Registered number: 1009248

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

COMPANY INFORMATION

DIRECTORS	M. Butler J. C. Boucher (appointed 31 October 2017) B. Elfring J. A. Gollan D. F. Guest S. A. James B. A. Mensah A. D. Schroeder P. J. P. de Weck A. S. Wilmot-Sitwell
REGISTERED NUMBER	1009248
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

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic Report on Bank of America Merrill Lynch International Limited ("BAMLI Ltd" or "the Company") for the year ended 31 December 2017.

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

BAMLI Ltd is registered as a bank in the United Kingdom ("UK") and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Company's branches are also authorised and regulated by the PRA. BAMLI Ltd's head office and its subsidiaries are domiciled in the UK and Republic of Ireland with branch operations across Europe (in Dublin, Madrid, Paris, Brussels, Amsterdam, Frankfurt, Milan and Zurich).

As at 31 December 2017, the Company was rated by Fitch (A/F1) and Standard & Poor's (A+/A-1).

These financial statements are the results of the Company and not its group. 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. The activities of the subsidiary companies are set out in note 45 to the financial statements.

FUTURE DEVELOPMENTS AND MARKET ENVIRONMENT

The UK government triggered Article 50 on 29 March 2017, which marks the start of the formal process of the UK's exit from the European Union ("EU"). Negotiations between the EU and UK regarding this exit are ongoing and consist of three phases: a withdrawal agreement, a new trade deal and an arrangement for a transition period. There has been limited progress on the agreement of the withdrawal bill which is expected to be finalised in the next 12 months. Nevertheless, a high degree of uncertainty remains on the timing and the details of a future trade agreement and transition phase. In this context, the ultimate impact of the UK's exit remains unclear and episodes of economic and market volatility may continue to occur. If uncertainty resulting from the UK's exit negatively impacts economic conditions, financial markets and consumer confidence, the Company performance, financial position and/or operational model could be adversely affected.

In order to ensure that it can continue to conduct business and service clients in the EU, BAC announced, in 2017, that Dublin is the preferred location for its principal EU legal entities following the UK's departure from the EU. In accordance with this strategy the BAMLI Ltd Board, on 12 March 2018, approved a motion to proceed with a cross border merger (subject to shareholder, regulatory and relevant court process approval) with Bank of America Merrill Lynch International Designated Activity Company ("BAMLI DAC"), which is registered and headquartered in the Republic of Ireland. BAMLI DAC, a wholly owned subsidiary of BANA, is authorised as a credit institution and regulated and supervised by the Central Bank of Ireland ("CBI"). We expect this cross border merger to complete prior to the UK's exit from the EU.

Considering the market environment in which the Company operates, the Eurozone region posted its strongest GDP growth in ten years, despite heightened political uncertainty and fragmentation. In this context, the ECB decided to taper its quantitative easing program even if domestic inflationary pressures remained historically weak. The impact of the decision for the UK to leave the EU started to materialise on the UK economy which, despite the robust global momentum, showed its weakest GDP growth in five years.

PRINCIPAL RISKS AND UNCERTAINTIES

BAMLI Ltd faces seven key risks in its daily operations; market, credit, operational, liquidity, reputational, strategic and compliance risk. The Company's risk management objectives and policies as well as exposures in relation to the seven key risk types are described in the notes to the financial statements (see note 40).

RISK GOVERNANCE

The BAMLI Ltd Board ensures appropriate risk management and controls through the BAMLI Ltd Board Risk Committee ("BAMLI Ltd BRC"), the BAMLI Ltd Audit Committee and the BAMLI Ltd Governance Committee.

The BAMLI Ltd BRC assists the BAMLI Ltd Board in fulfilling its oversight responsibility relating to senior management's responsibilities regarding the identification of, management of, and planning for Market Risk, Credit Risk, Liquidity Risk, Operational Risk and Reputational Risk.

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

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

The BAMLI Ltd Risk Management Committee ("BAMLI Ltd RMC") reports to the BAMLI Ltd BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the BAMLI Ltd BRC, the BAMLI Ltd Board or other committees, as appropriate) Market Risk, Credit Risk, Operational Risk and Balance Sheet, Capital, Liquidity Management and stress testing activities.

REVIEW OF FINANCIAL STATEMENTS AND RELATED ESTIMATES AND JUDGEMENTS

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

- Review of the financial statements for completeness and compliance with relevant accounting standards and other regulatory and legal requirements
- Reporting to the Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking in to account the views of the external auditor
- Review of any correspondence from regulators in relation to financial reporting
- Review of the going concern statement
- Review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management including those in respect of impairment of loans and advances to customers and banks and the valuation of the traded loan portfolio.

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

FINANCIAL KEY PERFORMANCE INDICATORS

The results of the Company were as follows:

The profit on ordinary activities before taxation amounted to $340 million (2016: $359 million)

The profit on ordinary activities after taxation amounted to $224 million (2016: $394 million)

Total operating income for the year amounted to $2,404 million (2016: $2,238 million)

Return on assets was 0.52% (2016: 1.02%) and return on equity was 2.63% (2016: 4.75%)

Total assets at 31 December 2017 are $43,351 million (2016: $38,629 million)

Net assets at 31 December 2017 are $8,525 million (2016: $8,294 million)

BUSINESS REVIEW

The Company has increased its finance and banking revenues in the current financial year (see note 3) as well as generating growth in its core lending and deposit taking activities. In addition to financing activities, BAMLI Ltd generates revenue through providing support service functions to BAC group affiliates. Costs of these shared services are recharged to group entities under arm's length principles reflecting the economic contribution of the affiliate by way of service fees (including mark-up) determined in accordance with BAC's arms-length global transfer pricing policy.

Divisional Performance

Results are derived from the Company's core Global Banking and Markets activities and its Support Services activities which represent reportable segments as disclosed in note 3.

The Global Banking and Markets segment contributed $1,223 million (2016: $1,019 million) in terms of total operating income driven primarily by increased corporate and asset backed lending activities.

The Support Services segment contributed $1,181 million (2016: $1,219 million) to total operating income.

Summary Income Statement

	2017 $M	2016 $M	Change $M
Net interest, fee and commission income	764	652	112
Dealing profits and fair value income	203	271	(68)
Other operating income	1,485	1,370	115
Impairment charge for credit losses	(48)	(55)	7
Total operating income	2,404	2,238	166
Administrative expenses	(1,635)	(1,434)	(201)
Depreciation and other operating expense	(429)	(416)	(13)
Impairment in investments in group undertakings	-	(29)	29
Profit before taxation	340	359	(19)

Net interest, fee and commission income

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

Dealing profits and fair value income

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

Other operating income

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

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

Impairment charge for credit losses

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

Administrative expenses

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

Depreciation and other operating expenses

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

Impairment in investments in group undertakings

Following an impairment review in 2016, the Company recorded an impairment in its investment in Merrill Lynch (Camberley) Limited. A review at 31 December 2017 confirmed no additional impairment was required against the Company's investment in the subsidiary.

Taxation

The Company's effective tax rate for the year is 34.12% (2016: negative 9.7%) driven mainly by the current year charge and prior year adjustments relating to group relief. The factors affecting the tax charge for the year are detailed in note 15.

Capital

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

BAMLI Ltd's capital resources increased year on year through issuing $1,000 million subordinated debt to an affiliated company on 22 March 2017 (see note 32) and the addition of current year total comprehensive income ($233 million).

Total eligible regulatory capital increased from $9,260 million as at 31 December 2016 to $10,490 million as at 31 December 2017, which consisted of $8,490 million Tier 1 capital (2016: $8,260 million) and $2,000 million Tier 2 capital (2016: $1,000 million).

Liquidity

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

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

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: $nil).

SUBSEQUENT EVENTS

On 12 March 2018, the BAMLI Ltd Board approved a motion to proceed with the proposed cross border merger with BAMLI DAC subject to shareholder, regulatory and relevant court process approval.

NON FINANCIAL REVIEW

Overview of Company and Policies

As detailed earlier in this report, BAMLI Ltd's business model creates value for its stakeholders by providing banking and financing services to customers across EMEA. These operations expose the Company to a number of risks, including those of an environmental or social nature. BAC has established an Environmental and Social Risk Policy Framework (the "ESRP Framework") which forms the basis of how environmental and social risks facing BAC and its subsidiaries (including BAMLI Ltd) are identified, measured, monitored and controlled. The ESRP Framework applies to all BAC employees as part of their wider responsibilities for managing risk (see note 40 for further detail on the Company's approach to risk management) under the BAC risk governance framework. Environmental and social issues can cross many of the seven key risk types faced by the Company.

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

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

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

Environmental matters

The Company complies with and reports to the Environment Agency on the Energy Savings Opportunity Scheme ("ESOS"), the Carbon Reduction Commitment Scheme ("CRC") and the European Union Emissions Trading Scheme ("EU ETS"), and operates towards overall BAC operational goals including becoming carbon-neutral and purchasing 100% renewable electricity by 2020 (including purchasing carbon credits where renewable energy is not available).

As part of its climate financing efforts, BAC established a global environmental business commitment to direct $125 billion in financing for low-carbon and sustainable business by 2025. As at the end of 2016, BAC has delivered $48.9 billion globally towards this goal. In EMEA BAC entities, including BAMLI Ltd, delivered $9.1 billion towards these efforts.

Employee matters

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

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

- Diversity and inclusion - The Company is committed to creating an inclusive workplace where everyone has the same opportunities regardless of their gender, gender identity, gender expression, marital status, race, colour, nationality ethnic or national origins, age, religion, sexual orientation, responsibility for dependants or physical or mental disability. This is reflected in its Human Resources policies, guidelines and procedures. The Company also has nine employee networks which provide development and networking opportunities for the diverse employee population. BAMLI Ltd 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 programs in BAMLI Ltd to support this outcome, including a development program for all female Vice Presidents.

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

- Compensation and benefits - The Compensation and Benefits team support the financial management, communication and administration of BAC enterprise-wide incentive plans. All activities are underpinned by policies with training, monitoring and evaluation processes in place to ensure that roles are fulfilled in an effective and consistent manner and in compliance with all applicable regulatory and legal requirements.

The cornerstone of BAC's compensation philosophy across all FLUs is to pay for performance – overall BAC, FLU and individual performance. Through BACs performance management process, employees understand performance expectations for their role through on-going dialogue with their manager. 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 compensation award with no single factor having specific weighting.

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

Social matters

Respect for Human Rights:

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

Community Engagement:

The Company offers its employees an array of opportunities to share their skills and to volunteer with charities. During 2017 in EMEA, the BAC Foundation supported 56 charities and social enterprises. 2,909 employees shared their time and skills with community organisations. In EMEA, BAC's focus is to build pathways to economic mobility by supporting initiatives that help young people transition from education into sustained employment.

Vendor Management:

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

Global Compliance, Anti-Bribery, Anti-Corruption and Financial Crime

The Company's overall approach to managing risk, including compliance risk, is detailed in note 40. As part of this, the Global Compliance teams work in partnership to offer continuous challenge and oversight in order to minimise the risk of legal or regulatory sanctions, material financial loss or reputational damage, including but not limited to, the risks associated with bribery and corruption, economic sanctions, money laundering, terrorist and criminal financing, and internal and external fraud.

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

Outcomes and Non-Financial Key Performance Indicators ("KPIs")

As the Company adopts BAC's global approach to ESG issues, related non-financial KPIs are typically measured on a regional or global basis as such specific metrics are considered to be less relevant to reporting at the BAMLI Ltd level. Further information on BAC reporting of ESG performance, of which BAMLI Ltd is a part, can be obtained at https://about.bankofamerica.com/assets/pdf/Bank-of-America-2016-ESG-Performance-Data-Summary.pdf

This report was approved by the Board on 28 March 2018 and signed on its behalf.

A. S. Wilmot-Sitwell
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ELECTRONIC DISTRIBUTION

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

MATTERS COVERED IN THE STRATEGIC REPORT

Details regarding a review of the business, including future developments, principal risks and uncertainties, dividends, subsequent events, employee involvement and disabled employees are provided in the Strategic Report on pages 1 to 9.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS

The directors who served during the year were:

J. A. Boussuge (resigned 7 June 2017)
M. Butler
J. C. Boucher (appointed 31 October 2017)
B. Elfring
J. A. Gollan
D. F. Guest
S. A. James
B. A. Mensah
A. D. Schroeder
J. M. Taylor (resigned 12 April 2017)
P. J. P. de Weck
A. S. Wilmot-Sitwell

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 is currently in force.

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This report was approved by the Board on 28 March 2018 and signed on its behalf.

M. Butler
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Bank of America Merrill Lynch International Limited's financial statements ("the financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 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, comprising 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 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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 public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

Our Audit Approach

Overview

- Overall materiality: $102.6 million (2016: $88 million), based on 1% of regulatory capital resources

Audit scope

- We planned and scoped our audit for 2017 reflecting the inter-dependences in the operating environment that exist between the UK and the US.
- Audit procedures were performed over all account balances and disclosures which are considered material and/or represent a risk of material misstatement to the financial statements.

Key audit matters

- Impairment of loans and advances to customers and banks.
- Valuation of traded loan portfolio.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to the Companies Act 2006, the Financial Conduct Authority and the Prudential Regulation Authority's regulations and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers and banks Impairment allowances represent management's best estimate of the losses incurred within the loan portfolio at the balance sheet date. These are inherently judgmental for any bank and therefore represent a key audit matter. The impairment assessment utilises asset quality indicators including counterparty credit risk ratings which are assessed at inception and monitored through the life of each loan as part of management's regular control operation. This information is used to monitor both individual loan positions and portfolio trends that may indicate issues in particular sectors, such as oil and gas, geographies or portfolios. Impairment allowances are calculated using BAC group-wide models which approximate the impact of current economic and credit conditions on large portfolios of loans; the inputs to these models are based on historical loss experience with judgement applied to determine the assumptions to calculate impairment. Model overlays are applied where data driven parameters or calculations are not considered representative of current risks or conditions in the BAMLI portfolio and where model imprecision is identified. Further detail is found in Notes 10, 16 and 17 and in accounting policy 1.22.	Management has established a framework of controls to support their credit under-writing and risk monitoring, and the calculation of collective and specific impairment. Our approach was to test key controls supporting the credit risk rating assessment at loan origination and throughout the life of the loan, including approval processes, controls governing the calculation and final determination of the collective impairment amount, and controls which identify non-performing loans based on delinquency status. Our US team tested the impairment model validation procedures and the approval process for model parameter updates. They have performed completeness testing over the total value of loans considered for impairment testing, assessed the appropriateness of the risk rating, tested controls over the accuracy/ data information captured within the credit appraisal scorecard, verified inputs into the allowance for credit losses calculation process and accuracy of overall reserve balance. They have performed testing over the imprecision reserve as well as the judgemental imprecision reserve by assessing management's methodology for analysing risks and exposure associated with individual factors, assessing the completeness of and accuracy of data used in the analyses, recalculating management's figures and assessing the sensitivity of the resulting reserves based on changes in management's assumptions and inputs. Our substantive testing included testing over the application of the Group-wide impairment model to the Commercial loan book and specific exposures. We obtained management information supporting the risk characteristic across the portfolio, including geography, size of exposure, industry sector and credit rating and used this to target test a sample of exposures based on specific risk factors which included higher risk industries and specific country risks. We met with Credit Risk officers as part of this assessment to discuss the exposure and to assess the evidence provided to support the assigned risk rating. We also performed substantive testing on the accuracy of the inputs and calculations for the loan impairment provisions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

Key audit matter	How our audit addressed the key audit matter
Valuation of traded loan portfolio The Company trades a portfolio of loans which are acquired and then held at fair value until disposal with the intention of making trading gains at such time. We focused on this area as within the portfolio there are loans which by their nature are less liquid or which may show signs of distress. These are inherently more complex to value as there is often limited external market information available. Modelling techniques may be used such as discounted cash flow models or option pricing models and these incorporate both observable and unobservable inputs, such as security prices and interest yield curves. These estimation techniques are necessarily subjective in nature and involve several assumptions and are therefore an area of focus for our audit. Some of these instruments are valued using a net asset approach, which considers the value of the underlying assets and liabilities. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial statements and changes in credit ratings made by one or more rating agencies. Where an active trading market exists prices are based on either direct market quotes or observed transactions. In certain situations, no proxy or comparables are available to value the loan and therefore, an analytical review of the position is performed. This valuation method can include DCF, EBITDA multipliers and recovery valuations depending on the nature of the position. Further information can be found in Note 41, and in the accounting policy disclosures.	Management operate independent price verification ("IPV") controls which test the prices marked by the front office on a monthly basis. The operation of this control either includes performing direct price testing to external market price sources or performing analytical review assessments. We performed testing of this control across a sample of positions held. For directly price tested positions we agreed external marks used to independent third party or pricing vendor quotes obtained from management. For the analytically reviewed positions we obtained and inspected the assessments, obtained the evidence used by management for the inputs and assumptions, tracing these to external supporting documents where available. We re-performed, on a test basis, the IPV calculation to check mathematical accuracy and assessed whether the valuation has been calculated in accordance with the BAC policy. We tested the completeness of the trade populations that are subject to IPV testing procedures and used management reporting information to identify the untested positions from each line of business; where these existed we further understood the nature of the positions and the reason leading to their partial or untested nature and the impact on our overall conclusion. In addition, we performed the following substantive procedures: • We tested directly price tested positions to external pricing sources such as Reuters or Markit. • For a sample of analytically reviewed and indirectly price tested positions, our valuation experts valued the positions using independent models with independently sourced inputs. • For an additional sample of positions, we tested the significant inputs and key assumptions in management's Analytical Review assessments by agreeing them to relevant and reliable external sources. • Finally we tested individually significant gains from new, exercised, novated or terminated trade positions booked to BAMLI.

How we tailored the audit scope

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

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

The nature, timing and extent of the work impacting the audit opinion is set and monitored in the UK. Where work was performed by component auditors from our US network firm, our involvement in that work included visits to the component auditors including New York and North Carolina by senior members of the UK engagement team, review of the results of their audit procedures including the nature, timing and extent of the work impacting our audit opinion and frequent communications by the UK engagement team to corroborate that our audit plan was appropriately executed.

Materiality

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

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

Overall materiality	$102.6 million (2016: $88 million)
How we determined it	1% of Regulatory Capital Resources
Rationale for benchmark applied	The use of capital resources is appropriate as it reflects the key area of focus of management and users of the financial statements who are focused on the level of capital resources as a regulated bank entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $10 million (2016: $8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

REPORTING ON OTHER INFORMATION

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

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 2017 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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.

Auditor's 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.

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 received 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 22 June 1999 to audit the financial statements for the year ended 31 December 1999 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 31 December 1999 to 31 December 2017.

Heather Varley (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

28 March 2018

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 $M	2016 $M
Interest income		**730**	576
Interest expense		**(208)**	(129)
NET INTEREST INCOME	4	**522**	447
Fee and commission income	5	**251**	212
Fee and commission expense		**(9)**	(7)
NET FEE AND COMMISSION INCOME		**242**	205
Dealing profits	6	**169**	162
Net income from financial instruments designated at fair value		**34**	109
Other operating income	7	**1,485**	1,370
Other operating expenses	8	**(372)**	(352)
Administrative expenses	9	**(1,635)**	(1,434)
Depreciation and amortisation		**(57)**	(64)
Impairment charge for credit losses	10	**(48)**	(55)
Impairment in investments in group undertakings		**-**	(29)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**340**	359
Taxation on profit on ordinary activities	15	**(116)**	35
PROFIT FOR THE FINANCIAL YEAR		**224**	394

The notes on pages 26 to 93 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 $M	2016 $M
Profit for the financial year		**224**	394
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain on defined benefit schemes	33	**5**	12
Movement of deferred tax relating to retirement benefit obligation	15	**-**	(3)
		5	9
Items that may be reclassified to profit or loss:			
Currency translation differences		**3**	(1)
Gain on valuation of available-for-sale financial assets	22	**1**	3
Movement of deferred tax relating to available-for-sale financial assets	15	**-**	(1)
		4	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**233**	404

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
REGISTERED NUMBER:1009248

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 $M	2016 $M
ASSETS			
Market and client receivables		**64**	133
Cash held at central banks		**3,945**	1,210
Loans and advances to banks	16	**5,635**	8,063
Loans and advances to customers	17	**24,179**	20,614
Reverse repurchase agreements	19	**6,000**	2,200
Trading assets	20	**2,746**	4,969
Derivative financial instruments		**2**	5
Financial assets designated at fair value	21	**27**	267
Available for sale securities	22	**27**	26
Investments in group undertakings	23	**180**	206
Property, plant and equipment	25	**174**	176
Other assets	26	**274**	674
Prepayments and accrued income	27	**98**	86
TOTAL ASSETS		**43,351**	38,629
LIABILITIES			
Market and client payables		**2**	10
Deposits by banks	28	**17,249**	20,195
Deposits by customers	29	**14,652**	7,991
Derivative financial instruments		**68**	120
Financial liabilities designated at fair value		**21**	40
Other liabilities	30	**527**	720
Accruals and deferred income	31	**256**	207
Subordinated liabilities	32	**2,000**	1,000
Retirement benefit obligations	33	**51**	52
TOTAL LIABILITIES		**34,826**	30,335

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2017

	Note	2017 $M	2016 $M
CAPITAL AND RESERVES			
Called up share capital	34	**890**	890
Share premium account		**721**	721
Available for sale reserve	35	**7**	6
Foreign exchange reserve	35	**(7)**	(10)
Capital contribution reserve	35	**5,600**	5,600
Merger reserve	35	**5**	5
Profit and loss account		**1,309**	1,082
TOTAL EQUITY		**8,525**	8,294

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 28 March 2018.

M. Butler
Director
The notes on pages 26 to 93 form part of these financial statements.

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

	Called up share capital	Share premium account	Available for sale reserve	Foreign exchange reserve	Capital contribution reserve	Merger reserve	Profit and loss account	Total equity
	$M	$M	$M	$M	$M	$M	$M	$M
At 1 January 2017	890	721	6	(10)	5,600	5	1,082	8,294
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	-	-	224	224
Currency translation differences	-	-	-	3	-	-	-	3
Actuarial gains on retirement benefit obligation (net of deferred tax)	-	-	-	-	-	-	5	5
Revaluation gains taken to reserves (net of deferred tax)	-	-	1	-	-	-	-	1
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	1	3	-	-	5	9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	1	3	-	-	229	233
Group share based payments cost not recharged	-	-	-	-	-	-	(2)	(2)
TOTAL TRANSACTIONS WITH OWNERS	-	-	-	-	-	-	(2)	(2)
AT 31 DECEMBER 2017	890	721	7	(7)	5,600	5	1,309	8,525

The notes on pages 26 to 93 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Share premium account	Available for sale reserve	Foreign exchange reserve	Capital contribution reserve	Merger reserve	Profit and loss account	Total equity
	$M	$M	$M	$M	$M	$M	$M	$M
At 1 January 2016	890	721	4	(9)	4,600	5	678	6,889
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	-	-	394	394
Currency translation differences	-	-	-	(1)	-	-	-	(1)
Actuarial gains on retirement benefit obligation (net of deferred tax)	-	-	-	-	-	-	9	9
Revaluation gains taken to reserves (net of deferred tax)	-	-	2	-	-	-	-	2
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	2	(1)	-	-	9	10
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	2	(1)	-	-	403	404
Group share based payment costs	-	-	-	-	-	-	1	1
Capital Contribution	-	-	-	-	1,000	-	-	1,000
TOTAL TRANSACTIONS WITH OWNERS	-	-	-	-	1,000	-	1	1,001
AT 31 DECEMBER 2016	890	721	6	(10)	5,600	5	1,082	8,294

The notes on pages 26 to 93 form part of these financial statements.

1. ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently throughout the current and prior year, 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, Financial Reporting Standard 100 ("FRS 100") - Application of Financial Reporting Requirements and Financial Reporting Standard 101 ("FRS 101") - Reduced Disclosure Framework.

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

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

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

1.2 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

(a) New standards, amendments and interpretations

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2017 that have had a material impact on the Company.

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

The Company applies the disclosure exemption under FRS 101 from the requirements of paragraphs 30 and 31 of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. To provide additional information for the users of the financial statements, the Company has provided the below information regarding IFRS 9 - Financial Instruments ("IFRS 9") and IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which are effective for accounting periods beginning on or after 1 January 2018. The Company has adopted IFRS 9 and IFRS 15 from 1 January 2018.

Below, we have set out a summary of the expected impacts of the new standards, based on information currently available.

1. ACCOUNTING POLICIES (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 - Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no recycling of gains and losses to the income statement.

A global project team was established for the implementation of IFRS 9, including senior management from the FLUs, Risk, Finance and other functions as necessary to review the impact of the changes and revise accounting processes and internal controls.

Under the new classification and measurement requirements, the majority of the Company's financial assets and liabilities will continue to be measured on the same bases as currently adopted under IAS 39. On adoption of the new standard, and following review of the business model for each portfolio of financial assets, loans totalling approximately $1,184 million will change measurement basis from amortised cost to fair value as they are held within a business model whose objective is to maximise the cash flows through sale, and securities totalling approximately $1,508 million held to meet everyday and regulatory liquidity requirements will change measurement basis from FVPL to FVOCI as they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Overall these changes will not result in a material adjustment to equity as at the date of adoption of IFRS 9.

IFRS 9 implements an expected credit loss model that replaces the incurred loss impairment model used in IAS 39. Expected credit losses are recorded on a 12-month or lifetime basis depending on whether there has been a significant increase in the credit risk of the financial instrument. The Company will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of expected credit losses using a variety of economic scenarios aligned to those used for other purposes such as strategic planning and budgeting. The Company is expecting, the total allowance recorded on adoption of IFRS 9 to be in the range of $125 million to $175 million compared to $271 million recorded under existing accounting standards at 31 December 2017. The resulting impact to equity is expected to be partially offset by the effect of taxation at the applicable rate for the Company.

For liabilities designated at fair value through profit or loss, IFRS 9 requires the recognition of changes in own credit risk in other comprehensive income. Classification and measurement of financial liabilities are otherwise unchanged.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard does not impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the new standard. The Company's presentation of certain costs, which are primarily related to underwriting activities, will be presented as operating expenses under the new standard rather than presented net in investment banking fee income. The new accounting standard does not have a material impact on the Company's income statement or statement of financial position.

1. ACCOUNTING POLICIES (continued)

1.3 INCORPORATION AND DOMICILE INFORMATION

The Company is a private limited company and is incorporated and domiciled in the United Kingdom, with branches operating in Dublin, Paris, Madrid, Amsterdam, Brussels, Frankfurt, Zurich and Milan.

1.4 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

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

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

1.5 GOING CONCERN

The directors have a reasonable expectation, based on current and anticipated future performance that the company can continue in operational existence for the foreseeable future. The financial statements have, therefore, been prepared on a going concern basis. As mentioned in the strategic report the company intends to merge with another BAC group company (BAMLI DAC).

1. ACCOUNTING POLICIES (continued)

1.6 BASIS OF CONSOLIDATION

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 SEGMENTAL ANALYSIS

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

1.8 FOREIGN CURRENCIES

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

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the income statement, other than monetary securities classified as available for sale.

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

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

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

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

1. ACCOUNTING POLICIES (continued)

1.9 SERVICE FEE INCOME

Charges made to affiliated companies to remunerate the Company for services provided or to reimburse the Company for expenditure incurred, are recognised on an accruals basis and recorded within other operating income.

1.10 INTEREST INCOME AND EXPENSE

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

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

When calculating the effective interest rate the Company estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

1.11 FEES AND COMMISSIONS

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

Loan syndication fees are recognised as revenue when syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Investment banking fees are accrued when services for the transactions are substantially completed.

1.12 DEALING PROFITS

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

1. ACCOUNTING POLICIES (continued)

1.13 OPERATING LEASES

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

1.14 FINANCE LEASES

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

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

Finance leases are included within loans and advances to customers.

1.15 CURRENT AND DEFERRED TAXATION

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

Current tax, including 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 profit will be available against which the temporary differences can be utilised.

1. ACCOUNTING POLICIES (continued)

1.16 RETIREMENT BENEFIT SCHEMES

The Company operates defined contribution plans which receive contributions calculated as a percentage of each employee's plan salary based on their length of service. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

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

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

1.17 INVESTMENTS IN GROUP UNDERTAKINGS

Investments in subsidiaries are shown at cost less provisions for impairment.

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

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

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.

1. ACCOUNTING POLICIES (continued)

1.18 MERGERS UNDER COMMON CONTROL

The Company applies predecessor accounting to business combinations between entities under common control, as these transaction fall outside of the scope of IFRS 3 – Business Combinations. Accordingly, the Company recognises the assets acquired and liabilities assumed of the absorbed entity at their book value as at the date of the merger. Any difference between the fair value of the net assets acquired and the book values recognised is recorded as a merger reserve within equity.

1.19 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. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables and available for sale. Management determines the classification of financial assets at initial recognition.

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

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

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

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

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

(b) Available for sale financial assets

Available for sale financial assets are those intended to be held for an undefined period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are non-derivative financial assets which are initially recognised at fair value including direct and incremental transaction costs. Interest calculated using the

1. ACCOUNTING POLICIES (continued)

effective interest method is recognised in the income statement on an accruals basis. Gains or losses arising from changes in the fair value of available for sale financial assets are recognised in a separate component of reserves, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement.

Exchange gains and losses on available for sale financial assets are recognised in accordance with note 1.8.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss or available for sale.

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

1.20 SECURITIES FINANCING TRANSACTIONS

Securities acquired in reverse sale and repurchase transactions are reported as collateralised financings and are recorded at their contractual amount plus accrued interest. The Company measures the fair value of securities purchased against the collateral on a daily basis and additional collateral is obtained or excess is returned to ensure that such transactions are appropriately collateralised.

1.21 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

1. ACCOUNTING POLICIES (continued)

1.22 IMPAIRMENT OF FINANCIAL ASSETS HELD AT AMORTISED COST AND AVAILABLE FOR SALE ASSETS

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

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

In the case of investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement upon recovery. If, in a subsequent period, the fair value of a non-equity instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

1.23 DERECOGNITION OF FINANCIAL ASSETS

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers substantially all the risks and rewards of ownership of the asset to another entity. 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 proceeds received.

1. ACCOUNTING POLICIES (continued)

1.24 FINANCIAL LIABILITIES

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

1.25 OFFSETTING

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

1.26 SHARE BASED PAYMENTS

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

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

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

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

1. ACCOUNTING POLICIES (continued)

1.27 TRADE AND SETTLEMENT DATED TRANSACTIONS

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

1.28 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 line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.
Any increase in the liability relating to guarantees is recognised in the income statement under other operating expenses.

The Company records a provision for probable losses related to unfunded lending commitments such as letters of credit, financial guarantees, unfunded bankers' acceptances and binding loan commitments in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, dislosed within other liabilities.

Loan commitments that the Company designates as financial liabilities at fair value through profit or loss are recognised as disclosed in note 1.24.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of loans and timing of loss recognition

The Company's accounting policy for losses in relation to the impairment of loans and advances to customers and banks is described in note 1.22. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience and experience of losses that have been incurred but not yet identified for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. Notes 16 and 17 detail the movement in the impairment provision for the year.

(b) Valuation of financial instruments

The Company's accounting policy for valuation of financial instruments is included in notes 1.19 and 1.24. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs.

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions. Note 41 further discusses the valuation of financial instruments.

3. SEGMENTAL ANALYSIS

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

	Global Banking and Markets $M	**Support Services $M**	**Total $M**
2017			
Net interest income	**522**	**-**	**522**
Net fee and commission income	**242**	**-**	**242**
Dealing profits	**169**	**-**	**169**
Net income from financial instruments designated at fair value	**34**	**-**	**34**
Other operating income	**304**	**1,181**	**1,485**
Impairment charge for credit losses	**(48)**	**-**	**(48)**
Total operating income	**1,223**	**1,181**	**2,404**
Total expenses	**(973)**	**(1,091)**	**(2,064)**
Profit before taxation	**250**	**90**	**340**

	Global Banking and Markets $M	Support Services $M	Total $M
2016			
Net interest income	447	-	447
Net fee and commission income	205	-	205
Dealing profits	162	-	162
Net income from financial instruments designated at fair value	109	-	109
Other operating income	151	1,219	1,370
Impairment charge for credit losses	(55)	-	(55)
Total operating income	1,019	1,219	2,238
Total expenses	(709)	(1,170)	(1,879)
Profit before taxation	310	49	359

In 2016 impairment charges of $29 million relating to the Company's investment in Merrill Lynch (Camberley) Limited were included within the total expenses of the Support Services segment.

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

4. NET INTEREST INCOME

	2017 $M	2016 $M
Interest income and similar income		
Money market	**33**	10
Loans and advances to customers and banks	**672**	559
Other	**25**	7
	730	576
Interest expense and similar charges		
Money market	**(14)**	(5)
Deposits from customers and banks	**(182)**	(123)
Other	**(12)**	(1)
	(208)	(129)
Net interest income	**522**	447
Amounts above include:		
Net interest expense from affiliated companies	**(101)**	(105)

5. FEE AND COMMISSION INCOME

	2017 $M	2016 $M
Investment banking fees	**136**	105
Commission and other fees	**115**	107
	251	212

6. DEALING PROFITS

	2017 $M	2016 $M
Gains on trading assets	**188**	101
Foreign exchange (loss)/gain	**(19)**	61
	169	162

7. OTHER OPERATING INCOME

	2017 $M	2016 $M
Service fee income	**1,399**	1,331
Other	**86**	39
	1,485	1,370

8. OTHER OPERATING EXPENSES

	2017 $M	2016 $M
Service fee expense	**359**	262
Other	**13**	90
	372	352

9. ADMINISTRATIVE EXPENSES

	2017 $M	2016 $M
Staff costs (see note 12)	**1,203**	1,059
Operating lease rentals: Land and buildings	**57**	58
Other administrative expenses	**375**	318
	1,635	1,435

For contractual commitments in relation to operating leases that rest with the Company, see note 36.

10. IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2017 $M	2016 $M
Loans and advances to banks (see note 16)	**(6)**	8
Loans and advances to customers (see note 17)	**54**	47
	48	55

11. AUDITORS' REMUNERATION

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

	2017 $'000	2016 $'000
Fees for the audit of the Company	**910**	834
Fees for the audit of the Company's branches	**293**	176
Fees for audit related assurance services	**589**	394
	1,792	1,404

Included within fees for audit related assurance services are client asset audit fees which amount to $30,000 (2016: $27,000), fees relating to Country by Country Reporting of $13,000 (2016: $12,000) and other audit related fees of $546,000 (2016: $355,000).

12. STAFF COSTS

Staff costs were as follows:

	2017 $M	2016 $M
Wages and salaries	**1,038**	897
Social security costs	**109**	98
Cost of defined benefit and contribution pension schemes	**56**	64
	1,203	1,059

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

In accordance with the Capital Requirements Regulation (EU) No 575/2013 ("CRR") the Company's disclosure in respect of remuneration under CRR article 450 (consolidated along with all other BAC entities operating in the UK) will be posted at http://investor.bankofamerica.com in conjunction with the publication of these financial statements.

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

	2017 No.	2016 No.
Support, operations and technology	**6,146**	5,686
Trading, sales and advisory	**351**	293
	6,497	5,979

13. DIRECTORS' REMUNERATION

Of the directors that served during the year, 12 (2016: 12) were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company based on an estimated time allocation basis. Emoluments in relation to services performed for other group companies are not disclosed in the Company's financial statements.

	2017	2016
	$	$
Remuneration paid to directors of the company comprises:		
Emoluments	**7,696,564**	7,946,569
Pension contributions	**31,306**	71,232

	2017	2016
	$	$
Remuneration paid to directors includes amounts paid to the highest paid director as follows:		
Emoluments	**2,905,269**	2,774,298
Pension contributions	**573**	606

These amounts are the portion of emoluments and pension contributions attributable for services to BAMLI Ltd, and include payments made by other BAC group companies.

Retirement benefits are accruing to seven directors (2016: seven), including the highest paid director under a predominantly defined contribution pension scheme operated by BANA (see note 33) and are accruing to two directors (2016: two) under a hybrid defined benefit and contribution scheme operated by the Bank of America Merrill Lynch Pension Plan.

In 2017 no directors (2016: nil) exercised options over the $1 ordinary shares of BAC awarded to them during the period of their directorship.

Seven directors, received or were due to receive shares under a long term incentive scheme (2016: seven).

The highest paid director did not exercise share options in the current and preceding year. During the current and preceding year the highest paid director received shares under a long-term incentive scheme.

14. SHARE BASED PAYMENTS

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

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

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

The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for the period to 31 December 2017 was $119 million (2016: $85 million).

Restricted stock units

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

In 2017 the RSUs are authorised to settle predominantly in shares of common stock of BAC which generally vest in three equal annual instalments beginning one year from the grant date. Awards granted in prior years were predominantly cash settled.

Recipients of RSU awards may receive cash payments equivalent to dividends.

Other stock plans

At 31 December 2017, non-qualified stock options remain outstanding under the legacy Merrill Lynch Long-Term Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan.

No options were exercised during the current or preceding year.

All options outstanding as of 31 December 2017 were vested and exercisable with a weighted-average remaining contractual term of 0.10 years (2016: 0.61 years), and have no aggregate intrinsic value.

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

15. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2017 $M	2016 $M
Corporation tax		
Current tax on profits for the year	**67**	5
Adjustments in respect of previous periods	**9**	-
Bank surcharge	**27**	12
Double taxation relief	**(28)**	(5)
	75	12
Foreign tax		
Foreign tax on income for the year	**33**	12
Total current tax	**108**	24
Deferred tax		
Origination and reversal of temporary differences	**9**	(51)
Impact of change in UK tax rate	**1**	(9)
Impact of bank surcharge on deferred tax	**(2)**	1
Total deferred tax	**8**	(59)
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	**116**	(35)

15. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

FACTORS AFFECTING TAX CHARGE 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:

	2017 $M	2016 $M
Profit on ordinary activities before tax	**340**	359
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**66**	72
Expenses not deductible for tax purposes	**4**	18
Impact of foreign taxes	**5**	6
Adjustments to temporary differences in respect of prior periods	**(4)**	(42)
Deferred tax charge/(credit) recognised on transfer of pension liabilities	**-**	(11)
Deferred tax charge on derecognition of deferred tax asset	**13**	-
Tax losses claimed from affiliates for no payment	**(2)**	(82)
Impact of change in UK tax rate	**1**	(9)
Adjustments in respect of previous periods	**9**	-
Impact of bank surcharge on deferred tax	**(2)**	1
Impact of bank surcharge on current tax	**26**	12
TOTAL TAX CHARGE/(CREDIT) FOR THE YEAR	**116**	(35)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

During 2017, the relevant deferred tax balances were re-measured as a result of the changes in the UK main corporation tax rate which were substantively enacted on 15 September 2016, to 17% from 1 April 2020. The re-measurement resulted in a net decrease in the recognised deferred tax asset of $1 million. (2016: increase of $9 million). The Company has unrecognised deferred tax assets totalling $13 million (2016: $nil million), primarily in relation to pensions.

15. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2017 $M	2016 $M
Deferred tax asset		
Accelerated capital allowances	**39**	51
Compensation and social security costs	**33**	16
Available for sale securities	**(2)**	(2)
Temporary differences in relation to the retirement benefit obligation	**-**	13
Deferred tax asset	**70**	78

	2017 $M	2016 $M
Movements in deferred tax		
Deferred tax asset at 1 January	**78**	23
Asset transferred from an affiliated company	**-**	-
Tax relating to components of other comprehensive income:		
Retirement benefit obligations	**-**	(3)
Tax relating to components of other comprehensive income: AFS securities	**-**	(1)
Deferred tax credit on transfer of pension liabilities	**-**	11
Derecognition of deferred tax asset on pension liabilities	**(13)**	-
Deferred tax credited to the income statement	**4**	40
Re-measurement of deferred tax - change in UK tax rate	**(1)**	9
Impact of bank surcharge on deferred tax	**2**	(1)
Deferred tax asset (see note 26)	**70**	78

16. LOANS AND ADVANCES TO BANKS

	2017 $M	2016 $M
Analysed by maturity:		
On demand	**146**	1,204
Within three months	**3,330**	3,799
Between three months and one year	**1,402**	1,543
Between one year and five years	**764**	1,530
More than five years	**-**	-
	5,642	8,076
Impairment for credit losses:		
At 1 January	**(13)**	(5)
Impairment charge for the year (see note 10)	**6**	(8)
At 31 December	**(7)**	(13)
Total loans and advances to banks	**5,635**	8,063
Amounts above include:		
Due from affiliated companies	**2,916**	4,376

17. LOANS AND ADVANCES TO CUSTOMERS

	2017 $M	2016 $M
Analysed by maturity:		
On demand	**497**	223
Within three months	**2,928**	697
Between three months and one year	**3,122**	1,135
Between one year and five years	**16,321**	17,157
More than five years	**1,530**	1,589
	24,398	20,801
Impairment for credit losses:		
At 1 January	**(187)**	(145)
Charge off on impaired loans	**23**	4
Disposed loans	**-**	1
Impairment charge for the year (see note 10)	**(54)**	(47)
Recoveries	**(1)**	-
At 31 December	**(219)**	(187)
Total loans and advances to customers	**24,179**	20,614
Amounts above include:		
Due from affiliated companies	**13**	16

Loans and advances to customers includes $112 million (2016: $107 million) of lease and hire purchase receivables. See note 18 for further detail regarding these finance leases.

18. FINANCE LEASE RECEIVABLES

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

	Total future payments $M	**Unearned interest income $M**	**Present value $M**
December 2017			
Not later than one year	**33**	**1**	**36**
Between one and five years	**59**	**1**	**60**
Later than five years	**16**	**-**	**16**
	108	**2**	**112**

	Total future payments $M	Unearned interest income $M	Present value $M
December 2016			
Not later than one year	38	1	43
Between one and five year	43	1	47
Later than five years	16	-	17
	97	2	107

Unguaranteed residual values of assets leased under finance leasing arrangements at the reporting date are estimated at $6 million (2016: $12 million).

19. REVERSE REPURCHASE AGREEMENTS

	2017 $M	2016 $M
Reverse repurchase agreements	**6,000**	2,200

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

20. TRADING ASSETS

	2017 $M	2016 $M
Government debt securities	**1,508**	3,499
Other debt securities	**53**	155
Traded loans	**1,185**	1,315
Trading assets	**2,746**	4,969

Trading assets - analysed by maturity		
On demand	**353**	116
Within three months	**1,299**	1,580
Between three months and one year	**296**	2,137
Between one year and five years	**457**	574
More than five years	**341**	562
	2,746	4,969

21. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	2017 $M	2016 $M
Financial assets designated at fair value	**27**	267

Financial assets designated at fair value comprise $nil secured and unsecured loans to banks (2016: $97 million) and secured and unsecured loans to customers totalling $27 million (2016: $170 million).

22. AVAILABLE FOR SALE SECURITIES

	2017 $M	2016 $M
Available for sale securities - Debt		
At 1 January	-	-
Additions	-	44
Redemptions	-	(49)
Foreign exchange gains recorded in income statement	-	5
	-	-
Available for sale securities - Equity		
At 1 January	**26**	23
Foreign exchange gains / (losses) recorded in OCI	**2**	(1)
(Loss) / gain from changes in fair value	**(1)**	4
	27	26
At 31 December	**27**	26
Deferred tax on available for sale securities (see note 15)	**(2)**	(2)

23. INVESTMENTS IN GROUP UNDERTAKINGS

	Investments in subsidiary companies $M	Other investments $M	Total $M
COST			
At 1 January 2017	225	10	235
Disposals	(16)	(10)	(26)
At 31 December 2017	209	-	209
IMPAIRMENT			
At 1 January 2017	29	-	29
At 31 December 2017	29	-	29
NET BOOK VALUE			
At 31 December 2017	180	-	180
At 31 December 2016	196	10	206

On 29 June 2017, the Company received a return of capital from its subsidiary, Merrill Lynch Financial Services Limited of $16 million. Subsequently Merrill Lynch Financial Services Limited was placed into member's voluntary liquidation.

On 21 December 2017, the Company received dividends totalling $1 million from Alie Street Investments Limited, Alie Street Investments 6 Limited, Alie Street Investments 8 Limited, Alie Street Investments 12 Limited, Alie Street Investments 16 Limited, Alie Street Investments 24 Limited and Fugu Credit Limited (the "Alie Street entities"). Subsequently the Alie Street entities were placed into member's voluntary liquidation.

The other investment relates to BAMLI Ltd's investment in Athenee CDO Plc, purchased on 9 May 2014, which consisted of a 100% holding of specified series of credit linked notes issued by this entity. BAMLI Limited had no voting rights attached to its holding of these loan notes, however, this entity was included as a subsidiary of BAMLI Ltd given that BAMLI Ltd had exposure to variable returns from the notes and through its 100% holding had the power to affect those returns. On 30 June 2017, the loan notes matured.

During 2016, BAMLI Ltd acquired the entire ordinary share capital of Merrill Lynch Financial Services Limited for a total consideration of $16 million and following an impairment review, recorded an impairment on its investment in Merrill Lynch (Camberley) Limited of $29 million.

24. TRANSFERRED ASSETS AND UNCONSOLIDATED STRUCTURED ENTITIES

Transfers of financial assets

The Company enters into transactions in the normal course of business in which it transfers financial assets to third parties and to Special Purpose Entities ("SPE"). These transactions may result in the financial assets continuing to be recognised or being derecognised. Refer to note 1.20 and 1.23 for the accounting policy that governs recognition and de-recognition of financial assets.

During 2016, the Company derecognised in full a portfolio of traded loans transferred to an SPE. The Company has ongoing exposure to the SPE by virtue of a loan made as part of the transaction. The carrying amount and fair value of this continuing involvement as at 31 December 2017 was $17 million (2016: $17 million). The maximum exposure to loss for this transaction is equal to the carrying value of the loan on the Company's statement of financial position, and the total size of the SPE transaction was $34 million (2016: $35 million). Income for the year associated with this transaction was immaterial.

Interest in unconsolidated structured entities

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

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

During 2016, the Company also had third party SPE exposures relating to its trading asset portfolio totaling $47 million. The returns on these assets were fully mitigated by the Company by means of a total return swap with an affiliated company. As a result, there was no exposure to loss arising from these assets. During 2017 these positions were wound down and there were no exposures at the year end.

The Company considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity; and further where the Company transfers assets to the structured entity; markets products associated with the structured entity in its own name; provides operational support to ensure the SPE's continue operation and/or provides guarantees regarding the structured entity's performance. BAMLI Ltd's exposure within its loans and advances portfolio with respect to unconsolidated SPE's totaled $5,867 million (2016: $5,143 million) with a maximum exposure to loss of $7,759 million (2016: $6,485 million).

SPE's for which the Company has control are listed in notes 23 and 45. The Company typically has either an interest or control over sponsored SPE's, and instances where it has neither are rare.

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

25. PROPERTY, PLANT AND EQUIPMENT

	Freehold property $M	Leasehold improvements $M	Office equipment $M	Total $M
COST				
At 1 January 2017	92	148	440	680
Additions	2	14	33	49
Transfers intra group	-	3	2	5
Disposals	-	-	(32)	(32)
Exchange adjustments	-	4	2	6
At 31 December 2017	94	169	445	708
DEPRECIATION				
At 1 January 2017	62	102	340	504
Charge for the year on owned assets	3	13	41	57
Disposals	-	-	(32)	(32)
Exchange adjustments	-	3	2	5
At 31 December 2017	65	118	351	534
NET BOOK VALUE				
At 31 December 2017	29	51	94	174
At 31 December 2016	30	46	100	176

26. OTHER ASSETS

	2017 $M	2016 $M
Amounts due from affiliated companies	84	424
Deferred tax (see note 15)	70	78
Other	120	172
	274	674

Other assets primarily relate to settlement receivables.

27. PREPAYMENTS AND ACCRUED INCOME

	2017 $M	2016 $M
Accrued income	**73**	62
Prepayments	**25**	24
	98	86

28. DEPOSITS BY BANKS

	2017 $M	2016 $M
Analysed by maturity:		
On demand	**448**	634
Within three months	**782**	642
Between three months and one year	**6,717**	6,177
Between one year and five years	**9,302**	12,742
After five years	**-**	-
	17,249	20,195
Amounts above include:		
Due to affiliated companies	**17,221**	20,172

29. DEPOSITS BY CUSTOMERS

	2017 $M	2016 $M
Analysed by maturity:		
On demand	**7,484**	7,180
Within three months	**100**	77
Between three months and one year	**5,616**	185
Between one year and five years	**116**	512
After five years	**1,336**	37
	14,652	7,991
Amounts above include:		
Due to affiliated companies	**7,402**	948

30. OTHER LIABILITIES

	2017 $M	2016 $M
Amounts owed to affiliated companies	**262**	543
Reserve for unfunded lending commitments	**45**	33
Tax creditor	**72**	3
Other	**148**	141
	527	720

31. ACCRUALS AND DEFERRED INCOME

	2017 $M	2016 $M
Accrued interest payable	**24**	16
Other accruals	**232**	191
	256	207

32. SUBORDINATED LIABILITIES

	2017 $M	2016 $M
US Dollar denominated loan notes maturing in 2027 and bearing interest at 3 month USD LIBOR plus 176 basis points	**1,000**	1,000
US Dollar denominated loan notes maturing in 2028 and bearing interest at 3 month USD LIBOR plus 133 basis points	**1,000**	-
	2,000	1,000

On 22 March 2017, the Company issued $1,000 million subordinated debt to an affiliated company.

The subordinated debt liabilities are contractually repayable at any time at the Company's option.

33. RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

All BAMLI Ltd UK employees, with the exception of certain directors (see note 13), participate in the Bank of America Merrill Lynch UK Pension Plan Money Purchase Section (formerly the ML UK Pension Plan) ("the Plan").

The Plan is a defined contribution scheme operated by Merrill Lynch International ("MLI"). BAMLI Ltd became a participating employer of the Plan from 1 April 2014.

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

The pension cost for the year was $53 million (2016: $61 million), in respect of defined contribution plans.

33. RETIREMENT BENEFIT SCHEMES (continued)

Defined benefit schemes

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

The principal defined benefit obligations of the BAMLI Ltd European branches are held in Switzerland in a funded cash balance plan. BAMLI Ltd Zurich participates in the plan alongside other BAC group entities.

There are further defined benefit obligations in Frankfurt, Amsterdam and Milan, predominantly relating to post retirement pension benefits for transferring employees.

The Zurich Plan is a stand-alone pension foundation providing cash balance benefits in accordance with mandatory Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge/Loi Fédérale sur la Prévoyance Professionnelle Vieillesse, Survivants et Invalidité ("LPP/BVG") requirements. The retirement benefits are provided either as a lump sum at retirement, or as an annuity, and there are associated benefits on death or disability. The Foundation is governed by a Board, which is legally responsible for all aspects of the operation of the Foundation including overseeing the investments and the distribution of the benefits. There is equal representation of Board members with half appointed by the employer and half elected by the membership. The participating employers in the Foundation consist of BAMLI Ltd and other Swiss subsidiaries of the Bank of America Group and BAMLI Ltd is the principal employer in Switzerland. The employer contributions are generally made in accordance with the benefit formula. Total defined benefit employer contributions made in 2017 were $1 million and expected total 2018 contributions are $nil. In respect of future funding:

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

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

The Other plans consist of a funded defined benefit pension arrangement in The Netherlands administered via an insurance contract held by the Company, unfunded Pension Plans and Deferred Compensation Plans in Germany, and unfunded Termination Indemnity ("TFR") benefits in Italy. Employer contributions in the Netherlands plan are equal to the ongoing insurance premiums and in the unfunded plans, are equal to the benefits due, which the employer pays directly. Total defined benefit employer contributions in respect of the Other Plans made in 2017 were $2 million and expected total 2017 contributions are $1 million.

	Zurich $M	Other $M	Total $M
Fair value of scheme assets	81	5	86
Fair value of scheme assets	(101)	(36)	(137)
Net pension expense in 2017			
Current service cost	3	1	4
Settlement gain	(2)	-	(2)
Net interest expense	1	-	1
Total pension expense	2	1	3

33. RETIREMENT BENEFIT SCHEMES (continued)

The movement in the defined benefit (liability)/ asset over the year is as follows:

	Present value of the obligation $M	Of which Zurich $M	**Fair value of plan assets $M**	Of which Zurich $M	**Total $M**
At 1 January 2017	**(130)**	(98)	**78**	75	**(52)**
Current Service Cost	**(4)**	(3)	**-**	-	**(4)**
Gain on settlement	**2**	2	**-**	-	**2**
Interest expense	**(1)**	(1)	**-**	-	**(1)**
Pension expense recognised in income statement	**(3)**	(2)	**-**	-	**(3)**
Return on plan assets, excluding amounts included in interest expense/ (income)	**-**	-	**6**	6	**6**
Gain from change in experience assumptions	**(5)**	(5)	**-**	-	**(5)**
Gain from change in financial assumptions	**4**	4	**-**	-	**4**
Total amounts recognised in other comprehensive income	**(1)**	(1)	**6**	6	**5**
Exchange differences	**(8)**	(4)	**4**	3	**(4)**
	(8)	(4)	**4**	3	**(4)**
Contributions					
Employer	**-**	-	**3**	1	**3**
Plan participants	**(1)**	(1)	**1**	1	**-**
	(1)	(1)	**4**	2	**3**
Payments from plan					
Benefit payments	**5**	4	**(5)**	(4)	**0**
	5	4	**(5)**	(4)	**0**
As at 31 December 2017	**(138)**	(102)	**87**	82	**(51)**

33. RETIREMENT BENEFIT SCHEMES (continued)

The movement in the defined benefit (liability)/asset over the prior year is as follows:

	Present value of the obligation $M	Of which Zurich $M	Fair value of plan assets $M	Of which Zurich $M	Total $M
At 1 January 2016	(19)	-	1	-	(18)
Transferred in	(125)	(112)	79	77	(46)
Current service cost	(2)	(1)	-	-	(2)
Interest expense	(1)	-	-	-	(1)
Pension expense recognised in income statement	(3)	(1)	-	-	(3)
Remeasurements in OCI:					
Return on plan assets, excluding amounts included in interest expense/(income	-	-	-	-	-
Gain from change in experience assumptions	8	8	-	-	8
Gain from change in financial assumptions	4	4	-	-	4
Total amount recognised in OCI	12	12	-	-	12
Exchange differences	3	2	(1)	(1)	2
	3	2	(1)	(1)	2
Contributions					
Employer	-	-	1	-	1
	-	-	1	-	1
Payments from plan:					
Benefit payments	2	1	(2)	(1)	-
As at 31 December 2016	(130)	(98)	78	75	(52)

The principal actuarial assumptions with respect to the Zurich plan were as follows:

	2017	2016
Discount rate	**0.75%**	0.50%
Salary growth rate	**2.25%**	2.00%
Interest rate	**2.25%**	2.25%
CPI inflation	**1.25%**	1.00%
Social security	**1.50%**	1.50%

33. RETIREMENT BENEFIT SCHEMES (continued)

	2017	2016
Life expectancy for males aged 65	**22.4**	22.4
Life expectancy for females aged 65	**24.4**	24.4
Life expectancy at 65 for male currently aged 50	**23.9**	23.9
Life expectancy at 65 for female currently aged 50	**25.9**	25.9

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 Zurich plan assets are invested in the following asset classes:

	Total $M	Quoted market price $M	Un-quoted market price $M
Equities	**26**	**26.2**	**-**
Debt	**33**	**33.4**	**-**
Real estate	**13**	**12.6**	**-**
Other	**9**	**8.9**	**-**
Total plan assets	**81**	**81.1**	**-**

33. RETIREMENT BENEFIT SCHEMES (continued)

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

Changes in bond yields

Corporate bond yields of a term and currency similar to the liabilities are used as a basis for setting the discount rate for each plan. A decrease in Swiss or eurozone corporate bond yields will increase the value placed on the plans' liabilities for accounting purposes, which may not be offset by increases in assets in funded plans.

Inflation risk

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

Life expectancy

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

Asset volatility

The liabilities are calculated using a discount rate set with reference to bond yields; if assets underperform this yield, this will create a loss. The funded plan in Zurich holds a proportion of return seeking assets which, though expected to outperform 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.

Sensitivities

A movement of 1% of the principal actuarial assumptions would not materially alter the defined benefit obligation, nor the current service cost of the scheme.

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

Deferred Tax

No deferred tax assets recognised with respect to the defined benefit obligations (2016: $13 million). See note 15.

34. CALLED UP SHARE CAPITAL

	2017	2016
	$	$
Shares classified as equity		
Allotted, called up and fully paid		
889,551,451 Ordinary shares of $1 each	**889,551,451**	889,551,451
310 Preference shares of $1 each	**310**	310
	889,551,761	889,551,761

The holder of the preference shares is entitled to a non-cumulative fixed dividend of $246 per 1.55 preference shares per day, payable quarterly. The preference shareholder has the right to any dividends arising on the preference shares until the date of redemption of the preference shares.

The preference shares entitle the preference shareholder to attend general meetings of the Company, however, the preference shareholder has no voting rights except on the winding up of the Company or in the event that any dividend on the preference shares has remained unpaid for a period exceeding two years from the date such a dividend was due and payable. On a return of assets in the event of the winding up of the Company, the holder of the preference shares shall rank first in priority, and shall be entitled to (i) a sum equal to any unpaid accruals of fixed dividends up to the date of the return of capital and (ii) the nominal amount and the remainder of the premium paid up on each preference share.

Subject to the Articles of Association, the Company may redeem the preference shares in whole or in part.

35. RESERVES

Available for sale reserve

The available for sale reserve comprises the gains and losses arising from changes in the fair value of available for sale securities.

Foreign exchange reserve

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

Capital contribution reserve

The immediate parent made a capital contribution to the Company in 2013 of $4,600 million.

On 23 May 2016, the immediate parent made a further capital contribution to the Company of $1,000 million.

Merger reserve

Merger reserves have been created for the merger of Merrill Lynch France SAS and Merrill Lynch Capital Markets (France) SAS which occurred during 2015 and the merger of Merrill Lynch Management GmbH which occurred during 2016.

Profit and loss reserve

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

36. OPERATING LEASE COMMITMENTS

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

	Land and Buildings 2017 $M	**Other 2017 $M**	Land and Buildings 2016 $M	Other 2016 $M
Due within one year	**70**	**6**	54	7
Due between one and five years	**248**	**2**	203	8
Due after five years	**435**	**-**	39	-
	753	**8**	296	15

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

37. OTHER FINANCIAL COMMITMENTS

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

	2017 $M	2016 $M
Undrawn commitments	**30,232**	27,111
Purchase commitments	**224**	108
Financial guarantees	**892**	753
	31,348	27,972

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Designated at fair value $M	Held for trading $M	Loans and receivables $M	Available for sale $M	Other financial liabilities $M	Total $M
31 December 2017						
Market and client receivables	-	-	64	-	-	64
Cash held at central banks	-	-	3,945	-	-	3,945
Loans and advances to banks	-	-	5,635	-	-	5,635
Loans and advances to customers	-	-	24,179	-	-	24,179
Reverse repurchase agreements	-	-	6,000	-	-	6,000
Trading assets	-	2,746	-	-	-	2,746
Derivative financial instruments	-	2	-	-	-	2
Financial assets designated at fair value	27	-	-	-	-	27
Available for sale securities	-	-	-	27	-	27
Financial Assets	27	2,748	39,823	27	-	42,625
Market and client payables	-	-	-	-	2	2
Deposits by banks	-	-	-	-	17,249	17,249
Deposits by customers	-	-	-	-	14,652	14,652
Derivative financial instruments	-	68	-	-	-	68
Financial liabilities designated at fair value	21	-	-	-	-	21
Subordinated liabilities	-	-	-	-	2,000	2,000
Financial Liabilities	21	68	-	-	33,903	33,992

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	Designated at fair value $M	Held for trading $M	Loans and receivables $M	Available for sale $M	Other financial liabilities $M	Total $M
31 December 2016						
Market and client receivables	-	-	133	-	-	133
Cash held at central banks	-	-	1,210	-	-	1,210
Loans and advances to banks	-	-	8,063	-	-	8,063
Loans and advances to customers	-	-	20,614	-	-	20,614
Reverse repurchase agreements	-	-	2,200	-	-	2,200
Trading assets	-	4,969	-	-	-	4,969
Derivative financial instruments	-	5	-	-	-	5
Financial assets designated at fair value	267	-	-	-	-	267
Available for sale securities	-	-	-	26	-	26
Financial Assets	267	4,974	32,220	26	-	37,487
Market and client payables	-	-	-	-	10	10
Deposits by banks	-	-	-	-	20,195	20,195
Deposits by customers	-	-	-	-	7,991	7,991
Derivative financial instruments	-	120	-	-	-	120
Financial liabilities designated at fair value	40	-	-	-	-	40
Subordinated liabilities	-	-	-	-	1,000	1,000
Financial Liabilities	40	120	-	-	29,196	29,356

39. OFFSETTING

The following table analyses the offsetting of the Company's financial assets and liabilities as presented in the statement of financial position:

31 December 2017

	Gross amount presented $M	**Financial instruments $M**	**Cash collateral placed $M**	**Net amount $M**
Assets				
Derivative financial instruments	**2**	**(2)**	**-**	**-**
Liabilities				
Derivative financial instruments	**(68)**	**2**	**59**	**(7)**

31 December 2016

	Gross amount presented $M	Financial instruments $M	Cash collateral placed $M	Net amount $M
Assets				
Derivative financial instruments	5	(5)	-	-
Liabilities				
Derivative financial instruments	(120)	5	109	(6)

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 of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

The Company enters into ISDA master agreements or their equivalent with the Company's major derivative counterparties.

39. OFFSETTING (continued)

Where there is not an intention to settle on a net basis in the normal course of business, the balances have not been offset in the statement of financial position and have been presented separately in the table above.

Cash collateral

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

40. RISK MANAGEMENT

Legal entity risk governance

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

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

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

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

Market risk

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

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

Price risk: Trading positions within BAMLI Ltd are subject to various changes in market based risk factors. The majority of this risk is generated by the activities in interest rate, foreign exchange, and credit markets. In addition, the values of asset and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility.

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

40. RISK MANAGEMENT (continued)

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

Value at Risk

VaR is a statistical measure of potential portfolio market value loss resulting from changes in market variables, during a given holding period, measured at a specified confidence level. A single model is used consistently across the trading portfolios, and it uses a historical simulation approach based on a three-year window of historical data. The primary VaR statistic is equivalent to a 99 percent confidence level. This means that for a VaR with a one day holding period, there should not be losses in excess of VaR, on average, 99 out of 100 trading days.

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

	2017 $000	**High 2017 $000**	**Average 2017 $000**	**2017 $000**
99% Daily VaR				
Credit spread risk	**4,066**	**7,148**	**5,437**	**4,066**
Currency risk	**742**	**1,511**	**505**	**46**
Interest rate risk	**154**	**432**	**237**	**74**
Equity risk	**-**	**13**	**-**	**-**
Total	**4,119**	**7,364**	**5,460**	**4,066**

	Year end 2016 $000	High 2016 $000	Average 2016 $000	Low 2016 $000
99% Daily VaR				
Credit spread risk	5,689	6,946	4,563	3,152
Currency risk	603	1,428	871	35
Interest rate risk	386	537	340	52
Total	5,689	7,143	4,632	3,146

40. RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. Credit risk is created when BAMLI Ltd commits to, or enters in to, an agreement with a borrower or counterparty.

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

Credit risk management

BAMLI Ltd manages credit risk to a borrower or counterparty based on its risk profile, which includes assessing repayment sources, underlying collateral, if any, and the expected effects of the current and forward-looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

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

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

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

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

40. RISK MANAGEMENT (continued)

Commercial lending

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

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

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

Derivatives trading

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

In addition, to reduce the risk of loss in the event of counterparty default, the Company usually requires collateral documented in the Credit Support Annex to an ISDA. From an economic standpoint, the Company evaluates risk exposures net of related collateral that meets specified standards. The Company also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable it to terminate or reset the terms of the derivative contracts under certain defined conditions. These terms are taken into account in calculating the potential counterparty credit exposure if they are not mandatory terms.

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

40. RISK MANAGEMENT (continued)

	AAA to AA $M	A to BBB $M	BB and lower $M	Not Rated $M	Total $M
2017					
Market and client receivables	-	64	-	-	64
Cash held at central banks	2,021	1,909	15	-	3,945
Loans and advances to banks	2	4,434	1,194	5	5,635
Loans and advances to customers	587	13,193	10,254	145	24,179
Reverse repurchase agreements	-	6,000	-	-	6,000
Trading assets	1,507	-	149	1,090	2,746
Derivative financial instruments	-	2	-	-	2
Financial assets designated at fair value	-	-	27	-	27
Available for sale securities	-	-	-	27	27
Total financial assets	4,117	25,602	11,639	1,267	42,625
Guarantees and commitments	1,724	21,020	8,372	232	31,348
Maximum credit exposure	5,841	46,622	20,011	1,499	73,973

40. RISK MANAGEMENT (continued)

	AAA to AA $M	A to BBB $M	BB and lower $M	Not Rated $M	Total $M
2016					
Market and client receivables	-	133	-	-	133
Cash held at central banks	1,182	22	6	-	1,210
Loans and advances to banks	-	6,812	1,214	37	8,063
Loans and advances to customers	17	13,227	7,370	-	20,614
Reverse repurchase agreements	-	2,200	-	-	2,200
Trading assets	3,503	7	114	1,345	4,969
Derivative financial instruments	-	5	-	-	5
Financial assets designated at fair value	-	78	167	22	267
Available for sale securities	-	-	-	26	26
Total financial assets	4,702	22,484	8,871	1,430	37,487
Guarantees and commitments	883	21,242	5,366	481	27,972
Maximum credit exposure	5,585	43,726	14,237	1,911	65,459

There were $7 million third party credit exposures that were past due but not impaired at 31 December 2017 (2016: $7 million). Of these exposures, $6 million (2016: $6 million) were between 30 and 90 days past due and $1 million (2016: $1 million) was over 90 days past due.

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

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

40. RISK MANAGEMENT (continued)

	2017 Exposure $M	**2017 Mitigation $M**	2016 Exposure $M	2016 Mitigation $M
Market and client receivables	**64**	**64**	133	133
Cash held at central banks	**3,945**	**-**	1,210	-
Loans and advances to banks	**5,635**	**-**	8,063	-
Loans and advances to customers	**24,179**	**99**	20,614	104
Reverse repurchase agreements	**6,000**	**6,000**	2,200	2,200
Trading assets	**2,746**	**-**	4,969	71
Derivative financial instruments	**2**	**-**	5	-
Financial assets designated at fair value	**27**	**-**	267	58
Other assets	**274**	**-**	674	-
Prepayments and accrued income	**98**	**-**	86	-
	42,970	**6,163**	38,221	2,566
Guarantees and commitments	**31,348**	**703**	27,972	621
	74,318	**6,866**	66,193	3,187

Operational risk

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

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

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

Operational Risk Management Process

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

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

40. RISK MANAGEMENT (continued)

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

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

Liquidity risk

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

Liquidity Risk Management

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

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

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

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

40. RISK MANAGEMENT (continued)

Undiscounted cash flows – financial liabilities

	On demand $M	<3 mths $M	>3 mths <1yr $M	>1yr<5 yrs $M	>5yrs $M	Total $M
31 December 2017						
Non-Trading Financial Liabilities						
Market and client payables	2	-	-	-	-	2
Deposits by banks	448	782	6,717	9,302	-	17,249
Deposits by customers	7,484	100	5,616	116	1,336	14,652
Financial liabilities designated at fair value	21	-	-	-	-	21
Subordinated liabilities	-	-	24	143	2,217	2,384
	7,955	882	12,357	9,561	3,553	34,308
Guarantees and commitments	31,169	-	-	101	78	31,348
Trading liabilities						
Derivative financial instruments	68	-	-	-	-	68

40. RISK MANAGEMENT (continued)

	On demand $M	<3 mths $M	>3 mths <1 yr $M	>1yr <5 yrs $M	>5yrs $M	Total $M
31 December 2016 Non - Trading Financial Liabilities						
Market and client payables	10	-	-	-	-	10
Deposits by banks	634	642	6,177	12,742	-	20,195
Deposits by customers	7,180	77	185	512	37	7,991
Financial liabilities designated at fair value	40	-	-	-	-	40
Subordinated liabilities	-	-	29	141	1,227	1,397
	7,864	719	6,391	13,395	1,264	29,633
Guarantees and commitments	27,864	-	22	27	59	27,972
Trading liabilities						
Derivative financial instruments	120	-	-	-	-	120

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

40. RISK MANAGEMENT (continued)

Reputational risk

Reputational Risk is the potential risk that negative perceptions of BAC's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer / client relationships or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

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

Reputational Risk Management

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

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

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee, whose charter includes consideration of Reputational Risk issues and to provide guidance and approvals for activities that represent specific Reputational Risks which have been referred for discussion by other current control frameworks or lines of business. Reputational Risk items relating to BAMLI Ltd are considered as part of the EMEA Reputational Risk Committee.

Activities will be escalated to EMEA Reputational Risk Committee for review and approval where elevated level of Reputational Risk are present.

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

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

40. RISK MANAGEMENT (continued)

Strategic risk

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

Strategic Risk Management

Strategic Risk is managed through the assessment of effective delivery of strategy. Strategic Risk is monitored continuously by the executive management team through a number of existing processes ranging from monitoring of financial and operating performance, through to the management of recovery and resolution plans and also with the regular assessment of earnings and risk profile throughout the year. The executive management team provides the BAC Board with reports on progress in meeting the strategic plan, as well as whether timelines and objectives are being met and if additional or alternative actions need to be implemented.

Regional and BAMLI Ltd strategy execution and risk management are aligned to the overall BAC strategic plans through a formal planning and approval process. The BAC strategic plans are set within the context of overall risk appetite and the strategic planning process includes an evaluation of the internal and external environment and the group's strengths, weaknesses, opportunities and threats. During the planning process, the BAC Board provides credible challenge to management's assumptions and recommendations, and approves the strategic plans after a comprehensive assessment of the risks.

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

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

40. RISK MANAGEMENT (continued)

Compliance risk

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

Compliance Risk Management

FLUs are responsible for the proactive identification, management and escalation of compliance risks across BAMLI Ltd. Global Compliance is responsible for setting BAC-wide policies and standards and provides independent challenge and oversight to the FLUs. BAMLI Ltd's approach to the management of compliance risk is further described in the Global Compliance Policy, which outlines the requirements of BAC's global compliance program and defines roles and responsibilities related to the implementation, execution and management of the global compliance risk management program by Global Compliance.

Security and collateral

At 31 December 2017 the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was $6,179 million (2016: $2,437 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was $59 million (2016: $110 million). The collateral obtained is composed of cash and government and agency securities. The Company is obliged to return cash or equivalent securities as appropriate.

Security has been given by the Company by way of specific and general charges in respect of certain contractual commitments. The collateral pledged is in the form of cash. At 31 December 2017 the Company had delivered cash collateral of $2 million (2016: $4 million) against contractual commitments under derivative liability positions.

40. RISK MANAGEMENT (continued)

Capital Management

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

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

• Minimum risk-based regulatory capital requirements (Pillar 1 capital under CRD IV) and Pillar 2 / individual capital guidance ("ICG") set by the PRA and relevant CRD IV and PRA buffers and the application of an Internal capital buffer above those prescribed in regulation

• The risks faced by the Company through regular review of the current and future business activities

• Upcoming and future regulations impacting the Company

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

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

	2017	2016
	$M	$M
Common Equity Tier 1 (equity share capital and reserves)	**8,490**	8,260
Tier 2 (qualifying long-term subordinated liabilities)	**2,000**	1,000
Total capital resources	**10,490**	9,260

As at 31 December 2017 the Company was adequately capitalised and met all external capital requirements. Capital resources are inclusive of audited current year profits.

Company information is included as part of the Pillar 3 disclosures of BAMLI Ltd made available on the firm's website in accordance with part eight of the capital requirements regulations, this can be obtained via http://investor.bankofamerica.com.

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

41. FAIR VALUE DISCLOSURES

Financial instruments carried at fair value have been categorised into levels based on the observability of pricing information.

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

Trading account assets and liabilities and available for sale ("AFS") securities

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

Derivative assets and liabilities

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

41. FAIR VALUE DISCLOSURES (continued)

Fair value measurement as at 31 December 2017

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Assets				
Trading assets	1,508	241	997	2,746
Derivative financial instruments	-	2	-	2
Financial assets designated at fair value	-	13	14	27
Available for sale securities	-	-	27	27
Total Assets	1,508	256	1,038	2,802
Liabilities				
Derivative financial instruments	-	68	-	68
Financial liabilities designated at fair value	-	21	-	21
Total liabilities	-	89	-	89

Fair value measurement as at 31 December 2016

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Assets				
Trading assets	3,499	707	763	4,969
Derivative financial instruments	-	5	-	5
Financial assets designated at fair value	-	259	8	267
Available for sale securities	-	-	26	26
Total Assets	3,499	971	797	5,267
Liabilities				
Derivative financial instruments	-	120	-	120
Financial liabilities designated at fair value	-	40	-	40
Total liabilities	-	160	-	160

There have been no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2017 and 2016.

During 2017 Level 1 assets reduced as the Company sold a significant amount of its Government Debt Securities. In addition, Level 3 assets increased (including as a percentage of total financial assets measured at fair value) due to an increase in less liquid traded loan positions.

Fair values of level 3 assets and liabilities

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

41. FAIR VALUE DISCLOSURES (continued)

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

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

The table below presents a reconciliation of all Level 3 financial instruments measured at fair value. Level 3 assets were $1,038 million as of 31 December 2017 (2016: $797 million) and represented approximately 37 percent of assets measured at fair value (2016: 15 percent) and approximately 2 percent of total assets (2016: 2 percent). Level 3 liabilities were $nil as of 31 December 2017 (2016: $nil).

	Trading assets $M	Available for sale securities $M	Financial assets designated at fair value $M	Total $M
Balance at 1 January 2017	763	26	8	797
Gains or Losses:				
Included in earnings - realised	37	-	9	46
Included in earnings - unrealised	92	-	2	94
Included in statement of other comprehensive income	-	1	-	1
Purchases	136	-	-	136
Sales	(117)	-	-	(117)
Issuances	-	-	-	-
Settlements	(372)	-	(35)	(407)
Transfer into Level 3	586	-	35	621
Transfer out of Level 3	(128)	-	(5)	(133)
Balance at 31 December 2017	997	27	14	1,038

41. FAIR VALUE DISCLOSURES (continued)

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

	Trading assets $M	Available for sale securities $M	Financial assets designated at fair value $M	Total $M
Balance at 1 January 2016	934	23	101	1,058
Gains or Losses:				
Included in earnings - realised	32	-	-	32
Included in earnings - unrealised	(22)	-	1	(21)
Included in statement of other comprehensive income	-	3	-	3
Purchases	188	43	10	241
Sales	(245)	-	(6)	(251)
Issuances	-	-	-	-
Settlements	(101)	(49)	-	(150)
Transfer into Level 3	196	6	5	207
Transfer out of Level 3	(219)	-	(103)	(322)
Balance at 31 December 2016	763	26	8	797

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

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

41. FAIR VALUE DISCLOSURES (continued)

Quantitative information about Level 3 Fair Value Measurements at December 31, 2017

	Inputs			
Financial instrument value technique	**Fair valuation**	**Significant unobservable inputs**	**Ranges of inputs**	**Weighted average**
Loans				
Instruments backed by residential real estate assets Trading account assets – Mortgage trading loans and ABS Loans and leases	Discounted cash flow	Yield Prepayment speed Default rate Loss severity	0% to 25% 0% to 22% CPR 0% to 3% CDR 0% to 53%	6% 12% 1% 17%
Instruments backed by commercial real estate assets Trading account assets – Corporate securities, trading loans and other Trading account assets – Mortgage trading loans and ABS	Discounted cash flow	Yield Price	0 to 25% $0 to $100	9% $67
Commercial loans, debt securities and other including assets designated at fair value Trading account assets – Corporate securities, trading loans and other Trading account assets – Non U.S. sovereign debt Trading account assets – Mortgage trading loans and ABS AFS debt securities – Other taxable securities Loans and leases including financial assets designated at fair value	Discounted cash flow, Market comparables	Yield Prepayment speed Default rate Loss severity Price	0% to 12% 10% to 20% 3% to 4% 35% to 40% $0 to $145	5% 16% 4% 37% $63

CPR = Constant Prepayment Rate
CDR = Constant Default Rate

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

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

41. FAIR VALUE DISCLOSURES (continued)

Loans and Securities

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

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

Derivative assets and liabilities

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

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

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the balance sheet date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at 31 December 2017, they could have increased fair value by as much as $81 million (2016: $54 million) or decreased fair value by as much as $17 million (2016: $18 million).

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

41. 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.

Loans and advances to banks and customers are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value of $29,786 million (2016:$ 28,596 million).

The fair value of subordinated liabilities and other long term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities and other long term funding are classified as level 2 and are valued at $1,892 million (2016: $976 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.

42. RELATED PARTY TRANSACTIONS

As detailed in note 1.4, 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 consider key management personnel to be represented by the board of directors of the Company. Details of the remuneration of the directors are included in note 13.

43. CONTROLLING PARTY

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

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

44. SUBSEQUENT EVENTS

On 12 March 2018, the BAMLI Ltd Board approved a motion to proceed with the proposed cross border merger with BAMLI DAC subject to shareholder, regulatory and relevant court process approval.

45. SUBSIDIARY UNDERTAKINGS

The following table provides information on the Company's subsidiary undertakings

Name	Class of shares	Holding	Principal activity
Merrill Lynch (Camberley) Limited	Ordinary	100 %	Owner of data centre
Alie Street Investments 12 Limited	Ordinary	100 %	In liquidation
Alie Street Investments 16 Limited	Ordinary	100 %	In liquidation
Alie Street Investments 24 Limited	Ordinary	100 %	In liquidation
Alie Street Investments 6 Limited	Ordinary	100 %	In liquidation
Alie Street Investments 8 Limited	Ordinary	100 %	In liquidation
Alie Street Investments Limited	Ordinary	100 %	In liquidation
Fugu Credit Limited	Ordinary	100 %	In liquidation
Merrill Lynch Financial Services Limited	Ordinary	100 %	In liquidation

Merrill Lynch (Camberley) Limited is registered at 2 King Edward Street, London, EC1A 1HQ, United Kingdom. The Alie Street entities (including Fugu Credit Limited) are registered at 30 Finsbury Square, London, EC2P 2YU, United Kingdom. Merrill Lynch Financial Services Limited, which is registered at Central Park, Leopardstown, Dublin 18, Ireland.