In accordance with Regulation 32 of the Overseas Companies Regulations 2009

# OS AA01

## Statement of details of parent law and other information for an overseas company

Companies House

COMPANIES HOUSE

*A5FER3AW*

A07 13/09/2016 #216

TUESDAY

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law

✗ **What this form is NOT for**
You cannot use this form to re[port] an alteration of manner of co[mpliance] with accounting requirements

## Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

| | |
|---|---|
| Corporate name of overseas company ❶ | Merrill Lynch International Bank Designated Activity Company |
| UK establishment number | B R 0 0 8 3 3 9 |

❶ This is the name of the company in its home state

## Part 2 Statement of details of parent law and other information for an overseas company

### A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ❷ COMPANIES ACT 2014

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

### A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸ International Financial Reporting Standards as adopted by the EU

❸ Please insert the name of the appropriate accounting organisation or body

### A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ **No. Go to Section A5**

☑ **Yes Go to Section A4**

## OS AA01
Statement of details of parent law and other information for an overseas company

## A4 Audited accounts

| | | |
|---|---|---|
| Audited accounts | Have the accounts been audited in accordance with a set of generally accepted auditing standards?<br>Please tick the appropriate box.<br>☐ **No.** Go to **Part 3 'Signature'**<br>☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**. | ❶ Please insert the name of the appropriate accounting organisation or body |
| Name of organisation or body ❶ | International Standards on Auditing | |

## A5 Unaudited accounts

| | |
|---|---|
| Unaudited accounts | Is the company required to have its accounts audited?<br>Please tick the appropriate box<br>☐ No<br>☐ Yes |

## Part 3 Signature

| | |
|---|---|
| | I am signing this form on behalf of the overseas company |
| Signature | Signature<br>X Ruby Qi X |
| | This form may be signed by<br>Director, Secretary, Permanent representative. |

# OS AA01

Statement of details of parent law and other information for an overseas company

## Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name

Company name MERRILL LYNCH CORPORATE SERVICES LIMITED

Address 2 KING EDWARD STREET

Post town LONDON

County/Region

Postcode E C 1 A 1 H Q

Country

DX

Telephone

## Checklist

**We may return forms completed incorrectly or with information missing**

**Please make sure you have remembered the following**

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form

## Important information

**Please note that all this information will appear on the public record.**

## Where to send

**You may return this form to any Companies House address:**

**England and Wales:**
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

**Scotland:**
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

**Northern Ireland:**
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

## Further information

For further information, please see the guidance notes on the website at www.companieshouse gov uk or email enquiries@companieshouse.gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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# MERRILL LYNCH INTERNATIONAL BANK LIMITED

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

## CONTENTS

## MERRILL LYNCH INTERNATIONAL BANK LIMITED

## GENERAL INFORMATION

| | |
|---|---|
| **Directors** | Jennifer Taylor – Chairman<br>Peter Keegan – Chief Executive<br>Alexander Wilmot-Sitwell (UK National)<br>Martin Butler (UK National)<br>Jeremy Preddy (UK National)<br>David Guest<br>John G Murphy |
| **Secretary** | Merrill Lynch Corporate Services Limited<br>2 King Edward Street<br>London<br>EC1A 1HQ |
| **Registered Office** | Central Park<br>Leopardstown<br>Dublin 18 |
| **Auditors** | PricewaterhouseCoopers<br>Chartered Accountants and Statutory Auditors<br>One Spencer Dock<br>North Wall Quay<br>Dublin 1 |

## DIRECTORS' REPORT
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The directors present their report and the consolidated financial statements of Merrill Lynch International Bank Limited ("MLIB", the "Company" and together with its subsidiaries, the "Group") for the financial year ended 31 December 2015 MLIB's ultimate parent company and controlling party is Bank of America Corporation ("BAC")

### DIRECTORS' RESPONSIBILITIES STATEMENT

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

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the Group and the Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Group and the Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Group for the financial year

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to

- correctly record and explain the transactions of the company,
- enable, at any time, the assets, liabilities and financial position of the Group and the Company and profit or loss of the Group to be determined with reasonable accuracy, and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited

The directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

**PRINCIPAL ACTIVITIES**

The Group is a banking organisation and has its head office in Ireland with branch offices in Frankfurt, London, Milan and Rome

Pursuant to BAC's legal entity strategy, the Group has largely de-risked itself from Global Markets and Global Banking ("GM & GB") activity and no longer originates new business The Group retains a residual rates and currencies business where the market risk is hedged, and engages in institutional sales activity, which will cease on closure of the Frankfurt branch The Group also retains a small GM & GB legacy loan portfolio which is being run off on loan maturity The Group will complete the migration of its Global Wealth and International Management ("GWIM") portfolio in 2016 The Group's activities are regulated by the Central Bank of Ireland

The Group continues to actively rationalise its branch structure The Paris, Singapore and Toronto branches were closed in 2015 The Group expects to close the Frankfurt, Milan and Rome branches in 2016 and intends to close or transfer its subsidiary companies to affiliates

**BUSINESS ENVIRONMENT**

The Group has minimal exposure to fair value fluctuations and credit risk following significant de-risking of the entity that has been undertaken as per the BAC's legal entity strategy The Group continues to migrate remaining exposures to group affiliates where possible or allow residual positions to mature

**RESULTS AND DIVIDENDS**

The Group's loss for the year on ordinary activities after taxation was $28 million (2014 profit of $10 million) as set out in the consolidated income statement

Net interest income decreased to $61 million (2014 $119 million) driven by lower interest receivable on loans and advances to customers following loan migrations and loan sales throughout 2014 and 2015

Net fees and commissions decreased to $46 million receivable (2014 $90 million receivable) The main driver was a reduction in service fees receivable from affiliates in respect of support services provided by the Group following the transfer of MLIB employees to an affiliate, Bank of America Merrill Lynch International, in January 2015

Included in dealing profits of $6 million (2014 $44 million loss) is the release of funding valuation adjustments ("FVA") on novation of clients to group affiliates Dealing profits also include structured derivative trade losses which are offset by interest income on debt securities that form part of the structured trades

Operating expenses reduced significantly to $118 million (2014 $210 million) The main driver for the decrease was lower personnel costs following the transfer of employees to an affiliate company at the beginning of the year Included within operating expenses is a Banking Resolution and Recovery Directive ("BRRD") levy of $44 million The BRRD was implemented into Irish law in 2015 with the objective of creating a new national resolution fund for financing the cost of future credit institution failures

## RESULTS AND DIVIDENDS (continued)

The Group announced the sale of its GWIM business based outside of the United States to Julius Baer in 2012 Non-operating loss $8 million (2014 $33 million gain) included a business disposal related rebate made to Julius Baer

The Group paid a dividend of $2 billion (2014 $4 billion) to its then parent company, Merrill Lynch UK Capital Holdings, in September 2015

The Group's total capital ratio at 31 December 2015, as reported to the Central Bank of Ireland, was 77% (2014 40%) and was above the minimum requirement The Group's tier 1 capital was $2,221 million (2014 $4,141 million), and the year on year movement was driven principally by the dividend payment to its parent company

## OUTLOOK AND GOING CONCERN

In accordance with its strategic plan, the Group will continue to novate remaining derivative counterparties to BAC affiliates or allow residual positions to mature The Group expects to complete the migration of its GWIM business in 2016

The directors have a reasonable expectation that the Group and Company have adequate resources to execute its strategic plan and to hold sufficient capital resources Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements

## RISK MANAGEMENT

Legal entity governance is built on the BAC comprehensive approach to risk management BAC's risk management objectives and policies are described in the notes to the financial statements The notes also describe the Group's applicable exposures in relation to its key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks), see Note 33

## ACCOUNTING RECORDS

To comply with the requirement that proper books and accounting records are kept in accordance with Sections 281 to 285 of the Companies Act, 2014, the directors have ensured that appropriately qualified accounting personnel have been employed and that appropriate computerised accounting records are maintained The accounting records are located at the Group's registered office

## DIRECTORS AND SECRETARY

The directors who served during the year were

Jennifer Taylor – Chairman

Peter Keegan - Chief Executive

Alexander Wilmot-Sitwell

Keith Pearson (resigned 30 June 2015)

Martin Butler (appointed 22 September 2015)

Jeremy Preddy

David Guest - Independent Non Executive Director

John G Murphy - Independent Non Executive Director

Merrill Lynch Corporate Services Limited continues to be the company secretary having been appointed on 12 May 2005

## DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and the company secretary had no beneficial interest in the shares of the Company or any other group company that are required by the Companies Act 2014 to be recorded in the register of interests or disclosed in the Directors' Report

## CORPORATE GOVERNANCE

The Group's Board of Directors ("the Board") is responsible for effective, prudent and ethical oversight of the Group's business and affairs, setting appropriate business strategies in the best interests of the Group, monitoring and reviewing the performance of the Group and ensuring that risk and compliance are properly monitored and managed within the Group

The Company is subject to the Central Bank of Ireland 2013 Corporate Governance Code for Credit Institutions and Insurance Undertakings (the 2013 Code) The Board formally reviews the corporate governance structure of the Company, including its branches and subsidiaries, on an annual basis to ensure that it meets regulatory and legal requirements and industry best practice

**CORPORATE GOVERNANCE (continued)**

The Board has the authority to discharge its responsibilities through sub-committees and management committees The Board may establish such committees, or eliminate any existing committees as it deems appropriate in accordance with applicable laws and regulations The Board has established three sub-committees Audit Committee, Board Risk Committee and Board Standing Committee Each sub-committee of the Board has the authority and responsibilities set forth in the resolutions creating them and the applicable committee charter These committees perform an important oversight function for the Group and membership includes representatives from the Board, the Chief Executive Officer and other members of the senior management team and risk and control functions, as necessary The charters and composition of the various committees are reviewed at least annually and approved by the Board

In the course of conducting its business operations, the Company and Group are exposed to a variety of risks including market, credit, liquidity and operational risks that require comprehensive controls and ongoing oversight In order to properly identify, measure, monitor and manage these risks, the Board has approved a Risk Appetite Statement which discusses the risk framework and key risk controls and sets a risk appetite defined in terms of risk limits, thresholds and metrics to ensure that risk-taking is consistent with the Company's and Group's business strategy, capital structure and current and anticipated market conditions

The Board Risk Committee ("Risk Committee") is chaired by Mr John G Murphy and its membership includes two additional directors The Risk Committee is responsible for reviewing the Group's risk-taking activities and ensuring that such activities are prudently managed and within the risk appetite agreed for the Group The Risk Committee is supported in its work by the Risk Management Committee and the Operational Risk Committee, who report to the Risk Committee on a routine basis The management committees are responsible for ensuring that the Group's market, credit, operational and liquidity risks (among others) are properly identified, monitored and controlled

The Audit Committee is chaired by Mr David Guest and its membership comprises of two other non-executive directors The Audit Committee monitors and reports to the Board on all audit and compliance matters affecting the Group as well as reviewing and recommending the approval of the annual financial statements to the Board

The Board Standing Committee elects a Chairman from amongst its members at each meeting and its membership comprises of three directors The Board Standing Committee is responsible for approving certain administrative actions to affect any matters that have previously been reviewed and/or approved by the Board subject to certain limitations as set out in the charter The Board relies on the BAC Compensation and Benefits Committee for, amongst other things, establishing remuneration policies and procedures for the Group However, the Board exercises oversight with respect to the Group's compliance with regulatory requirements associated with remuneration

**REGULATORY DISCLOSURES**

Under the guidance of the Central Bank of Ireland, the Group is required to provide certain regulatory disclosures including Pillar 3 disclosures Copies of these disclosures can be obtained directly from the website http //investor bankofamerica com

**CHARITABLE AND POLITICAL CONTRIBUTIONS**

The total sum donated during the year by the Group to charitable organisations was $84,561 (2014 $96,578) The Group provides matched funding of certain contributions made by employees under a Give As You Earn scheme and for donations made by employees to certain specified charities There were no political donations made during the year (2014 $nil)

**ENVIRONMENT**

The facilitation of a clean environment and effective environmental protection is a fundamental aspect of good business operations The Group recognises that its business activities have an impact on the environment, both globally and locally Therefore, it is the Group's policy to minimise any adverse impact of its operations on the environment

**AUDITORS**

The auditors, PricewaterhouseCoopers, Chartered Accountants and Statutory Auditors, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting

This report was approved by the board on 16 March 2016 and signed on its behalf by

| | | | |
|---|---|---|---|
| **Peter Keegan** | **Jennifer Taylor** | **Corporate Secretary** | **Jeremy Preddy** |
| Chief Executive | Chairman | Merrill Lynch Corporate Services Limited | Director |

pwc

***Independent auditors' report to the members of Merrill Lynch International Bank Limited***

## Report on the financial statements

In our opinion·

- Merrill Lynch International Bank Limited's consolidated and company financial statements (the "financial statements") give a true and fair view of the group's and of the company's assets, liabilities and financial position as at 31 December 2015 and of the group's loss and the group's cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

The financial statements comprise:

- the consolidated and company statements of financial position as at 31 December 2015;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of cash flows for the year then ended,
- the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2014

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

## Matters on which we are required to report by the Companies Act 2014

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

pwc

***Independent auditors' report to the members of Merrill Lynch International Bank Limited - continued***

## Matter on which we are required to report by exception

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

## Responsibilities for the financial statements and the audit

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements 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 Irish 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 section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). 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 group's and 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

*Ronan Doyle*
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

16 March 2016

## CONSOLIDATED INCOME STATEMENT
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 $000 | 2014 $000 |
|---|---|---|---|
| **Interest income:** | | | |
| Interest receivable and similar income | | **69,936** | 147,913 |
| Interest payable and similar charges | | **(8,675)** | (29,051) |
| **NET INTEREST INCOME** | 4 | **61,261** | 118,862 |
| **Fees and commissions** | | | |
| Fees and commissions receivable | | **102,594** | 209,245 |
| Fees and commissions payable | | **(56,736)** | (119,492) |
| **NET FEES AND COMMISSIONS RECEIVABLE** | 5 | **45,858** | 89,753 |
| Dealing profits/(losses) | 6 | **6,276** | (44,009) |
| Other operating (losses)/income | 7 | **(11,713)** | 28,739 |
| **TOTAL OPERATING INCOME** | | **101,682** | 193,345 |
| Administrative expenses | 8 | **120,538** | 209,140 |
| Depreciation | | **1,611** | 4,651 |
| Other operating charges | 9 | **311** | 27,723 |
| Decrease in provision for bad and doubtful debts | 33 | **(4,217)** | (31,474) |
| **TOTAL OPERATING EXPENSES** | | **118,243** | 210,040 |
| **NON-OPERATING (LOSS)/INCOME** | 10 | **(8,037)** | 33,277 |
| **(LOSS)/PROFIT BEFORE TAX** | 11 | **(24,598)** | 16,582 |
| Tax on (loss)/profit | 13 | **(3,246)** | (6,263) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(27,844)** | 10,319 |

All gains and losses arise from continuing activities

The notes on pages 17 - 82 form part of these financial statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| (Loss)/Profit for the year | **(27,844)** | 10,319 |
| *Items that may be reclassified to profit or loss* | | |
| Exchange differences on translation of foreign operations | **5,700** | (23,449) |
| Exchange differences on translation of net investment hedge | - | 6,617 |
| Tax effect on movement of net investment hedge | - | 945 |
| Losses on revaluation of available for sale securities | - | (136) |
| *Items that will not be reclassified to profit or loss* | | |
| Actuarial losses relating to retirement schemes | **(1,760)** | (13,989) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(23,904)** | (19,693) |

The notes on pages 17 - 82 form part of these financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | Note | 2015 $000 | 2014 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances at Central Banks | 14 | **90,821** | 237,469 |
| Loans and advances to banks | 15 | **342,513** | 642,917 |
| Loans and advances to customers | 16 | **749,464** | 3,710,234 |
| Market and client receivables | 17 | **1,355,701** | 4,020,797 |
| Debt securities and other fixed income securities | 18 | **1,615,264** | 2,121,643 |
| Trading assets | 33 | **1,672,137** | 11,744,725 |
| Tangible fixed assets | | **6,110** | 8,033 |
| Other assets | 20 | **56,304** | 78,183 |
| **TOTAL ASSETS** | | **5,888,314** | 22,564,001 |
| **LIABILITIES** | | | |
| Deposits by banks | 21 | **2,592** | 53,013 |
| Customer accounts | 22 | **426,513** | 3,333,213 |
| Market and client payables | 23 | **509,544** | 1,337,637 |
| Trading liabilities | 33 | **2,602,800** | 13,503,194 |
| Other liabilities | 25 | **85,442** | 97,701 |
| Accruals | | **29,513** | 42,876 |
| **TOTAL LIABILITIES** | | **3,656,404** | 18,367,634 |
| **SHAREHOLDERS' FUNDS** | | | |
| Share capital | 27 | **32,067** | 32,067 |
| Share premium account | 26 | **-** | 3,898,359 |
| Capital contribution | 26 | **59,447** | - |
| Other reserves | 26 | **1,880,067** | (22,232) |
| Retained earnings | 26 | **260,329** | 288,173 |
| | | **2,231,910** | 4,196,367 |
| **TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES** | | **5,888,314** | 22,564,001 |
| **Memorandum items** | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | 33 | **508,594** | 10,433,294 |

On behalf of the board

| | | | |
|---|---|---|---|
| **Peter Keegan** | **Jennifer Taylor** | **Corporate Secretary** | **Jeremy Preddy** |
| Chief Executive | Chairman | Merrill Lynch Corporate Services Limited | Director |

Date 16 March 2016

The notes on pages 17 to 82 form part of these financial statements

## COMPANY STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | Note | 2015 $000 | 2014 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances at Central Banks | 14 | **88,812** | 235,213 |
| Loans and advances to banks | 15 | **342,513** | 642,917 |
| Loans and advances to customers | 16 | **754,189** | 3,714,535 |
| Market and client receivables | 17 | **1,355,701** | 4,020,367 |
| Debt securities and other fixed income securities | 18 | **1,615,264** | 2,121,643 |
| Trading assets | 33 | **1,672,137** | 11,744,725 |
| Investment in subsidiaries | | **71,371** | 71,371 |
| Tangible fixed assets | | **6,110** | 8,033 |
| Other assets | 20 | **42,353** | 64,777 |
| **TOTAL ASSETS** | | **5,948,450** | 22,623,581 |
| **LIABILITIES** | | | |
| Deposits by banks | 21 | **2,592** | 53,013 |
| Customer accounts | 22 | **541,182** | 3,452,839 |
| Market and client payables | 23 | **509,544** | 1,337,637 |
| Trading liabilities | 33 | **2,602,800** | 13,503,194 |
| Other liabilities | 25 | **85,442** | 97,594 |
| Accruals | | **29,515** | 42,873 |
| **TOTAL LIABILITIES** | | **3,771,075** | 18,487,150 |
| **SHAREHOLDERS' FUNDS** | | | |
| Share capital | 27 | **32,067** | 32,067 |
| Share premium account | 26 | **-** | 3,898,359 |
| Capital contribution | 26 | **59,447** | - |
| Other reserves | 26 | **1,930,153** | 22,048 |
| Retained earnings | 26 | **155,708** | 183,957 |
| | | **2,177,375** | 4,136,431 |
| **TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES** | | **5,948,450** | 22,623,581 |
| **Memorandum items** | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | 33 | **508,594** | 10,433,294 |

On behalf of the board

**Peter Keegan**
Chief Executive

**Jennifer Taylor**
Chairman

**Corporate Secretary**
Merrill Lynch Corporate Services Limited

**Jeremy Preddy**
Director

Date 16 March 2016

The notes on pages 17 to 82 form part of these financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 $000 | 2014 $000 |
|---|---|---|---|
| **Net cash generated from operating activities** | 29 | **1,853,040** | 8,419,992 |
| **Cash flows from investing activities** | | | |
| Proceeds on disposal of fixed assets | | **312** | 10,447 |
| **Net cash generated from investing activities** | | **312** | 10,447 |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(2,000,000)** | (4,065,875) |
| Subordinated debt repaid | | **-** | (4,647,000) |
| **Net cash used in financing activities** | | **(2,000,000)** | (8,712,875) |
| **Net cash movement in cash and cash equivalents** | | **(146,648)** | (282,436) |
| Cash and cash equivalents at beginning of year | | **237,469** | 519,905 |
| **Cash and cash equivalents at end of year** | | **90,821** | 237,469 |

The notes on pages 17 to 82 form part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## AS AT 31 DECEMBER 2015

Movements in shareholders' equity during the year ended 31 December 2015 are as follows

| | Share Capital $000 | Share Premium $000 | Capital Contribution $000 | Other Reserves $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| Loss for the year | - | - | - | - | (27,844) | (27,844) |
| Dividends | - | - | - | (2,000,000) | - | (2,000,000) |
| Conversion of share premium | - | (3,898,359) | - | 3,898,359 | - | - |
| Currency Translation | - | - | - | 5,700 | - | 5,700 |
| Actuarial losses relating to retirement scheme | - | - | - | (1,760) | - | (1,760) |
| Debt forgiveness | - | - | 59,447 | - | - | 59,447 |
| **Total** | - | (3,898,359) | 59,447 | 1,902,299 | (27,844) | (1,964,457) |
| As at 31 December 2014 | 32,067 | 3,898,359 | - | (22,232) | 288,173 | 4,196,367 |
| **As at 31 December 2015** | 32,067 | - | 59,447 | 1,880,067 | 260,329 | 2,231,910 |

Movements in shareholders' equity during the year ended 31 December 2014 are as follows

| | Share Capital $000 | Share Premium $000 | Capital Contribution $000 | Other Reserves $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| Profit for the year | - | - | - | - | 10,319 | 10,319 |
| Dividends | - | - | (4,065,875) | - | - | (4,065,875) |
| Currency Translation | - | - | - | (23,449) | - | (23,449) |
| Actuarial losses relating to retirement scheme | - | - | - | (13,989) | - | (13,989) |
| Net investment hedge | - | - | - | 6,617 | - | 6,617 |
| Tax effect on movement on Net Investment Hedge | - | - | - | 945 | - | 945 |
| Movement on Available for sale reserve | - | - | - | (136) | - | (136) |
| **Total** | - | - | (4,065,875) | (30,012) | 10,319 | (4,085,568) |
| As at 31 December 2013 | 32,067 | 3,898,359 | 4,065,875 | 7,780 | 277,854 | 8,281,935 |
| **As at 31 December 2014** | 32,067 | 3,898,359 | - | (22,232) | 288,173 | 4,196,367 |

The notes on pages 17 to 82 form part of these financial statements

## COMPANY STATEMENT OF CHANGES IN EQUITY
## AS AT 31 DECEMBER 2015

Movements in shareholders' equity during the year ended 31 December 2015 are as follows

| | Share Capital $000 | Share Premium $000 | Capital Contribution $000 | Other Reserves $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| Loss for the year | - | - | - | - | (28,249) | (28,249) |
| Dividends | - | - | - | (2,000,000) | - | (2,000,000) |
| Conversion of share premium | - | (3,898,359) | - | 3,898,359 | - | - |
| Currency Translation | - | - | - | 11,506 | - | 11,506 |
| Actuarial losses relating to retirement scheme | - | - | - | (1,760) | - | (1,760) |
| Debt forgiveness | - | - | 59,447 | - | - | 59,447 |
| **Total** | - | (3,898,359) | 59,447 | 1,908,105 | (28,249) | (1,959,056) |
| As at 31 December 2014 | 32,067 | 3,898,359 | - | 22,048 | 183,957 | 4,136,431 |
| **As at 31 December 2015** | 32,067 | - | 59,447 | 1,930,153 | 155,708 | 2,177,375 |

Movements in shareholders' equity during the year ended 31 December 2014 are as follows

| | Share Capital $000 | Share Premium $000 | Capital Contribution $000 | Other Reserves $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| Profit for the year | - | - | - | - | 10,234 | 10,234 |
| Dividends | - | - | (4,065,875) | - | - | (4,065,875) |
| Currency Translation | - | - | - | (16,934) | - | (16,934) |
| Actuarial losses relating to retirement scheme | - | - | - | (13,989) | - | (13,989) |
| Net investment hedge | - | - | - | 6,617 | - | 6,617 |
| Tax effect on movement on Net Investment Hedge | - | - | - | 945 | - | 945 |
| Movement on Available for sale reserve | - | - | - | (136) | - | (136) |
| **Total** | - | - | (4,065,875) | (23,497) | 10,234 | (4,079,138) |
| As at 31 December 2013 | 32,067 | 3,898,359 | 4,065,875 | 45,545 | 173,723 | 8,215,569 |
| **As at 31 December 2014** | 32,067 | 3,898,359 | - | 22,048 | 183,957 | 4,136,431 |

The notes on pages 17 to 82 form part of these financial statements

## 1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the financial year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 16 March 2016 The Group is a private limited company incorporated and domiciled in Ireland The registered office is located at Central Park, Leopardstown, Dublin 18

## 2 BASIS OF PREPARATION

### 2 1 Basis of preparation of financial statements

The financial statements have been prepared in accordance IFRS issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union, and Irish statute comprising the Companies Act 2014

For all periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with accounting standards generally accepted in Ireland The consolidated and company financial statements for the financial year ended 31 December 2015 are the first to have been prepared in accordance with IFRS as adopted by the EU

### 2.2 First year adoption

The financial statements for the financial year ended 31 December 2015 are the first that the Group has prepared in accordance with IFRS as adopted by the EU

Accordingly, the Group has prepared financial statements which comply with IFRS as adopted by the EU applicable for financial years ending on or after 31 December 2015, together with the comparative year data as at and for the financial year ended 31 December 2014, as described in the accounting policies In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Group's date of transition to IFRS as adopted by the EU

Adoption of IFRS as adopted by the EU has resulted in no opening balance adjustments to the statement of financial position or restatements of the income statement Therefore, no additional reconciliation or comparative disclosure has been provided as a result of the first time adoption

Under Generally Accepted Accounting Practice in Ireland the Group was exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard ("FRS") 1 (Revised 1996) Cash Flow Statements, as a consolidated cash flow statement was included in the publicly available consolidated financial statements of the ultimate parent company, BAC Under IFRSs as adopted by the EU, this exemption is not available and consolidated cash flow statements have been prepared for the financial year ending 31 December 2015 and 31 December 2014

## 2 BASIS OF PREPARATION (continued)

### 2 3 New and amended standards adopted by the Group

There are no IFRS interpretations that are effective for the first time for the financial period beginning on or after 1 January 2015 that had a material impact on the Group or Company

### 2 4 Future accounting developments

All standards or amendments to existing standards which have been endorsed by the European Union ("EU") and which are mandatory for annual periods commencing on or after 1 January 2015 have been adopted by the Group

There are also a number of standards, amendments and interpretations which have been issued IASB but which have not yet been endorsed by the EU The most significant of these is IFRS 9 "Financial Instruments", the planned replacement for International Accounting Standard ("IAS") 39 "Financial Instruments Recognition and Measurement"

IFRS 9 introduces new requirements for the classification and measurement of financial assets, hedge accounting and the impairment of financial assets Under IFRS 9 financial assets are classified and measured based on the business model under which they are held and the characteristic of their contractual cash flows In addition, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected losses, and is replacing the rules based hedging requirements of IAS 39 with new requirements that align hedge accounting more closely with risk management activities

IFRS 9, including the final version of the requirements in respect of impairment, was issued on 24 July 2014 The IASB has decided to require application of IFRS 9 for annual periods beginning on or after 1 January 2018 IFRS 9 is required to be applied retrospectively, but prior periods need not be restated IFRS 9, including its commencement date, will be subject to endorsement by the EU Early adoption is permitted subject to EU endorsement

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods starting on or after 1 January 2018 IFRS 15 provides a principles based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied The standard should be applied retrospectively, with certain practical expedients available

IFRS 16 "Leases" is effective for annual periods beginning on or after 1 January 2019 The IASB issued the new standard on leases in January 2016 Management are currently reviewing the new requirements and the impact on the Company's financial statements will be assessed in due course The standard has not yet been endorsed by the EU

The Group will make detailed assessments of the impact of the above standards during the next twelve months

No other standards that are not yet effective are expected to have a material impact on the Group's results

### 2.5 Presentation of the financial statements

The functional currency is US dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated

## 2. BASIS OF PREPARATION (continued)

### 2.5 Presentation of the financial statements (continued)

Due to the nature of the Group's business and the type of transactions the Group is engaged in, the directors adapted the income statement format to suit the circumstances of the business in accordance with Section 292 of the Companies Act 2014 The format and certain wording of the financial statements have been adapted so that in the opinion of the directors, they more appropriately reflect the nature of the Group's business In the opinion of the directors, the financial statements, with the above changes, provide the information required by the Companies Act 2014

The Group has taken advantage of the exemption in section 304 of the Companies Act, 2014 not to present its company income statement

## 3 ACCOUNTING POLICIES

### 3.1 Accounting convention

The financial statements have been prepared under the historical cost convention, as modified to include certain assets and liabilities (including derivative instruments) at fair value

### 3 2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2015

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group, and are deconsolidated from the date such control ceases The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full

Certain Group companies have entered into securitisation transactions in order to finance specific loans and receivables All financial assets subject to securitisation continue to be held on the Group's statement of financial position and a liability is recognised for the proceeds of the funding received, unless

- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full, or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group,
- in which case the asset will continue to be recognised to the extent of the Group's continuing involvement

### 3.3 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing financial instruments measured at amortised cost using the effective interest method

## 3 ACCOUNTING POLICIES (continued)

### 3 3 Interest income and expense (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or liabilities) and of allocating the interest income or expense over the relevant period The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or liability The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts Interest on impaired assets is recognised using the original effective interest rate on the impaired value of the loan

### 3.4 Fees and commissions

The Group earns fee income from a diverse range of services Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed

Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan Loan syndication revenue is recognised to the extent that the fee received exceeds the relative effective interest rate earned by other participants

Fees and commissions also include charges made to affiliated undertakings to remunerate services provided or reimburse expenditures incurred by the Group These are recognised on an accruals basis

### 3.5 Dealing profits

Dealing profits include net realised and unrealised gains and losses from marking to market all trading instruments on a daily basis

### 3.6 Financial assets

#### 3.6 1 Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets Management determines the classification of its financial assets at initial recognition

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs

Purchases of financial assets are recognised when the Group enters into contractual arrangements with counterparties In general, funding financial instruments (e g loans) are recognised and derecognised on a value (settlement) date basis and trading instruments (e g debt securities, derivatives, etc ) are recognised and derecognised on a trade date basis Traded loans are recognised and derecognised on a value (settlement) date basis

## 3 ACCOUNTING POLICIES (continued)

### 3 6.2 Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows

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

Financial assets are classified as held for trading or designated at fair value through profit or loss at inception

Financial assets classified as held for trading are acquired principally for the purpose of selling in the short term Derivatives are also categorised as held for trading unless they are designated as hedging instruments

Financial assets are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related liabilities were treated as held for trading and the underlying financial assets were carried at amortised cost 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

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through profit or loss, or those for which the entity may not recover substantially all of its initial investment, for reasons other than credit deterioration

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 impairment

Interest calculated using the effective interest method is recognised in the income statement on an accruals basis

**(c) Available-for-sale ("AFS") financial assets**

AFS 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

AFS financial assets are initially recognised at fair value including direct and incremental transaction costs Interest is calculated using the effective interest rate method, and is recognised in the income statement on an accruals basis Gains or losses arising from changes in the fair value of AFS financial assets are recognised directly in the statement of other comprehensive income and presented in the available for sale reserve in equity, until the financial asset is disposed of, at which time the cumulative gain or loss previously recognised in equity are reclassified to the income statement

## 3. ACCOUNTING POLICIES (continued)

### 3.6 2 Subsequent measurement (continued)

#### (c) Available-for-sale ("AFS") financial assets (continued)

Foreign exchange gains and losses on AFS financial assets are recognized in the income statement Impairment losses are also recognised in the income statement

### 3 6.3 Derecognition

Financial assets are derecognised when the Group either transfers substantially all the risks and rewards of the asset or transfers control over the asset Financial liabilities are derecognised when the Group legally extinguishes the liability Where the risks and rewards of financial assets are substantially retained, the Group continues to recognise the asset on its statement of financial position and records an associated liability for the consideration received In the event the Group neither transfers nor retains substantially all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset to the extent of its continuing involvement and an associated liability measured on a basis that reflects the rights and obligations retained by the Group

### 3.7 Impairment of loans and receivables

Impairment losses on loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred Impairment losses are calculated on individual loans and on loans assessed collectively

**Individually assessed loans**

For all loans that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date if there is any objective evidence that a loan is impaired

Impairment provisions are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount To the extent that the carrying amount is greater than the discounted expected future cash flows, the excess is charged to the income statement account The carrying amount of impaired loans on the statement of financial position is reduced through the use of an allowance account

Objective evidence of impairment may exist if one or more of the following events have occurred

- significant financial difficulty of the issuer or obligor,
- a breach of contract, such as a default or delinquency in interest or principal payments,
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation,
- the disappearance of an active market for that financial asset because of financial difficulties, or

## 3. ACCOUNTING POLICIES (continued)

### 3.7 Impairment of loans and receivables (continued)

**Individually assessed loans (continued)**

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including
  i) adverse changes in the payment status of borrowers in the group (e g an increased number of delayed payments), or
  ii) national or local economic conditions that correlate with defaults on the assets in the group (e g an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group)

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly The reversal is recognised in the income statement Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic expectation of recovery of these amounts

**Collectively assessed loans**

Impairment is assessed on a collective basis in the following circumstances
- loans that are considered individually insignificant (collective impaired provisions), and
- loan losses that have been incurred but that had not been separately identified at the statement of financial position date (latent provisions)

Individually assessed loans for which no evidence of loss has been specifically identified and which are not in arrears are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss This reflects impairment losses incurred at the reporting date which will only be individually identified in the future

The collective impairment allowance is determined after taking into account
- historical loss experience in portfolios with similar credit risk characteristics,
- the estimated period between impairment occurring and the loss being identified, and
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience

### 3 8 Financial liabilities

#### 3 8.1 Initial recognition and subsequent measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities The Group determines the classification of its financial liabilities at initial recognition

All financial liabilities are recognised initially at fair value

## 3 ACCOUNTING POLICIES (continued)

### 3 8 Financial liabilities (continued)

#### 3 8.1 Initial recognition and subsequent measurement (continued)

**(a) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term This category includes derivative financial instruments entered into by the Group

Gains or losses on liabilities held for trading are recognised in the income statement

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss

**(b) Other financial liabilities**

The Group's other financial liabilities includes client deposits and trade and other payables

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process

#### 3.8 2 Derecognition

Financial liabilities are derecognised when the obligation under the liability is discharged, is cancelled or expires

### 3 9 Fair value

The fair value of a financial instrument at initial recognition is the transaction price (i e the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i e without modification or repackaging) or based on a valuation technique whose variables include data from observable markets, such as interest rate yield curves, option volatilities and currency rates When such evidence exists, the Group recognises a trading gain or loss at inception of the financial instrument

The Group has entered into transactions where fair value is determined using valuation models for which not all significant inputs are market observable prices or rates Such trading instruments are initially recognised at the model valuation price, which differs from the transaction price The difference between the fair value as represented by the model valuation price and the transaction price is not recognised immediately in the income statement, but is deferred until the instrument's fair value can be determined using market observable inputs, or is realised Subsequent changes in fair value are recognised immediately in the income statement

## 3 ACCOUNTING POLICIES (continued)

### 3.9 Fair value (continued)

The fair values of quoted investments in active markets are based on current prices If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants More detailed information in relation to the fair value of financial instruments is included in Note 31

### 3.10 Offsetting financial instruments

In general, financial instruments are reported separately as assets and liabilities regardless of whether a legal right of set-off exists under a master offsetting agreement enforceable in law as there is no intention to settle net under such an agreement in the ordinary course of business However, where the Group 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 Group has the legal right to do so, the balance included within the financial statements is the net balance due to or due from the counterparty

### 3.11 Derivative financial instruments and hedge accounting

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value Fair values are obtained from quoted market prices in active markets where available Where derivatives are not quoted in an active market, appropriate valuation techniques are used including recent market transactions, discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"), or hedges of a net investment in a foreign operation ("net investment hedge")

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged item that are attributable to the hedged risk Effective changes in fair value of interest rate swaps and related hedged items are reflected in interest income Any ineffectiveness is recorded in dealing profits

## 3. ACCOUNTING POLICIES (continued)

### 3 11 Derivative financial instruments and hedge accounting (continued)

#### Fair value hedge (continued)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity using the effective interest method Unless the hedged item has been derecognized, in which case it is recognized in the income statement immediately

### 3.12 Market and client receivables and payables

Receivables from and payables to customers include amounts related to cash collateral and amounts due on cash and margin transactions Due to their short term nature, such amounts approximate fair value

### 3 13 Sale and repurchase agreements

Securities sold under agreements to repurchase and securities purchased under agreements to resell are recorded as financing transactions at the amount received or paid and are measured at amortised cost using the effective interest method Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received and are measured at amortised cost using the effective interest method The difference between the sale and repurchase price for the above transactions is treated as interest and is amortised over the life of the agreement using the effective interest method

### 3 14 Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated 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

| | |
|---|---|
| Leasehold improvements | - 3 to 10 years |
| Furniture and fittings | - 5 to 10 years |
| Communication equipment | - 2 to 5 years |
| Computer equipment | - 2 to 4 years |

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

### 3.15 Leases

All leases are operating leases and the annual rentals are charged to the income statement on an accruals basis in the accounting period to which they relate

## 3 ACCOUNTING POLICIES (continued)

### 3.16 Statement of cash flows

The consolidated statement of cash flows is prepared according to the indirect method The consolidated statement of cash flows shows the Group's cash flows for the period divided into cash flows from operating, investing and financing activities and how the cash flows have affected the Group's cash

### 3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks

### 3.18 Taxation

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

Current tax including Irish corporation tax and foreign taxes, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position 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 statement of financial position 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

### 3.19 Investments

Investments in subsidiaries are stated at cost less provisions for impairment At each reporting date, the Company assesses whether there is any indication that its investments are impaired Impairment tests are done 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 the fair value of the underlying asset The carrying amount of the asset is reduced accordingly and the amount of the loss is recognised in the income statement

### 3.20 Segmental analysis

The Group operates two principal activities, comprising Global Markets and Global Wealth and Investment Management The Board review and analyse performance of the Group based on these activities Segment performance is not analysed geographically as the Group operates globally under one management structure

## 3. ACCOUNTING POLICIES (continued)

### 3.21 Share based payments

BAC grants equity and cash settled share based payment awards to employees of the Group under various incentive schemes

As this is a group share based payment arrangement, all awards are treated 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 Group'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 Expenses relating to share based payments are included within administrative expenses

### 3.22 Pensions

The Group participates in a number of defined benefit and defined contribution pension schemes These schemes are generally funded with the assets held in separate trustee administered funds

The Group participates in a multi-employer defined benefit scheme where there is no contractual agreement for recharging the net defined benefit cost for the plan as a whole to the participating entities The net defined benefit cost is recognised in the financial statements of the sponsoring entity

The Group also operates a defined benefit scheme in Germany where the plan is unfunded The liabilities of this scheme are measured on an actuarial basis using the projected unit method

The major defined contribution schemes that the Group participates in are the Merrill Lynch (UK) Defined Contribution Plan and the Bank of America Merrill Lynch UK Pension Plan – Money Purchase Section The costs of defined contribution schemes are a percentage of each employee's plan salary based on their length of service with the Group and are charged to the income statement in the period in which they fall due

### 3 23 Translation of foreign currencies

The financial statements are presented in US dollars which is the Group's functional currency

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US dollars at the rate of exchange prevailing on the date of the transaction Monetary assets and liabilities are translated into US dollars at the market rates of exchange ruling at the statement of financial position date Exchange differences arising from the translation of foreign currencies are reflected in the income statement

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction

## 3 ACCOUNTING POLICIES (continued)

### 3 23 Translation of foreign currencies (continued)

The financial statements of branches and subsidiaries whose functional currency is not US dollars are translated into US dollars at the closing rate for the statement of financial position and at the average rate of exchange for the period for the income statement Translation differences arising on the income statement for the current period and on opening net assets are reflected as a movement in the statement of other comprehensive income

### 3 24 Provisions

The Group recognises a provision when it has a present obligation (whether legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

Contingent liabilities are not recognised in the financial statements but are disclosed

### 3 25 Dividends

Dividends paid and received are recognised when the Group's right to make/receive payment is established

### 3.26 Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires the Board of Directors to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant Actual results may differ from these estimates The following significant accounting policies are made to determine fair values that require complex estimates

Financial instruments measured at fair value

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

## 4. INTEREST INCOME

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Interest receivable and similar income** | | |
| Loans and advances to banks | 694 | 1,631 |
| Loans and advances to customers | 33,540 | 98,342 |
| Debt securities and other fixed income securities | 34,314 | 44,040 |
| Loans to affiliates | 1,388 | 3,900 |
| | 69,936 | 147,913 |
| **Interest payable and similar charges** | | |
| Deposits by banks | 10 | (291) |
| Customer accounts | (5,344) | (10,187) |
| Loans from affiliates | (765) | (15,960) |
| Negative interest | (1,465) | - |
| Other | (1,111) | (2,613) |
| | (8,675) | (29,051) |
| **Net interest income** | 61,261 | 118,862 |

## 5. FEES AND COMMISSIONS

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Receivable** | | |
| Intercompany service fees | 55,476 | 133,354 |
| Investment banking fees | 33,946 | 41,654 |
| Private client fees | (1,384) | 11,797 |
| Commissions | (10) | 3,144 |
| Other fees | 14,566 | 19,296 |
| | 102,594 | 209,245 |
| **Payable** | | |
| Intercompany service fees | (45,847) | (106,449) |
| Brokerage fees | (150) | 2,726 |
| Exchange and clearing house fees | (85) | (799) |
| Other fees | (10,654) | (14,970) |
| | (56,736) | (119,492) |
| **Net fees and commissions receivable** | 45,858 | 89,753 |

## 6 DEALING PROFITS/(LOSSES)

Dealing profits/(losses) comprise the gains and losses on financial instruments held for trading It includes the gains and losses arising from the purchase and sale of these instruments and the fair value movement of these instruments which incorporates credit valuation and funding valuation adjustments Instruments traded include foreign exchange spot and forward contracts, currency swaps and options, interest rate swaps and options and loans Further details on these instruments can be found in Note 33

## 7 OTHER OPERATING (LOSSES)/INCOME

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| Foreign exchange revaluation | **(16,173)** | 16,760 |
| Other | **4,460** | 11,979 |
| | **(11,713)** | 28,739 |

## 8. ADMINISTRATIVE EXPENSES

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| Wages and salaries | **38,876** | 124,372 |
| Social insurance | **3,670** | 12,404 |
| Pension costs (Note 24) | **6,210** | 10,766 |
| Professional fees | **6,764** | 17,512 |
| Occupancy and related depreciation | **1,751** | 10,194 |
| Communications and technology | **7,122** | 21,621 |
| Bank and Investment Firm Resolution Fund | **44,326** | - |
| Other administrative expenses | **11,819** | 12,271 |
| | **120,538** | 209,140 |

| **Average number of persons employed·** | **2015** | **2014** |
|---|---|---|
| Sales and trading | **29** | 53 |
| Sales and trading support | **14** | 35 |
| Other support services | **130** | 720 |
| | **173** | 808 |

The above averages include Group staff in Ireland and overseas operations

## 9 OTHER OPERATING CHARGES

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| Realised loss on sale of loans | **311** | 27,723 |

## 10 NON-OPERATING (LOSS)/INCOME

| | 2015 $000 | 2014 $000 |
|---|---|---|
| (Loss)/Gain on GWIM business divestiture | **(8,037)** | 33,277 |
| | **(8,037)** | 33,277 |

Non-operating loss $8 million (2014 $33 million gain) included a business disposal related rebate made to Julius Baer

## 11. (LOSS)/PROFIT BEFORE TAX

The (loss)/profit before tax is stated after charging/(crediting)

| | 2015 $000 | 2014 $000 |
|---|---|---|
| Depreciation of tangible fixed assets | **1,611** | 4,651 |
| *Directors' remuneration* | | |
| Fees paid by the Group | **133** | 223 |
| Other emoluments | **1,438** | 2,976 |
| Operating lease rentals | **4,562** | 12,448 |

Included within other emoluments is $50,919 (2014 $84,141) in respect of directors' pension contributions

| | 2015 $000 | 2014 $000 |
|---|---|---|
| Audit fees and non-audit fees for the Group included within administrative expenses were are follows (including expenses, excluding VAT) | | |
| *Total audit fees* | | |
| Fees payable to the Group's auditors for the audit of the Group's financial statements | **1,031** | 1,474 |
| *Total non-audit fees* | | |
| Fees payable to the Group's auditors for all other services<br>Other assurance, tax advisory and other non-audit services | **265** | 448 |

Included within fees payable to the Group's auditors for the audit of the Group's financial statements is $305,000 (2014 $496,000) in relation to the audit of the Company's financial statements

## 12. (LOSS)/PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE COMPANY

Of the consolidated loss after tax for the financial year, a loss of $28 million (2014 profit of $10 million) is attributable to the operations of the Company The income statement of the Company is not presented by virtue of the exemption contained within Section 304 of the Companies Act 2014

## 13. TAXATION

| | 2015 $000 | 2014 $000 |
|---|---|---|
| *Taxation charge on (loss)/profit* | | |
| Corporation tax | **3,208** | 7,172 |
| Adjustments in respect of prior periods | **38** | (909) |
| | **3,246** | 6,263 |

Factors affecting tax charge for the year

The current tax for the year differs from the current tax that would result from applying the standard rate of Irish Corporation tax of 12 5% (2014 12 5%) to the loss/(profit) on ordinary activities The difference is explained below

| | 2015 $000 | 2014 $000 |
|---|---|---|
| (Loss)/profit before tax | **(24,598)** | 16,582 |
| (Loss)/profit multiplied by the standard rate of Irish corporation tax of 12 5% (2014 12 5%) | **(3,075)** | 2,073 |
| **Effects of:** | | |
| Impact of foreign taxes | **3,290** | 7,843 |
| Other timing differences leading to an increase/(decrease) in taxation | **3,236** | (160) |
| Non-taxable income | **1,005** | (4,160) |
| Other differences leading to a (decrease)/increase in the tax charge | **(1,248)** | 1,576 |
| **Current tax charge** | **3,208** | 7,172 |

The corporate tax rates for the branches of the Group are shown below

| | | | |
|---|---|---|---|
| Ireland | 12 50% | Germany | 32 00% |
| UK | 20 25% | Italy | 27 50% |

## 14. CASH AND BALANCES AT CENTRAL BANKS

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Group** | | |
| Cash in hand | **82,456** | 227,121 |
| Balances with Central Banks other than mandatory reserve deposits | **8,295** | 9,121 |
| Mandatory reserve deposits with Central Banks | **70** | 1,227 |
| | **90,821** | 237,469 |
| **Company** | | |
| Cash in hand | **80,447** | 224,865 |
| Balances with Central Banks other than mandatory reserve deposits | **8,295** | 9,121 |
| Mandatory reserve deposits with Central Banks | **70** | 1,227 |
| | **88,812** | 235,213 |

## 15. LOANS AND ADVANCES TO BANKS

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Group and Company** | | |
| *Analysed by remaining maturity* | | |
| Repayable on demand | **3,909** | 635,521 |
| 3 months or less but not on demand | **338,604** | 7,396 |
| | **342,513** | 642,917 |

Included above are amounts due from affiliate companies at 31 December 2015 amounting to $343 million (2014 $643 million)

## 16. LOANS AND ADVANCES TO CUSTOMERS

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Group** | | |
| *Analysed by remaining maturity* | | |
| Repayable on demand | **334,675** | 1,770,879 |
| 3 months or less but not on demand | **292,116** | 1,333,093 |
| 1 year or less but over 3 months | **42,029** | 224,171 |
| 5 years or less but over 1 year | **79,644** | 381,091 |
| Over 5 years | **1,000** | 1,000 |
| | **749,464** | 3,710,234 |

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Company** | | |
| *Analysed by remaining maturity* | | |
| Repayable on demand | **339,400** | 1,775,180 |
| 3 months or less but not on demand | **292,116** | 1,333,093 |
| 1 year or less but over 3 months | **42,029** | 224,171 |
| 5 years or less but over 1 year | **79,644** | 381,091 |
| Over 5 years | **1,000** | 1,000 |
| | **754,189** | 3,714,535 |

Included in the Group and Company tables above are amounts due from affiliate companies at 31 December 2015 amounting to $45 million (2014 $522 million)

There were provisions for bad and doubtful debts of $6 million as at 31 December 2015 (2014 $49 million) against assets in the Group's and Company's portfolio Further information is given in Note 33 under credit risk impairment

## 17. MARKET AND CLIENT RECEIVABLES

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Group** | | |
| *Analysed by remaining maturity* | | |
| On demand | **1,355,701** | 4,020,797 |
| **Company** | | |
| *Analysed by remaining maturity* | | |
| On demand | **1,355,701** | 4,020,367 |

Market and client receivables mainly relate to cash collateral

## 18 DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Group and Company** | | |
| **Held for trading:** | | |
| *Listed securities* | | |
| Government securities | **1,518,105** | 1,913,267 |
| Corporate bonds | **90,819** | 67,076 |
| *Unlisted securities* | | |
| Corporate debt | **6,340** | 42,213 |
| | **1,615,264** | 2,022,556 |
| **Available for sale** | | |
| *Unlisted securities* | | |
| Corporate bonds | **-** | 99,087 |
| | **-** | 99,087 |
| Total debt securities and other fixed income securities | **1,615,264** | 2,121,643 |
| *Analysed by remaining maturity* | | |
| Due within one year | **712,207** | 387,188 |
| Due one year and over | **903,057** | 1,734,455 |
| | **1,615,264** | 2,121,643 |

The movement on available-for-sale financial assets is analysed below

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Group and Company** | | |
| At start of the year | **99,087** | 327,941 |
| Revaluation, exchange and other adjustments | **(8,678)** | (13,993) |
| Redemptions/disposals | **(90,409)** | (214,861) |
| **At end of the year** | **-** | 99,087 |

The principal risks associated with holdings of debt securities and other fixed income securities are dealt with in detail in Note 33

## 19. DEFERRED TAXATION

Management is of the opinion that it is more likely than not that the Group and Company will not be able to generate sufficient future taxable income to recover the deferred tax asset recognised as at the reporting date, having considered historic performance The amount of deferred tax asset not recognised by the Group and Company for the financial year ended 31 December 2015 was $507m (2014 $558m), principally in relation to tax losses

## 20. OTHER ASSETS

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| **Group** | | |
| Prepaid taxation | **13,211** | 21,089 |
| Prepayments, accrued income and other | **31,680** | 36,795 |
| Claims receivable | **2,479** | 3,033 |
| Interest receivable | **8,934** | 17,266 |
| | **56,304** | 78,183 |
| **Company** | | |
| Prepaid taxation | **13,211** | 21,089 |
| Prepayments, accrued income and other | **17,729** | 23,389 |
| Claims receivable | **2,479** | 3,033 |
| Interest receivable | **8,934** | 17,266 |
| | **42,353** | **64,777** |

## 21 DEPOSITS BY BANK

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| **Group and Company** | | |
| *Analysed by remaining maturity* | | |
| Due within one year | **2,592** | 47,284 |
| Over 5 years | **-** | 5,729 |
| | **2,592** | 53,013 |

## 22 CUSTOMER ACCOUNTS

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| **Group** | | |
| *Analysed by remaining maturity* | | |
| Repayable on demand | **405,220** | 3,117,817 |
| 3 months or less but not on demand | **18,874** | 192,815 |
| 1 year or less but over 3 months | **2,419** | 22,271 |
| 5 years or less but over 1 year | **-** | 310 |
| | **426,513** | 3,333,213 |

## 22 CUSTOMER ACCOUNTS (continued)

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Company** | | |
| *Analysed by remaining maturity* | | |
| Repayable on demand | **519,890** | 3,237,443 |
| 3 months or less but not on demand | **18,874** | 192,815 |
| 1 year or less but over 3 months | **2,418** | 22,271 |
| 5 years or less but over 1 year | **-** | 310 |
| | **541,182** | 3,452,839 |

Included in the Group and Company tables above are amounts due to affiliate companies at 31 December 2015 amounting to $256 million (2014 $845 million) No amounts are due to the Group's immediate parent company, Bank of America Merrill Lynch EMEA Holdings 1 Limited (2014 $nil to Merrill Lynch UK Capital Holdings)

## 23. MARKET AND CLIENT PAYABLES

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Group and Company** | | |
| *Analysed by remaining maturity* | | |
| On demand | **509,544** | 1,337,637 |

Market and client payables mainly relate to cash collateral

## 24 PENSIONS

The Group participates in a number of defined benefit and defined contribution pension schemes throughout Europe The schemes are funded with the assets held in separate trustee administered funds

**Defined benefit scheme – United Kingdom**

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

The Group is one of a number of BAC employer companies which participate in the Plan On 21 December 2015, Merrill Lynch International became the sponsoring entity to the Plan Prior to 21 December 2015 Merrill Lynch UK Holdings ("MLUKH"), an affiliated Company, was the sponsoring entity

The net defined benefit asset for the Plan is recorded in the financial statements of Merrill Lynch International and required disclosures under IAS 19 are provided in that company's financial statements

## 24 PENSIONS (continued)

**Defined benefit scheme – Germany**

A defined benefit scheme is operated in Germany where the plan is unfunded The main economic assumptions for determining the costs of that scheme are as follows

| **Date of latest valuation** | **31 December 2015** |
|---|---|
| Compensation growth | 3 00% |
| Discount rate | 2 00% |

The German scheme's liabilities at 31 December 2015 were $80 million (2014 $86 million) and are provided in the accounts (see Note 25) In line with German business practices, this defined benefit pension scheme is not funded The scheme's liabilities represent the net present value of future pension obligations to eligible past and current employees These pension obligations are partially covered by an independent insurance provider

The Group's pension cost for the year in respect of defined benefit schemes was $4,077,000 (2014 $6,347,000)

Included within the Statement of Changes in Equity are actuarial losses of $1,760,000 (2014 $13,989,000) in relation to the German scheme

**Defined contribution schemes**

The major defined contribution schemes are the Merrill Lynch (UK) Defined Contribution Plan and the Bank of America Merrill Lynch UK Pension Plan – Money Purchase Section The costs of defined contribution schemes are a percentage of each employee's plan salary based on their length of service and are charged to the income statement in the period in which they fall due

The Group's pension cost for the year in respect of defined contribution schemes was $2,133,000 (2014 $4,419,000)

## 25 OTHER LIABILITIES

| | **2015** | **2014** |
|---|---|---|
| | **$000** | **$000** |
| **Group** | | |
| Provision for pensions | **80,367** | 85,736 |
| Corporate tax payable | **716** | 437 |
| Other accruals | **3,566** | 9,056 |
| Payroll taxes | **787** | 2,471 |
| VAT | **6** | 1 |
| | **85,442** | 97,701 |

## 25 OTHER LIABILITIES (continued)

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Company** | | |
| Provision for pensions | **80,367** | 85,736 |
| Corporate tax payable | **716** | 437 |
| Other accruals | **3,566** | 8,949 |
| Payroll taxes | **787** | 2,471 |
| VAT | **6** | 1 |
| | **85,442** | 97,594 |

The provision for pensions relates to a defined benefit scheme operated in Germany See Note 24 for more details

## 26. CAPITAL CONTRIBUTIONS AND OTHER RESERVES

### Capital contribution

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

### Other reserves

Other reserves comprise

During the financial year share premium of $3 9 billion was converted to distributable reserves and a dividend of $2 billion was paid

Currency translation reserve which consists of translation differences arising on the profit and loss for the current year and on opening reserves of branches whose functional currency is not US Dollars

Actuarial losses on the German defined benefit pension scheme (see Note 24)

## 27. CALLED UP SHARE CAPITAL

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **Allotted, called up and fully paid** | | |
| 9,207,075 (2014 9,207,075) ordinary shares of $1 each | **9,207,075** | 9,207,075 |
| 14,320,617 (2014 14,320,617) A ordinary shares of $1 each | **14,320,617** | 14,320,617 |
| 377 (2014 377) B ordinary shares of $1 each | **377** | 377 |
| 163 (2014 163) IR ordinary shares of $1 each | **163** | 163 |
| 4,012 (2014 4,012) IT ordinary shares of $1 each | **4,012** | 4,012 |
| 1,080 (2014 1,080) NL ordinary shares of $1 each | **1,080** | 1,080 |
| 426,642 (2014 426,642) S ordinary shares of $20 each | **8,532,840** | 8,532,840 |
| 846 (2014 846) SP ordinary shares of $1 each | **846** | 846 |
| | **32,067,010** | 32,067,010 |

All shares in issue at 31 December 2015 rank pari passu in all respects save that upon the return of capital, such capital shall be applied in the following order of priority Ordinary Shares followed by the B Ordinary Shares, IR Ordinary Shares, IT Ordinary Shares, NL Ordinary Shares, SP Ordinary Shares, A Ordinary Shares and finally the S Ordinary Shares Any surplus after the repayment of such amounts shall be distributed between the holders of the shares in proportion to their holdings

## 28. DIVIDENDS

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| Dividend paid $83 47 (2014 $169 69) per share | **2,000,000** | 4,065,875 |

On 10 September 2015, the Group declared a dividend of $2,000,000,000 (2014 $4,065,875,000) to its then parent company Merrill Lynch UK Capital Holdings which was paid on 14 September 2015

## 29. NOTE TO THE CASH FLOW STATEMENT

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **(Loss)/Profit before tax** | **(24,598)** | 16,582 |
| **Adjustments to (loss)/profit** | | |
| Depreciation | **1,611** | 4,651 |
| Provision for bad and doubtful debt | **(4,217)** | (31,474) |
| | **(2,606)** | (26,823) |
| **Change in operating assets** | | |
| Change in loans and advances to banks | **300,404** | 2,816,809 |
| Change in loans and advances to customers | **2,964,987** | 10,961,412 |
| Change in loans market and client receivables | **2,665,096** | 9,557,767 |
| Change in debt securities and other fixed income securities | **506,379** | 2,623,909 |
| Change in trading assets | **10,072,588** | 357,205,764 |
| Change in other assets | **16,932** | 33,623 |
| | **16,526,386** | 383,199,284 |
| **Change in operating liabilities** | | |
| Change in deposits by banks | **(50,421)** | (4,965) |
| Change in customer accounts | **(2,847,253)** | (7,242,701) |
| Change in market and client payables | **(828,093)** | (14,862,860) |
| Change in trading liabilities | **(10,900,394)** | (352,537,190) |
| Change in other liabilities | **(14,019)** | (62,696) |
| Change in accruals and deferred income | **(13,363)** | (25,405) |
| | **(14,653,543)** | (374,735,817) |
| Foreign currency translation | **5,700** | (23,449) |
| Taxes paid | **1,701** | (9,785) |
| Net cash generated from operating activities | **1,853,040** | 8,419,992 |

## 30. FINANCIAL INSTRUMENTS BY CATEGORY

The following tables analyse the carrying amount of the Group's financial assets and liabilities by category and by statement of financial position heading

| Group 2015 | Held for trading $M | Loans and receivables $M | Other financial liabilities $M | Total $M |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at Central Banks | - | 91 | - | 91 |
| Loans and advances to banks | - | 343 | - | 343 |
| Loans and advances to customers | - | 749 | - | 749 |
| Market and client receivables | - | 1,356 | - | 1,356 |
| Debt securities and other fixed income securities | 1,615 | - | - | 1,615 |
| Trading assets | 1,672 | - | - | 1,672 |
| | 3,287 | 2,539 | - | 5,826 |
| **LIABILITIES** | | | | |
| Deposits by banks | - | - | 3 | 3 |
| Customer accounts | - | - | 427 | 427 |
| Market and client payables | - | - | 510 | 510 |
| Trading liabilities | 2,603 | - | - | 2,603 |
| | 2,603 | - | 940 | 3,543 |

| Group 2014 | Held for trading $M | Loans and receivables $M | Available for sale $M | Other financial liabilities $M | Total $M |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances at Central Banks | - | 237 | - | - | 237 |
| Loans and advances to banks | - | 643 | - | - | 643 |
| Loans and advances to customers | - | 3,710 | - | - | 3,710 |
| Market and client receivables | - | 4,021 | - | - | 4,021 |
| Debt securities and other fixed income securities | 2,023 | - | 99 | - | 2,122 |
| Trading assets | 11,745 | - | - | - | 11,745 |
| | 13,768 | 8,611 | 99 | - | 22,478 |
| **LIABILITIES** | | | | | |
| Deposits by banks | - | - | - | 53 | 53 |
| Customer accounts | - | - | - | 3,333 | 3,333 |
| Market and client payables | - | - | - | 1,338 | 1,338 |
| Trading liabilities | 13,503 | - | - | - | 13,503 |
| | 13,503 | - | - | 4,724 | 18,227 |

## 30 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The following tables analyse the carrying amount of the Company's financial assets and liabilities by category and by statement of financial position heading

| Company 2015 | Held for trading $M | Loans and receivables $M | Other financial liabilities $M | Total $M |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at Central Banks | | 89 | - | 89 |
| Loans and advances to banks | | 343 | - | 343 |
| Loans and advances to customers | | 754 | - | 754 |
| Market and client receivables | | 1,356 | - | 1,356 |
| Debt securities and other fixed income securities | 1,615 | | - | 1,615 |
| Trading assets | 1,672 | | - | 1,672 |
| | 3,287 | 2,542 | - | 5,829 |
| **LIABILITIES** | | | | |
| Deposits by banks | - | - | 3 | 3 |
| Customer accounts | - | - | 541 | 541 |
| Market and client payables | - | - | 510 | 510 |
| Trading liabilities | 2,603 | - | - | 2,603 |
| | 2,603 | - | 1,054 | 3,657 |

| Company 2014 | Held for trading $M | Loans and receivables $M | Available for sale $M | Other financial liabilities $M | Total $M |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances at Central Banks | - | 235 | - | - | 235 |
| Loans and advances to banks | - | 643 | - | - | 643 |
| Loans and advances to customers | - | 3,715 | - | - | 3,715 |
| Market and client receivables | - | 4,020 | - | - | 4,020 |
| Debt securities and other fixed income securities | 2,023 | - | 99 | - | 2,122 |
| Trading assets | 11,745 | - | - | - | 11,745 |
| | 13,768 | 8,613 | 99 | - | 22,480 |
| **LIABILITIES** | | | | | |
| Deposits by banks | - | - | - | 53 | 53 |
| Customer accounts | - | - | - | 3,453 | 3,453 |
| Market and client payables | - | - | - | 1,338 | 1,338 |
| Trading liabilities | 13,503 | - | - | - | 13,503 |
| | 13,503 | - | - | 4,844 | 18,347 |

## 31. FAIR VALUE INFORMATION

The following tables provides an analysis of the fair value of financial instruments of the Group and Company that are not carried at fair value on the statement of financial position

| **Group** | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair Value** | **Carrying amount** | **Fair value** |
| | **$M** | **$M** | **$M** | **$M** |
| **Financial assets** | | | | |
| Cash and balances at Central Banks | **91** | **91** | 237 | 237 |
| Loans and advances to banks | **343** | **343** | 643 | 643 |
| Loans and advances to customers | **749** | **749** | 3,710 | 3,704 |
| Market and client receivables | **1,356** | **1,356** | 4,021 | 4,021 |
| **Financial liabilities** | | | | |
| Deposits by banks | **3** | **3** | 53 | 53 |
| Customer accounts | **427** | **427** | 3,333 | 3,333 |
| Market and client payables | **510** | **510** | 1,338 | 1,338 |

| **Company** | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair Value** | **Carrying amount** | **Fair value** |
| | **$M** | **$M** | **$M** | **$M** |
| **Financial assets** | | | | |
| Cash and balances at Central Banks | **89** | **89** | 235 | 235 |
| Loans and advances to banks | **343** | **343** | 643 | 643 |
| Loans and advances to customers | **754** | **754** | 3,715 | 3,708 |
| Market and client receivables | **1,356** | **1,356** | 4,020 | 4,020 |
| **Financial liabilities** | | | | |
| Deposits by banks | **3** | **3** | 53 | 53 |
| Customer accounts | **541** | **541** | 3,453 | 3,453 |
| Market and client payables | **510** | **510** | 1,338 | 1,338 |

The fair values presented in the table above are stated at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date

**Impact of internal models on fair value calculations**

Fair values of certain financial instruments recognised in the financial statements are determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data In these instances, the fair value recorded in the financial statements is the sum of three components

## 31. FAIR VALUE INFORMATION (continued)

- the value given by application of a valuation model, based upon the Group's best estimate of the most appropriate model inputs,
- any fair value adjustments to account for market features not included within the valuation model (for example counterparty credit spreads, market data uncertainty), and
- inception profit not recognised immediately in the income statement in accordance with accounting policies

The approach to valuing collateralised derivatives reflects current market practice by incorporating the Overnight Indexed Swap discounting curve in the calculation

### Day one profits

For transactions where significant inputs into the valuation model are unobservable, the amount that has yet to be recognised in the consolidated income statement account relating to the difference between the fair value at initial recognition and the transaction price, less any subsequent release, is as follows

| | 2015 | 2014 |
|---|---|---|
| | $000 | $000 |
| **Group** | | |
| At start of the year | - | 25,859 |
| Less Released due to transfer to affiliate | - | (25,859) |
| **At end of year** | - | - |

### Fair value hierarchy

In accordance with IFRS 13, "Fair Value Measurement", the Group has categorised its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3)

Financial assets and liabilities recorded on the statement of financial position are categorised based on the inputs to the valuation techniques as follows

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Group has the ability to access (an example of which is certain government securities)

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability Level 2 inputs include the following

- Quoted prices for similar assets or liabilities in active markets (examples include, certain government securities, corporate bonds and corporate loans),

## 31. FAIR VALUE INFORMATION (continued)

### Fair value hierarchy (continued)

- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate bonds and corporate loans, which can trade infrequently),

- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter ("OTC") derivatives, including interest rate and currency swaps), and

- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include OTC derivatives)

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement These inputs reflect management's view about the assumptions a market participant would use in pricing the asset or liability (examples include long-dated or complex derivatives)

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorised is based on the lowest level input that is significant to the fair value measurement in its entirety For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3) Therefore, gains and losses for such assets and liabilities categorised within Level 3 may include changes in fair value that are attributable to both observable inputs and unobservable inputs in the reconciliation's below Furthermore, the following reconciliation's do not take into consideration the offsetting effect of Level 1 and 2 financial instruments entered into by the Group that economically hedge certain exposures to the Level 3 positions

### Valuation techniques

The following outlines the valuation methodologies for the Group's material categories of assets and liabilities

### Government securities

Government securities are valued using quoted prices in active markets when available To the extent quoted prices are not available, fair value is determined based on reference to recent trading activity and quoted prices of similar securities Government securities are generally classified as Level 1 or Level 2 in the fair value hierarchy, primarily based on the issuing country

## 31. FAIR VALUE INFORMATION (continued)

### Corporate bonds

Corporate bonds are valued based on either the most recent observable trade and/or external quotes, depending on availability The most recent observable trade price is given highest priority as the valuation benchmark based on an evaluation of transaction date, size, frequency and bid-offer This price may be adjusted by bond or credit default swap spread movements When credit default swap spreads are referenced, cash-to-synthetic basis magnitude and movement as well as maturity matching are incorporated into the value When neither external quotes nor a recent trade is available, the bonds are valued using a discounted cash flow approach based on risk parameters of comparable securities In such cases, the potential pricing difference in spread and/or price terms with the traded comparable is considered Corporate bonds are generally classified as Level 2 or Level 3 in the fair value hierarchy

### Listed derivative contracts

Listed derivatives that are actively traded are generally valued based on quoted prices from the exchange and are classified as Level 1 in the fair value hierarchy Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives, they are generally classified as Level 2 in the fair value hierarchy

### OTC derivative contracts

OTC derivative contracts include forwards, swaps and options related to interest rate, foreign currency, credit, equity or commodity underlyings The majority of OTC derivative contracts are classified as Level 2 in the fair value hierarchy OTC derivative contracts that do not have readily observable market based pricing parameters are classified as Level 3 in the fair value hierarchy

### Corporate loans and commitments

The fair values of corporate loans and loan commitments are based on market prices and most recent transactions when available When not available, a discounted cash flow valuation approach is applied using market-based credit spreads of comparable debt instruments, recent new issuance activity or relevant credit derivatives with appropriate cash-to-synthetic basis adjustments Corporate loans and commitments are generally classified as Level 2 or Level 3 in the fair value hierarchy

## 31 FAIR VALUE INFORMATION (continued)

### Corporate loans and commitments (continued)

The following tables present the Group and Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as at the year end

**Group and Company**
**2015**

| | Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| *Debt securities and other fixed income securities* | | | | |
| Government securities | 1,518 | - | - | 1,518 |
| Corporate bonds | - | 97 | - | 97 |
| *Trading assets* | | | | |
| Derivative contracts | - | 1,646 | 14 | 1,660 |
| Corporate loans and commitments | - | - | 12 | 12 |
| | 1,518 | 1,743 | 26 | 3,287 |
| **Financial liabilities at fair value through profit and loss** | | | | |
| *Trading liabilities* | | | | |
| Derivative contracts | - | 2,589 | 14 | 2,603 |
| | - | 2,589 | 14 | 2,603 |

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

Level 3 corporate loans primarily relate to corporate loans that have unobservable model valuation inputs

**Group and Company**
**2014**

| | Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| *Debt securities and other fixed income securities* | | | | |
| Government securities | 1,901 | 13 | - | 1,914 |
| Corporate bonds | - | 109 | - | 109 |
| *Trading assets* | | | | |
| Derivative contracts | - | 11,715 | 18 | 11,733 |
| Corporate loans and commitments | - | - | 12 | 12 |
| **Financial assets available-for-sale** | | | | |
| *Debt securities and other fixed income securities* | | | | |
| Corporate bonds | - | 99 | - | 99 |
| | 1,901 | 11,936 | 30 | 13,867 |

## 31. FAIR VALUE INFORMATION (continued)

**Corporate loans and commitments (continued)**

**Group and Company**
**2014**

| | Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
|---|---|---|---|---|
| **Financial liabilities at fair value through profit and loss** | | | | |
| *Trading liabilities* | | | | |
| Derivative contracts | - | 13,485 | 18 | 13,503 |
| Government securities | - | - | - | - |
| | - | 13,485 | 18 | 13,503 |

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

Level 3 corporate loans primarily relate to corporate loans that have unobservable model valuation inputs There have been no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during 2015 and 2014

| **Group and Company 2015** | Trading assets | Trading assets | Trading liabilities |
|---|---|---|---|
| | Derivative contracts $M | Corporate loans and commitment $M | Derivative contracts $M |
| **Balance at 1 January** | 18 | 12 | 18 |
| *Total gains/losses recognised in the profit and loss account* | (9) | | (9) |
| Dealing profits | (9) | | (9) |
| Transfer into Level 3 | 9 | - | 9 |
| Transfer out of Level 3 | (4) | - | (4) |
| **Balance at 31 December** | 14 | 12 | 14 |
| Total gains/losses recognised in the income statement relating to those assets and liabilities held on 31 December | - | - | - |

## 31. FAIR VALUE INFORMATION (continued)

**Corporate loans and commitments (continued)**

For trading assets, transfers out of Level 3 to Level 2 principally relate to improved price testing coverage for certain positions

For trading liabilities, transfers out of Level 3 to Level 2 principally relate to improved price testing coverage for certain positions

| **Group and Company 2014** | **Trading assets** | **Trading assets** | **Trading liabilities** |
|---|---|---|---|
| | **Derivative contracts $M** | **Corporate loans and commitment $M** | **Derivative contracts $M** |
| **Balance at 1 January** | 1,179 | 135 | 658 |
| *Total gains/losses recognised in the profit and loss account* | (5) | 1 | (3) |
| Dealing profits | (5) | 1 | (3) |
| Other revenue | | | |
| Purchases | - | 1 | - |
| Sales | - | (62) | - |
| Settlements | (1,165) | (14) | (641) |
| Transfer into Level 3 | 9 | 1 | 4 |
| Transfer out of Level 3 | - | (50) | - |
| **Balance at 31 December** | 18 | 12 | 18 |
| Total gains/losses recognised in the income statement relating to those assets and liabilities held on 31 December | - | (3) | (2) |

For trading assets, transfers out of Level 3 to Level 2 principally relate to improved price testing coverage for certain positions

For trading liabilities, transfers out of Level 3 to Level 2 principally relate to improved price testing coverage for certain positions

## 31. FAIR VALUE INFORMATION (continued)

### Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the statement of financial position 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 Group's valuation control policies The effect of stressing the unobservable assumptions to a range of reasonably possible alternatives would result in an immaterial change to the fair values

## 32 OFFSETTING

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset The column 'net amount' shows the impact on the Group's and Company's statement of financial position if all set-off rights were exercised The credit risk section of note 33 provides further details regarding master netting arrangements

**Group and Company**

| | Gross amount presented $M | Financial instruments $M | Cash collateral received $M | Net amount $M |
|---|---|---|---|---|
| **2015** | | | | |
| **Trading assets** | **1,672** | **(474)** | **(427)** | **771** |
| **Trading liabilities** | **2,603** | **(474)** | **(1,144)** | **985** |
| **2014** | | | | |
| Trading assets | 11,745 | (8,461) | (1,210) | 2,074 |
| Trading liabilities | 13,503 | (8,461) | (3,254) | 1,788 |

## 33. RISK MANAGEMENT

**Legal entity governance**

The Group ensures suitable risk management and controls through the MLIB Board Risk Committee ("BRC") and the MLIB Audit Committee of the MLIB Board of Directors, the MLIB Risk Management Committee ("RMC") and the MLIB Operational Risk Committee ("ORC")

The MLIB BRC is responsible for the oversight of 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 MLIB RMC and MLIB ORC reports to the MLIB BRC and together are responsible for providing management oversight and approval of (or reviewing and recommending to the MLIB BRC, the MLIB Board or other committees, as appropriate) market risk, credit risk, operational risk, balance sheet, capital, liquidity management and stress testing activities

The MLIB Audit Committee assists the MLIB Board in fulfilling its oversight responsibilities relating to audit and compliance

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 MLIB)

The Risk Framework applies to all the employees It provides an understanding of the Group's approach to risk management and each employee's responsibilities for managing risk All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Group and Company

The risk management approach has five components
- Risk culture,
- Risk appetite,
- Risk management processes,
- Risk data 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 Group's approach to each of the risk types

**Market risk**

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

Trading positions within the Group 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 The Group seeks to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments

## 33. RISK MANAGEMENT (continued)

VaR is a common statistic used to measure market risk as it allows the aggregation of market risk factors, by including the effects of portfolio diversification VaR represents the expected loss for a given portfolio, probability and time horizon and produces a value such that there is a set probability that the mark to market ("MTM") loss on the portfolio over the given time horizon does not exceed this value

MLIB uses the historical simulation approach based on a three year window of historical data MLIB's primary VaR statistic is equivalent to a 99% confidence level with one day holding period

A VaR model is an effective tool in estimating ranges of potential gains and losses on the Company's trading portfolios There are, however, limitations inherent in a VaR model as it utilises historical results over a defined time period to estimate future performance Historical results may not always be indicative of future results and changes in market conditions and the composition of the underlying portfolio could have a material impact on the accuracy of the VaR model To ensure that the VaR model reflects current market conditions, the historical data underlying the Company's VaR model is updated on a weekly basis, and the assumptions underlying the model are regularly reviewed

The table that follows presents VaR analysis independently for each risk category for 2015 and 2014

| **99% Daily VaR** | | **Daily** | | |
|---|---|---|---|---|
| | **Year-end** | **High** | **Average** | **Low** |
| | **2015** | **2015** | **2015** | **2015** |
| | **\$000** | **\$000** | **\$000** | **\$000** |
| Credit risk spread | **175** | **262** | **196** | **169** |
| Currency risk | **45** | **1,745** | **1,007** | **30** |
| Interest rate risk | **62** | **976** | **194** | **59** |

| **99% Daily VaR** | | **Daily** | | |
|---|---|---|---|---|
| | **Year-end** | **High** | **Average** | **Low** |
| | **2014** | **2014** | **2014** | **2014** |
| | **\$000** | **\$000** | **\$000** | **\$000** |
| Credit risk spread | 234 | 2,531 | 853 | 234 |
| Currency risk | 1,243 | 15,682 | 1,573 | 180 |
| Interest rate risk | 129 | 15,241 | 825 | 113 |

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

### Credit risk

Credit Risk is the loss arising from the inability or failure of a borrower or counterparty to meet its obligations MLIB defines credit exposure to a borrower or counterparty as the loss potential arising from loans, leases, derivatives and other extensions of credit

## 33 RISK MANAGEMENT (continued)

### Credit risk (continued)

Credit Risk to a borrower or counterparty is managed based on their risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected impacts 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

Credit risk management includes the following processes

- Credit origination
- Loss mitigation activities
- Portfolio management

MLIB's legacy credit portfolio consists of commercial lending (encompassing drawn and un-drawn corporate and institutional lending facilities to clients) alongside traded products activities In addition to this Global Banking and Markets business there is also a low risk portfolio of GWIM margin loans, which is fully collateralised

The Group enters into International Swaps and Derivatives Association, Inc master agreements or their equivalent ("master netting agreements") with the Group's major derivative counterparties Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes Agreements are negotiated bilaterally and can require complex terms While the Group makes every effort to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject the Group to additional risk The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes

In addition, to reduce the risk of loss, the Group may require collateral, principally cash and government securities, on certain derivative transactions From an economic standpoint, the Group evaluates risk exposures net of related collateral that meets specified standards The Group also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable us to terminate or reset the terms of our derivative contracts under certain defined conditions

The Group's commercial lending activities consist primarily of corporate and institutional lending Depending on market conditions, the Group may seek to mitigate or reduce loan exposure through third party syndications, secondary loan sales or the purchase of single name and basket credit default swaps

The Group has typically provided drawn and committed but undrawn corporate and institutional lending facilities to clients for general corporate purposes, backup liquidity lines, and acquisition related activities While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, the Group generally expects repayment through other sources including cash flow and/or recapitalisation 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

The Group also has loans to GWIM clients which are collateralised with liquid securities held in client accounts (the carrying value of such loans amounted to $670 million at 31 December 2015 (2014 $2,896 million)

## 33. RISK MANAGEMENT (continued)

### Credit risk (continued)

The below tables reflect the Group's assessment of its credit exposure, based on Credit Rating Agency ratings or internal equivalent thereof Where there is no rating per the Credit Rating Agency and where counterparty is not rated internally, the balances are classified as not rated Although the table reflects the Group's gross exposure, the Group manages its credit exposures on a net basis

| **2015 Group** | **AAA to AA** | **A to BBB** | **BB and lower** | **Not rated** | **Total** |
|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** |
| Cash and balances at Central Banks | **70** | **80,440** | **8,337** | **1,974** | **90,821** |
| Loans and advances to banks | - | **342,513** | - | - | **342,513** |
| Loans and advances to customers | - | **34,370** | **34,425** | **680,669** | **749,464** |
| Market and client receivables | - | **1,351,290** | - | **4,411** | **1,355,701** |
| Debt securities and other fixed income securities | **712,235** | **37,747** | **865,282** | - | **1,615,264** |
| Trading assets | - | **1,098,547** | **570,430** | **1,325** | **1,672,137** |
| **Total financial assets** | **712,305** | **2,944,907** | **1,480,309** | **688,379** | **5,825,900** |
| Guarantees, undrawn commitments and assets pledged as collateral security | - | **440,380** | - | **68,214** | **508,594** |
| **Maximum credit exposure** | **712,305** | **3,385,287** | **1,480,309** | **756,593** | **6,334,494** |

| **2014 Group** | **AAA to AA** | **A to BBB** | **BB and lower** | **Not rated** | **Total** |
|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** |
| Cash and balances at Central Banks | 8,178 | 212,989 | 3 | 16,299 | 237,469 |
| Loans and advances to banks | - | 642,917 | - | - | 642,917 |
| Loans and advances to customers | - | 668,968 | 65,099 | 2,976,167 | 3,710,234 |
| Market and client receivables | 49,327 | 3,936,469 | - | 35,001 | 4,020,797 |
| Debt securities and other fixed income securities | 481,400 | 1,560,356 | 79,887 | - | 2,121,643 |
| Trading assets | 1,209,595 | 9,440,733 | 1,094,397 | - | 11,744,725 |
| **Total financial assets** | 1,748,500 | 16,462,432 | 1,239,386 | 3,027,467 | 22,477,785 |
| Guarantees, undrawn commitments and assets pledged as collateral security | 150,000 | 696,412 | 140,868 | 9,446,014 | 10,433,294 |
| **Maximum credit exposure** | 1,898,500 | 17,158,844 | 1,380,254 | 12,473,481 | 32,911,079 |

## 33 RISK MANAGEMENT (continued)

### Credit risk (continued)

| 2015 Company | AAA to AA | A to BBB | BB and lower | Not rated | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Cash and balances at Central Banks | 70 | 78,435 | 8,337 | 1,970 | 88,812 |
| Loans and advances to banks | - | 342,513 | - | - | 342,513 |
| Loans and advances to customers | - | 34,370 | 34,425 | 685,394 | 754,189 |
| Market and client receivables | - | 1,351,290 | - | 4,411 | 1,355,701 |
| Debt securities and other fixed income securities | 712,235 | 37,747 | 865,282 | - | 1,615,264 |
| Trading assets | - | 1,098,547 | 572,265 | 1,325 | 1,672,137 |
| **Total financial assets** | 712,305 | 2,942,902 | 1,480,309 | 693,100 | 5,828,616 |
| Guarantees, undrawn commitments and assets pledged as collateral security | - | 440,380 | - | 68,214 | 508,594 |
| **Maximum credit exposure** | 712,305 | 3,383,282 | 1,480,309 | 761,314 | 6,337,210 |

| 2014 Company | AAA to AA | A to BBB | BB and lower | Not rated | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Cash and balances at Central Banks | 8,178 | 210,733 | 3 | 16,299 | 235,213 |
| Loans and advances to banks | - | 642,917 | - | - | 642,917 |
| Loans and advances to customers | - | 667,125 | 65,099 | 2,982,311 | 3,714,535 |
| Market and client receivables | 49,327 | 3,936,469 | - | 34,571 | 4,020,367 |
| Debt securities and other fixed income securities | 481,400 | 1,560,356 | 79,887 | - | 2,121,643 |
| Trading assets | 1,209,595 | 9,440,733 | 1,094,397 | - | 11,744,725 |
| **Total financial assets** | 1,748,500 | 16,458,333 | 1,239,386 | 3,033,181 | 22,479,400 |
| Guarantees, undrawn commitments and assets pledged as collateral security | 150,000 | 696,412 | 140,868 | 9,446,014 | 10,433,294 |
| **Maximum credit exposure** | 1,898,500 | 17,154,745 | 1,380,254 | 12,479,195 | 32,912,694 |

* The majority of the Group's exposure to 'Not Rated' counterparties relates to lending and undrawn loan facilities for private client security based lending The lending facilities are secured by cash, securities and other assets

## 33. RISK MANAGEMENT (continued)

### Collateral

The Group applies various methods to reduce the risk on individual transactions, including obtaining collateral, in the form of physical and financial assets, netting arrangements and guarantees

The fair value of financial assets accepted as collateral that the Group is permitted to freely sell or repledge is $501 million (2014 $1,416 million) The fair value of financial assets accepted as collateral that have been sold or repledged is $501 million (2014 $1,414 million) Where collateral is sold or repledged, the Group is obliged to return equivalent securities These transactions are conducted under terms that are usual and customary to standard collateral and securities financing activities

The Group has pledged $1,351 million (2014 $3,979 million) of its financial assets, as collateral for liabilities

### Credit mitigation

The following table reflects by class of financial instrument the amount that best represents the Group's maximum exposure to credit risk and a quantification of the extent to which collateral and other credit enhancements mitigate credit risk

| | Group | | Company | |
|---|---|---|---|---|
| | Maximum exposure to credit risk 2015 $000 | Mitigated credit risk 2015 $000 | Maximum exposure to credit risk 2015 $000 | Mitigated credit risk 2015 $000 |
| Cash and balances at Central Banks | 90,821 | - | 88,812 | - |
| Loans and advances to banks | 342,513 | - | 342,513 | - |
| Loans and advances to customers | 749,464 | 720,582 | 754,189 | 720,582 |
| Market and client receivables | 1,355,701 | 1,351,290 | 1,355,701 | 1,351,290 |
| Debt securities and other fixed income securities | 1,615,264 | 903,057 | 1,615,264 | 903,057 |
| Trading assets | 1,672,137 | 1,027,188 | 1,672,137 | 1,027,188 |
| Guarantees, undrawn commitments and assets pledged as collateral security | 508,594 | 15,913 | 508,594 | 15,913 |

## 33 RISK MANAGEMENT (continued)

### Credit mitigation (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Maximum exposure to credit risk 2014 $000 | Mitigated credit risk 2014 $000 | Maximum exposure to credit risk 2014 $000 | Mitigated credit risk 2014 $000 |
| Cash and balances at Central Banks | 237,469 | - | 235,213 | - |
| Loans and advances to banks | 642,917 | - | 642,917 | - |
| Loans and advances to customers | 3,710,234 | 3,227,159 | 3,714,535 | 3,227,159 |
| Market and client receivables | 4,020,797 | 3,978,829 | 4,020,367 | 3,978,829 |
| Debt securities and other fixed income securities | 2,121,643 | 1,739,330 | 2,121,643 | 1,739,330 |
| Trading assets | 11,744,725 | 9,847,821 | 11,744,725 | 9,847,821 |
| Guarantees, undrawn commitments and assets pledged as collateral security | 10,433,294 | 9,289,180 | 10,433,294 | 9,289,180 |

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

Loans and advances to banks in 2015 includes intercompany placements only

Loans and advances to customers include intercompany loans, third party loans and reverse repurchase agreements The majority of the Group's third party loan portfolio is secured This primarily comprises fully collateralised loans to private clients, collateralised loans to third parties and reverse repurchase agreements which are fully collateralised The security for these facilities includes cash, equities, bonds, mutual funds, letters of credit, demand guarantees, insurance policies, other assets and charges over commercial properties

Market and client receivables primarily relate to cash collateral pledged by the Group in respect of derivative liabilities The credit risk of such balances is fully mitigated through the use of CSAs and master netting agreements as detailed above

Debt securities and other fixed income securities include government securities and corporate bonds The credit risk mitigation balance for this asset class represents the value of total return swaps on government securities and corporate bonds and the value of the underlying securities for secured financing arrangements

## 33 RISK MANAGEMENT (continued)

### Credit mitigation (continued)

Government issued securities may benefit from additional credit enhancement, notably through government guarantees, however, the valuation of these is less certain and their financial effect has not been quantified

Trading assets include derivative instruments and trading loans Derivative activity is generally documented under ISDA master netting agreements These provide the contractual framework within which dealing activity across a broad range of OTC products is conducted and contractually binds both parties to apply close-out netting across all transactions covered by the agreement, if either party defaults or if another pre-agreed termination event occurs A CSAs is generally executed in conjunction with an ISDA master netting agreement Under the CSAs, collateral is passed between the parties to mitigate the counterparty risk inherent in any outstanding positions The credit risk mitigation balance for trading assets accordingly reflects the netting available for derivative instruments under the terms of master netting agreements and the value of any collateral, generally in the form of cash, held against derivative assets Further credit risk mitigation is provided on the derivatives portfolio through the purchase of both index linked and single name CDS protection however the financial effect of this has not been quantified Also included in the maximum exposure to credit risk of trading assets is a pool of unsecured trading loans, bought and sold on the basis of the price, liquidity and credit quality of the underlying borrower

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

### Past due, but not impaired assets

The following table details credit exposures that are past due, but not impaired

| 2015 | 0 to 30 days $000 | 31 to 60 days $000 | 61 to 90 days $000 | 91 to 120 days $000 | 121 to 180 days $000 | 180 days $000 |
|---|---|---|---|---|---|---|
| Market and client receivables | 4,411 | - | - | - | - | - |

## 33. RISK MANAGEMENT (continued)

**Past due but not impaired assets (continued)**

| 2014 | 0 to 30 days $000 | 31 to 60 days $000 | 61 to 90 days $000 | 91 to 120 days $000 | 121 to 180 days $000 | 180 days $000 |
|---|---|---|---|---|---|---|
| Market and client receivables | 41,680 | - | - | - | - | - |

Market and client receivables include amounts due from affiliates under derivative transactions

**Impairment charges**

The allowance account includes all impairment charges against loans and receivables There were no impairment charges against any other class of financial asset The table below gives details of the movement of the allowance account during the period

| Group and Company | Individual impairment $000 | Latent impairment $000 | Total Impairment $000 |
|---|---|---|---|
| At 31 December 2014 | 44,029 | 4,906 | 48,935 |
| Realised losses transferred to Other Operating Charges | (39,078) | - | (39,078) |
| Transfer of allowances | 2,431 | (2,431) | - |
| Provision for bad and doubtful debts | (2,128) | (2,089) | (4,217) |
| At 31 December 2015 | 5,254 | 386 | 5,640 |
| **Gross loans in Group** | | | |
| At 31 December 2015 | 39,679 | 1,057,552 | 1,097,231 |
| **Gross loans in Company** | 39,679 | 1,062,277 | 1,101,956 |
| At 31 December 2015 | | | |

**Operational risk**

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

Operational risk may occur anywhere in the Group, including third party business processes, and is not limited to operations functions Effects may extend beyond financial losses and may result in reputational risk impacts An operational loss event can be associated with any of the following seven operational loss event categories as outlined by the Basel Committee for Banking Supervision internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruption and system failures, and execution, delivery and process management

## 33 RISK MANAGEMENT (continued)

### Operational risk (continued)

Since operational risk is inherent in every activity across the Group, the Group relies on all employees to contribute to an effective internal control environment and manage operational risk within their roles The Group manages operational risk by designing and implementing internal controls to identify, measure, monitor and control risks

Operational risk must be managed by all employees as part of our day-to-day activities Business and Control Functions are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks The independent risk management teams actively oversee the businesses and control functions to monitor adherence to the operational risk management program and to advise and challenge operational risk exposures

### Liquidity risk

Liquidity risk is the potential inability to meet contractual and contingent financial obligations, both on or off-balance sheet, as they fall due The primary objective of liquidity risk management is to ensure MLIB can meet expected and unexpected cash flow and collateral needs while continuing to support our businesses and customers with the appropriate funding sources, under a range of economic conditions

The MLIB Board is ultimately responsible for MLIB's liquidity risk management, delegating additional oversight to the MLIB RMC The businesses are the first lines of defence in liquidity risk management, partnering with Global Liquidity Risk Management ("GLRM") and Global Funding, functions within Corporate Treasury, to achieve liquidity risk management objectives GLRM and Global Funding are responsible for carrying out the day-to-day monitoring and management of MLIB liquidity risk and resources, providing timely information to the MLIB RMC and MLIB Board CFO Risk serve as the second line of defence, providing independent risk management, and audit serves as the third line of defence Compliance, another second line of defence, provides independent monitoring and testing of compliance with laws, regulations, and internal Company standards that impact liquidity risk management

The approach to managing MLIB's liquidity risk has been established by the MLIB Board, aligned to BAC processes, but tailored to meet MLIB's business mix, strategy, activity profile, risk appetite, and regulatory requirements

Key components include

- The MLIB Liquidity Risk Policy, which is approved annually by the MLIB Board and formally articulates the principles for managing liquidity risk within MLIB, including requirements for internal stress testing, limits and guidelines, reporting and monitoring, roles and accountabilities, and regulatory requirements

- The liquidity risk appetite, established by the MLIB Board, requiring MLIB to maintain sufficient excess liquidity resources to meet net modeled outflows under an internally developed combined stress scenario and to comply with regulatory requirements

## 33 RISK MANAGEMENT (continued)

### Liquidity risk (continued)

- The MLIB Contingency Funding Plan, which is approved annually by the MLIB Board and details senior management's strategy to address potential liquidity shortfalls during periods of stress

MLIB is subject to the following regulatory liquidity requirements

- Liquidity Coverage Ratio ("LCR") requires MLIB to hold a sufficient buffer of eligible High Quality Liquid Assets ("HQLA") to cover potential cash outflows during the first month of a liquidity stress event This is effective from 1 October 2015 MLIB is required to comply with a minimum 60% LCR Pillar 1, rising to 100% by 1 January 2018

As legislated by the European Commission's Capital Requirement Regulations and Capital Requirements Directive ("CRR/CRD IV"), from 1 January 2018 MLIB is expected to comply with the Net Stable Funding Ratio ("NSFR"), requiring MLIB 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 of the Basel committee's final standard on 31 October 2014 The Basel standard continues to work toward minimum 100% NSFR compliance from 1 January 2018

As at 31 December 2015, the Group was in excess of both internal and regulatory liquidity requirements

The following table shows the liability maturity profile of the Group at 31 December 2015 and 31 December 2014

| 2015<br>Group | On demand<br>$000 | Due within<br>1 year<br>$000 | Due between<br>1 and 5<br>$000 | Due after<br>5 years<br>$000 |
|---|---|---|---|---|
| **Non trading liabilities** | | | | |
| Deposits by banks | 2,592 | - | - | - |
| Customer accounts | 405,221 | 21,292 | - | - |
| Market and client payables | 509,544 | - | - | - |
| **Off balance sheet** | | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | - | 18,616 | 267,621 | 222,357 |
| **Trading liabilities** | | | | |
| Trading liabilities | 2,602,800 | - | - | - |

## 33. RISK MANAGEMENT (continued)

### Liquidity risk (continued)

| 2014<br>Group | On demand<br>$000 | Due within<br>1 year<br>$000 | Due between<br>1 and 5<br>$000 | Due after<br>5 years<br>$000 |
|---|---|---|---|---|
| **Non trading liabilities** | | | | |
| Deposits by banks | 47,284 | - | - | 5,729 |
| Customer accounts | 3,117,817 | 215,086 | 310 | - |
| Market and client payables | 1,337,637 | - | - | - |
| **Off balance sheet** | | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | - | 9,303,840 | 1,070,516 | 58,938 |
| **Trading liabilities** | | | | |
| Trading liabilities | 13,503,194 | - | - | - |

| 2015<br>Company | On demand<br>$000 | Due within<br>1 year<br>$000 | Due between<br>1 and 5 years<br>$000 | Due after<br>5 years<br>$000 |
|---|---|---|---|---|
| **Non trading liabilities** | | | | |
| Deposits by banks | **2,592** | **-** | **-** | **-** |
| Customer accounts | **519,890** | **21,292** | **-** | **-** |
| Market and client payables | **509,544** | **-** | **-** | **-** |
| **Off balance sheet** | | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | **-** | **18,616** | **267,621** | **222,357** |
| **Trading liabilities** | | | | |
| Trading liabilities | **2,602,800** | **-** | **-** | **-** |

## 33. RISK MANAGEMENT (continued)

### Liquidity risk (continued)

| 2014<br>Company | On demand<br>$000 | Due within<br>1 year<br>$000 | Due between<br>1 and 5 years<br>$000 | Due after<br>5 years<br>$000 |
|---|---|---|---|---|
| **Non trading liabilities** | | | | |
| Deposits by banks | 47,284 | - | - | 5,729 |
| Customer accounts | 3,237,443 | 215,086 | 310 | - |
| Market and client payables | 1,337,637 | - | - | - |
| **Off balance sheet** | | | | |
| Guarantees, undrawn commitments and assets pledged as collateral security | - | 9,303,840 | 1,070,516 | 58,938 |
| **Trading liabilities** | | | | |
| Trading liabilities | 13,503,194 | - | - | - |

Trading liabilities primarily consist of derivative liabilities The Group has recorded all derivative liabilities in the 'on demand' category It should be noted, however, that it is remote that in any given period all of the derivatives will unwind in the short term The Group manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows All other figures are undiscounted and show contractual maturities

### Reputational Risk

Reputational risk is the potential that negative perceptions of the Group's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer/client relationships

Reputational risk is managed through established policies and controls in the business and risk management processes to mitigate reputational risks in a timely manner and through proactive monitoring and identification of potential reputational risk events Ultimately, to ensure that Reputational Risk is mitigated through regular business activity, awareness of Reputational Risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees Given the nature of Reputational Risk, the Group does not set quantitative limits for the level of acceptable risk Through proactive risk management, the Group seeks to minimise both the frequency and impact of reputational events

## 33 RISK MANAGEMENT (continued)

### Reputational Risk (continued)

At the BAC level, Reputational Risk is reviewed by the Enterprise Risk Committee and the Management Risk Committee, which provide primary oversight of Reputational Risk Additionally, the Global Risk Management Leadership team and the BAC Board review the top reputational risks as part of the Summary Risk Report process Each front line unit and control function has a committee whose charter includes oversight of reputational risk That oversight includes providing approval for business activities that present elevated levels of reputational risks

For the EMEA region there is a specialist committee, the EMEA Reputational Risk Committee ("RRC"), whose charter includes consideration of Reputational Risk issues and to provide guidance and approvals for activities that present Reputational Risks which are not addressed by other current control frameworks

### Strategic risk

Strategic risk is the risk resulting from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments (such as competitor actions, changing customer preferences, product obsolescence and technology developments) Strategic risk is managed through the following approaches

- The strategic planning process specifically addresses many forms of strategic risk The BAC boards of directors review and approve the strategic plans after considering strategic risks in addition to other types of risk
- The strategic plans are consistent with risk appetite and specifically address strategic risks
- The executive management team continuously monitors business performance throughout the year to assess strategic risk and find early warning signals so that risks can be proactively managed

The strategic plan is reviewed and approved annually by the BAC Board alongside the capital plan, financial operating plan and risk appetite Significant strategic actions, such as capital actions, material acquisitions or divestitures, and recovery and resolution plans are reviewed and approved by the BAC Board as required Routines exist to discuss the Strategic Risk implications of new business and product entries and other strategic initiatives, and to provide approvals where appropriate Control Functions provide key input, oversight and challenge to front line unit and regional level strategic assessments

Front line units present tracking updates to executive management on their business performance Updates take into account analyses of performance relative to the financial operating plan and risk appetite and performance relative to peers Topical presentations are made to address any developments or considerations as it relates to strategic planning

**33. RISK MANAGEMENT (continued)**

**Compliance risk**

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation arising from the failure to comply with requirements of applicable laws, rules and regulations

Front line units are responsible for the proactive identification, management and escalation of compliance risks across the Group Global Compliance is responsible for setting BAC-wide policies and standards and provides independent challenge and oversight to the front line units The Group'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 compliance program by Global Compliance

Global Compliance is a separate function with governance routines and executive reporting distinct from those of the front line units and other control functions Global Compliance also collaborates with other control functions to provide additional support for specific remediation efforts and shares responsibility with the front line units, Global Risk Management and other control functions for mitigating reputational risk

The Global Compliance Executive leads the Global Compliance organisation, which together with the front line units, also has primary responsibility for the aggregated identification, management and escalation of compliance risks and compliance-related matters across the Group

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for its parent company and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to meet relevant regulatory requirements

**Transfers of financial assets**

**a) Transferred financial assets that continue to be recognised**

Historically, the Group transferred certain assets in the ordinary course of business where the transfers failed to meet the derecognition criteria

Assets, primarily government bonds, were transferred under repurchase and securities lending agreements with affiliates During 2013 these assets were migrated to an affiliate, Merrill Lynch International, and the related repurchase and securities lending agreements were unwound

**b) Derecognised assets with ongoing continuing involvement**

In prior years the Group transferred certain assets where the transfers met the derecognition criteria, however, the Group has retained continuing involvement in some form in the transferred assets

The Group entered into securitisation transactions in which the Group sold certain residential mortgage loans to a third party vehicle Certain Group subsidiaries entered into servicing arrangements with the securitisation vehicle in return for a market based fee In addition, the Group also provides a liquidity facility arrangement to one securitisation vehicle The servicing arrangements and the liquidity facility represent the Group's continuing involvement in the transferred assets

## 33 RISK MANAGEMENT (continued)

### Transfers of financial assets (continued)

#### b) Derecognised assets with ongoing continuing involvement

The Group also transferred certain assets to independent third parties and provided financing for up to 75% of the purchase price under asset backed financing arrangements The assets concerned were derecognised and a secured loan to the third party recognised

The following disclosures provide further information about the Group's ongoing exposure in relation to the transferred assets as a result of the continuing involvement and other transactions

| 2015<br>Group and Company | Carrying amount<br>$000 | Fair value<br>$000 | Maximum loss<br>$000 |
|---|---|---|---|
| Other assets | **14,200** | **14,200** | **14,200** |

| 2014<br>Group and Company | Carrying amount<br>$000 | Fair value<br>$000 | Maximum loss<br>$000 |
|---|---|---|---|
| Other assets | 13,701 | 13,701 | 13,701 |

**Maximum loss has been determined as a default by the securitisation vehicle on derivative contracts, facility fees and servicing arrangements Maximum loss on consolidated assets is limited to the net financial assets held by the Group*

There is no contractual requirement that could require the Group to repurchase the derecognised financial assets in relation to any of the above activity nor are there any amounts payable to the transferee in respect of the transferred assets

The following tables show information about gains and losses for these transactions

| 2015<br>Group and Company | Gain or loss at date of transfer<br>$000 | Income/(expense) In the year<br>$000 | Cumulative Income/(expense)<br>$000 |
|---|---|---|---|
| Other assets | - | **11,492** | **113,180** |

| 2014<br>Group and Company | Gain or loss at date of transfer<br>$000 | Income/(expense) In the year<br>$000 | Cumulative Income/(expense)<br>$000 |
|---|---|---|---|
| Other assets | - | 11,715 | 101,688 |

## 34. NON-TRADING BOOK ACTIVITIES

The primary non-trading book activities of the Group comprise lending and investment activity

**Interest rate sensitivity gap analysis**

Part of the Group's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature The tables below summarise these re-pricing mismatches on the Group's and the Company's non-trading book as at 31 December 2015 and 31 December 2014 Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date

The following tables provide an analysis of financial liabilities, on an undiscounted cash flow basis according to the contractual maturity groupings based on the remaining terms at the statement of financial position date

**2015**

**Group**

| | <3 mths $M | >3 mths <6 mths $M | >6 mths <1 yr $M | >1 yr <5 yr $M | >5 yrs $M | Non-Interest bearing $M | Total $M |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at Central Banks | 91 | - | - | - | - | - | 91 |
| Loans and advances to banks | 343 | - | - | - | - | - | 343 |
| Loans and advances to customers | 626 | 15 | 27 | 80 | 1 | - | 749 |
| Market and client receivables | 1,356 | | | | - | - | 1,356 |
| Other assets | - | - | - | - | - | 56 | 56 |
| | 2,416 | 15 | 27 | 80 | 1 | 56 | 2,595 |
| Liabilities | | | | | | | |
| Deposits by banks | 3 | - | - | - | - | - | 3 |
| Customer accounts | 425 | - | 2 | - | - | - | 427 |
| Market and client payables | 510 | - | - | - | - | - | 510 |
| Other liabilities | - | - | - | - | - | 85 | 85 |
| | 938 | - | 2 | - | - | 85 | 1,025 |
| Interest rate sensitivity gap | 1,478 | 15 | 25 | 80 | 1 | (29) | 1,570 |
| Cumulative gap | 1,478 | 1,493 | 1,518 | 1,598 | 1,599 | 1,570 | - |

## 34 NON-TRADING BOOK ACTIVITIES (continued)

**2014**
**Group**

| | <3 mths $M | >3 mths <6 mths $M | >6 mths <1 yr $M | >1 yr <5 yr $M | >5 yrs $M | Non-Interest bearing $M | Total $M |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at Central Banks | 237 | - | - | - | - | - | 237 |
| Loans and advances to banks | 643 | - | - | - | - | - | 643 |
| Loans and advances to customers | 3,103 | 80 | 145 | 381 | 1 | - | 3,710 |
| Market and client receivables | 4,021 | - | - | - | - | - | 4,021 |
| Other assets | - | - | - | - | - | 78 | 78 |
| | 8,004 | 80 | 145 | 381 | 1 | 78 | 8,689 |
| **Liabilities** | | | | | | | |
| Deposits by banks | 47 | - | - | - | 6 | - | 53 |
| Customer accounts | 3,311 | 8 | 14 | - | - | - | 3,333 |
| Market and client payables | 1,338 | - | - | - | - | - | 1,338 |
| Other liabilities | - | - | - | - | - | 98 | 98 |
| | 4,696 | 8 | 14 | - | 6 | 98 | 4,822 |
| Interest rate sensitivity gap | 3,308 | 72 | 131 | 381 | (5) | (20) | 3,867 |
| Cumulative gap | 3,308 | 3,380 | 3,511 | 3,892 | 3,887 | 3,867 | - |

## 34 NON-TRADING BOOK ACTIVITIES (continued)

**2015**

| Company | <3 mths $M | >3 mths <6 mths $M | >6 mths <1 yr $M | >1 yr <5 yr $M | >5 yrs $M | Non-Interest bearing $M | Total $M |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at Central Banks | 89 | - | - | - | - | - | 89 |
| Loans and advances to banks | 343 | - | - | - | - | - | 343 |
| Loans and advances to customers | 631 | 15 | 27 | 80 | 1 | - | 754 |
| Market and client receivables | 1,356 | - | - | - | - | - | 1,356 |
| Other assets | - | - | - | - | - | 42 | 42 |
| | 2,419 | 15 | 27 | 80 | 1 | 42 | 2,584 |
| **Liabilities** | | | | | | | |
| Deposits by banks | 3 | - | - | - | - | - | 3 |
| Customer accounts | 539 | - | 2 | - | - | - | 541 |
| Market and client payables | 510 | - | - | - | - | - | 510 |
| Other liabilities | - | - | - | - | - | 85 | 85 |
| | 1,052 | - | 2 | - | - | 85 | 1,139 |
| Interest rate sensitivity gap | 1,367 | 15 | 25 | 80 | 1 | (43) | 1,445 |
| Cumulative gap | 1,367 | 1,382 | 1,407 | 1,487 | 1,488 | 1,445 | - |

## 34 NON-TRADING BOOK ACTIVITIES (continued)

**2014**

**Company**

| | <3 mths $M | >3 mths <6 mths $M | >6 mths <1 yr $M | >1 yr <5 yr $M | >5 yrs $M | Non-Interest bearing $M | Total $M |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at Central Banks | 235 | - | - | - | - | - | 235 |
| Loans and advances to banks | 643 | - | - | - | - | - | 643 |
| Loans and advances to customers | 3,108 | 80 | 145 | 381 | 1 | - | 3,715 |
| Market and client receivables | 4,020 | - | - | - | - | - | 4,020 |
| Other assets | - | - | - | - | - | 78 | 78 |
| | 8,006 | 80 | 145 | 381 | 1 | 78 | 8,691 |
| **Liabilities** | | | | | | | |
| Deposits by banks | 47 | - | - | - | 6 | - | 53 |
| Customer accounts | 3,431 | 8 | 14 | - | - | - | 3,453 |
| Market and client payables | 1,338 | - | - | - | - | - | 1,338 |
| Other liabilities | - | - | - | - | - | 98 | 98 |
| | 4,816 | 8 | 14 | - | 6 | 98 | 4,942 |
| Interest rate sensitivity gap | 3,190 | 72 | 131 | 381 | (5) | (33) | 3,736 |
| Cumulative gap | 3,190 | 3,262 | 3,393 | 3,774 | 3,769 | 3,736 | - |

**Currency risk disclosures**

Since the Group prepares consolidated financial statements in US Dollars, the consolidated statement of financial position is affected by the structural currency exposures arising on movements in exchange rates between the US Dollar and the operating currencies of the overseas entities The currency exposure of the Group's net assets in non-functional currency operations were

| | 2015 $000 | 2014 $000 |
|---|---|---|
| Euro | **(22,903)** | (28,395) |
| Canadian Dollar | **-** | 60,557 |
| Pounds Sterling | **69,670** | 67,698 |
| | **46,767** | 99,860 |

## 35. CONTINGENT LIABILITIES AND COMMITMENTS

As part of an industry-wide investigation, public prosecutors in Italy are currently investigating derivative transactions which Merrill Lynch executed with Italian public sector entities In addition, the Group is involved in civil and administrative proceedings in which damages are or may be sought against it for allegedly misselling derivatives to public sector entities No reliable estimate can be made as to any financial effect of these investigations

BAC, as an active participant in the international capital markets, is subject to a number of investigations and/or enquires impacting the global banking industry It is BAC policy to co-operate fully in relation to these matters

## 36 SHARE BASED PAYMENTS

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Corporation's Key Associate Stock Plan ("KASP") On May 6, 2015, Bank of America shareholders approved the amendment and restatement of the KASP, and renamed it the Bank of America Corporation Key Employee Equity Plan ("KEEP") Under the KEEP, the Corporation grants stock-based awards, including stock options, restricted stock and restricted stock units ("RSUs") Grants in 2015 comprised RSUs which generally vest in three equal annual instalments beginning one year from the grant date

For most awards, expense is generally recognized ratably over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria For awards to employees that meet retirement eligibility criteria, the Corporation records the expense upon grant For employees that become retirement eligible during the vesting period, the Corporation recognizes expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures

RSUs may be settled in cash or in shares of common stock depending on the terms of the applicable award Certain awards contain claw back provisions which permit the Corporation 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 2015 was $7 million (2014 $17 million)

Fair market value was determined using the BAC share price at 31 December 2015 of $16 83 (2014 was $17 89)

### Other Stock Plans

At 31 December 2015, non-qualified stock options and Merrill Lynch Financial Advisor Capital Accumulation Award Plan ("FACAAP") remain outstanding under the legacy Merrill Lynch Long-Term Incentive Compensation Plan, used for grants to executive officers, and Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan Unvested FACAAP awards were granted in 2008 and are generally payable on December 31, 2016 in a fixed number of the Corporation's common shares

## 36 SHARE BASED PAYMENTS (continued)

### Restricted stock units

A restricted stock unit is deemed equivalent in fair market value to one share of Bank of America common stock Awards of RSUs may be settled in common stock or cash Recipients of RSU awards may receive cash payments equivalent to dividends

| | Restricted stock units |
|---|---|
| Outstanding, beginning of 2014 | 6,051,698 |
| Granted - 2014 | 408,955 |
| Paid, forfeited, or released from contingencies - 2014 | (4,269,850) |
| **Outstanding, beginning of 2015** | **2,190,803** |
| **Granted - 2015** | **384,529** |
| **Exercised – 2015** | **(1,245,817)** |
| **Cancelled, forfeited or released from contingencies - 2015** | **(23,447)** |
| **Outstanding, 31 December 2015** | **1,306,068** |

### Non-Qualified Stock Options

The table below presents the status of all option plans at 31 December 2015 and changes during 2015

| | Options outstanding | Weighted average exercise price |
|---|---|---|
| Outstanding, beginning of 2015 | **32,669** | **46 31** |
| **Outstanding, end of 2015** | **32,669** | **46 31** |
| **Exercisable, end of 2015** | **32,669** | **46.31** |

All options outstanding as of 31 December 2015 were vested and exercisable with a weighted-average remaining contractual term of 1 1 years (2014 2 1 years), and have no aggregate intrinsic value

The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 31 December 2015 and 2014

## 36 SHARE BASED PAYMENTS (continued)

| Ranges of exercise prices | 2015 number | 2015 weighted average remaining contractual life in years | 2014 number | 2014 weighted average remaining contractual life in years |
|---|---|---|---|---|
| $40.00 - $50.00 | 23,919 | 0.81 | 23,919 | 1 54 |
| $50.00 - $60.00 | 8,750 | 0 30 | 8,750 | 0 57 |
| | 32,669 | | 32,669 | |

## 37 LEASE COMMITMENTS

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

| | Land and Buildings 2015 $000 | Other 2015 $000 | Total 2015 $000 | Land and Buildings 2014 $000 | Other 2014 $000 | Total 2014 $000 |
|---|---|---|---|---|---|---|
| Due within one year | 5,175 | 269 | 5,444 | 5,471 | 327 | 5,798 |
| Due between one and five years | 19,267 | 539 | 19,806 | 21,608 | 653 | 22,261 |
| Over 5 years | 14,491 | - | 14,491 | 21,101 | - | 21,101 |
| | 38,933 | 808 | 39,741 | 48,180 | 980 | 49,160 |

## 38. SEGMENTAL REPORTING

The segmental analysis of the Group's results and financial position is set out below However, from a Group perspective, it is not possible to allocate trading revenues or net assets to any particular geographical source, as one trade may involve parties situated in a number of different geographical areas

The Group has two business segments, Global Markets and Global Wealth and Investment Management These segments reflect the internal financial and management reporting structure adopted by the Group's ultimate parent company, BAC

## 38. SEGMENTAL REPORTING (continued)

| | Global Markets | Global Wealth and Investment Management | Total |
|---|---|---|---|
| | 31 December 2015 | 31 December 2015 | 31 December 2015 |
| | $000 | $000 | $000 |
| Net interest income | 13,704 | 47,557 | 61,261 |
| Net fee and commission receivable | 45,508 | 350 | 45,858 |
| Other operating income | (9,598) | 4,161 | (5,437) |
| **Total operating income** | 49,614 | 52,068 | 101,682 |
| **Total operating (expenses)** | (101,547) | (16,696) | (118,243) |
| **Non operating (expense)** | - | (8,037) | (8,037) |
| **(Loss)/Profit before tax** | (51,933) | 27,335 | (24,598) |
| **Total assets** | 5,212,324 | 675,990 | 5,888,314 |
| **Total liabilities** | 3,481,680 | 174,724 | 3,656,404 |

Impairment charges under provisions for bad and doubtful debts are included in total operating expenses and are all attributable to Global Markets business (see Note 33)

## 38 SEGMENTAL REPORTING (continued)

| | Global Markets | Global Wealth and Investment Management | Total |
|---|---|---|---|
| | 31 December 2014 | 31 December 2014 | 31 December 2014 |
| | $000 | $000 | $000 |
| Net interest income | 37,879 | 80,983 | 118,862 |
| Net fee and commission receivable | 58,734 | 31,019 | 89,753 |
| Other operating (expense)/income | (23,944) | 8,674 | (15,270) |
| **Total operating income** | 72,669 | 120,676 | 193,345 |
| **Total operating (expenses)** | (153,749) | (56,291) | (210,040) |
| **Non operating income** | - | 33,277 | 33,277 |
| **(Loss)/Profit before tax** | (81,080) | 97,662 | 16,582 |
| **Total assets** | 19,604,668 | 2,959,333 | 22,564,001 |
| **Total liabilities** | 15,803,926 | 2,563,708 | 18,367,634 |

Impairment charges under provisions for bad and doubtful debts are included in total operating expenses and are all attributable to Global Markets business (see Note 33)

## 39 SUBSIDIARY COMPANIES

The principal subsidiaries (held indirectly unless marked*) in the Group are as follows

| Name of subsidiary | Principal activity | Country of Incorporation | Ownership | Investment $000 |
|---|---|---|---|---|
| Majestic Acquisitions Ltd* | Investment holding company | United Kingdom | 100% | **29,276** |
| Wave Lending Holdings Ltd* | Mortgage lending | United Kingdom | 100% | **16,624** |
| Mership Nominees Ltd* | Nominee Company | United Kingdom | 100% | - |
| Merrill Lynch Financial Services Ltd* | Financial services | Ireland | 100% | **25,471** |
| | | | | **71,371** |

## 39 SUBSIDIARY COMPANIES (continued)

The Company performed an impairment review of its subsidiaries and it was determined the net book value did not exceed the recoverable amount

Below is the subsidiary of Majestic Acquisitions Ltd

| Name of subsidiary | Principal activity | Country of incorporation | Ownership |
|---|---|---|---|
| Mortgage Holdings Ltd | Holding company | United Kingdom | 100% |

Below are the subsidiaries of Mortgage Holdings Ltd

| Name of subsidiary | Principal activity | Country of incorporation | Ownership |
|---|---|---|---|
| Mortgages 1 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 2 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 3 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 4 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 5 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 6 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages 7 Ltd | Mortgage lending | United Kingdom | 100% |
| Mortgages plc | Mortgage lending | United Kingdom | 100% |

Below is the subsidiary of Wave Lending Holdings Ltd

| Name of subsidiary | Principal activity | Country of incorporation | Ownership |
|---|---|---|---|
| Wave Lending Limited | Mortgage lending | United Kingdom | 100% |

## 40 PARENT COMPANY

The Company is a subsidiary of Bank of America Merrill Lynch EMEA Holdings 1 Limited and the ultimate parent company and controlling party is BAC, a company organised and existing in the State of Delaware in the United States of America

On 29 December 2015, the former immediate parent company, Merrill Lynch UK Capital Holdings ("MLUKCH"), distributed its investment in the Company to Bank of America Merrill Lynch EMEA Holdings 1 Limited

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

## 41 RELATED PARTY TRANSACTIONS

During the year, the Group and Company carried out a number of transactions with related parties The nature of these transactions and the amounts receivable/payable are shown below

### a) Compensation of key management personnel

Key management personnel are the directors of the Group

| | 2015<br>$000 | 2014<br>$000 |
|---|---|---|
| Salaries | 1,387 | 2,892 |
| Post-employment benefits – defined contribution scheme | 51 | 84 |
| Non-executive directors fees | 133 | 223 |
| | 1,571 | 3,199 |

### b) Transactions with related parties

During the year, the Group and Company entered into the following transactions with related parties

On 29 December 2015, the former immediate parent company MLUKCH distributed its investment in the Company to Bank of America Merrill Lynch EMEA Holdings 1 Limited The parent company transactions below relate to MLUKCH being the parent company for the year

| Group<br>2015 | Parent<br>$000 | Affiliates<br>$000 | Total<br>$000 |
|---|---|---|---|
| Interest receivable and similar income | 1,094 | 1,502 | 2,596 |
| Interest payable and similar charges | - | (449) | (449) |
| Fees and commission receivable | - | 55,494 | 55,494 |
| Fees and commission payable | - | (46,051) | (46,051) |
| Administrative expenses | - | 3,017 | 3,017 |
| Other operating income | - | 31 | 31 |
| | 1,094 | 13,544 | 14,638 |

## 41. RELATED PARTY TRANSACTIONS (continued)

### b) Transactions with related parties (continued)

| Group 2014 | Parent $000 | Affiliates $000 | Total $000 |
|---|---|---|---|
| Interest receivable and similar income | - | 5,965 | 5,965 |
| Interest payable and similar charges | - | (14,478) | (14,478) |
| Fees and commission receivable | - | 133,366 | 133,366 |
| Fees and commission payable | - | (106,973) | (106,973) |
| Administrative expenses | - | (3,841) | (3,841) |
| Dealing profit | - | (4,568) | (4,568) |
| Other operating income | - | 17 | 17 |
| Profit on sale of business | - | (4,034) | (4,034) |
| | - | 5,454 | 5,454 |

| Company 2015 | Parent $000 | Subsidiaries $000 | Affiliates $000 | Total $000 |
|---|---|---|---|---|
| Interest receivable and similar income | 1,094 | - | 1,502 | 2,596 |
| Interest payable and similar charges | - | - | (449) | (449) |
| Fees and commission receivable | - | - | 55,476 | 55,476 |
| Fees and commission payable | - | - | (44,627) | (44,627) |
| Administrative expenses | - | 209 | 3,017 | 3,226 |
| Other operating income | - | - | 31 | 31 |
| | 1,094 | 209 | 14,950 | 16,253 |

| Company 2014 | Parent $000 | Subsidiaries $000 | Affiliates $000 | Total $000 |
|---|---|---|---|---|
| Interest receivable and similar income | - | - | 5,967 | 5,967 |
| Interest payable and similar charges | - | - | (14,478) | (14,478) |
| Fees and commission receivable | - | - | 133,354 | 133,354 |
| Fees and commission payable | - | (972) | (104,980) | (105,952) |
| Administrative expenses | - | - | (3,841) | (3,841) |
| Dealing profit | - | - | (4,568) | (4,568) |
| Other operating income | - | - | 16 | 16 |
| Profit on sale of business | - | - | (4,034) | (4,034) |
| | - | (972) | 7,436 | 6,464 |

## 41 RELATED PARTY TRANSACTIONS (continued)

### c) Outstanding balances with related parties

| Group 2015 | Parent $000 | Affiliates $000 | Total $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | - | 57,875 | 57,875 |
| Loans and advances to banks | - | 342,513 | 342,513 |
| Loans and advances to customers | - | 45,288 | 45,288 |
| Market and client receivables | - | 1,277,997 | 1,277,997 |
| Trading assets | - | 370,537 | 370,537 |
| Other assets | - | 298 | 298 |
| | - | 2,094,508 | 2,094,508 |
| **Liabilities** | | | |
| Customer accounts | - | 256,382 | 256,382 |
| Market and client payables | - | 19,869 | 19,869 |
| Trading liabilities | - | 1,437,087 | 1,437,087 |
| Accruals | - | 12 | 12 |
| | - | 1,713,350 | 1,713,350 |

| Group 2014 | Parent $000 | Affiliates $000 | Total $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | - | 102,501 | 102,501 |
| Loans and advances to banks | - | 642,917 | 642,917 |
| Loans and advances to customers | - | 521,659 | 521,659 |
| Market and client receivables | - | 3,328,363 | 3,328,363 |
| Trading assets | - | 5,974,194 | 5,974,194 |
| Other assets | - | 373 | 373 |
| | - | 10,570,007 | 10,570,007 |
| **Liabilities** | | | |
| Customer accounts | - | 844,989 | 844,989 |
| Deposits by banks | - | 1,354 | 1,354 |
| Market and client payables | - | 456,595 | 456,595 |
| Trading liabilities | - | 8,202,481 | 8,202,481 |
| Accruals | - | 4 | 4 |
| | - | 9,505,423 | 9,505,423 |

## 41. RELATED PARTY TRANSACTIONS (continued)

### c) Outstanding balances with related parties (continued)

| Company 2015 | Parent $000 | Subsidiaries $000 | Affiliates $000 | Total $000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | - | - | 57,875 | 57,875 |
| Loans and advances to banks | - | - | 342,513 | 342,513 |
| Loans and advances to customers | - | 5,999 | 44,015 | 50,014 |
| Market and client receivables | - | - | 1,277,997 | 1,277,997 |
| Trading assets | - | - | 370,537 | 370,537 |
| Other assets | - | - | 298 | 298 |
| | - | 5,999 | 2,093,235 | 2,099,234 |
| **Liabilities** | | | | |
| Customer accounts | - | 125,483 | 245,569 | 371,052 |
| Market and client payables | - | - | 19,869 | 19,869 |
| Trading liabilities | - | - | 1,437,087 | 1,437,087 |
| Accruals | - | - | 12 | 12 |
| | - | 125,483 | 1,702,537 | 1,828,020 |

| Company 2014 | Parent $000 | Subsidiaries $000 | Affiliates $000 | Total $000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | - | - | 102,501 | 102,501 |
| Loans and advances to banks | - | - | 642,917 | 642,917 |
| Loans and advances to customers | - | 3,222 | 522,739 | 525,961 |
| Market and client receivables | - | - | 3,328,363 | 3,328,363 |
| Trading assets | - | - | 5,974,194 | 5,974,194 |
| Other assets | - | - | 373 | 373 |
| | - | 3,222 | 10,571,087 | 10,574,309 |
| **Liabilities** | | | | |
| Customer accounts | - | 119,938 | 844,585 | 964,523 |
| Deposits by banks | - | - | 1,354 | 1,354 |
| Market and client payables | - | - | 456,595 | 456,595 |
| Trading liabilities | - | - | 8,202,481 | 8,202,481 |
| Accruals | - | - | 4 | 4 |
| | - | 119,938 | 9,505,019 | 9,624,957 |

The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received No provisions have been made for doubtful debts in respect of the amounts owed by related parties

The Group and Company participates in a defined benefit plan that shares risks under common control For more information see Note 24

## HEAD OFFICE, BRANCHES AND SUBSIDIARIES
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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