Registered no: 56457103

# MERRILL LYNCH B.V.

UNAUDITED

INTERIM REPORT AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | A. Dicko (appointed 12 May 2022)<br>L.J.M. Duijsens<br>S. Lilly (resigned 12 May 2022)<br>A.E.Okobia |
| **Registered number** | 56457103 |
| **Registered office** | Amstelplein 1, Rembrandt Tower<br>27 Floor, 1096 HA, Amsterdam<br>The Netherlands |

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# DIRECTORS' REPORT
# FOR THE PERIOD ENDED 30 JUNE 2022

The directors present their report and the financial statements of Merrill Lynch B.V. ("MLBV", the "Company") for the six months ended 30 June 2022.

## Statement of directors' responsibilities

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

The directors confirm that to the best of their knowledge:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its profit and cash flows for the six months then ended; and
- the directors' report gives a true and fair view of the Company's situation as at the reporting date, the events that occurred during the first half of 2022, future outlook, events after the reporting date and the risks to which the Company is exposed.

The Dutch Civil Code requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU") and the additional requirements of Title 9 Book 2 of the Netherlands Civil Code in accordance with article 362 section 8 and 9 of the Netherlands Civil Code.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether applicable IFRS's as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with IFRS as adopted by the EU and the additional requirements of Title 9 Book 2 of the Netherlands Civil Code in accordance with article 362 section 8 and 9 of the Netherlands Civil Code. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Electronic distribution

The directors are responsible for ensuring that the Company's financial statements are provided for inclusion on the website of the Company's ultimate parent undertaking, Bank of America Corporation ("BAC").

## Principal activities

The principal activities of the Company are the issuance of structured notes and economically hedging these instruments through derivatives with another group affiliate. In addition the Company grants intercompany loans to affiliated entities and places deposits with BAC and Merrill Lynch International ("MLI"), a BAC affiliate.

There has been no change to the principal activities and the directors expect the principal activities to continue during 2022.

**Business review and market environment**

The Company was incorporated on November 12, 2012 in Amsterdam, The Netherlands. The statutory address of the Company is Amstelplein 1, Rembrandt Tower, 27 Floor, 1096 HA, Amsterdam, The Netherlands.

The parent of the Company is Merrill Lynch International, LLC ("MLI LLC") and the ultimate parent of the Company is BAC.

*Coronavirus ("COVID-19")*

The effects of the pandemic have adversely affected, and may continue to adversely affect the Company's businesses and results of operations, and the pandemic's duration and future impacts on global health, the global economy and its businesses, results of operations and financial condition remain uncertain. Pandemic developments and certain responses have also resulted in inflationary pressure and ultimately may contribute to the development of a prolonged, disruptive period of high inflation globally. There has been no material impact to the accounting estimates or going concern assessment for the Company.

The Company continues to execute its business continuity plans in connection with the pandemic, both locally and as part of BAC's coordinated response. The Company continues to closely monitor the pandemic and related risks as they evolve.

However, the Company continued to be profitable in 2022 and the cash position is positive. Based on a current analysis, management does not expect a material impact on the Company's working capital, liquidity and solvency.

*Geopolitical*

During the year, financial markets and commodities markets have been impacted by the Russia/Ukraine conflict, including the implementation of various economic sanctions by multiple jurisdictions on select Russian government and military leaders, financial institutions, business leaders and the Central Bank of Russia. In addition, the government of Russia has implemented economic sanctions on selected non-Russian institutions and prevented outflows of selected currencies from Russia. While the Company's exposure to the conflicted areas is limited, the potential impact of the conflict and sanctions regime on European and global markets and institutions remains uncertain, and episodes of economic and market volatility may continue to occur. As a result, the Company's business, results of performance, financial position and/or operational model could be adversely affected.

*Transition from London Interbank Offered Rate ("LIBOR") and other benchmark rates*

Subject to the continued publication of certain non-representative LIBOR benchmark rates based on a modified calculation, all British Pound Sterling, Euro, Swiss Franc and Japanese Yen LIBOR rates and one week and two month US dollar ("USD") LIBOR rates ceased or became no longer representative of the underlying market the rates seek to measure immediately after 31 December 2021, and the remaining USD LIBOR rates (i.e., overnight, one month, three month, six month and 12 month) will become non-representative immediately after 30 June 2023.

As a result, a major transition has been and continues to be in progress in the global financial markets with respect to the replacement of Interbank Offered Rates ("IBORs"). This is a complex process impacting a variety of the Company's business and operations. IBORs have historically been used in many of the Company's products and contracts. In response, BAC has established an enterprise-wide IBOR transition programme. The programme was established and continues to drive the BAC's industry and regulatory engagement, client and financial contract changes, internal and external communications, technology and operations modifications, including updates to its operational models, systems and processes, introduction of new products, migration of existing clients, and programme strategy and governance.

As of 30 June 2022, the Company has transitioned or otherwise has addressed IBOR-based products and contracts referencing the rates that ceased or became non-representative after 31 December 2021. The Company launched capabilities and services to support the issuance and trading in products indexed to various Alternative Reference Rates ("ARRs") and developed employee training programmes as well as other internal and external sources of information on the various challenges and opportunities that the replacement of IBORs has presented and continues to present. With respect to the transition of LIBOR products referencing USD LIBOR rates ceasing or becoming non-representative as of 30 June 2023, a significant majority of the Company's notional contractual exposure to such LIBOR currencies, of which the significant majority is derivatives contracts, have been remediated (i.e., updated to include fallback provisions to ARRs based on market driven protocols, regulatory guidance and industry-recommended fallback provisions and related mechanisms) and the Company is continuing to remediate the remaining USD LIBOR exposure. The remaining exposure will require active dialogue with clients to modify the contracts. For any residual exposures after 30 June 2023 that continue to have no fallback provisions, the Company is assessing and planning to leverage relevant contractual and statutory solutions, including relevant legislation, to transition such exposure to ARRs.

The Company continues to monitor current and potential regulatory, tax and accounting impacts of the transition, engage impacted clients in connection with the transition to ARRs and work actively with global regulators, industry working groups and trade associations in connection with the transition to ARRs. For an indicative analysis of exposure to LIBOR and other benchmark rates, that are yet to transition to alternative benchmark rate, see Note 24 Interest Rate Benchmark Reform.

*Results and capital contribution*

The directors are satisfied with the Company's performance for the financial period ended 30 June 2022 and financial position at the end of the year. The profit for the financial period, after tax, amounted to $18,375,000 (six months ended 30 June 2021 - loss of $49,000).

Gain on debit valuation adjustment on the structured notes after tax was $142,843,000 (six months ended 30 June 2021: gain of $21,577,000) due to movements in the BAC credit spreads.

*Outlook*

As noted in the business review & market environment section of the Directors' Report, whilst there is some uncertainty over the future impacts of COVID-19 and the Russia/Ukraine conflict, the 2022 interim results, balance sheet position and cash flow of the Company do not indicate any significant change to the Company's outlook. There are no expected changes to the principal activities of the Company, the valuation models applied or the funding structures in place.

**Management of climate change risk**

Climate-related risks are divided into two major categories: (1) risks related to the transition to a low-carbon economy, which may entail extensive policy, legal, technology and market changes, and (2) risks related to the physical impacts of climate change, driven by extreme weather events, such as hurricanes and floods, as well as chronic longer-term shifts, such as rising average global temperatures and sea level rise. These changes and events can have broad impacts on operations, supply chains, distribution networks, customers, and markets and are otherwise referred to, respectively, as transition risk and physical risk. These risks can impact both financial and non-financial risk types. The impacts of transition risk can lead to and amplify credit risk or market risk by reducing MLBV customers operating income or the value of their assets as well as expose us to reputational and/ or litigation risk due to increased regulatory scrutiny or negative public sentiment. Physical risk can lead to increased credit risk by diminishing borrowers repayment capacity or impacting the value of collateral. There has been no significant impact on the financial results or balance sheet of MLBV.

BAC's Risk Framework (as adopted by MLBV) establishes clear ownership and accountability for managing risk across the three lines of defence: Front Line Units ("FLUs"), independent risk management and Corporate Audit. The same approach to ownership and accountability is followed for climate risk as for other risks facing BAC.

Further information about BAC's approach to ESG matters can be accessed via the www.bankofamerica.com/ ESRPF at and BAC's Task Force for Climate-related Financial Disclosures available at www.bankofamerica.com/ TCFD.

**Global compliance and operational risk**

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

In this respect, BAC has a Code of Conduct in place which provides basic guidelines of business practice, and professional and personal conduct that are expected from employees. Likewise BAC has whistleblowing arrangements in place which will allow employees to report suspected malpractices such as unethical conduct, violations of law etc. on an anonymous and/or confidential basis.

**Risk management**

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

The risk management approach has five components:

- Culture of managing risk well;
- Risk appetite;
- Risk management process;
- Risk data management, aggregation and reporting; and
- Risk governance

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

The Company's approach to each of the risk types are further described in the notes to the financial statements (see note 21).

**Donations**

The Company made no political donations for the period ended 30 June 2022 (30 June 2021: $nil).

**Post reporting date events**

There have been no significant events affecting the Company since the period end.

**Composition of the board**

The size and composition of the Board of Directors and the combined experience reflects the best fit for the profile and strategy of the Company. It further aligns to the gender diversity goals as set out in the Dutch Civil Code.

The Company did not have any employees in the current or the preceding period. The directors are delegated to the Company and are employed by other group companies.

## Board of Directors

*(together authorised to represent the Company)*

A. Dicko
L.J.M. Duijsens
A.E. Okobia

This report was approved by the Board on 20 September 2022 and signed on its behalf.

A. Dicko
Director

L.J.M. Duijsens
Director

A.E. Okobia
Director

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2022

| | Note | Six months ended 30 June 2022 $000 | Six months ended 30 June 2021 $000 |
|---|---|---|---|
| Net loss on financial instruments at fair value through profit or loss | 4 | **(344,580)** | (70,220) |
| Net gain on financial instruments designated at fair value through profit or loss | 5 | **347,869** | 58,850 |
| Other income | 6 | **190** | 292 |
| Administrative expenses | 7 | **(151)** | (282) |
| **Profit/(loss) from operations** | | **3,328** | (11,360) |
| Interest income | 8 | **21,376** | 11,292 |
| **Profit/(loss) before tax** | | **24,704** | (68) |
| Tax (expense)/credit | 11 | **(6,329)** | 19 |
| **Profit/(loss) for the period after tax** | | **18,375** | (49) |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Net gain in debit valuation adjustment on structured notes | | **192,511** | 28,768 |
| Tax relating to movement in debit valuation adjustment on structured notes | | **(49,667)** | (7,191) |
| **Total other comprehensive income** | | **142,844** | 21,577 |
| **Total comprehensive income** | | **161,219** | 21,528 |

The notes on pages 12 to 47 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2022

*(Before appropriation of result)*

| | Note | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Debtors | 12 | **4,013,496** | 3,018,655 |
| Derivative assets | 14 | **351,720** | 150,170 |
| **Total non-current assets** | | **4,365,216** | 3,168,825 |
| **Current assets** | | | |
| Debtors | 12 | **976,178** | 366,449 |
| Derivative assets | 14 | **34,852** | 16,184 |
| Income tax receivable | 15 | **440** | 1,398 |
| Other assets | | **4,107** | 1,711 |
| Cash and cash equivalents | 13 | **23,865** | 22,474 |
| **Total current assets** | | **1,039,442** | 408,216 |
| **Total assets** | | **5,404,658** | 3,577,041 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Financial liabilities designated at fair value through profit or loss | 16 | **3,387,860** | 2,950,283 |
| Derivative liabilities | 14 | **772,686** | 219,677 |
| Deferred tax liability | 15 | **58,202** | 3,853 |
| **Total non-current liabilities** | | **4,218,748** | 3,173,813 |
| **Current liabilities** | | | |
| Financial liabilities designated at fair value through profit or loss | 16 | **483,949** | 145,832 |
| Creditors | 17 | **241,829** | 2,973 |
| Derivative liabilities | 14 | **55,113** | 9,176 |
| Accrued expenses and other liabilities | 23 | **11,546** | 12,993 |
| **Total current liabilities** | | **792,437** | 170,974 |
| **Total liabilities** | | **5,011,185** | 3,344,787 |

## STATEMENT OF FINANCIAL POSITION (CONTINUED)
## AS AT 30 JUNE 2022

| | Note | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|---|
| **Issued capital and reserves** | | | |
| Share capital | 18 | – | – |
| Other reserves | 18 | **102,310** | (40,534) |
| Share premium | 18 | **120,437** | 120,437 |
| Retained earnings | | **152,351** | 134,254 |
| Undistributed profits | | **18,375** | 18,097 |
| **Total equity** | | **393,473** | 232,254 |
| **Total liabilities and equity** | | **5,404,658** | 3,577,041 |

The notes on pages 12 to 47 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE PERIOD ENDED 30 JUNE 2022

| | Share capital | Share premium | Other reserves | Retained earnings | Undistributed profits | Total equity |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **At 1 January 2022** | – | 120,437 | (40,534) | 134,254 | 18,097 | 232,254 |
| Transfer to retained earnings | – | – | – | 18,097 | (18,097) | – |
| Profit for the period | | – | – | – | 18,375 | 18,375 |
| Movement in debit valuation adjustment on structured notes | – | – | 192,511 | – | – | 192,511 |
| Tax relating to movement in debit valuation adjustment on structured notes | – | – | (49,667) | – | – | (49,667) |
| Total comprehensive income for the period | – | – | 142,844 | 18,097 | 278 | 161,219 |
| **At 30 June 2022** | – | 120,437 | 102,310 | 152,351 | 18,375 | 393,473 |

The notes on pages 12 to 47 form part of these financial statements. For further details see note 18.

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2021

| | Share capital | Share premium | Other reserves | Retained earnings | Undistributed profits | Total equity |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **At 1 January 2021** | – | 35,437 | (76,191) | 109,463 | 24,791 | 93,500 |
| Transfer to retained earnings | – | – | – | 24,791 | (24,791) | – |
| Profit for the year | | | | | 18,097 | 18,097 |
| Movement in debit valuation adjustment on structured notes | – | – | 46,908 | – | – | 46,908 |
| Tax relating to movement in debit valuation adjustment on structured notes | – | – | (11,251) | – | – | (11,251) |
| Total comprehensive income for the year | – | – | 35,657 | 24,791 | (6,694) | 53,754 |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Share premium contribution | – | 85,000 | – | – | – | 85,000 |
| **At 31 December 2021** | – | 120,437 | (40,534) | 134,254 | 18,097 | 232,254 |

The notes on pages 12 to 47 form part of these financial statements. For further details see note 18.

## STATEMENT OF CASH FLOWS
## FOR THE PERIOD ENDED 30 JUNE 2022

| | Note | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|---|
| **Cash flow used in operating activities** | | | |
| Profit for the period after tax | | **18,375** | 18,097 |
| | | **18,375** | 18,097 |
| **Adjustments for non-cash items:** | | | |
| Net loss on financial instruments at fair value through profit or loss | 4 | **344,580** | 30,347 |
| Net gain on financial instruments designated at fair value through profit or loss | 5 | **(347,869)** | (31,241) |
| Interest income | 8 | **(21,376)** | (23,972) |
| Foreign exchange loss on translation of tax liability | | **751** | 649 |
| Income tax expense | | **6,329** | 6,788 |
| **Cash generated from operations** | | **790** | 668 |
| **Cash flows generated from operating activities:** | | | |
| Placement of debt instruments at amortised cost | 12 | **(1,682,193)** | (1,362,171) |
| Repayment of debt instruments at amortised cost | 12 | **343,349** | 445,834 |
| Net movement of derivatives | 14 | **39,869** | 57,311 |
| Proceeds from issuance of structured notes | 16 | **1,645,975** | 1,313,681 |
| Redemption of structured notes | 16 | **(335,623)** | (420,662) |
| Income tax paid | 15 | **(1,440)** | (2,656) |
| Placement/(repayment) of intercompany payables | | **237,410** | (84,317) |
| Placement of intercompany receivables | | **(246,746)** | (32,890) |
| **Cash flow generated from /(used in) operating activities** | | **1,391** | (85,202) |
| **Cash flows used in financing activities:** | | | |
| Share premium contribution | 18 | **–** | 85,000 |
| **Net cash generated from financing activities** | | **–** | 85,000 |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,391** | (202) |
| Cash and cash equivalents at the beginning of period | 13 | **22,474** | 22,676 |
| Cash and cash equivalents at the end of the period | | **23,865** | 22,474 |

For further details see note 13 for cash and cash equivalents.

The notes on pages 12 to 47 form part of these financial statements.

## 1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 1.1. Basis of preparation

The financial statements of the Company have been prepared in accordance with IFRS as adopted by the EU and the additional requirements of Title 9 Book 2 of the Netherlands Civil Code in accordance with article 362 section 8 and 9 of the Netherlands Civil Code, for entities which prepare their financial statements in accordance with IFRS as adopted by the EU.

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

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise their judgement in the process of applying the Company's accounting policies, for example, determining the fair value of financial instruments.

The directors have a reasonable expectation, based on current and anticipated future performance, capital and liquidity position that the Company will continue in operational existence for a period of at least 12 months from the date of approval of the interim report. The financial statements have, therefore, been prepared on a going concern basis and the directors expect the principal activities to continue. Disclosures in respect to liquidity risk and capital management are set out in note 21.

As part of the consideration of whether to adopt the going concern basis in preparing the financial statements, management assessed the impact of the COVID-19 pandemic on the financial statements, including critical accounting estimates and judgements, liquidity and solvency, and found this to be limited. Consideration was also made of the quantitative viability of the Company, with no going concern issues identified.

Management also evaluated the financial position of the counterparties of its debtors, mostly comprising loans to affiliated companies, and their ability to repay the notional and interest to the Company. The Company will continue to monitor its solvency and liquidity position. Whilst uncertainty remains, management do not believe, that the impact of the COVID-19 pandemic would have material adverse effect on the Company's liquidity position.

Following the assessment, it is deemed appropriate by the directors that the Company continues to adopt the going concern basis for the preparation of the financial statements.

### 1.2. New and amended standards adopted by the Company

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2022 that have had a material impact on the Company.

*New standards and interpretations not yet adopted*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 June 2022 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transaction.

1. **Accounting policies (continued)**

### 1.3. Translation of foreign currencies

The financial statements have been presented in US dollars which is also the functional currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are re-translated into US dollars at rates of exchange ruling at the reporting date. Exchange gains and losses are recognised in the statement of comprehensive income.

### 1.4. Financial assets

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Management determines the classification of the Company's financial assets at initial recognition. The Company classifies its financial assets as measured at amortised cost or fair value through profit or loss ("FVPL").

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

A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL and these are presented as debtors under balance sheet:

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

The Company's derivative assets and liabilities, financial instruments at FVPL and financial instruments designated at FVPL are managed on a fair value basis and accordingly classified as measured as at FVPL under IFRS 9. The remaining financial assets of the Company, largely relating to amounts due from affiliated companies, are classified as measured at amortised cost as these are held with the objective of collecting the contractual cash flows of the assets and meet the SPPI requirements of the IFRS 9 standard.

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

## 1. Accounting policies (continued)

### 1.5. Financial liabilities

The Company recognises financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company classifies its financial liabilities in the following categories: amortised cost or FVPL.

Derivative liabilities held for trading or held for risk management purposes, are measured at FVPL. Structured instruments issued by the Company that do not meet the accounting definition of a derivative, are classified as liabilities designated as at FVPL. Gains and losses are recognised through the income statement as they arise. All remaining financial liabilities are carried at amortised cost using the effective interest method.

Where the Company designates a financial liability as at FVPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a debit valuation adjustments reserve. However, if on initial recognition of the financial liability the Company assesses that presentation in Other Comprehensive Income ("OCI") would create, or enlarge, an accounting mismatch, then the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss. Amounts presented in the debit valuation adjustments reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the reserve is transferred to retained earnings.

### 1.6. Derecognition of financial assets and liabilities

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

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

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

Modifications to the terms of financial assets and liabilities may result in derecognition if it is deemed that the modification is substantial and results in an expiry of the contractual rights and obligations of the original instrument.

### 1.7. Offsetting financial instruments

Where the Company has the legal right to net settle and intends to do so (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously, the balance included within the financial statements is the net balance due to or from the counterparty. Counterparties are assessed to identify if net settlement criteria are met. Where this is achieved, assets and liabilities facing the counterparty are offset (see note 14).

## 1. Accounting policies (continued)

### 1.8. Segmental reporting

The Company's results are wholly derived from a single class of business, being the Global Markets segment. The directors review and analyse performance of the Company based on these activities. Segmental performance is analysed geographically as the Company operates globally under one management structure (see note 9 Segmental analysis).

### 1.9. Income and expense recognition

*Amortised cost and effective interest rate*

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

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

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

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

*Calculation of interest income and expense*

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

The effective interest rate is applied to the gross carrying amount of the financial asset (for non-credit impaired assets) or to the amortised cost of the liability.

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

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

Interest income and expense on amounts owed by and from affiliated companies, other financial assets measured at FVPL and financial liabilities designated at FVPL are recognised using the contractual interest rate in net gains/(losses) on other financial instruments at FVPL and net gain/(loss) on financial instruments designated at FVPL, respectively.

## 1. Accounting policies (continued)

### 1.10. Other income

Other income includes service fee income from charges made to affiliated companies to reimburse the Company for expenditure incurred.

### 1.11. Current and deferred income tax

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

Current tax, including Dutch 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 reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet 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 over the Company's planning horizon.

### 1.12. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short term time deposits which are readily convertible to known amounts of cash.

### 1.13. Statement of cash flows

The statement of cash flows is prepared according to the indirect method. The statement of cash flows shows the Company's cash flows for the period, divided into cash flows from operating activities and financing activities, and how the cash flows have affected the Company's cash balances. Transactions related to the issuance of structured notes are classified as operating activities.

### 1.14. Dividend distribution

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

## 1. Accounting policies (continued)

### 1.15. Impairment

The Company calculates a probability-weighted loss allowance for expected credit loss ("ECL") on its financial assets that are debt instruments that are not measured at FVPL. For instruments that have had no significant increase in credit risk since initial recognition ECL is calculated on a 12 month basis. In the event that significant financial difficulty or default of a counterparty indicates that an asset is credit- impaired, the ECL allowance is assessed on a lifetime basis, taking into account ECL that result from all possible default events over the expected life of the financial instrument.

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

Management considered the impact of the COVID-19 pandemic on its impairment assessment process and concluded that this is adequately reflected in the estimates as part of the probability of default used.

## 2. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The estimates and assumptions that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Estimates

*Valuation of financial instruments at fair value through profit and loss*

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

The Company's policy for valuation of financial instruments is included in notes 1.4 and 1.5. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency rates, commodity prices or equity prices and correlations between these inputs.

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

## 3. General information

Merrill Lynch B.V. ("MLBV", or the "Company") is a private company with limited liability (Besloten Vennootschap met Beperkte Aansprakelijkheid) incorporated under the laws of The Netherlands on 12 November 2012 with registration number 56457103.

The principal activities of the Company are the issuance of structured notes and economically hedging these instruments through derivatives that are transacted with Merrill Lynch International ("MLI"), Bank of America, National Association ("BANA") and BofA Securities Europe SA. In addition the Company grants intercompany loans and places deposits with Bank of America Corporation ("BAC") and MLI. The directors expect the principal activities to continue during 2022.

The directive 2004/109/EC of the European Parliament and the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, has been implemented in The Netherlands. In this regard the Company had to choose its Home Member State.

The Company has chosen The Netherlands as Home Member State in connection with the Transparency Directive, The Netherlands being the country of incorporation of the Company.

As a consequence of this choice, the Company files its annual and semi-annual financial statements with the Autoriteit Financiële Markten ("AFM").

The Company makes use of the exemption to the requirement to establish its own Audit Committee based on Article 3a of the Royal Decree of 26 July 2008, implementing article 41 of the EU Directive 2006/43EG, as the Audit Committee of BAC that is compliant with the requirements will fulfil the role of the Company's Audit Committee. BAC operates an Audit Committee, which covers the BAC group, including the Company. Details of the charter, membership, duties, and responsibilities can be found on the BAC group website.

The Company has its registered address at Amstelplein 1, Rembrandt Tower, 27 Floor, 1096HA, Amsterdam, The Netherlands. Merrill Lynch International, LLC ("MLI LLC") is the Company's immediate parent; BAC is the Company's ultimate parent, see note 20.

## 4. Net loss on financial instruments at fair value through profit or loss

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Change in fair value of derivative instruments | **(344,580)** | (70,220) |

## 5. Net gain on financial instruments designated at fair value through profit or loss

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Change in fair value of structured notes excluding debit valuation adjustment | **347,869** | 58,850 |

## 6. Other income

Operating income of $190,000 (six months ended 30 June 2021: $292,000) relates to service fee income from MLI, an affiliate for issuance of certain fixed income and equity linked products, including certificates and other financial instruments.

## 7. Administrative expenses

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Foreign exchange gain | **(7)** | (13) |
| Service charge | **12** | 29 |
| Other operating expenses | **146** | 266 |
| | **151** | 282 |

## 8. Interest income

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Interest Income | **21,376** | 11,292 |
| | **21,376** | 11,292 |

Interest income due from affiliated companies within debtors was $21,335,000 (six months ended 30 June 2021: $11,285,000) and within cash and cash equivalents was $41,000 (six months ended 30 June 2021: $7,000).

## 9. Segmental analysis

The Company operates in three geographic regions, being Europe, Middle East and Africa ("EMEA"), the Americas ("AMRS") and Asia Pacific ("APAC"). The Company identifies its geographic performance based on the regional business unit structure. The methodology for allocating revenue to geographic regions is dependent on estimates and management judgement.

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

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| APAC | **17,255** | 151 |
| EMEA | **6,700** | 48 |
| AMRS | **900** | 15 |
| | **24,855** | 214 |

## 10. Auditors' remuneration

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

| | **Six months ended 30 June 2022** | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Audit fees | **96** | 116 |
| Non-audit fees | **16** | 21 |
| | **112** | 137 |

The fees listed above relate to the procedures applied to the Company by accounting firms and external auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ("Wet toezicht accountants organisaties – Wta") as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

The accrued audit and non-audit fees relates to the statutory audit of the Company's 2022 financial statements and services in relation to the 2022 comfort letters for the issuance of structured notes. Payment of the 2021 fees was made by an affiliated entity and recharged to the Company.

## 11. Tax expense

| | Six months ended 30 June 2022 | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| **Current tax** | | |
| Current tax on profit for the period | **1,647** | 773 |
| **Total current tax expense** | **1,647** | 773 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **4,682** | (792) |
| Tax rate change | — | — |
| **Total deferred tax expense/(credit)** | **4,682** | (792) |
| **Total tax expense/(credit)** | **6,329** | (19) |

| | Six months ended 30 June 2022 | Six months ended 30 June 2021 |
|---|---|---|
| | **$000** | $000 |
| Profit/(loss) before tax | **24,704** | (68) |
| Tax calculated at standard rate of corporation tax (taxable income <€395,000 at 15% and >€395,000 at 25.8%) (2021: < €200,000 at 16.5% and >€200,000 at 25%) | **6,329** | (17) |
| Net expenses not deductible for tax purposes/(net credit not subject to tax) | — | (2) |
| Tax rate change | — | — |
| **Total tax expense/(credit)** | **6,329** | (19) |

Temporary differences arise on the recognition of gains or losses as BAC credit spreads change.

## 12. Debtors

| | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|
| **Non-current assets** | | |
| Debt instruments at amortised cost | **4,013,496** | 3,018,655 |
| **Current assets** | | |
| Debt instruments at amortised cost | **507,363** | 141,984 |
| Cash collateral | **461,871** | 61,596 |
| Amounts owed from affiliated companies | **6,944** | 162,869 |
| | **976,178** | 366,449 |

Debt instruments at amortised cost and amounts owed from affiliated companies mainly consist of funds raised through the issuance of structured notes and are carried at amortised cost. The balances are largely denominated in USD, EUR, JPY and GBP, not past due and are not considered to be credit- impaired.

Debt instruments at amortised cost are unsecured and placed with BAC and MLI (refer to note 21 for credit ratings). The fair value of debt instruments at amortised cost are valued at $4,939,504,000 (2021: $3,166,970,000). The amounts owed from affiliated companies are extended on a short term basis.

## 13. Cash and cash equivalents

| | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|
| Cash at bank and in hand | **4,150** | 2,765 |
| Short term time deposit | **19,715** | 19,709 |
| | **23,865** | 22,474 |

The short term time deposits are held with Bank of America, N.A., and are interest bearing at 0.27% average rate (2021: 0.12% average rate) maturing on 28 October 2022. The credit rating is A+ (Standard and Poor's ("S&P")) (2021: A-1 (S&P)).

## 14. Derivative assets and derivative liabilities

| | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|
| Non-current assets | **351,720** | 150,170 |
| Current assets | **34,852** | 16,184 |
| **Total derivative assets** | **386,572** | 166,354 |
| | | |
| Non-current liabilities | **772,686** | 219,677 |
| Current liabilities | **55,113** | 9,176 |
| **Total derivative liabilities** | **827,799** | 228,853 |

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2022 and 31 December 2021. The column 'net amount' shows the impact on the Company's SOFP if all set-off rights were exercised.

## 14. Derivative assets and derivative liabilities (continued)

**As at 30 June 2022**

| | Gross amounts recognised | Gross amounts offset in the SOFP | Net amounts presented in the SOFP | Financial instruments | Cash collateral | Net amount |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Assets** | | | | | | |
| Derivative assets | 389,354 | (2,782) | 386,572 | (386,115) | (457) | — |
| **Liabilities** | | | | | | |
| Derivative liabilities | 830,581 | (2,782) | 827,799 | (386,115) | (439,190) | 2,494 |

**As at 31 December 2021**

| | Gross amounts recognised | Gross amounts offset in the SOFP | Net amounts presented in the SOFP | Financial instruments | Cash collateral | Net amount |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Assets** | | | | | | |
| Derivative assets | 173,958 | (7,604) | 166,354 | (165,010) | (1,344) | — |
| **Liabilities** | | | | | | |
| Derivative liabilities | 236,457 | (7,604) | 228,853 | (165,010) | (61,596) | 2,247 |

**14. Derivative assets and derivative liabilities (continued)**

Derivatives consist of total return swaps and cross currency swaps that are mainly transacted with MLI and BANA and are predominantly denominated in USD, EUR, JPY and GBP.

The Company does not intend to net settle all swap positions despite having legally enforceable master netting agreements in place. Only where the total return swaps and cross currency swaps relate to a single structured note, the Company net settles those swaps upon maturity or buyback of the note and as a result an offsetting adjustment has been applied to those positions. Cash collateral relates to collateral received and pledged under legally enforceable master netting agreements.

**15. Deferred tax liability and income tax receivable**

| | **30 June 2022** | 31 December 2021 |
|---|---|---|
| | **$000** | $000 |
| Deferred tax (liability)/asset at beginning of year | **(3,853)** | 13,246 |
| Charged to profit and loss | **(4,682)** | (5,253) |
| Tax relating to movement in debit valuation adjustment | **(49,667)** | (11,635) |
| Tax rate change | – | (211) |
| **Deferred tax liability at end of the period** | **(58,202)** | (3,853) |

The deferred tax asset is non-current.

| | **30 June 2022** | 31 December 2021 |
|---|---|---|
| | **$000** | $000 |
| Income tax receivable at beginning of year | **1,398** | 332 |
| Charged to the income statement | **(1,647)** | (941) |
| Impact of foreign exchange rates | **(751)** | (649) |
| Tax paid | **1,440** | 2,656 |
| **Income tax receivable at end of the period** | **440** | 1,398 |

## 18. Financial liabilities designated at fair value through profit or loss

Management have considered the below maturity profile and contractual terms of the liabilities in respect of the structured note portfolio below and consider there to be sufficient sources of short term funds available to the Company to meet the contractual maturity of the structured notes in the context of the current environment detailed in the 'business review and market environment' section of the directors' report.

The below table presents the aggregated amounts of the Company's financial liabilities designated at FVPL, categorised by maturity dates:

**Structured notes**

| | **30 June 2022 Notional $000** | **30 June 2022 Fair value $000** | 31 December 2021 Notional $000 | 31 December 2021 Fair value $000 |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Between one year and five years | **592,300** | **626,955** | 443,746 | 455,344 |
| Between five years and ten years | **1,405,069** | **1,230,468** | 802,341 | 790,147 |
| More than 10 years | **1,926,304** | **1,662,215** | 1,728,358 | 1,645,049 |
| Credit spread adjustment | **–** | **(131,778)** | – | 59,743 |
| | **3,923,673** | **3,387,860** | 2,974,445 | 2,950,283 |
| **Current liabilities** | | | | |
| Less than 1 year | **503,352** | **484,626** | 142,228 | 145,526 |
| Credit spread adjustment | **–** | **(677)** | – | 306 |
| | **503,352** | **483,949** | 142,228 | 145,832 |
| **Total** | **4,427,025** | **3,871,809** | 3,116,673 | 3,096,115 |

## 16. Financial liabilities designated at fair value through profit or loss (continued)

The financial liabilities designated at fair value through profit or loss represents structured notes issued to investors. The structured notes are not collateralised. The carrying and fair value amounts of the structured notes are denominated in the following currencies:

| | **30 June 2022** | **30 June 2022** | 31 December 2021 | 31 December 2021 |
|---|---|---|---|---|
| | **Notional** | **Fair value** | Notional | Fair value |
| | **$000** | **$000** | $000 | $000 |
| **Structured notes** | | | | |
| USD | **1,855,270** | **1,593,114** | 1,458,780 | 1,430,560 |
| JPY | **1,290,675** | **1,196,961** | 1,005,168 | 946,246 |
| EUR | **818,693** | **764,515** | 512,309 | 530,512 |
| KRW | **38,509** | **22,126** | 42,059 | 31,364 |
| HKD | **19,120** | **16,776** | 19,239 | 19,446 |
| SEK | **975** | **904** | – | – |
| GBP | **165,241** | **193,077** | 9,872 | 9,995 |
| CNY | **35,105** | **34,328** | 27,004 | 27,307 |
| AUD | **147,318** | **127,250** | 28,332 | 26,364 |
| CHF | **35,246** | **34,931** | 1,372 | 1,364 |
| ZAR | **12,207** | **11,588** | 12,538 | 12,908 |
| RON | **8,666** | **8,694** | – | – |
| Credit spread adjustment | – | **(132,455)** | – | 60,049 |
| | **4,427,025** | **3,871,809** | 3,116,673 | 3,096,115 |

The structured notes programme does not include an early repayment option by the holder, hence the Company is not legally obliged to redeem the notes until they mature.

All structured notes are hybrid instruments with a structured component linked to the performance of various market indices. The ultimate return on the notes is dependent on the performance of the underlying indices. The indexed linked amounts are calculated based on the movement of the underlying indices of each structured note.

The credit spread adjustment represents a debit valuation adjustment which is linked to BAC credit spreads. The fair value of the structured notes is determined by using valuation techniques based on valuation models, for more information refer to note 22.

## 17. Creditors

| | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|
| Cash collateral | **470** | 1,460 |
| Amounts owed to affiliated undertakings | **241,359** | 1,513 |
| | **241,829** | 2,973 |

Cash collateral received under legally enforceable master netting agreements, denominated in USD, which are due and payable on demand. Due to the short term nature there is no material difference between the fair value and the carrying values.

## 18. Issued capital and reserves

| | 30 June 2022 $000 | 31 December 2021 $000 |
|---|---|---|
| Share capital | **—** | — |
| Other reserves | **102,309** | (40,534) |
| Share premium | **120,437** | 120,437 |
| | **222,746** | 79,903 |

Issued share capital in 2022 comprises 12,998 Ordinary shares of equal voting rights at $0.01 each. (2021: 12,998 ordinary shares at $0.01 each).

Other reserves include adjustments of $3,651,000 related to the merger with Bank of America Issuance B.V. during 2015 and $142,843,000 debit which relates to DVA after tax.

On 18 November, 2021, the Company's parent MLI LLC made an additional share premium contribution of $85,000,000.

## 19. Financial instruments by category

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

**Summary of financial instruments at 30 June 2022**

| | Amortised cost | Financial instruments mandatorily at fair value through profit or loss |
|---|---|---|
| | $000 | $000 |
| **Assets** | | |
| Debtors | 4,989,674 | — |
| Derivative assets | — | 386,572 |
| Other assets | 4,107 | — |
| Cash and cash equivalents | 23,865 | — |
| | 5,017,646 | 386,572 |

| | Amortised cost | Financial instruments mandatorily at fair value through profit or loss | Financial instruments designated at fair value through profit or loss |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Liabilities** | | | |
| Financial liabilities designated at fair value through profit or loss | — | — | 3,871,809 |
| Derivative liabilities | — | 827,799 | — |
| Creditors | 241,829 | — | — |
| Accrued expenses and other liabilities | 11,547 | — | — |
| | 253,376 | 827,799 | 3,871,809 |

## 19. Financial instruments by category (continued)

### Summary of financial instruments at 31 December 2021

| | Amortised cost | Financial instruments mandatorily at fair value through profit or loss |
|---|---|---|
| | $000 | $000 |
| **Assets** | | |
| Debtors | 3,385,103 | — |
| Derivative assets | — | 166,354 |
| Other assets | 1,711 | — |
| Cash and cash equivalents | 22,474 | — |
| | 3,409,288 | 166,354 |

| | Amortised cost | Financial instruments mandatorily at fair value through profit or loss | Financial instruments designated at fair value through profit or loss |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Liabilities** | | | |
| Financial liabilities designated at fair value through profit or loss | — | — | 3,096,115 |
| Derivative liabilities | — | 228,853 | — |
| Creditors | 2,973 | — | — |
| Accrued expenses and other liabilities | 12,993 | — | — |
| | 15,966 | 228,853 | 3,096,115 |

## 20. Related party transactions

Related party transactions are transfers of resources, services or obligations between related parties and the Company, regardless of whether a price has been charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or is part of key management of the Company.

The following parties are considered related parties:

**Debt instruments at amortised cost:**

| | **Interest income** | **Debt instruments at amortised cost** | Interest income | Debt instruments at amortised cost |
|---|---|---|---|---|
| | **Six months ended 30 June 2022** | **30 June 2022** | Six months ended 30 June 2021 | 31 December 2021 |
| | **$000** | **$000** | $000 | $000 |
| Merrill Lynch International | **21,160** | **4,520,637** | 10,822 | 3,155,302 |
| Bank of America Corporation | **47** | **222** | 330 | 5,337 |
| | **21,207** | **4,520,859** | 11,152 | 3,160,639 |

**Amounts owed from affiliated companies**

| | **Interest income** | **Amounts owed from affiliated companies** | Interest income | Amounts owed from affiliated companies |
|---|---|---|---|---|
| | **Six months ended 30 June 2022** | **30 June 2022** | Six months ended 30 June 2021 | 31 December 2021 |
| | **$000** | **$000** | $000 | $000 |
| Merrill Lynch International | **169** | **335,424** | 135 | 163,934 |
| Bank of America Corporation | **–** | **7,521** | – | 245 |
| BofA Securities Europe SA | **–** | **125,870** | 15 | 45,316 |
| | **169** | **468,815** | 150 | 209,495 |

Debt instruments at amortised cost and amounts owed from affiliated companies are set out in note 12.

**20. Related party transactions (continued)**

The carrying amounts of the Company's financial asset that have been pledged as collateral to affiliated company for liabilities totalling $461,870,508 (2021: $61,596,000).

The short term time deposits are held with Bank of America, N.A., and are interest bearing at 0.27% average rate (2021: 0.12% average rate) maturing on 28 October 2022 amounted to $19,715,000 (2021: $19,709,000.)

The Company has net derivatives transacted with affiliated companies, which at 30 June 2022 amounting to $(441,227,000) (2021: $(62,499,000)). See note 14 for further information.

The creditors relates to cash collateral received from affiliated companies under legally enforceable master netting agreements, denominated in USD, which are due and payable on demand amounting to $470,000 (2021: $1,460,000) and a general intercompany payable amounting to $241,359,000 (2021: $1,503,000) See note 17 for further information.

The Company has service fee income from MLI for the six months ended 30 June 2022 amounting to $190,000 (six months ended 30 June 2021: $292,000)

MLI LLC, the Company's immediate parent, is the holder of all 12,998 ordinary shares ($129.98). BAC as the ultimate controlling party has the power to govern the Company.

There are no employees in the Company for the period ended 30 June 2022 (six months ended 30 June 2021: none).

Included in the administrative expenses are Directors' fees and remuneration of $61,000 (six months ended 30 June 2021: $70,000) relating to two directors. Disbursements for travel and other expenses incurred in relation to matters concerning the Company are charged to the Company separately.

The Company entered into a cost sharing agreement with Investments 2234 Overseas Holdings B.V., an affiliated company with which costs relating to one of the directors' are shared, through their mutual ultimate parent company, BAC, which is based in North Tryon Street, Charlotte, North Carolina, 28202, U.S.A.

## 21. Financial risk management

### Legal entity governance

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

The risk management approach has five components:

- Culture of managing risk well;
- Risk appetite
- Risk management process;
- Risk data management, aggregation and reporting; and
- Risk governance.

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

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

### Market risk

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

Trading positions within the entity are subject to various changes in market based risk factors. The majority of this risk is generated by the activities in interest rate, FX, equities, commodities 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.

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

## 21. Financial risk management (continued)

The table below presents VaR analysis independently for each risk category at 30 June 2022 and 31 December 2021. Additionally, high and low VaR is presented independently for each risk category and overall.

| | 30 June 2022 $000 | High 2022 $000 | Daily average 2022 $000 | Low 2022 $000 |
|---|---|---|---|---|
| 99% Daily VaR | | | | |
| Total | 5,150 | 13,397 | 5,712 | 3,490 |
| Interest rate risk | 5,715 | 6,839 | 5,645 | 3,650 |
| Currency risk | 1,364 | 6,950 | 2,992 | 408 |
| Equity price risk | 1,459 | 1,531 | 715 | 6 |
| Credit risk | 1,173 | 4,521 | 1,451 | 894 |
| Commodity price risk | 41 | 11,455 | 116 | 3 |

| | 31 December 2021 $000 | High 2021 $000 | Daily average 2021 $000 | Low 2021 $000 |
|---|---|---|---|---|
| 99% Daily VaR | | | | |
| Total | 3,443 | 4,863 | 2,733 | 1,719 |
| Interest rate risk | 3,595 | 4,416 | 2,621 | 1,688 |
| Currency risk | 883 | 1,711 | 618 | 146 |
| Equity price risk | 116 | 1,469 | 78 | 27 |
| Credit spread risk | 992 | 1,051 | 181 | 10 |
| Commodity price risk | 4 | 224 | 14 | 2 |

**21. Financial risk management (continued)**

**Credit Risk**

The Company defines credit risk as the loss arising from the inability or failure of a borrower or counterparty to meet its obligations.

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 its 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
• Portfolio management
• Loss mitigation activities

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

BAC has established policies and procedures for mitigating credit risk on principal transactions, including establishing and reviewing limits for credit exposure, maintaining collateral, purchasing credit protection and continually assessing the creditworthiness of counterparties. These limits were not exceeded during the period ended 30 June 2022.

The credit risks of the Company arise from its affiliate hedging of structured note issuance via derivatives as well as its intercompany loans and deposits. The Company restricts its exposure to credit losses on derivative instruments by entering into master netting arrangements with affiliate counterparties. The credit risk associated with favourable contracts is reduced by the master netting arrangement to the extent that if an event of default occurs, all amounts with the affiliate are terminated and settled on a net basis.

Additionally, the Company grants intercompany loans and places deposits with affiliates. None of the loans to affiliate companies is past due or is considered to be credit-impaired such that the resulting ECL is not significant to the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the end of the reporting period.

The Company is exposed to a concentration of credit risk related to debt instruments at amortised cost totaling $4,520,859,000 (2021: $3,160,639,000), all with affiliated companies, please refer to note 12. At the end of the reporting period, the credit rating for outstanding long term debt of the affiliated companies is A-/A-2(S&P) for BAC and A+/A-1(S&P) for MLI (31 December 2021: A-/A-2(S&P) for BAC and A+/A-1(S&P) for MLI).

As the global environment remains impacted by COVID-19 and uncertainty, the Company continues to actively monitor the recoverability of its financial assets and ensures any loss allowance reflects on a timely basis management's best estimate of potential losses.

*Derivatives trading*

The Company typically enters into ISDA master agreements or their equivalent ("master netting agreements") with its derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

## 21. Financial risk management (continued)

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

### Compliance and operational risk ("C&OR Risk")

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Company arising from the failure of the Company to comply with the requirements of applicable laws, rules and regulations and internal policies and procedures. Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events.

BAC has compliance and operational risk management programmes ("C&OR Programmes") in place to identify, mitigate and manage the C&OR Risk for the group, which includes relevant activities of the Company. The C&OR Programmes include policies and standards among others in relation to Anti- Bribery and Anti-corruption, fraud, global financial crimes etc.

The Company's directors are confident that the C&OR Risk of the Company is thus appropriately managed.

### Liquidity risk

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

The approach to managing the Company's liquidity risk has been established by the MLBV Board, and is imbedded in BAC processes, based on the Company's business mix, strategy, activity profile, and regulatory requirements.

The tables below represent the undiscounted cash flows of the Company's financial liabilities as at 30 June 2022 and 31 December 2021, with the exception of those designated at fair value through profit or loss and derivatives.

The fair values of financial liabilities designated at fair value through profit or loss and derivatives have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments.

The Company manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows.

## 21. Financial risk management (continued)

| | Less than 3 months $000 | Between 3 months and 1 year $000 | Between 1 and 2 years $000 | Between 2 and 5 years $000 | Over 5 years $000 | Total |
|---|---|---|---|---|---|---|
| **As at 30 June 2022** | | | | | | |
| Financial liabilities designated at fair value through profit or loss | **7,137** | **476,813** | **112,358** | **514,058** | **2,761,443** | **3,871,809** |
| Derivative liabilities | – | **14,339** | **41,981** | **26,703** | **744,776** | **827,799** |
| Creditors | – | **241,829** | – | – | – | **241,829** |
| Accrued expenses and other liabilities | **11,547** | – | – | – | – | **11,547** |
| | **18,684** | **732,981** | **154,339** | **540,761** | **3,506,219** | **4,952,984** |

| | Less than 3 months $000 | Between 3 months and 1 year $000 | Between 1 and 2 years $000 | Between 2 and 5 years $000 | Over 5 years $000 | Total |
|---|---|---|---|---|---|---|
| As at 31 December 2021 | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 31,380 | 114,452 | 178,740 | 281,148 | 2,490,395 | 3,096,115 |
| Derivative liabilities | 1,977 | 7,199 | 20,137 | 8,565 | 190,975 | 228,853 |
| Creditors | – | 2,973 | – | – | – | 2,973 |
| Accrued expenses and other liabilities | 12,993 | – | – | – | – | 12,993 |
| | 46,350 | 124,624 | 198,877 | 289,713 | 2,681,370 | 3,340,934 |

**21. Financial risk management (continued)**

**Reputational risk**

Reputational risk is the risk that negative perception of MLBV may adversely impact profitability or operations.

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

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

At regional level, reputational risk items are considered as part of the Europe Middle East and Africa ("EMEA") Reputational Risk Committee, whose mandate includes consideration of reputational risk issues (including matter related to ESG factors) and provision of guidance and approvals for activities that represent specific reputational risks which have been referred for discussion by other current control frameworks or lines of business.

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

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

The reporting of reputational risk issues is captured as part of management routines for the Reputational Risk Committee. Tracking of items presented to this Committee is maintained through a reporting protocol, which provides detail such as the description of the reputational risk issue, the geographical jurisdiction, the reason for escalation and the decision reached by the Committee. A summary report of issues discussed at the Reputational Risk Committee is provided to the EMEA Regional Risk Committee on a quarterly basis.

**Strategic risk**

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

Strategic risk is managed through the assessment of effective delivery of strategy. Strategic risk is monitored continuously by the executive management team through a number of existing processes ranging from monitoring of financial and operating performance, through to the management of recovery plans and also with the regular assessment of earnings and risk profile throughout the year.

The executive management team provides the Board with reports on progress in meeting the strategic plan, as well as whether timelines and objectives are being met and if additional or alternative actions need to be implemented.

## 21. Financial risk management (continued)

MLBV strategy execution and risk management involves a formal planning and approval process. The MLBV strategic plans are set within the context of overall risk appetite and the strategic planning process includes an evaluation of the internal and external environment and the group's strengths, weaknesses, opportunities and threats.

Routines exist to discuss the strategic risk implications of new, expanded, or modified businesses, products or services and other strategic initiatives, and to provide approvals where appropriate. Independent risk management, Corporate Audit and other control functions provide input, challenge and oversight to FLUs and strategic decisions and initiatives relating to MLBV.

Regular updates to the Board on business performance and management of strategic risk take into account analyses of performance relative to the strategic plan, risk appetite, the strength of capital and liquidity positions and stress tests (which address potential macroeconomic events, changing regulatory requirements and various market growth rate assumptions).

### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, in order to provide returns for its immediate parent and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may pay dividends and return capital to its immediate parent, or issue new shares. The Company monitors capital on the basis of the capitalisation ratio which is calculated as equity divided by issued debt.

The Company's capitalisation ratio is consistent with BAC's Capital Management Policy. Taking into account guidelines issued by the Dutch Ministry of Finance, the equity at risk that is taken into account for purposes of determining the Equity risk remuneration is capped at 4% of the total amount of outstanding financial liabilities.

| | **30 June 2022** | 31 December 2021 |
|---|---|---|
| | **$000** | $000 |
| **Capitalisation ratio:** | | |
| Equity | **393,472** | 232,254 |
| Issued debt | **3,871,809** | 3,096,115 |
| Capitalisation ratio | **10%** | 8% |

## 22. Fair value measurement

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

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

**Financial liabilities designated at FVPL**

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

**Derivative assets and liabilities**

The fair values of derivative assets and liabilities traded in the over the counter ("OTC") market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third party pricing services. When third party pricing services are used, the methods and assumptions are reviewed by the Company. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available, or are unobservable, in which case, quantitative-based extrapolations of rate, price or index scenarios are used in determining fair values. The fair value of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate.

The table below presents the carrying value of financial instruments held at fair value across the three levels of the fair value hierarchy at 30 June 2022 and 31 December 2021:

**As at 30 June 2022**

| | Level 2 | Level 3 | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Assets** | | | |
| Derivative assets | 376,803 | 9,769 | 386,572 |

## 22. Fair value measurement (continued)

| | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|
| **Liabilities** | | | |
| Financial liabilities designated at fair value through profit and loss | **3,871,809** | **—** | **3,871,809** |
| Derivative liabilities | **571,064** | **256,735** | **827,799** |
| | **4,442,873** | **256,735** | **4,699,608** |

**As at 31 December 2021**

| | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|
| **Assets** | | | |
| Derivative assets | 164,027 | 2,327 | 166,354 |
| **Liabilities** | | | |
| Financial liabilities designated at fair value through profit and loss | 3,096,115 | – | 3,096,115 |
| Derivative liabilities | 173,953 | 54,900 | 228,853 |
| | 3,270,068 | 54,900 | 3,324,968 |

**Fair values of level 3 assets and liabilities**

Financial assets and liabilities whose values are based on prices or valuation techniques, that require inputs that are both unobservable and are significant to the overall fair value measurement, are classified as Level 3 under the fair value hierarchy. The Level 3 financial instruments include derivatives and valuation inputs for which there are few transactions, and there is little or no observable market data to corroborate inputs to valuation models.

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the reporting date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the valuation control policies applicable across the BAC group.

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

- Unobservable inputs can only be used in the absence of reliable observable market data.
- If unobservable inputs are used, they must reflect the assumptions market participants would use when pricing the asset or liability, including assumptions about risk. If the Company's own data is used to develop unobservable inputs, this should be adjusted if reasonably available information suggests other market participants would use different data.

**22. Fair value measurement (continued)**

- Assumptions about risk include the risk or uncertainty inherent in a particular valuation model used to estimate fair value, as well as the inputs used by the valuation model. A fair value estimate produced from a valuation model must be adjusted for these risks if a market participant would do so in their pricing of an asset or liability.

The table below presents a reconciliation for all Level 3 financial instruments measured at fair value. Level 3 assets were $9,769,000 as of 30 June 2022 (31 December 2021: $2,327,000) , and represent approximately 2.53% of assets measured at fair value and approximately 0.18% of total assets. Level 3 liabilities were $256,735,000 as of 30 June 2022 (31 December 2021: $54,900,000) , and represent approximately 5.46% of liabilities measured at fair value and 5.14% of total liabilities.

| | Derivative assets $000 | Derivative liabilities $000 |
|---|---|---|
| **Balance at 1 January 2022** | 2,327 | (54,900) |
| Losses recognised in the statement of comprehensive income | 6,939 | (185,453) |
| Settlements | — | (18,535) |
| Purchases | 554 | — |
| Transfers in | 59 | (2,921) |
| Transfers out | (110) | 5,074 |
| **Balance at 30 June 2022** | 9,769 | (256,735) |
| Unrealised losses for level 3 | 6,939 | (185,453) |

Unrealised losses relate to profit or loss from positions still held at period end and is included within net loss on financial instruments at fair value through profit or loss or net gain on financial instruments designated at fair value through profit or loss.

**22. Fair value measurement (continued)**

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

| | Derivative assets $000 | Derivative liabilities $000 | Financial liabilities designated at fair value through profit or loss $000 |
|---|---|---|---|
| Balance at 1 January 2021 | 14,864 | (12,004) | (105,695) |
| Losses recognised in the statement of comprehensive income | (11,702) | (23,286) | — |
| Settlements | (1,537) | (19,283) | — |
| Purchases | 644 | — | — |
| Transfers in | 768 | (2,185) | — |
| Transfers out | (710) | 1,858 | 105,695 |
| **Balance at 31 December 2021** | 2,327 | (54,900) | — |
| Unrealised (losses) for level 3 | (12,431) | (3,938) | — |

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

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

The Company uses multiple market approaches in valuing certain of its Level 3 financial instruments. For example, market comparables and discounted cash flows are used together. Therefore, the balances disclosed encompass both of these techniques.

## 22. Fair value measurement (continued)

| As at 30 June 2022 | Valuation technique | Significant unobservable inputs | Ranges of input |
|---|---|---|---|
| **Derivative assets and liabilities** | | | |
| Credit derivatives | Discounted cash flow, Stochastic recovery correlation model | Credit spreads<br>Upfront points<br>Prepayment speed<br>Default rate<br>Credit correlation<br>Price | 2 to 176<br>0 to 100 points<br>15% CPR<br>2% CDR<br>19% to 60%<br>$0 to $151 |
| Interest rate derivatives | Industry standard derivative pricing | Correlation (IR/IR)<br>Correlation (FX/IR)<br>Long-dated inflation rates<br>Long-dated inflation volatilities<br>Interest rate volatilities | (1)% to 92%<br>0% to 58%<br>(16)% to 39%<br>2% to 5%<br>0% to 2% |
| Equity derivatives | Industry standard derivative pricing | Equity Correlation<br>Long dated equity volatilities | 4.0% to 100%<br>5.0% to 91.0% |
| **Financial liabilities designated at fair value** | | | |
| Structured notes | Discounted cash flow, Market comparable, Industry standard derivative pricing | Equity Correlation<br>Long dated equity volatilities<br>Yield<br>Price | 4.0% to 100%<br>5.0% to 91.0%<br>0% to 19.0%<br>$0 to $100 |

| As at 31 December 2021 | Valuation technique | Significant unobservable inputs | Ranges of input |
|---|---|---|---|
| **Derivative assets and liabilities** | | | |
| Credit derivatives | Discounted cash flow, Stochastic recovery correlation model | Credit spreads<br>Upfront points<br>Prepayment speed<br>Default rate<br>Credit correlation<br>Price | 7 to 155<br>16 to 100 points<br>15% CPR<br>2% CDR<br>20% to 60%<br>$0 to $120 |
| Interest rate derivatives | Industry standard derivative pricing | Correlation (IR/IR)<br>Correlation (FX/IR)<br>Long-dated inflation rates<br>Long-dated inflation volatilities<br>Interest rate volatilities | (1)% to 90%<br>(1)% to 58%<br>(10)% to 11%<br>0% to 2%<br>0% to 2% |
| Equity derivatives | Industry standard derivative pricing | Equity Correlation<br>Long dated equity volatilities | 3.0% to 100%<br>5.0% to 78.0% |
| **Financial liabilities designated at fair value** | | | |
| Structured notes | Discounted cash flow, Market comparable, Industry standard derivative pricing | Equity Correlation<br>Long dated equity volatilities<br>Yield<br>Price | 3.0% to 100%<br>5.0% to 78.0%<br>0% to 19.0%<br>$0 to $125 |

**22. Fair value measurement (continued)**

**Derivative assets and liabilities**

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

**Sensitivity analysis of unobservable input**

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the reporting date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives, then at the period end, it could have increased fair value by as much as $35,890,000 (2021: $8,585,000) or decreased fair value by as much as $24,895,000 (2021: $5,824,000) with the potential effect impacting profit and loss rather than reserves.

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

**Financial assets and liabilities carried at amortised cost**

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

The fair value of amounts owed by affiliated companies is determined by reference to quoted market prices of similar instruments. Debt instruments at amortised cost are classified as level 2 and are valued at $4,939,504,000 (2021: $3,166,970,000).

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

## 23. Accrued expenses and other liabilities

The Company has a payable balance as at 30 June 2022 of $11,546,000 (2021: $12,993,000) which primarily represents amounts payables for trades pending settlement.

## 24. Interest rate benchmark reform

The following table summarises the significant exposures impacted by interest rate benchmark reform as at 30 June 2022:

| | USD LIBOR | JPY LIBOR | EUR LIBOR | Other LIBOR | TOTAL |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Non-derivative financial assets | 1,445,982 | 438,237 | 3,136 | 1,305 | 1,888,660 |
| Non-derivative financial liabilities | 40,000 | — | — | — | 40,000 |
| Derivatives | 6,245,882 | — | — | — | 6,245,882 |

The table above represents indicative exposures to interest rate benchmark reform, which have yet to transition to an alternative benchmark rate. The exposure disclosed is for positions with contractual maturities after 30 June 2022. Balances are reported using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs. A majority of the aggregate notional amount of the Company's IBOR based products maturing after 2022 include or have been updated to include fallbacks to ARRs.

## 25. Events after the reporting period

The directors are of the opinion that there are no significant events that have occurred since 30 June 2022 to the date of this report.

## 26. Profit appropriation

Article 19 of the Company's Articles of Association is as follows:

a) The profits of the Company, according to the annual financial statements adopted by the general meeting, are - insofar as they are not to be preserved for the formation or maintenance of reserves prescribed by law - at the disposal of the general meeting which decides about reservations or payments of profits.

b) Dividends may be paid up only to the amount above the sum of the balances between net assets and paid in capital, increased with reserves which must be maintained by virtue of law.

Based on the net result over the period ended 30 June 2022, the Board of Directors do not recommend the payment of a dividend in respect of the period ended 30 June 2022.

Distributions to shareholders are subject to two tests, namely, the equity test and the distribution or liquidity test. The Board must approve a proposed distribution and may only refuse if they know (or ought to reasonably foresee) that the Company after the distribution would no longer be able to repay its debts as and when they fall due.

The financial statements were approved by the Board and authorised for issue on 20 September 2022.
They were signed on its behalf by:

A. Dicko
Director

L.J.M. Duijsens
Director

A.E. Okobia
Director

Amsterdam
20 September 2022