10,409 million).

19. DEFERRED TAX

	2022	2021
	$M	$M
Tax losses carried forward	**291**	173
Temporary differences with respect to share based payments	**94**	126
Temporary differences with respect to loan relationships	**230**	252
Temporary differences with respect to capital gains	**(11)**	(15)
Temporary differences in relation to pension	**(71)**	(140)
	533	396

	2022	2021
As at 1 January	**396**	285
Tax relating to components of other comprehensive income	**30**	(8)
Credited to the income statement - losses	**80**	88
Credited/(charged) to the income statement - pension	**7**	(7)
Credited/(charged) to the income statement - share based payments	**(18)**	3
Impact of change in UK tax rate	**31**	38
Impact of bank surcharge on deferred tax	**(5)**	(4)
Foreign exchange differences	**12**	1
As at 31 December	**533**	396

The deferred tax asset is recognised on the basis of estimated future taxable profits over the Company's three-year planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset at 31 December 2022 of $533 million (2021: $396 million).

On the 17 October 2022 UK Budget, the Chancellor of the Exchequer confirmed that in line with the previously enacted legislation the UK corporation tax rate will increase to 25% from 1 April 2023. The Chancellor confirmed in the Autumn Statement on 17 November 2022 that the changes to the bank surcharge rate to 3% (from current rate of 8%), which are already legislated to take effect from 1 April 2023, will go ahead. This change was substantively enacted on 30 November 2022 (received Royal Assent on 10 January 2023). As these rates have now been substantively enacted at the year end, the deferred tax has been calculated based on these rates.

In December 2021, the Organisation for Economic Cooperation and Development ("OECD") issued model rules for a new global minimum tax framework, also known as the 'Pillar 2' rules, with further commentary released in March 2022. In June 2022, the UK government announced that the rules will apply for accounting periods beginning on or after 31 December 2023 and issued proposed legislation in July 2022. While the overarching framework and draft UK legislation have been published, we are awaiting detailed guidance to assess the full implications.

Deferred tax balances are now held at the updated standard rate of corporation tax of 25% in relation to losses and 28% (to include bank surcharge) in relation to timing differences.

The Company has unrecognised deferred tax assets totalling $8,052 million (2021: $7,788 million), primarily in relation to losses. The re-measurement as a result of changes in the UK corporation tax rate has resulted in a net increase of the unrecognised deferred tax asset of $480 million.

20. TRADING LIABILITIES

	2022 $M	2021 $M
Derivative liabilities	**162,363**	161,939
Equities and convertible debentures	**18,064**	19,104
Corporate debt and preferred stock	**1,791**	2,526
Non-US government and agencies	**6,372**	10,802
US governments and agencies	**324**	444
Commodities	**—**	17
Mortgage-backed and asset-backed securities	**—**	1
	188,914	194,833

Balances with affiliated companies within trading liabilities were $53,487 million (2021: $37,804 million).

21. REPURCHASE AGREEMENTS AND SECURITIES LOANED

	2022 $M	2021 $M
Amounts falling due within one year:		
Repurchase agreements and securities loaned transactions	**74,847**	72,471
Amounts falling due after more than one year:		
Repurchase agreements and securities loaned transactions	**3,114**	3,493
	77,961	75,964

Balances with affiliated companies within repurchase agreements and securities loaned transactions were $32,524 million (2021: $23,794 million).

Within repurchase agreements and securities loaned transactions, $52,129 million (2021: $43,759 million) were designated at FVPL. The amount contractually required to pay at maturity to the holder of these obligations was $52,289 million (2021: $43,807 million). The remaining balance is held at amortised cost.

22. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2022 **$M**	2021 $M
Trade creditors		
Customer payables	**44,496**	38,465
Brokers, dealers and clearing houses	**10,332**	5,996
	54,828	44,461
Other creditors		
Amounts owed to affiliated companies	**5,507**	10,998
Other creditors and accruals	**5,823**	5,695
	11,330	16,693
	66,158	61,154

Balances with affiliated companies within customer payables were $7,294 million (2021: $6,056 million), and within brokers, dealers and clearing houses were $2,616 million (2021: $298 million).

At 31 December 2022, the Company also had financial liabilities designated at FVPL presented within amounts owed to affiliated companies totalling $3,245 million (2021: $6,208 million), and within other creditors and accruals, and customer payables totalling $4,898 million (2021: $3,577 million). The amount contractually required to pay at maturity to the holder of these obligations was $3,005 million (2021: $5,823 million) and $4,954 million (2021: $3,584 million) respectively.

Included within other creditors and accruals is $53 million (2021: $46 million) relating to taxation and social security.

At 31 December 2022, the Company had total provisions of $0 (2021: $28 million) under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

The provision as at 31 December 2021 was related to the payment that was expected to be made to the UK tax authority, His Majesty's Revenue and Customs ("HMRC"), in respect of VAT on Head Office expense allocations. The payment was made during the current year.

The Company maintains certain client money balances with banks and clearing houses which principally arise where it acts on behalf of its clients as a clearing member for derivatives that are cleared through central counterparties. These balances are held subject to client money protection under the Client Assets Sourcebook rules, and the Company concluded that such amounts should not be recognised on its balance sheet as they are not assets of the Company. Therefore, client money assets amounting to $4.9 billion (2021: $7 billion) have not been recognised on the Company's balance sheet, $1.7 billion (2021: $2.7 billion) from cash balances and $3.2 billion (2021: $4.3 billion) from brokers, dealers and clearing houses, respectively.

Day one profit / (loss)

Included in the above and in the table that follows is day one profit that has yet to be recognised in the income statement relating to the difference between the fair value at recognition (being the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less any subsequent releases.

Day one profit/loss was previously included in Trading Assets. Following a voluntary accounting policy change, these amounts have been reclassified to Creditors: Amounts Falling Due Within One Year.

22. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

Day one profit / (loss) (continued)

	2022	2021
	$M	$M
At 1 January	**52**	41
Day one profit on new trades not recognised in Income Statement	**69**	85
Settlements/disposals	**(8)**	(10)
Released due to subsequent observability	**(32)**	(64)
At 31 December	**81**	52

23. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2022	2021
	$M	$M
Subordinated loans from affiliated companies	**2,500**	2,500
Amounts owed to affiliated companies	**19,930**	23,966
	22,430	26,466

Creditors due after more than one year comprises of:

	2022	2021
	$M	$M
Subordinated debt		
Between one and two years		
US Dollar denominated loan note, bearing interest at overnight SOFR plus 53 basis points (2021: overnight SOFR plus 43 basis points)	**2,500**	2,500
Amounts owed to affiliated entities		
Between one and two years		
Amounts drawn on multi-currency credit facilities	**11,205**	20,394
Money market trades with affiliated company	**537**	—
Between two and five years		
Money market trades with affiliated company	**1,372**	—
After five years		
US Dollar denominated loan notes maturing in 2034 and bearing interest at daily USD SOFR plus 170 basis points (2021: Daily USD SOFR plus 170 basis points)	**3,298**	3,572
Money market trades with affiliated company	**3,518**	—
	22,430	26,466

23. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The Company has available credit facilities due after more than one year of $37,000 million (2021: $36,000 million) from affiliated companies. The undrawn element at 31 December 2022 was $25,795 million (2021: $15,606 million).

The drawn element is charged at a floating rate aligned with the benchmark associated with the denomination of currency borrowed and is payable in 2024 (2021: 2023) with due dates automatically extended semi-annually unless the lender provides written notice of its election not to extend.

The $2,500 million subordinated loan facility with an affiliated company is payable in 2024 (2021: 2023) with due dates automatically extended semi-annually unless the lender provides notice of its election not to extend.

24. CALLED UP SHARE CAPITAL

	2022 **$M**	2021 $M
Allotted, called up and fully paid 7,933,027,945 (2021: 7,933,027,945) ordinary shares of $1.00 each	**7,933**	7,933

25. RESERVES

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 BAC during the year was a $20 million credit (2021: $5 million debit) and is included within profit and loss reserves.

Capital contribution reserve

The capital contribution reserve relates to a combination of cash and non-cash contributions received from the Company's parent and other BAC companies.

Debit valuation adjustment reserve

The debit valuation ("DVA") reserve relates to credit risk associated with fair value changes of liabilities designated in FVPL. These fair value changes are presented in OCI as a debit valuation adjustments reserve.

Other Reserves	**Capital contribution reserve $M**	**DVA reserve $M**	**Movement in fair value of debt securities at FVOCI $M**	**Total $M**
As at 1 January 2022	9,193	—	(3)	9,190
Movement during the year	—	—	(28)	(28)
As at 31 December 2022	9,193	—	(31)	9,162

25. RESERVES (continued)

	Capital contribution reserve	DVA reserve	Movement in fair value of debt securities at FVOCI	Total
	$M	$M	$M	$M
Other Reserves				
As at 1 January 2021	9,193	3	(4)	9,192
Movement during the year	—	(3)	1	(2)
As at 31 December 2021	9,193	—	(3)	9,190

26. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

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

31 December 2022	Mandatorily at FVPL $M	Designated at FVPL $M	FVOCI debt instruments $M	Amortised cost $M	Total $M
Trading assets	212,714	—	—	—	212,714
Debt securities at FVOCI	—	—	4,389	—	4,389
Debtors	—	—	—	65,121	65,121
Resale agreements and securities borrowed transactions	51,564	—	—	47,365	98,929
Cash at bank and in hand	—	—	—	5,610	5,610
Investments	96	—	—	—	96
Financial Assets	**264,374**	**—**	**4,389**	**118,096**	**386,859**
Bank loans and overdrafts	—	—	—	85	85
Trading liabilities	188,914	—	—	—	188,914
Creditors: amounts falling due within one year	—	8,143	—	58,015	66,158
Repurchase agreements and securities loaned transactions	—	52,129	—	25,832	77,961
Creditors: amounts falling due after more than one year	—	—	—	22,430	22,430
Financial Liabilities	**188,914**	**60,272**	**—**	**106,362**	**355,548**

26. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS (continued)

31 December 2021	Mandatorily at FVPL $M	Designated at FVPL $M	FVOCI debt instruments $M	Amortised cost $M	Total $M
Trading assets	211,219	—	—	—	**211,219**
Debt securities at FVOCI	—	—	4,901	—	**4,901**
Debtors	—	—	—	64,927	**64,927**
Resale agreements and securities borrowed transactions	50,514	—	—	54,098	**104,612**
Cash at bank and in hand	—	—	—	4,552	**4,552**
Investments	101	—	—	—	**101**
Financial Assets	**261,834**	**—**	**4,901**	**123,577**	**390,312**
Bank loans and overdrafts	—	—	—	75	**75**
Trading liabilities	194,833	—	—	—	**194,833**
Creditors: amounts falling due within one year	—	9,785	—	51,369	**61,154**
Repurchase agreements and securities loaned transactions	—	43,759	—	32,205	**75,964**
Creditors: amounts falling due after more than one year	—	—	—	26,466	**26,466**
Financial Liabilities	**194,833**	**53,544**	**—**	**110,115**	**358,492**

27. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is a member of various securities and derivative exchanges and clearing houses. As a member, the Company may be required to pay a pro-rata share of the losses incurred by some of these organisations as a result of another member default and under other loss scenarios. The Company's potential obligations may be limited to its membership interests in such exchanges and clearing houses, to the amount (or multiple) of the Company's contribution to the guarantee fund or, in limited instances, to the full pro-rata share of the residual losses after applying the guarantee fund. The Company's maximum potential exposure under these membership agreements is difficult to estimate; however, the potential for the Company to be required to make these payments is remote.

In connection with its prime brokerage and clearing businesses, the Company performs securities clearance and settlement services with other brokerage firms and clearing houses on behalf of its clients. Under these arrangements, the Company stands ready to meet the obligations of its clients with respect to securities transactions. The Company's obligations in this respect are secured by the assets in the clients' accounts and the accounts of their customers as well as by any proceeds received from the transactions cleared and settled by the firm on behalf of clients or their customers. The Company's maximum potential exposure under these arrangements is difficult to estimate; however, the potential for the Company to incur material losses pursuant to these arrangements is remote.

BAC, including MLI and its affiliates, is subject to a number of investigations, inquiries, and proceedings impacting the global banking industry, including matters raised by Government authorities in the US and various international jurisdictions. Many of these investigations, inquiries, and proceedings are still in progress at the time of approval of these financial statements and as a result, the outcomes of all these matters cannot be predicted. At this time, the directors do not consider it necessary to make a provision within the financial statements of MLI.

The Company has commitments to enter into resale and forward-dated resale and securities borrowing agreements and commitments to enter into forward-dated repurchase and securities lending agreements. These commitments generally expire within the next 12 months.

The Company provides financial guarantees to affiliated companies for International Swaps and Derivatives Association ("ISDA") and non-ISDA transactions. The Company also holds irrevocable commitments.

The below table represents the Company's maximum exposure under those guarantees and commitments:

	2022	2021
	$M	$M
Financial guarantees	**243**	263
Undrawn portion of irrevocable commitments	**32**	66
Forward dated resale agreement and securities borrowing	**32,120**	38,412
Forward dated repurchase agreement and securities lending	**17,450**	13,010
	49,845	51,751

28. COLLATERAL RECEIVED AND PLEDGED

The Company receives collateral in transactions that include resale agreements and securities borrowed arrangements, as well as in connection with its derivative contracts. At 31 December 2022, 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 $344,640 million (2021: $404,116 million). The fair value of financial assets accepted as collateral that the Company has used, sold or repledged was $288,028 million (2021: $334,115 million). The collateral received is composed of cash and various securities positions such as government and agency securities, corporate debt securities and equities which are generally of high quality and considered highly liquid. In the event of a default, the Company has the legal right to liquidate collateral posted as securities in order to minimise losses. The Company's policy

28. COLLATERAL RECEIVED AND PLEDGED (continued)

is to monitor the market value of the principal amount loaned under resale agreements and obtain collateral from or return collateral pledged to counterparties when appropriate. Securities financing agreements do not create material credit risk due to these collateral provisions; therefore, a zero allowance for loan losses has been calculated. The Company is obliged to return cash or equivalent securities as appropriate. Transactions are conducted under standard documentation used by financial market participants, including the terms for the return of cash or equivalent securities as appropriate.

In connection with certain over-the-counter ("OTC") derivative contracts and other trading agreements, the Company can be required to provide additional collateral or to terminate transactions with certain counterparties in the event of a downgrade of the senior debt ratings of the Company. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount and/or the market value of the exposure.

The Company also pledges its own financial assets as collateral in transactions that include repurchase agreements and securities lending arrangements, as well as in connection with its derivative contracts. The collateral pledged is composed of cash and various securities positions such as government and agency securities, corporate debt securities and equities. Where cash collateral has been placed with a counterparty, this is presented as customer receivables within debtors. Non-cash collateral owned by the Company and pledged to counterparties is included within trading assets. To determine whether the market value of the underlying collateral remains sufficient, collateral is generally valued daily, and the Company may be required to deposit additional collateral or may receive or return collateral pledged when appropriate. Repurchase agreements and securities loaned transactions are generally either overnight or short-term. The Company manages liquidity risks related to these agreements by sourcing funding from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations, when appropriate.

Under a normal client repurchase agreement, the assets can be repledged. The assets cannot be repledged when it’s under a tri-party agreement. For certain clients, there are exemptions, and the assets can therefore be repledged for a tri-party agreement.

The carrying amounts of the Company's financial assets that have been pledged as collateral for liabilities are summarised as follows:

	2022	2021
	$M	$M
Trading assets	**31,348**	34,137
Customer receivables	**21,829**	26,665
	53,177	60,802

Pledged firm-owned assets that can be repledged by the secured party was $11,846 million (2021: $12,945 million) and assets that cannot be repledged by the secured party was $17,774 million (2021: $18,938 million).

The corresponding liabilities for which the Company has provided this security are included within trading liabilities, repurchase agreements and securities loaned transactions and creditors, per notes 20 Trading Liabilities, 21 Repurchase Agreements And Securities Loaned and 22 Creditors: Amounts Falling Due Within One Year. The majority of the Company's derivative contracts are entered in accordance with ISDA master agreements or their equivalent, which create a right of set-off in certain circumstances, see note 29 Offsetting for further detail on these arrangements.

29. OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the statement of financial position ("SOFP") where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set-off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2022 and 31 December 2021. The column 'net amount' shows the impact on the Company's SOFP if all set-off rights were exercised.

As at 31 December 2022

	Gross amounts recognised	Gross amounts offset in the SOFP [(a)]	Net amounts presented in the SOFP	Financial instruments	Cash collateral	Net amount
	$M	$M	$M	$M	$M	$M
Assets						
Derivative assets	**225,013**	**(61,151)**	**163,862**	**(143,098)**	**(15,392)**	**5,372**
Corporate debt and preferred stock	**6,927**	**(160)**	**6,767**	**—**	**—**	**6,767**
Resale agreements and securities borrowed transactions	**240,287**	**(141,358)**	**98,929**	**(97,383)**	**(270)**	**1,276**
Liabilities						
Derivative liabilities	**224,017**	**(61,654)**	**162,363**	**(137,252)**	**(16,552)**	**8,559**
Repurchase agreements and securities loaned	**219,319**	**(141,358)**	**77,961**	**(75,362)**	**(270)**	**2,329**
Other Creditors (Amounts owed to affiliated companies)	**5,667**	**(160)**	**5,507**	**—**	**(3,297)**	**2,210**

[(a)] At 31 December 2022, the amount of cash margin received that has been offset against the gross derivatives assets was $490m. The amount of cash margin paid that has been offset against the gross derivatives liabilities was $993m.

29. OFFSETTING (continued)

As at 31 December 2021

	Gross amounts recognised	Gross amounts offset in the SOFP	Net amounts presented in the SOFP	Financial instruments	Cash collateral	Net amount
	$M	$M	$M	$M	$M	$M
Assets						
Derivative assets	175,205	(18,707)	156,498	(129,633)	(22,826)	4,039
Corporate debt and preferred stock	6,229	(162)	6,067	—	—	6,067
Resale agreements and securities borrowed transactions	248,529	(143,917)	104,612	(103,064)	(425)	1,123
Liabilities						
Derivative liabilities	180,646	(18,707)	161,939	(135,631)	(18,383)	7,925
Repurchase agreements and securities loaned	219,881	(143,917)	75,964	(73,068)	(425)	2,471
Other Creditors (Amounts owed to affiliated companies)	11,160	(162)	10,998	—	(6,337)	4,661

29. OFFSETTING (continued)

Financial instruments

The Company can undertake a number of financial instrument transactions with a single counterparty and may enter into a master netting agreement 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 to 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 ISDA master agreements or their equivalent (“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 SOFP and have been presented separately in the table on the previous page.

Financial instruments also include securities collateral received and pledged which has not been offset in the SOFP.

Cash collateral

Cash collateral relates to collateral received and pledged against both derivatives and repurchase agreements which has not been offset in the SOFP.

30. RISK MANAGEMENT

Legal entity 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 the Company). The Risk Framework applies to all BAC employees. It provides an understanding of the Company’s approach to risk management and each employee’s responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of the Company’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 MLI businesses as defined in the Risk Framework are market, credit, operational, liquidity, reputational, strategic and compliance risks.

Set out below is a summary of the Company's approach to each of the risk types. Climate related risks are integrated into the risk management framework through their potential impact to the seven risk types.

Market risk

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

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

Price risk

Price risk is the risk to current or projected financial condition arising from changes in the value of trading portfolios, investment securities or Treasury related funding activities. 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, equity, commodities and credit markets.

Interest rate risk

Interest rate risk is the risk to current or projected financial condition arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing 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 or investment securities (options risk).

Interest Rate Risk in the Banking Book

Interest rate in the banking book is the risk to MLI’s current or anticipated earnings or capital arising from adverse movements in interest rates. Changes in interest rates affect MLI’s earnings and capital by impacting its projection of Earnings at Risk ("EaR") and the underlying economic value of its assets, liabilities and off-balance sheet items (economic value of equity (“EVE”)). Gap risk results from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield

30. RISK MANAGEMENT (continued)

curve (parallel risk) or differentially by period (non-parallel). Basis risk arises from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. MLI does not offer retail deposits to its customers; interest rate risk in MLI’s banking book predominantly arises from funding provided by Treasury to support MLI’s trading activity and other funding activities.

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. MLI’s aggregate potential economic exposure, as well as earnings and capital sensitivity, to interest rate risk in the banking book is also assessed.

MLI has been granted permission by the PRA to use an Internal Model Approach (“IMA”) for calculating regulatory capital for market risk using the following models: VaR, Stressed VaR ("SVaR"), Incremental Risk Charge ("IRC"), and Comprehensive Risk Measure ("CRM"). The capital requirement for trading book positions that do not meet the conditions for inclusion within the approved IMA is calculated using standardised rules in accordance with Title IV of Part Three of CRR. RWA for market risk are the sum of each of these measures multiplied by 12.5.

The Firm evaluates the accuracy of its Regulatory VaR model through daily backtesting using the Actual and Hypothetical Profit and Loss measures defined in the CRR. An overshooting is said to have occurred when the one-day change in the portfolio's value exceeds the one-day VaR calculated by the model. Instances of overshooting observed during 2022 have resulted in an increase in the multiplication factor used in calculation of Market Risk capital requirement. Ongoing initiatives to enhance the Regulatory VaR model implementation are expected to improve the model performance.

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.

	Year end 2022	High 2022	Daily average 2022	Low 2022
	$M	$M	$M	$M
99% Daily VaR				
Total	**41**	**61**	**34**	**24**
Interest rate risk	**20**	**38**	**22**	**12**
Currency risk	**11**	**22**	**6**	**2**
Equity price risk	**16**	**29**	**17**	**8**
Credit spread risk	**37**	**47**	**34**	**22**
Commodity price risk	**5**	**12**	**6**	**2**

30. RISK MANAGEMENT (continued)

	Year end 2021	High 2021	Daily average 2021	Low 2021
	$M	$M	$M	$M
99% Daily VaR				
Total	27	47	30	19
Interest rate risk	18	37	19	10
Currency risk	4	14	5	2
Equity price risk	15	29	15	9
Credit spread risk	26	44	27	21
Commodity price risk	5	13	5	2

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.

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 the Company commits to, or enters into, an agreement with a borrower or counterparty. The Company defines credit exposure to a borrower or counterparty as the loss potentially arising from loans, leases, derivatives and other extensions of credit.

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

These processes create a comprehensive and consolidated view of the Company's credit risks, thus providing senior management with the information required to guide or redirect Front Line Units ("FLUs") and certain Company strategic plans, if necessary.

Regular reporting includes monitoring of credit exposure against counterparty and aggregate MLI risk appetite limits, including aggregate and single name limits by risk profile. The robust credit risk reporting framework and internal policies and procedures enable prudent risk monitoring and escalation.

Credit Concentration Risk is managed under the BAC Credit Risk Framework. This covers an array of company-wide and legal entity specific granular controls for identifying, measuring, monitoring and controlling concentration risk. Industry and country concentrations are monitored and managed as appropriate for the MLI portfolio.

Further, Stress testing in MLI covers a wide variety of scenarios to help identify exposure concentrations and the impact of potential changes in market conditions on credit exposures.

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

30. RISK MANAGEMENT (continued)

Derivatives trading

The Company enters into ISDA master agreements or their equivalent (“master netting agreements”) with its derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. 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, the Company usually requires collateral that is permitted by documentation such as repurchase agreements or 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.

Securities activities

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to counterparty default risk arising from the failure of customers or counterparties to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavourable market prices to satisfy obligations to other customers or counterparties. This potential loss arising from this replacement value is calculated as counterparty credit exposure. In addition, the Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guideline.

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 the realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

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.

30. RISK MANAGEMENT (continued)

The following table reflects 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.

	Maximum exposure to credit risk 2022	**Mitigated credit risk 2022**	Maximum exposure to credit risk 2021	Mitigated credit risk 2021
	$M	**$M**	$M	$M
Derivatives	**163,862**	**158,759**	156,498	152,508
Convertible debentures	**1,336**	**—**	2,210	—
Corporate debt and preferred stock	**6,767**	**1,443**	6,067	1,651
Mortgage-backed and asset-backed securities	**1,182**	**—**	1,088	—
Non-US governments and agencies	**9,777**	**4,402**	10,207	5,972
US governments and agencies	**11**	**11**	27	27
Commodities	**—**	**—**	17	—
Debt securities at FVOCI	**4,389**	**1,193**	4,901	2,140
Debtors	**65,121**	**53,575**	64,927	52,384
Cash at bank	**5,610**	**—**	4,552	—
Resale agreements and securities borrowed transactions	**98,929**	**94,391**	104,612	102,134
Financial guarantees	**243**	**—**	263	—
Undrawn portion of irrevocable commitments	**32**	**—**	66	—
	357,259	**313,774**	355,435	316,816

For all asset classes, where credit risk mitigation available exceeds the maximum exposure to credit risk, the mitigated credit risk balance is limited to 100% of the maximum exposure to credit risk.

As detailed in note 16 Trading Assets, trading assets include corporate debt, preferred stock, convertible debentures, government and agency securities, derivative assets, commodities, and mortgage-backed and asset- backed securities. For credit risk management purposes, inventory exposure is monitored across lines of business, and at a net issuer level. The credit risk of trading assets is mitigated through the netting of long and short positions for each issuer.

30. RISK MANAGEMENT (continued)

The mitigated credit risk amount reflects the market value of any netting available, including short positions, and the market value of any single-name credit default swap ("CDS") protection purchased on a specific issuer. As noted above, derivative trading activity is generally documented under a legally enforceable ISDA or similar master netting agreement, which binds both parties to apply close-out netting across all transactions covered by the agreement if either party defaults or if another pre-agreed termination event occurs. Therefore, risk is managed on a net basis, taking into consideration the effects of legally enforceable master netting agreements and collateral. However, if there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

Debtors include amounts due from brokers, dealers and clearing houses, intercompany loans, third party loans and other trade debtors.

The Company's off-balance sheet exposure to credit risk is principally comprised of undrawn loan commitments, securities pledged as collateral for derivative trading activities, guarantees, letters of credit and similar arrangements. Depending on the terms of the arrangement, the Company may also have recourse to additional credit risk mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults. However, the valuation of such credit mitigating measures is less certain and their financial effect has not been quantified in the analysis of mitigated credit risk.

The below tables reflect the Company's assessment of its credit exposure, based on credit rating agency ratings or the 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
	$M	$M	$M	$M	$M
As at 31 December 2022					
Derivatives	**5,665**	**149,633**	**8,100**	**464**	**163,862**
Convertible debentures	**5**	**330**	**177**	**824**	**1,336**
Corporate debt and preferred stock	**370**	**2,652**	**2,340**	**1,405**	**6,767**
Mortgage-backed and asset- backed securities	**521**	**361**	**205**	**95**	**1,182**
Non-US governments and agencies	**5,688**	**2,795**	**1,157**	**137**	**9,777**
US government and agencies	**11**	**—**	**—**	**—**	**11**
Debt securities at FVOCI	**2,688**	**1,701**	**—**	**—**	**4,389**
Financial guarantees	**—**	**243**	**—**	**—**	**243**
Undrawn portion of irrevocable commitments	**—**	**—**	**—**	**32**	**32**
	14,948	**157,715**	**11,979**	**2,957**	**187,599**

30. RISK MANAGEMENT (continued)

	AAA to AA-	A+ to BBB-	BB+ and lower	Not rated	Total
	$M	$M	$M	$M	$M
As at 31 December 2021					
Derivatives	6,227	142,960	6,739	572	156,498
Convertible debentures	22	836	447	905	2,210
Corporate debt and preferred stock	465	2,614	1,420	1,568	6,067
Mortgage-backed and asset- backed securities	351	287	297	153	1,088
Non-US governments and agencies	7,067	1,473	1,654	13	10,207
US government and agencies	27	—	—	—	27
Commodities	—	17	—	—	17
Debt securities at FVOCI	4,183	718	—	—	4,901
Financial guarantees	—	263	—	—	263
Undrawn portion of irrevocable commitments	—	—	—	66	66
	18,342	149,168	10,557	3,277	181,344

The Company’s counterparties are primarily highly rated financial institutions, and a significant proportion of credit exposures in the scope of the impairment requirements of IFRS 9 relate to securities financing transactions which are largely collateralised (refer to note 29 Offsetting for non-collateralised portion). The remaining financial assets in the scope of IFRS 9 are typically short-dated. As a result, the probability of default, loss given default, or both are such that the resulting ECL is not significant to the Company. Actual amounts written off during the year are also not significant to the Company. In light of this, no further breakdown of the Company’s debtors by credit risk rating is considered necessary.

For trade and other debtors, the Company uses past due information as a key part of its assessment as to whether credit risk has increased significantly since initial recognition. For affiliated company trade and other debtors, the Company's anticipated ECL was determined not to be material and no loss was recognised as these receivables are classified as stage 1 and based on historic assessment of write offs there is minimal risk of default.

30. RISK MANAGEMENT (continued)

The following table details third party credit exposures that are past due:

	0-30 days $M	**31-60 days $M**	**61-90 days $M**	**91-120 days $M**	**120 days+ $M**	**Total $M**
31 December 2022						
Debtors	**7**	**1**	**—**	**—**	**1**	**9**

	0-30 days $M	31-60 days $M	61-90 days $M	91-120 days $M	120 days+ $M	Total $M
31 December 2021						
Debtors	3	1	—	—	—	4

Amounts that are past due relate to trades with third parties that have failed settlement, and the amounts presented in the balance sheet relate to trade debtors whereby the Company will deliver securities or cash to the obligor upon receipt of the amounts due. Amounts past due greater than 90 days are assessed as Stage 3 (credit-impaired) for IFRS 9 purposes, with other amounts past due considered to be Stage 1. However, as there is still an expectation that settlement will take place for all balances, and that the Company has not or will not deliver on its part of the transaction prior to full settlement taking place, the ECL on these exposures is not considered to be significant.

Given the short-dated nature and collateralisation of the Company’s significant debtors, it is not considered that the Company has a significant concentration of credit risk that would be impacted by a change in economic conditions for a particular group or portfolio of financial instruments. No further analysis of concentrations of credit risk is therefore provided.

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.

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 manages it by defining risk tolerances to reduce exposure to financial loss, reputational harm or regulatory sanctions.

30. RISK MANAGEMENT (continued)

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 programme, that incorporates and documents the process for identifying, measuring, monitoring, controlling and reporting operational risk information to executive management and the appropriate boards of directors, or appropriate board-level committees. The Company manages operational risk by defining risk tolerances to reduce exposure to financial loss, reputational harm or regulatory sanctions.

Compliance and Operational Risk Management

FLUs and control functions are first and foremost responsible for managing all aspects of their businesses, including their compliance and operational risk. FLUs and control functions are required to understand their business processes and related risks and controls, including third party dependencies, 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. FLUs and control functions must also adhere to compliance and operational risk appetite limits to meet strategic, capital and financial planning objectives. Finally, FLUs and control functions are responsible for the proactive identification, management and escalation of compliance and operational risks across the Company.

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.

The MLI Liquidity Risk Policy (“LRP”) is approved by the MLI Board and defines the approach to monitoring and managing MLI’s liquidity risk, aligned to group processes and tailored to meet MLI’s business mix, strategy, activity profile, risk appetite and regulatory requirements. The MLI Risk Appetite Statement clearly defines the amount of liquidity or funding MLI is willing to put at risk, consistent with applicable regulatory requirements. The MLI MRC reviews and recommends Risk Appetite limits to the MLI BRC, which in turn reviews and recommends to the MLI Board for approval.

The MLI LRP describes the liquidity risk roles and responsibilities including requirements for liquidity risk limits, stress testing, analytics and reporting, and recovery and resolution planning.

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

The MLI Board Level Liquidity Risk Appetite is defined by the following:
- Internal Liquidity Stress Test (“ILST”) 30-Day = Pre-positioned liquidity sources divided by the net peak outflows over a 30-day combined stress period
- Internal Liquidity Stress Test (“ILST”) 90-Day = Available (pre-positioned + committed line) liquidity sources divided by the net peak outflows over a 90-day combined stress period
- Liquidity Coverage Ratio (“LCR”) = High Quality Liquid Assets divided by 30-day net stress outflows
- Net Stable Funding Ratio (“NSFR”) = Available Stable Funding divided by Required Stable Funding

The Company has put in place several metrics to monitor concentration of liquidity and funding risk to counterparties and to mitigate the funding and liquidity impact from concentration risks including roll over risks from counterparty, or currency markets. The metrics are set at different levels, ranging from management level to risk monitoring items, capturing gross and net exposures across the entire book as well as top exposures to promote a funding profile that minimises liquidity risks.

30. RISK MANAGEMENT (continued)

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 the treatment of risk and limit recalibration.

The tables below represent the undiscounted cash flows of the Company's financial liabilities as at 31 December 2022 and 31 December 2021, with the exception of those held for trading or designated at FVPL. The fair values of financial liabilities held for trading and financial liabilities designated at FVPL have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments. See note 26 Analysis Of Financial Assets And Liabilities By Measurement Basis.

	On demand or within 1 year	Due between 1 and 5 years	Due after 5 years	Total
	$M	$M	$M	$M
At 31 December 2022				
Derivatives	**162,363**	**—**	**—**	**162,363**
Equities and convertible debentures	**18,064**	**—**	**—**	**18,064**
Corporate debt and preferred stock	**1,791**	**—**	**—**	**1,791**
Non-US Governments and agencies	**6,372**	**—**	**—**	**6,372**
US Governments and agencies	**324**	**—**	**—**	**324**
Customer payables	**44,496**	**—**	**—**	**44,496**
Brokers, dealers and clearing houses	**10,332**	**—**	**—**	**10,332**
Repurchase agreements and securities loaned transactions	**74,847**	**3,114**	**—**	**77,961**
Amounts owed to affiliated companies	**6,150**	**13,264**	**7,008**	**26,422**
Other creditors and accruals	**5,823**	**—**	**—**	**5,823**
Subordinated loans from affiliated companies	**136**	**2,519**	**—**	**2,655**
Bank loans and overdrafts	**85**	**—**	**—**	**85**
Financial guarantees	**243**	**—**	**—**	**243**
Undrawn portion of irrevocable commitments	**32**	**—**	**—**	**32**
	331,058	**18,897**	**7,008**	**356,963**

30. RISK MANAGEMENT (continued)

	On demand or within 1 year $M	Due between 1 and 5 years $M	Due after 5 years $M	Total $M
At 31 December 2021				
Derivatives	161,939	—	—	161,939
Equities and convertible debentures	19,104	—	—	19,104
Corporate debt and preferred stock	2,526	—	—	2,526
Non-US Governments and agencies	10,802	—	—	10,802
US Governments and agencies	444	—	—	444
Commodities	17	—	—	17
Mortgage-backed and asset-backed securities	1	—	—	1
Customer payables	38,465	—	—	38,465
Brokers, dealers and clearing houses	5,996	—	—	5,996
Repurchase agreements and securities loaned transactions	72,471	3,493	—	75,964
Amounts owed to affiliated companies	11,163	20,620	3,233	35,016
Other creditors and accruals	5,695	—	—	5,695
Subordinated loans from affiliated companies	20	2,478	—	2,498
Bank loans and overdrafts	75	—	—	75
Financial guarantees	263	—	—	263
Undrawn portion of irrevocable commitments	66	—	—	66
	329,047	26,591	3,233	358,871

The Company has recorded all derivative financial instrument liabilities, including those positions that have been reclassified to Creditors, 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 derivative financial 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 potential risk that negative perception of BAC or the Company may adversely impact profitability or operations.

Company 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.

30. RISK MANAGEMENT (continued)

Ultimately, to ensure that reputational risk is mitigated through regular business activity, monitoring and oversight 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, MLI, aligned with BAC does not set quantitative limits for the level of acceptable risk. Through proactive risk management, MLI seeks to minimise both the frequency and impact of reputational events.

At the BAC level, reputational risk is reviewed by the Enterprise Risk Committee and the Enterprise Management Risk Committee, which provide primary oversight of reputational risk. Additionally, top reputational risks are reviewed by the GRM Leadership team and the BAC board of directors.

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee, whose mandate includes consideration of reputational risk issues (including matters related to ESG factors) 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.

The reporting of MLI reputational risk issues is captured as part of management routines for the Reputational Risk Committee. Tracking of items presented to this Committee is maintained through a reporting protocol, which provides detail such as the description of the reputational risk issue, the geographical jurisdiction, the reason for escalation and the decision reached by the Committee. In addition, the Reputational Risk Committee provides updates to the MLI BRC on a quarterly basis through a standing agenda item.

Strategic risk

Strategic risk is the risk to current or projected financial condition arising from incorrect assumptions about external and/or internal factors, inappropriate business plans (e.g. too aggressive, wrong focus, ambiguous), ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments in the geographic locations in which MLI operates (e.g., competitor actions, changing customer preferences, product obsolescence, and technology developments).

MLI faces significant strategic risks due to the changing regulatory and competitive environments in which it operates and from the fast-paced development of new products and technologies in the financial services industry. An aspect of strategic risk is the risk that the entity’s capital levels are not adequate to meet minimum regulatory requirements and support execution of business activities. Strategic risk is embedded in every aspect of the business, and the other key risk types can impact strategic risk.

Strategic risk is managed by proactively considering risk throughout the strategic planning process, setting strategies within the context of the overall risk appetite, including tracking and analysing the performance of the strategic plan throughout the year. Strategic risk is continuously monitored by the executive management team through a number of existing processes ranging from monitoring of financial and operating performance, through the evaluation of progress in achieving strategic objectives and with the regular assessment of earnings and risk profile throughout the year. The executive management team provides the 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.

MLI strategy execution and risk management involves a formal planning and approval process. The MLI 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.

30. RISK MANAGEMENT (continued)

MLI's strategic plan is reviewed and approved annually by the Board in consideration of the capital plan, financial operating plan, liquidity requirements and risk appetite. Strategic decisions relating to MLI are presented and discussed at the MLI BRC and the 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. Material risks are considered for capital and liquidity planning. Independent risk management, Internal Audit and other control functions provide input, challenge and oversight to FLUs and strategic decisions and initiatives relating to MLI.

Regular updates to the Board on business performance and management of strategic risk take into account analyses of performance relative to the strategic plan, risk appetite, the strength of capital and liquidity positions and stress tests (which address potential macroeconomic events, changing regulatory requirements and various market growth rate assumptions). This also includes an assessment of the level of inherent risk, control effectiveness, as well as the residual risk outlook.

Capital management

The Company’s objective when managing capital is to ensure that the quantity and quality of capital is adequate to support the Company’s business activities and associated risk during both an expected economic environment and under stress conditions.

A strong capital position is essential to the Company’s business strategy and competitive position. This is managed through its capital management framework, key components of the capital management framework include:

- A strategic capital planning process aligned to risk appetite
- A robust capital stress testing framework
- Regular monitoring against capital and leverage risk appetite limits
- Regular leverage and capital reporting to management

The capital management framework is 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 UK CRD V), Pillar 2 / individual capital guidance set by the PRA, relevant UK CRD V buffers, and the PRA buffer as well as an internal capital buffer.
- The risks faced by the Company, such as through regular review of the current and future business activities.
- Current and future regulations impacting the Company.

Daily, monthly and quarterly capital monitoring routines enable the Company to manage its capital adequacy position within the Company’s risk appetite limits, this is supported by the capital limit framework which sets out protocols for the effective communication and remediation of a limit breach.

30. RISK MANAGEMENT (continued)

The composition of the Company's regulatory capital as at 31 December 2022 and 31 December 2021 is as follows:

	2022	2021
	$M	$M
Common Equity Tier 1 (equity share capital and reserves)	**33,521**	33,650

Capital resources are inclusive of audited current year profits after the deduction of any dividends recommended by the directors, and other regulatory capital deductions.

The Company makes "Pillar 3" disclosures as required under the PRA Rulebook Disclosure (CRR). MLI Pillar 3 disclosures can be obtained via http://investor.bankofamerica.com.

Climate Risk

Risks may span across multiple key risk types. One example of this is climate risk. Climate risk is the risk that climate change or actions taken to mitigate climate change expose the Company to adverse impacts on its reputation, profitability or operations.

Climate-related risks are divided into two major categories:

Physical Risks: Risks related to the physical impacts of climate change, driven by extreme weather events such as hurricanes and floods, as well as chronic longer-term shifts such as rising average global temperatures and sea levels, and

Transition Risks: Risks related to the transition to a low-carbon economy, which may entail extensive policy, legal, technology and market changes.

Physical risks of climate change, such as more frequent and severe extreme weather events, can increase credit risk by diminishing borrowers' repayment capacity or collateral values, or can increase operational risk through the impact on the Company's facilities, employees, customers or vendors. Transition risks of climate change may amplify credit risks through the financial impacts of changes in policy, technology or the market on the Company or our counterparties. Unanticipated market changes can lead to sudden price adjustments and give rise to heightened market risk. Reputational risk can arise if we do not meet our climate-related commitments.

31. STRUCTURED ENTITIES AND TRANSFERS OF FINANCIAL ASSETS

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in determining who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of other contractual arrangements.

The most common type of structured entity is an SPE. The party that has power to direct the most significant activities of the entity and is exposed to the risks of the entity (together constituting control of the entity) is required to consolidate the assets and liabilities of the structured entity. The structured entities over which the Company has control are consolidated into the financial statements of the ultimate parent undertaking of the Company, BAC.

Interests in unconsolidated structured entities

The Company's interests in unconsolidated structured entities are considered as the contractual and non-contractual involvement that exposes the Company to variability of returns from the performance of the structured entity. Interests in other entities can be evidenced by, but 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.

The Company has involvement with various structured entities, originated within the BAC Group or by third parties. These typically include equity funds and credit vehicles.

Credit vehicles are typically created on behalf of customers who wish to obtain market or credit exposure to a specific company, index, commodity or financial instrument. The Company may transfer assets to and on occasion finance securities issued by these vehicles. The Company typically enters into credit, equity, interest rate, commodity or foreign currency derivatives to synthetically create or alter the investment profile of the issued securities.

As the Company does not prepare consolidated financial statements, all interests in structured entities are considered as unconsolidated in this disclosure. SPEs for which the Company also has control are listed in note 14 Subsidiary Undertakings. The Company typically has either an interest in or control over sponsored SPEs, and instances where it has neither are rare.

Where the Company’s interest in a SPE involves the transfer of an asset, these have been disclosed in the transfer of financial assets section below.

The total size of SPEs disclosed in the transfer of financial assets section below is calculated as the principal outstanding of the SPEs.

Interest rate swaps and foreign exchange derivatives that are not complex and which expose the Company to insignificant credit risk by being senior in the payment waterfall of a securitisation and derivatives that are determined to introduce risk or variability to a structured entity are not considered to be an interest in an entity and have been excluded from the disclosures below where this is the only involvement with the SPE.

The income reported on the unconsolidated SPEs is reported in net trading revenues and interest income. The SPE funding is facilitated by the issuance of notes.

31. STRUCTURED ENTITIES AND TRANSFERS OF FINANCIAL ASSETS (continued)

Short-term traded interests in unconsolidated structured entities

The Company invests in asset-backed securities issued by third party SPEs, with which it has no other form of involvement, as part of its trading activities. Examples of this are mortgage-backed securities, other asset-backed securities and similar interests. Such interests are typically held individually or as part of a larger portfolio for no more than 90 days. In such cases, the Company's maximum exposure to loss is restricted to the carrying value of the asset. These SPEs are not controlled by the Company and are not included in the tables below.

Interests in unconsolidated SPEs where the Company is not the transferor

Interests in unconsolidated SPEs where the Company is not the transferor of an asset are as follows:

	Carrying amount of financial assets	**Carrying amount of financial liabilities**	**Maximum exposure to loss**
	$M	**$M**	**$M**
31 December 2022			
Trading inventory	**109**	**(31)**	**109**
Other debtors and prepayments	**—**	**—**	**—**
	109	**(31)**	**109**

	Carrying amount of financial assets	Carrying amount of financial liabilities	Maximum exposure to loss
	$M	$M	$M
31 December 2021			
Trading inventory	148	(34)	148
Other debtors and prepayments	47	—	47
	195	(34)	195

The total amount of liabilities issued by the SPEs for the transactions in the above table is $2,186 million (2021: $2,707 million).

31. STRUCTURED ENTITIES AND TRANSFERS OF FINANCIAL ASSETS (continued)

Sponsored entities

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 SPEs continue operation and/or provides guarantees regarding the structured entity's performance.

During the year, the Company has not provided any non-contractual financial or other support to unconsolidated structured entities (2021: none).

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 SPEs. These transactions may result in the financial assets either continuing to be recognised or being derecognised. Refer to note 1.22 Derecognition Of Financial Assets And Liabilities for the accounting policy governing derecognition of financial assets.

The maximum exposure to loss, disclosed in the below tables, typically includes the carrying value of any retained interest and derivative balances held on the statement of financial position as well as the value of any undrawn liquidity facilities provided. Where there is a potential obligation for further pay-outs (such as a potential requirement to repurchase the transferred assets) this has been incorporated such that for certain trades the maximum exposure to loss has been set equal to the value of the charged assets.

a) Transferred financial assets that continue to be recognised

Where substantially all the risks and rewards of a transferred financial asset are retained the transaction is, in substance, a secured borrowing. The financial asset continues to be recognised in full and a corresponding liability is recognised in borrowings to the extent of any cash consideration received. Transactions of this nature include repurchase agreements, securities loaned/lending transactions (both cash and securities collateral) and derivative transactions including total return swaps and call options; and primarily involves trading assets including non-US government and agency securities, corporate debt and equities.

As a result of these transactions, the Company is unable to pledge, sell or use the assets for the duration of the transaction. The Company remains exposed to substantially all of the relevant market risks on these transferred assets.

Assets are transferred under repurchase and securities lending agreements with other banks and financial institutions. In substance, these transactions constitute secured borrowings and therefore the assets are not derecognised from the statement of financial position. The recipient is generally able to use, sell or pledge the transferred assets for the duration of the transaction. The Company remains exposed to interest and credit risk on these instruments which they are contractually required to repurchase at a later date. However, due to the nature of these arrangements, especially the transfer of collateral and ongoing margining, the Company has minimal exposure to the performance of the counterparty. The counterparty's recourse is generally not limited to the transferred assets.

The Company has entered into transactions under which it transfers equity securities to a counterparty, and contemporaneously enters into a total return swap over the equity securities with the same counterparty. These assets are not derecognised from inventory where it is determined that the Company has retained the risks and rewards of ownership. The carrying value and fair value of assets for these transactions as at 31 December 2022 was $552 million (2021: $982 million), with a corresponding liability recorded within creditors.

31. STRUCTURED ENTITIES AND TRANSFERS OF FINANCIAL ASSETS (continued)

The carrying value of transferred financial assets that continue to be recognised is $4 million (2021: $6 million). This trading asset relates to transfers to SPEs and the maximum exposure to loss is $4 million. The total size of the SPEs for the transactions is $19 million (2021: $13 million).

b) Continuing involvement in financial assets that have been derecognised in full

The Company has also entered into transactions where it has continuing involvement in transferred assets that have been derecognised in full. Continuing involvement typically involves derivative transactions, retained interest in notes and the provision of liquidity facilities.

The table below reflects the Company's continuing involvement in transactions where it has transferred financial assets that were derecognised in full.

	Carrying amount of continuing involvement assets $M	**Carrying amount of continuing involvement liabilities $M**	**Fair value of continuing involvement assets $M**	**Fair value of continuing involvement liabilities $M**	**Maximum exposure to loss $M**
31 December 2022					
Trading assets	**117**	**(7)**	**117**	**(7)**	**117**

	Carrying amount of continuing involvement assets $M	Carrying amount of continuing involvement liabilities $M	Fair value of continuing involvement assets $M	Fair value of continuing involvement liabilities $M	Maximum exposure to loss $M
31 December 2021					
Trading assets	66	(10)	66	(10)	66

All of the amounts in the table above relate to interests in SPEs.

The total amount of liabilities issued by the SPEs for the transactions in the above table is $9,817 million (2021: $11,034 million).

31. STRUCTURED ENTITIES AND TRANSFERS OF FINANCIAL ASSETS (continued)

The table below reflects information about profit and loss associated with the above transactions:

The decrease of $36 million in the cumulative income is mainly due to $44 million positions that have been sold or liquidated and $8 million recognised during the year.

	Income recognised in the year $M	**Cumulative income $M**
31 December 2022		
Trading assets	**8**	**64**
	8	**64**

	Income recognised in the year $M	Cumulative income $M
31 December 2021		
Trading assets	43	100
	43	100

Certain transferred assets that have been derecognised may be required to be repurchased subject to contingencies. The contractual undiscounted cash flows that may be required are set out in the table below:

	More than 5 years $M
31 December 2022	
Other debtors and prepayments	**7**
	7

	More than 5 years $M
31 December 2021	
Other debtors and prepayments	10
	10

32. 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 their valuation is 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. The model inputs are considered significant if, in the opinion of management, impact on balance sheet carrying value would be greater than 10%. Between 5% and 10% further review and exercise of professional judgement will be required.

Resale and repurchase and securities borrowed and loaned agreements

The fair value for certain resale and repurchase agreements and securities borrowed and loaned agreements is estimated using a discounted cash flow model which incorporates inputs such as interest rate yield curves. Resale and repurchase agreements and securities borrowed and loaned agreements for which are measured at fair value, are generally classified as Level 2 in the fair value hierarchy.

Trading assets and liabilities

The fair values of trading assets and liabilities are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair values of trading assets and liabilities. 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. 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 OTC 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. When third party pricing services are used, the methods and assumptions are reviewed by the Company. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available, or are unobservable, in which case, quantitative-based extrapolations of rate, price or index scenarios are used in determining fair values. The fair value of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate. For exchange-traded contracts, fair value is based on quoted market prices in active or inactive markets or is derived from observable market-based pricing parameters, similar to those applied to OTC derivatives.

In addition, the Company incorporates within its fair value measurements of OTC derivatives a valuation adjustment to reflect the credit risk associated with the net position. Positions are netted by counterparty, and the fair value for net long exposures is adjusted for counterparty credit risk whilst the fair value for net short exposures is adjusted for the Company's own credit risk. The Company also incorporates a Funding Valuation Adjustment within its fair value measurements to include funding costs on uncollateralised derivatives and derivatives where the Company is not permitted to use the collateral it receives. An estimate of severity of loss is also used in the determination of fair value, primarily based on market data.

32. FAIR VALUE DISCLOSURES (continued)

Other investments

The fair value of other investments is determined by using quantitative models that require the use of valuation techniques. As these securities are not actively traded or where quoted prices are available, the Company utilises comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies and calculates a trading multiple for each comparable company identified using other observable inputs. The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company specific facts and circumstances. Where possible, management corroborates fair value with observations of market transactions of the same underlying instruments between knowledgeable and willing parties in arm’s length transactions.

Debt securities at FVOCI

The fair value of debt securities at FVOCI are based on both actively traded markets where prices are based on direct market quotes or observed transactions, and markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.

Investments whose values are based on quoted market prices in active markets are classified within Level 1, including US government treasury bills and certain non-US sovereign obligations. The Company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices are classified within Level 2. These include certain non-US sovereign obligations. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Securities

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 ("CLOs"), whether prepayments can be reinvested. A significant increase in price would result in a significantly higher fair value for long positions, and short positions would be impacted in a directionally opposite way.

32. FAIR VALUE DISCLOSURES (continued)

The tables below present the carrying value of financial instruments held at fair value across the three levels of the fair value hierarchy at 31 December 2022 and 31 December 2021.

	Level 1	Level 2	Level 3	Total
	$M	$M	$M	$M
31 December 2022 -				
Recurring Fair Value Measurement				
Assets				
Resale agreements and securities borrowed transactions	—	51,558	6	51,564
Derivative assets	5,385	156,494	1,983	163,862
Equities and convertible debentures	20,417	10,637	61	31,115
Corporate debt and preferred stock	2	6,540	225	6,767
Mortgage-backed and asset-backed securities	—	827	355	1,182
Non-US governments and agencies	1,679	8,051	47	9,777
US government and agencies	11	—	—	11
Commodities	—	4,128	—	4,128
Other investments	—	—	96	96
Debt securities at FVOCI	2,790	1,599	—	4,389
Total assets	30,284	239,834	2,773	272,891

	Level 1	Level 2	Level 3	Total
	$M	$M	$M	$M
31 December 2022 -				
Recurring Fair Value Measurement				
Liabilities				
Repurchase agreements and securities loaned transactions	—	52,129	—	52,129
Derivative liabilities	5,601	155,539	1,223	162,363
Equities and convertible debentures	14,101	3,963	—	18,064
Corporate debt and preferred stock	1	1,786	4	1,791
Non-US governments and agencies	2,726	3,646	—	6,372
US governments and agencies	324	—	—	324
Commodities	—	—	—	—
Mortgage-backed and asset-backed securities	—	—	—	—
Other creditors	—	7,932	211	8,143
Total liabilities	22,753	224,995	1,438	249,186

Commodities are accounted for under the commodity broker - trader guidance in IAS 2 Inventories.

32. FAIR VALUE DISCLOSURES (continued)

	As restated Level 1	As restated Level 2	Level 3	Total
	$M	$M	$M	$M
31 December 2021 - Recurring Fair Value Measurement Assets				
Resale agreements and securities borrowed transactions	—	50,514	—	50,514
Derivative assets *	12,921	143,003	574	156,498
Equities and convertible debentures	22,416	14,823	76	37,315
Corporate debt and preferred stock	1	5,827	239	6,067
Mortgage-backed and asset-backed securities	—	777	311	1,088
Non-US governments and agencies	2,341	7,866	—	10,207
US government and agencies	27	—	—	27
Commodities	—	3,086	—	3,086
Other investments	—	—	101	101
Debt securities at FVOCI	2,069	2,832	—	4,901
Total assets	39,775	228,728	1,301	269,804

	As restated Level 1	As restated Level 2	Level 3	Total
	$M	$M	$M	$M
31 December 2021 - Recurring Fair Value Measurement Liabilities				
Repurchase agreements and securities loaned transactions	—	43,759	—	43,759
Derivative liabilities *	13,770	147,549	620	161,939
Equities and convertible debentures	13,661	5,443	—	19,104
Corporate debt and preferred stock	2	2,523	1	2,526
Non-US governments and agencies	5,983	4,819	—	10,802
US governments and agencies	444	—	—	444
Commodities	—	17	—	17
Mortgage-backed and asset-backed securities	—	1	—	1
Other creditors	—	9,314	471	9,785
Total liabilities	33,860	213,425	1,092	248,377

* Prior period restated - certain listed option derivative assets and liabilities were classified previously as Level 1 instead of Level 2 following a change in data mapping. Prior year balances have been restated in accordance with IFRS 13 Fair Value Measurement to ensure presentation is on a comparable basis. The restatement impacted the following categories:

Derivative assets: Level 1 classification decreased by $7,289 million and Level 2 classification increased by $7,289 million. Derivative liabilities: Level 1 classification decreased by $5,521 million and Level 2 classification increased by $5,521 million.

32. FAIR VALUE DISCLOSURES (continued)

Transfers between Level 1 and Level 2

During 2022, there were transfers of financial instruments of $12,175 million (2021: $13,014 million) from Level 1 to Level 2 and of $10,300 million (2021: $10,053 million) from Level 2 to Level 1 on assets and $10,174 million (2021: $10,186 million) from Level 1 to Level 2 and of $6,985 million (2021: $6,575 million) from Level 2 to Level 1 on liabilities.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

Fair Values of Level 3 Assets and Liabilities

The Level 3 financial instruments include corporate loans, bonds, derivatives, illiquid and unlisted equity investments.

By definition unobservable inputs relate to mark-to-model financial instruments having unobservable model inputs that have an overall significant impact on the financial instrument fair value. The model inputs are considered significant if, in the opinion of management, impact on balance sheet carrying value would be greater than 10%. Between 5% and 10% further review and exercise of professional judgement will be required. This is true whether the financial instrument is considered a cash security, securitised product or structured derivative. Classification on Level 3 is essentially 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 unobservable inputs for the purposes of estimating fair value:

- 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.

Level 3 assets as of 31 December 2022 totalled $2,773 million (2021: $1,301 million) and represented 1 percent (2021: 1 percent) of both total assets and assets measured at fair value. Level 3 liabilities as of 31 December 2022 totalled $1,438 million (2021: $1,092 million) and represented less than 1 percent (2021: 1 percent) of both total liabilities and liabilities measured at fair value. The tables on the next pages present a reconciliation of the opening and closing balances for all Level 3 assets and liabilities measured at fair value at 31 December 2022 and 31 December 2021.

Day one profit / (loss)

Day one profit deferred by the entity was $81 million (2021: $52 million). For further information see Note 22 Creditors: Amounts Falling Due Within One Year.

32. FAIR VALUE DISCLOSURES (continued)

The following table provides a summary of changes in Level 3 financial assets.

	Derivative assets	Equities and convertible debentures	Corporate debt and preferred stock	Mortgage-backed and asset-backed securities	Repo	Non US Govt	Other investments	Total
	$M	$M	$M	$M	$M	$M	$M	$M
Financial Assets								
At 1 January 2022	**574**	**76**	**239**	**311**	**—**	**—**	**101**	**1,301**
Total gains/(losses) recognised throughout the year	**1,018**	**(23)**	**23**	**(83)**	**2**	**(16)**	**(2)**	**919**
Purchases	**170**	**4**	**44**	**138**	**—**	**49**	**—**	**405**
Sales	**—**	**—**	**(55)**	**(117)**	**—**	**(5)**	**(3)**	**(180)**
Issuances	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Settlements	**124**	**(6)**	**(64)**	**(38)**	**—**	**(45)**	**—**	**(29)**
Transfers out	**(311)**	**(11)**	**(41)**	**(33)**	**—**	**(5)**	**—**	**(401)**
Transfers in	**408**	**21**	**79**	**177**	**4**	**69**	**—**	**758**
At 31 December 2022	**1,983**	**61**	**225**	**355**	**6**	**47**	**96**	**2,773**
Unrealised gains/(losses)	**1,024**	**(25)**	**22**	**(82)**	**1**	**(16)**	**(5)**	**919**

32. FAIR VALUE DISCLOSURES (continued)

The following table provides a summary of changes in Level 3 financial liabilities.

	Derivative liabilities	Corporate debt and preferred stock	Non-US governments and agencies	Other creditors	Total
	$M	$M	$M	$M	$M
Financial Liabilities					
At 1 January 2022	(620)	(1)	—	(471)	(1,092)
Total (losses)/gains recognised throughout the year	(158)	1	1	(3)	(159)
Purchases	(2)	—	—	—	(2)
Sales	(355)	1	—	(16)	(370)
Issuances	—	—	—	(2)	(2)
Settlements	114	—	—	19	133
Transfers out	297	—	—	272	569
Transfers in	(499)	(5)	(1)	(10)	(515)
At 31 December 2022	(1,223)	(4)	—	(211)	(1,438)
Unrealised gains/(losses)	131	(1)	(1)	4	133

Unrealised gains/(losses) relate to profit or loss from positions still held at year end and are included within net trading revenues. Total gains/(losses) recognised throughout the year are included within net trading revenues.

Transfers between levels of the fair value hierarchy are assessed on a quarterly basis and the policy for determining a transfer amount is consistent for transfers in and transfers out. The transfers into Level 3 from Level 2 during the year were due to a 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.

32. FAIR VALUE DISCLOSURES (continued)

The following table provides a summary of changes in Level 3 financial assets.

	Derivative assets	Equities and convertible debentures	Corporate debt and preferred stock	Mortgage - backed and asset-backed securities	Other investments	Total
	$M	$M	$M	$M	$M	$M
Financial Assets						
At 1 January 2021	539	72	223	408	103	1,345
Total gains/(losses) recognised throughout the year	1	17	16	20	(2)	52
Purchases	101	59	29	167	—	356
Sales	—	(1)	(23)	(268)	—	(292)
Issuances	—	—	—	1	—	1
Settlements	(9)	—	(34)	(36)	—	(79)
Transfers out	(187)	(74)	(33)	(111)	—	(405)
Transfers in	129	3	61	130	—	323
At 31 December 2021	574	76	239	311	101	1,301
Unrealised (losses)/gains	(19)	16	13	18	(2)	26

32. FAIR VALUE DISCLOSURES (continued)

The following table provides a summary of changes in Level 3 financial liabilities.

	Derivative liabilities	Corporate debt and preferred stock	Non-US governments and agencies	Other creditors	Total
	$M	$M	$M	$M	$M
Financial Liabilities					
At 1 January 2021	(811)	(1)	(2)	(528)	(1,342)
Total (losses)/gains recognised throughout the year	(75)	—	1	30	(44)
Sales	(123)	—	—	—	(123)
Issuances	—	—	—	(5)	(5)
Settlements	67	—	1	49	117
Transfers out	576	—	—	12	588
Transfers in	(254)	—	—	(29)	(283)
At 31 December 2021	(620)	(1)	—	(471)	(1,092)
Unrealised gains/(losses)	98	—	—	(29)	69

The following tables provide information on the valuation techniques, significant unobservable inputs and their ranges 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.

The Company uses multiple market approaches in valuing certain of its 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.

32. FAIR VALUE DISCLOSURES (continued)

31 December 2022

Product	Valuation Technique	Significant Unobservable Inputs	Unit	Input Low	Input High	Input Weighted Average	Fair Value Assets	Fair Value Liabilities
Equities and Convertible Debentures	Discounted cash-flow, market comparable	Yield	%	5	43	15	**61**	**—**
Corporate Debt and Preferred Stock		Prepayment speed	%	10	20	15	**225**	**(4)**
		Default rates	%	3	4	4		
Mortgage- backed and Asset-backed securities		Loss severities	%	35	40	38	**355**	**—**
		Price	$	0	157	75		
Non-US governments and agencies							**47**	**—**
Other creditors	Discounted cash-flow, market comparable, industry standard derivative pricing	Equity correlation	%	0	95	69	**—**	**(211)**
		Yield	%	22	43	23		
		Price	$	0	119	90		
		Natural Gas forward price	MMBtu	3	13	9		
Credit derivatives	Discounted cash-flow, stochastic recovery correlation model	Credit Spreads	Points	3	63	22	**336**	**(266)**
		Upfront points	Points	0	100	83		
		Prepayment speed	%	15	15	n/a		
		Default rates	%	2	2	n/a		
		Credit Correlation	%	18	53	44		
		Price	$	0	151	63		
Equity Derivatives	Industry standard derivative pricing	Equity correlation	%	0	100	73	**374**	**(375)**
		Long-dated volatilities	%	4	101	44		
Commodity Derivatives		Natural Gas forward price	MMBtu	3	13	8	**4**	**(3)**
		Power forward price	$	9	123	43		
Interest Rate Derivatives		Correlation (IR/IR)	%	(35)	89	67	**1,269**	**(579)**
		Correlation (FX/IR)	%	11	58	43		
		Long-dated inflation rates	%	0	39	1		
		Long-dated inflation volatilities	%	0	5	2		
		Interest rate volatilities	%	0	2	1		

32. FAIR VALUE DISCLOSURES (continued)

31 December 2021

Product	Valuation Technique	Significant Unobservable Inputs	Unit	Input Low	Input High	Input Weighted Average	Fair Value Assets	Fair Value Liabilities
Equities and Convertible Debentures	Discounted cash-flow, market comparable	Yield	%	—	19	10	**76**	**—**
Corporate Debt and Preferred Stock		Prepayment speed	%	10	20	16	**239**	**(1)**
		Default rates	%	3	4	4		
Mortgage- backed and Asset-backed securities		Loss severities	%	35	40	37	**311**	**—**
		Long-dated equity volatilities	%	45	45	45		
		Price	$	—	189	73		
Non-US governments and agencies							**—**	**—**
Other creditors	Discounted cash-flow, market comparable, industry standard derivative pricing	Equity correlation	%	3	100	80	**—**	**(471)**
		Long-dated equity volatilities	%	5	78	36		
		Yield	%	—	19	18		
		Price	$	—	125	82		
Credit derivatives	Discounted cash-flow, stochastic recovery correlation model	Credit Spreads	Points	7	155	61	**222**	**(229)**
		Upfront points	Points	16	100	68		
		Prepayment speed	%	15	15	15		
		Default rates	%	2	2	2		
		Price	%	—	120	53		
Equity Derivatives	Industry standard derivative pricing	Equity correlation	%	3	100	80	**64**	**(173)**
		Long-dated volatilities	%	5	78	36		
Commodity Derivatives		Correlation	%	65	85	76	**13**	**(16)**
		Volatilities	%	41	69	63		
Interest Rate Derivatives		Correlation (IR/IR)	%	(1)	90	54	**275**	**(202)**
		Correlation (FX/IR)	%	(1)	58	44		
		Long-dated inflation rates	%	(10)	11	3		
		Long-dated inflation volatilities	%	—	2	2		
		Interest rate volatilities	%	—	2	1		

32. FAIR VALUE DISCLOSURES (continued)

Securities

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 ("CLOs"), whether prepayments can be reinvested. A significant increase in price would result in a significantly higher fair value for long positions, and short positions would be impacted in a directionally opposite way.

Derivatives 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 and, in the case of CLOs, whether prepayments can be reinvested.

Structured credit derivatives are impacted by credit correlation. Default correlation is a parameter that describes the degree of dependence among credit default rates within a credit portfolio that underlies a credit derivative instrument. The sensitivity of this input on the fair value varies depending on the level of subordination of the tranche. For senior tranches that are net purchases of protection, a significant increase in default correlation would result in a significantly higher fair value. Net short protection positions would be impacted in a directionally opposite way.

For equity derivatives, commodity derivatives, interest rate derivatives and structured liabilities, a significant change in long-dated rates, 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. For structured liabilities, a significant increase in yield or decrease in price would result in a significantly lower fair value. A significant decrease in duration may result in a significantly higher fair value.

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the reporting 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 the year end, it could have increased fair value by as much as $1,005 million (2021: $825 million) or decreased fair value by as much as $1,285 million (2021: $1,038 million) with the potential effect impacting profit and loss rather than reserves.

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.

32. FAIR VALUE DISCLOSURES (continued)

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. See note 17 Resale Agreements And Securities Borrowed and note 21 Repurchase Agreements And Securities Loaned for further details.

The fair value of other long-term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Long-term funding made up of subordinated loans and amount owned to affiliates is classified as Level 2 and has an approximate fair value of $21,894 million (2021: $26,517 million) and carrying amount of $22,430 million (2021: $26,466 million), for more details see note 23 Creditors: Amount falling due after more than one year. Amounts owed from affiliated companies due after one year has an approximate fair value of $3,373 million (2021: $3,659 million).

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. Carrying amount of debtors was $65,121 million (2021: $64,927 million) and of creditors was $58,015 million (2021: $51,369 million).

33. SHARE BASED PAYMENTS

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Bank of America Corporation Equity Plan ("BACEP") (previously known as the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under this plan, shares of BAC's common stock are authorised to be used for grants of awards to the Company's employees.

During the year ended 31 December 2022, BAC granted restricted stock unit ("RSU") awards to certain employees of the Company under the BACEP, which will settle predominantly in shares of common stock of BAC. The four-year awards vest primarily in one-fourth increments on each of the first four anniversaries of the grant date while the three-year awards vest primarily in one-third increments on each of the first three anniversaries of the grant date, provided that the employee remains continuously employed with the Company during that time. The expense recognised is net of estimated forfeitures for non-retirement eligible employees based on the grant-date fair value of the shares. For the RSUs granted to employees who are retirement eligible, they are deemed authorised as of the beginning of the year preceding the grant date when the incentive award plans are generally approved. As a result, the estimated value is expensed ratably over the year preceding the grant date.

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

Recipients of RSU awards may receive cash payments equivalent to dividends. For awards that are not dividend-eligible, the fair value measurement of the award is decreased to reflect the expected value of the dividends that similar awards would be eligible to receive.

The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for the year ended 31 December 2022 was $111 million (2021: $421 million), including the incremental effects of the chargeback agreements with BAC.

34. INTEREST RATE BENCHMARK REFORM

After 31 December 2021, ICE Benchmark Administration ("IBA") ceased publishing British Pound Sterling ("GBP"), Euro, Swiss Franc, and Japanese Yen ("JPY") IBOR settings and one-week and two-month U.S. dollar ("USD") IBOR settings. However, certain IBOR settings that became no longer representative are being published using a modified calculation (i.e., on a “synthetic” basis). The remaining USD IBOR settings (i.e., overnight, one-month, three-month, six-month and twelve-month) will cease or become non-representative immediately after 30 June 2023.

The following table summarises the significant exposures impacted by interest rate benchmark reform as at 31 December 2022:

	USD LIBOR	CAD CDOR	PLN WIBOR	THB IBOR	Other IBOR	TOTAL
	$M	$M	$M	$M	$M	$M
Non-derivative financial assets	425	—	—	—	—	425
Non-derivative financial liabilities	7	—	—	—	—	7
Derivatives	1,620,400	188,554	73,088	21,179	9,559	1,912,780
	1,620,832	188,554	73,088	21,179	9,559	1,913,212

The table above represents indicative exposures to interest rate benchmark reform, which have yet to transition to an alternative benchmark rate. The exposure disclosed is for positions with contractual maturities after 31 December 2022. Balances are reported using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs. A majority of the aggregate notional amount of the Company's IBOR-based products maturing after 2022 include or have been updated to include fallbacks to ARRs.

The following table relates to comparatives as at 31 December 2021:

	USD LIBOR	GBP LIBOR	JPY LIBOR	THB IBOR	Other IBOR	TOTAL
	$M	$M	$M	$M	$M	$M
Non-derivative financial assets	1,368	199	26	—	93	1,686
Non-derivative financial liabilities	336	7	—	—	—	343
Derivatives	2,382,362	248,496	174,934	54,648	41,200	2,901,640
	2,384,066	248,702	174,960	54,648	41,293	2,903,669

35. 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 members of a group.

Management considers 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 9 Directors' Remuneration.

36. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent is ML UK Capital Holdings Limited ("MLUKCH"), a company incorporated in England and Wales and registered at: 2 King Edward Street, London, EC1A 1HQ. The Company's ultimate parent company and controlling party is BAC, a company 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 into which the Company's financial statements are consolidated is Bank of America Corporation (NYSE: BAC) ("BAC" or "the Corporation"). Copies of BAC’s financial statements can be obtained from either of the following website locations: http://investor.bankofamerica.com or www.sec.gov/.