

MLEIH FUNDING

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2012**

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MLEIH FUNDING

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MLEIH FUNDING

GENERAL INFORMATION

Directors	R I Jones T C Martin
Company Secretary	Merrill Lynch Corporate Services Limited
Registered Office	2 King Edward Street London EC1A 1HQ United Kingdom
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

MLEIH FUNDING

DIRECTORS' REPORT

For the year ended 31 December 2012

The directors present their report and the audited financial statements of MLEIH Funding (the "Company") for the year ended 31 December 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

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 the year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether 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 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

BUSINESS REVIEW

The Company acts as an investment holding company in the Merrill Lynch UK Holdings ("MLUKH") group. There have been no changes in the principal activity of the Company during the year and the directors expect the principal activity to continue in 2013.

During the year, as part of a group reorganisation, the Company was involved in a number of acquisitions and disposals of subsidiary companies that are detailed in note 5 and note 7. A number of the acquisitions were funded through the issue of additional shares in the Company as detailed in note 10 and the cancellation and transfer of share premium to distributable reserves detailed in note 11. Also as part of the group reorganisation, the entire called up share capital of the Company was transferred from Merrill Lynch Europe Intermediate Holdings ("MLEIH") to Merrill Lynch Europe Limited ("MLE").

The ultimate parent of the Company is Bank of America Corporation ("BAC").

The profit for the year amounted to \$2,009 million (2011: loss of \$2 million).

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: \$nil).

BAC manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary, appropriate or relevant for an understanding of the development, performance or position of the business.

GOING CONCERN

The Company relies upon its ultimate parent BAC to provide capital and liquidity to support its business operations. Whilst the Company has received no guarantees, the directors have a reasonable expectation, based on experience to date, of continued and sufficient access to funding and capital facilities from its ultimate parent and the Company will continue in operational existence for the foreseeable future. The financial statements of the Company have, therefore, been prepared on a going concern basis.

MLEIH FUNDING

DIRECTORS' REPORT

For the year ended 31 December 2012

POST BALANCE SHEET EVENTS

On 16 January 2013 the Company entered into a new USD subordinated loan agreement with an affiliated company for \$2,583,448,206. The subordinated loan has maturity 1 February 2019 and interest rate of 1 month USD LIBOR plus 197 basis points.

On 7 March 2013 the Company entered into a new USD subordinated loan agreement with another affiliated company for \$795,887,968. The subordinated loan has maturity 7 March 2019 and interest rate of 1 month USD LIBOR plus 167 basis points.

On 29 May 2013, Merrill Lynch Holdings Limited ("MLH") declared a dividend of \$145,548,783 to the Company.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 13).

DIRECTORS

The directors who served during the year and up to the date of signing this report, except where noted, were as follows:

T C Martin
R I Jones
K L Pearson (resigned 28 March 2013)

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms 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 he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

This report was approved by the Board on 7 August 2013 and signed on its behalf by



T C Martin
Director
London

MLEIH FUNDING

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MLEIH FUNDING

We have audited the financial statements of MLEIH Funding ("the Company") for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 2) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of the Company's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MLEIH FUNDING

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MLEIH FUNDING (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

H Varley

Heather Varley (Senior Statutory Auditor)

For and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside
London
SE1 2RT

7 August 2013

MLEIH FUNDING

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

	Note	2012 \$m	2011 \$m
Dividend income received	3	20	-
Exceptional items	5	1,993	-
Interest payable and similar charges	4	(4)	(2)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		2,009	(2)
TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES	6	-	-
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		2,009	(2)

Profit / (Loss) on ordinary activities before taxation derives wholly from continuing operations

There are no recognised gains or losses in either year other than the loss for the year therefore no separate Statement of Recognised Gains or Losses has been prepared

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents

The notes on pages 8 to 15 form part of these financial statements

MLEIH FUNDING**BALANCE SHEET**
As at 31 December 2012

Registered number: 6445048

	Notes	2012 \$m	2011 \$m
FIXED ASSETS			
Investments	7	23,825	10,676
CURRENT ASSETS			
Debtors	8	20	-
CURRENT LIABILITIES			
Creditors amounts falling due within one year	9	<u>(3,733)</u>	<u>(353)</u>
NET CURRENT LIABILITIES		<u>(3,713)</u>	<u>(353)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		20,112	10,323
NET ASSETS		<u>20,112</u>	<u>10,323</u>
CAPITAL AND RESERVES			
Called up share capital	10	16	3,291
Share premium account	11	7,774	42,226
Profit and loss account	11	<u>12,322</u>	<u>(35,194)</u>
TOTAL SHAREHOLDER'S FUNDS	12	<u>20,112</u>	<u>10,323</u>

The financial statements were approved and authorised for issue by the Board on 7 August and signed on its behalf by



T C Martin

Director

The notes on pages 8 to 15 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements have been prepared in accordance with United Kingdom Accounting Standards and applicable law and the going concern assumption has been used in the preparation of the financial statements as detailed in the Directors' Report. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied and in accordance with the Companies Act 2006.

1.2 Accounting convention

The financial statements have been prepared under the historical cost convention.

1.3 Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (Revised 1996) – "Cash Flow Statements", as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, BAC.

1.4 Investments

Investments held as fixed assets are stated at cost less provisions for impairment.

1.5 Impairment of fixed asset investments

At each reporting date, the Company assesses whether there is any indication that its fixed asset investments are impaired. Impairment tests are performed annually or more frequently if events or changes in circumstances indicate that an investment might be impaired.

The amount of any impairment is measured as the difference between the asset's carrying amount and recoverable amount. The recoverable amount is the higher of the net realisable value and the value in use. The carrying amount of the asset is reduced accordingly and the amount of the loss is recognised in the profit and loss account.

1.6 Netting

Where the Company intends to settle (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 the net balance due to or from the counterparty.

1.7 Group accounts

The Company has taken advantage of the exemption in Section 400 of the Companies Act 2006 from the obligation to prepare and deliver group accounts since the Company is a member of the MLUKH group, which prepares group accounts which include the Company. Accordingly, the Company's financial statements present information about it as an individual undertaking and not about its group.

1.8 Dividends

The Company recognises dividends when the legal right to do so has been established.

1.9 Interest receivable and payable

Interest receivable and payable are recognised on an accruals basis using the effective interest rate method.

1.10 Financial assets and liabilities

The Company classifies its financial assets as loans and receivables. Loans and receivables are carried at amortised cost using the effective interest rate method less an allowance for any impairment. Interest calculated using the effective interest rate method is recognised through profit and loss. All financial liabilities are carried at amortised cost.

MLEIH FUNDING

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2012

1. ACCOUNTING POLICIES (continued)

1.11 Translation of foreign currencies

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US Dollars at average monthly market rates of exchange. Monetary assets and liabilities are translated into US Dollars at the market rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account.

The financial statements have been presented in US Dollars as this is the functional currency of the Company.

1.12 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. OPERATING PROFIT / (LOSS)

During the year, no director received any emoluments in respect of qualifying services to the Company (2011: \$nil). The Company did not have any employees in the current or preceding year.

Audit fees borne by another group company were as follows:

	2012 \$000	2011 \$000
Payable for the audit of the Company's financial statements	25	16

3. DIVIDEND INCOME RECEIVED

	2012 \$m	2011 \$m
Dividends received from subsidiary undertakings	20	-

During the year, the Company received a dividend of \$7,777,800 from BAC EMEA Holdings II LLC and a dividend of \$12,222,200 from BAC EMEA Holdings I LLC.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 \$m	2011 \$m
Interest payable due to group companies	4	2

MLEIH FUNDING**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2012**5. EXCEPTIONAL ITEMS**

	2012 \$m	2011 \$m
Reversal of impairment	<u>1,993</u>	<u>-</u>

Following a review of the carrying value of the investment in MLH there was a reversal of a previously recorded impairment of \$1,992,832,555 Refer to note 7

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2012 \$m	2011 \$m
Tax on profit / (loss) on ordinary activities	<u>-</u>	<u>-</u>

The factors affecting the tax charge are noted below.

The tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax in the UK applicable to the Company of 24.5% (2011 26.5%) The differences are explained below

	2012 \$m	2011 \$m
Profit / (Loss) on ordinary activities before tax	<u>2,009</u>	<u>(2)</u>
Profit / (Loss) on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 24.5% (2011 26.5%)	492	-
Effects of		
Tax losses surrendered to affiliated companies for no payment	1	-
Income not subject to taxation	(493)	-
Current tax for the year (see note above)	<u>-</u>	<u>-</u>

MLEIH FUNDING

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2012

7 INVESTMENTS

	Investment in subsidiary undertakings \$m
Cost	
At 31 December 2011	46,467
Additions	35,487
Return of Capital	(21,854)
Disposals	(2,477)
At 31 December 2012	57,623
Impairment	
At 31 December 2011	(35,791)
Reversal of Impairment	1,993
At 31 December 2012	(33,798)
Net book value	
At 31 December 2012	23,825
At 31 December 2011	10,676

The directors believe that the carrying value of the investments is supported by their underlying net assets

On 2 September 2012 and 24 September 2012, the Company issued 1,195,747 and 137,225 shares respectively of \$1 ordinary shares to MLPF&SH Limited in exchange for Merrill Lynch International (MLI) shares at a total consideration of US\$1,605,396,452. On the 2 September 2012, the Company then disposed its MLI shares as a capital contribution to MLH for US\$1,605,396,452.

On 2 September 2012 and 24 September 2012, the Company issued 3,918,132 and 486,084 shares respectively of \$1 ordinary shares to MLEIH in exchange for BAC EMEA Holdings I LLC ("BAC EH I") at a total consideration of US\$5,304,321,761.

On 2 September 2012 the Company purchased BAC EMEA Holdings II LLC ("BAC EH II") at a total consideration of US\$3,375,493,302.

On 2 September 2012, the Company received a return of capital of \$5,304,321,761 from BAC EH I in the form of 66.1% of the issued shares in BofAML Investments. On 4 December 2012 BAC EH I was dissolved.

On 2 September 2012, the Company received a return of capital of \$3,375,493,302 from BAC EH II in the form of 33.9% of the issued shares in BofAML Investments. On 4 December 2012 BAC EH II was dissolved.

On 2 September 2012, the entire issued share capital of the Company was purchased by MLE from MLEIH for a consideration of GBP £10,923,437.

On 26 September 2012, the Company purchased from its direct subsidiary MLH the following subsidiaries: Merrill Lynch Europe Funding for \$86,228,383, Merrill Lynch, Pierce, Fenner & Smith (Brokers & Dealers) for \$29,478,819, Smith Bros Limited for \$1,109,954,490 and ML UK Capital Holdings ("MLUKCH") for \$11,949,843,523.

On 26 September 2012, the Company received a return of capital of \$13,175,505,214 from MLH. At the date on which the return of capital was received the carrying value of the Company's investment in MLH was \$11,331,535,866 and therefore this return of capital resulted in a reversal of a previously recorded impairment of \$1,992,832,555. As at 31 December 2012 the carrying value of the Company's investment in MLH was \$148,863,207.

MLEIH FUNDING

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2012

7 INVESTMENTS (continued)

On 1 October 2012, the Company issued 723,338 shares in exchange for Merrill Lynch Capital Markets AG ("MLCM AG") with a value of \$871,168,709. On the same day the Company then disposed of MLCM AG to MLUKCH in return for shares in MLUKCH for the same value.

Principal Subsidiary Undertakings

The following are the principal undertakings of the Company and are incorporated in the United Kingdom

	Percentage of ownership	Nature of business
Merrill Lynch Europe Funding	100	Funding company
Merrill Lynch UK Finance	37	Funding company
BofAML Investments	100	Holding company
Merrill Lynch, Pierce, Fenner & Smith (Brokers & Dealers)	100	Holding company
Merrill Lynch Holdings Limited	100	Holding company
ML UK Capital Holdings	59	Holding company
Smith Bros Limited	100	Holding company

8. DEBTORS

	2012 \$m	2011 \$m
Amounts due from group companies	20	-

Amounts owed by group companies are unsecured, non interest bearing and have no fixed repayment date

9 CREDITORS: amounts falling due within one year

	2012 \$m	2011 \$m
Amounts owed to group companies	3,733	353

Amounts owed to group companies are unsecured, interest bearing and have no fixed repayment date

MLEIH FUNDING**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2012**10. CALLED UP SHARE CAPITAL**

	2012	2011
	\$m	\$m
Allotted, called up and fully paid	16	3,291

On 6 August 2012 the company reduced its issued share capital from 3,290,950,430 ordinary shares of \$1 each to 10,000,000 ordinary shares of \$1 each by cancellation and extinguishment of 3,280,950,430 Ordinary \$1 shares held by MLEIH. On 2 September, these were subsequently transferred to MLE.

On 2 September 2012 and 24 September 2012, the Company issued 1,195,747 and 137,225 shares respectively of \$1 ordinary shares to MLPF&SH Limited in exchange for MLI shares at a total consideration of \$1,605,396,452.

On 2 September 2012 and 24 September 2012, the Company issued 3,918,132 and 486,084 shares respectively of \$1 ordinary shares to MLEIH in exchange for BAC EMEA Holdings I LLC at a total consideration of \$5,304,321,761.

On 1 October 2012, the Company issued 723,338 shares in exchange for MLCM AG with a value of \$871,168,709.

11. RESERVES

	Share premium account	Profit and loss account
	\$m	\$m
At 31 December 2011	42,226	(35,194)
Converted share premium	(42,226)	-
Premium on shares issued during the year	7,774	-
Capital reduction	-	45,507
Profit for the year	-	2,009
At 31 December 2012	7,774	12,322

On 6 August 2012, the Company reduced its share capital by \$3,290,950,430 (see note 10) and transferred this amount to distributable reserves. At the same time, the Company converted share premium of \$42,225,890,960 into distributable reserves.

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012	2011
	\$m	\$m
Profit / (loss) for the year	2,009	(2)
Issue of new share capital	6	-
Premium on shares issued during the year	7,774	-
Opening shareholder's funds	10,323	10,325
Closing shareholder's funds	20,112	10,323

13. PRINCIPAL RISKS AND UNCERTAINTIES

Legal Entity Governance

Legal entity governance is built on the Bank of America Corporation ("BAC") comprehensive approach to risk management, fully integrating risk management with strategic, financial and customer / client planning so that goals and responsibilities align across BAC. BAC's risk appetite and risk exposures are aligned.

The risk management approach has five components:

- Risk culture,
- Risk philosophy and appetite,
- Risk governance and organisation,
- Risk transparency and reporting, and,
- Risk management processes, including the Identify, Mitigate, Monitor and Report ("IMMR") process which consists of Identify and measure, Mitigate and control, Monitor and test, and Report and review.

IMMR underpins all day-to-day risk management activities and is embedded in each part of our risk management approach.

Focusing on the five components allows us to effectively manage risks across the seven key risk types (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 potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices or credit spreads. The level of market risk is influenced by the volatility and liquidity in the markets in which financial instruments are traded.

Some market risks the company is exposed to are described below.

Interest rate risk

The Company is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of future cash flows. The Company does not hedge this exposure.

Currency risk

The Company is also exposed to currency risk. Currency risk arises from the possibility that fluctuations in foreign exchange rates will affect the value of financial liabilities. The Company manages this risk by entering into offsetting currency positions which create natural hedges to those exposures.

14. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption from related party disclosures available in Paragraph 3(c) of Financial Reporting Standard 8 – "Related Party Disclosures", as both the Company and the related parties are wholly owned subsidiaries of BAC and the consolidated financial statements of the ultimate parent company are publicly available as noted below.

There were no related party transactions other than those with affiliated companies covered by the exemption noted above.

MLEIH FUNDING

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2012**

15 POST BALANCE SHEET EVENTS

On 16 January 2013 the Company entered into a new USD subordinated loan agreement with an affiliated company for \$2,583,448,206. The subordinated loan has maturity 1 February 2019 and interest rate of 1 month USD LIBOR plus 197 basis points.

On 7 March 2013 the Company entered into a new USD subordinated loan agreement with another affiliated company for \$795,887,968. The subordinated loan has maturity 7 March 2019 and interest rate of 1 month USD LIBOR plus 167 basis points.

On 29 May 2013, MLH declared a dividend of \$145,548,783 to the Company.

16 PARENT UNDERTAKINGS

The Company's immediate parent company is Merrill Lynch Europe Limited 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 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 the Corporate Secretary's office, 214 North Tryon Street, Charlotte, North Carolina, 28202, U.S.A. The parent undertaking of the smallest group, including the Company, which prepares group financial statements is MLUKH, a company incorporated in Great Britain. Copies of the group financial statements of MLUKH are available from the Company Secretary, 2 King Edward Street, London, EC1A 1HQ.