



Merrill Lynch Bank and Trust Company (Cayman) Limited Pillar 3 Disclosure

December 31, 2023



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1. Overview and purpose of document

This document contains the Pillar 3 disclosures as at December 31, 2023 in respect of capital and risk management for Merrill Lynch Bank and Trust Company (Cayman) Limited (“MLBTC”), The document provides details on the capital resources available to MLBTC (“Capital Resources”) and the regulatory defined Pillar 1 minimum capital requirements for MLBTC (“Minimum Capital Requirements”), and demonstrates that MLBTC has Capital Resources in excess of these requirements and robust risk management and controls.

MLBTC Company overview

Merrill Lynch Bank and Trust Company (Cayman) Limited (the “Company”), is a wholly owned subsidiary of Merrill Lynch Cayman Holdings Incorporated, which in turn is a wholly-owned subsidiary of Merrill Lynch International, LLC. The Company is an indirect wholly-owned subsidiary of Bank of America Corporation (“BAC”). The Company is registered under the laws of the Cayman Islands and holds a Category “B” Banking and Trust License subject to the provisions of the Banks and Trust Companies Act. The Company is regulated and supervised by the Cayman Island Monetary Authority (“CIMA”). The Company holds a Securities Investment Business License pursuant to Section 6 (1) of the Securities Investment Business Act as a Broker-Dealer and Securities Arranger. The Company’s activities align with BAC’s Merrill Lynch and Global Banking and Markets divisions.

MLBTC’s Capital Position as at December 31, 2023

MLBTC has capital resources of \$738 million, which are Tier 1 Capital. Total Capital and Tier 1 Capital Ratios of 46% respectively and a surplus over Total Minimum Capital requirements of \$545 million.

Basis of Preparation

The information contained in these disclosures has been prepared in accordance with the disclosure requirement of Pillar 3 under the Basel II framework. The information is not directly comparable with the annual financial statements.

The document has been prepared purely to comply with Pillar 3 disclosure rules, for the purpose of explaining the basis on which MLBTC has prepared and disclosed certain information about the management of risks and regulatory capital adequacy concepts and rules, and for no other purpose. It therefore does not constitute any form of financial statement on MLBTC or of the wider enterprise, nor does it constitute any form of contemporary or forward looking record or opinion on the BAC group. Although Pillar 3 disclosures are intended to provide transparent information on a common basis, the information contained in this document may not be directly comparable with the information provided by other banks.

These Pillar 3 disclosures are published on the Investor Relations section of BAC’s corporate website:

<http://investor.bankofamerica.com/>

2. Risk Management

MLBTC is integrated into and adheres to the global BAC Group management structure and risk management and oversight framework, as adapted to reflect local business, legal and regulatory requirements.

BAC has an established risk governance framework (the “Risk Framework”) which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. The Risk Framework sets forth roles and responsibilities for the management of risk by Front Line Units (“FLUs”), independent risk management, other control functions and Corporate Audit, and provides a blueprint for how the Boards of Directors establish risk appetite and associated limits for their entity’s activities. The Risk Framework describes the five components of BAC’s risk management approach and the seven key types of risk faced by BAC and its subsidiaries. MLBTC integrates into and adheres to the global management structure and risk management and oversight framework, as adapted to reflect local business, legal and regulatory requirements.

BAC adopted the 2024 Risk Framework in December 2023.

The Enterprise Risk Framework consists of five components that apply to all employees and MLBTC:

- Culture of managing risk well
- Risk appetite and risk limits
- Risk management processes
- Risk data management, aggregation and reporting
- Risk governance

Focusing on these five components allows effective management of risks across the seven key types of risk faced by MLBTC’s businesses, namely: Strategic, Credit, Market, Liquidity, Operational, Compliance and Reputational.

Risk Appetite

MLBTC adheres to BAC’s line of business Risk Appetite Statement which, together with the BAC Risk Framework, provides MLBTC with the basis to establish and execute risk taking activities in a manner consistent with the aggregate risk appetite of BAC. The Risk Appetite Statement refers to, and should be read in conjunction with, the Risk Framework. BAC’s Risk Appetite Statement clearly defines the amount of capital, earnings or liquidity that it is willing to put at risk (over a certain time period with a given likelihood of occurring), to achieve its strategic objectives and business plans, consistent with applicable regulatory requirements.

The BAC Risk Appetite Statement is rooted in the following principles:

- Overall risk capacity: BAC’s overall capacity to take risk is limited, therefore risk prioritization occurs. BAC’s risk capacity informs its risk appetite, which is the level and types of risk that the entity is willing to take to achieve its business objectives
- Financial strength to absorb adverse outcomes: BAC maintains a strong and flexible financial position so it can weather challenging economic times and take advantage of organic growth opportunities. Therefore, objectives and targets will be set for capital that permit BAC to continue to operate in a safe and sound manner at all times, including during periods of stress
- Risk-reward evaluation: Risks taken are aligned to risk appetite and offer acceptable risk-adjusted returns for shareholders
- Acceptable risks: BAC considers all types of risk including those difficult to quantify. Qualitative guidance within the Risk Appetite Statement describes the approach taken to manage risks in a manner consistent with MLBTC’s culture
- Skills and capabilities: BAC seeks to assume only those risks where appropriate skills and capabilities are present to identify, measure, monitor and control them
- Governance, Reporting and Monitoring: MLBTC has a suite of regular reporting to monitor key metrics as part of the operational activities which are presented to the Board. A clear governance and breach escalation process is adopted as appropriate

Risk Management Processes

MLBTC adopts a comprehensive approach to risk management processes, which include:

- All employees are responsible for proactively managing risk
- Risk considerations are part of all daily activities and decision-making
- MLBTC encourages a thorough challenge process and maintain processes to identify, escalate and debate risks
- MLBTC utilizes timely and effective escalation mechanisms

FLUs have primary responsibility for managing risks inherent in their businesses. MLBTC employs an effective risk management process, referred to as “identify, measure, monitor and control” as part of the daily activities.

Risk Data Management, Aggregation and Reporting

Effective risk data management, aggregation and reporting provide a clear understanding of material current and emerging risks and enable MLBTC to proactively and effectively manage risk. MLBTC adopts the following “risk data management, aggregation and reporting principles”:

- Complete, accurate, reliable and timely data
- Clear and uniform language to articulate risks consistently across MLBTC
- Robust risk quantification methods
- Timely, accurate and comprehensive view of all material risks, including appropriate level of disaggregation

The Risk Framework allow effective management of risks across the seven key types of risk faced by MLBTC. Consideration of all key risks in the capital adequacy assessment is a guiding principle for the ICAAP. Both quantitative and qualitative methods are used to ensure capital is assessed for all key risks. MLBTC has adopted the BAC Risk Framework to identify, assess and mitigate its risks.

These risks are reported to senior management and the MLBTC Risk Oversight Committee (“ROC”) quarterly. This report, which is produced by Global Risk Management (“GRM”), provides senior management and the MLBTC ROC with a view of key risks facing MLBTC.

Culture of Managing Risk Well

A culture that instills the importance of managing risk well ensures appropriate focus on risk in all activities and that risk is everyone’s responsibility. It encourages the necessary mind-set and behaviour to enable effective risk management and promote sound risk-taking within risk appetite. Individual accountability is the cornerstone of MLBTC’s culture. The culture requires that risks are promptly identified, escalated and debated, thereby benefiting the overall performance of MLBTC.

MLBTC Escalation Approach

MLBTC will adhere to BAC standards and will promptly report material operational losses. For any loss over \$100,000, a root cause analysis will be performed and presented to the ROC. Additionally, all material credit metrics are reviewed at the ROC. Breaches will be escalated to the MLBTC Board promptly and remediation actions will be discussed. Market Risk and Liquidity Risk are expected to be immaterial. However, in the unlikely event there is a significant exposure, action will be taken to determine both the root cause and remediation steps.

Risk Monitoring and Measurement

GRM reports and monitors compliance with liquidity risk limits, including the Minimum Liquidity Ratio (“MLR”), and MLBTC’s liquidity risk profile under baseline and stress scenarios.

MLBTC maintains a formal Liquidity Risk Management Framework and adheres to the MLR. Under the Liquidity Risk Management Framework, MLBTC is governed by both the MLBTC Liquidity Risk Policy (“MLBTC Policy”) and the MLBTC Contingency Funding Plan (“CFP”), in addition to the BAC-level documents noted above. The MLBTC Policy outlines entity specific liquidity risk practices, as well as roles and responsibilities. The CFP addresses the strategy for handling liquidity crises and cash flow shortfalls. The MLBTC Policy and CFP provide additional requirements for reporting, stress testing, risk limits, roles and responsibilities, and regulatory requirements for MLBTC beyond those described in the BAC Policy.

Stress Testing

Stress testing is conducted to determine the incremental capital MLBTC would require to withstand a severe adverse scenario. Baseline and stress test forecasts are prepared at legal entity level and informed by line of business plans and overall legal entity strategy.

2.1 Overview of Risk Weighted Assets

Risk weighted assets increased from \$1.5 billion to \$1.6 billion for the year ended December 31, 2023 primarily driven by higher MLR cash balances.

2.2 Table - OV1 - Overview of Risk Weighted Assets

(in millions)	RWA		Minimum capital requirements
	12/31/23	12/31/22	12/31/23
Credit risk (excluding counterparty credit risk)	1,544	1,477	185
Counterparty credit risk	7	8	1
Of which: current exposure method	7	8	1
Market risk	—	—	—
Operational risk	55	53	7
Of which: Basic Indicator Approach	55	53	7
Total	1,606	1,538	193

3. Financial Statements

The consolidated financial statements are presented in accordance with United States Generally Accepted Accounting Principles. Intracompany transactions and balances have been eliminated in consolidation. There are no differences between regulatory exposure amounts and carrying values in financial statements.

3.1 Table - LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

(in millions)	Carrying values as reported in published financial statements / Carrying values under scope of regulatory consolidation	Carrying values of items		
		Subject to credit risk framework	Subject to the counterparty credit risk framework	Not subject to capital requirements or subject to deduction from capital
Assets				
Cash and cash equivalents	1	1		
Time deposits placed and other short-term investments	707	707		
Loans	2,804	2,804		
Advances to affiliates	2,001	2,001		
Accrued interest receivable	25	25		
Receivables from affiliates	92	92		
Derivative assets	7	7	7	
Total Assets	5,637	5,637	7	
Liabilities				
Deposits	2,937			2,937
Intercompany borrowings	1,868			1,868
Payables to affiliates	69			69
Derivative liabilities	7			7
Other liabilities	19			19
Total Liabilities	4,900			4,900

There are no differences between accounting amounts, as reported in the financial statements and regulatory exposure amounts.

In the normal course of business, the Company enters into loans with clients. The Company's secured loan portfolio is comprised of securities-based lending transactions which are re-margined daily. These loans are primarily collateralized by diversified marketable securities (equities and bonds) and other financial assets held by affiliates of the Company.

The client is required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability through daily re-margining over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for credit losses are only provided for in rare circumstances.

The fair value of derivative instruments is primarily derived using other market based pricing parameters such as currency rates.

4. Capital

MLBTC is a wholly owned subsidiary of BAC. MLBTC is a bank incorporated in Grand Cayman, Cayman Islands.

MLBTC's capital is managed by taking into consideration external regulations, internal requirements, and approaches to prevent a regulatory breach as well as outlining the approach to capital actions. This also includes the monitoring of key ratios and capital adequacy assessment processes to support the future capital needs of businesses under stress and normal operating conditions.

MLBTC's capital position and requirements are regularly calculated and reported to senior management and reviewed with the MLBTC Board of Directors.

Additionally, MLBTC prepares an Internal Capital Adequacy Assessment Process ("ICAAP") document annually. The ICAAP assesses the capital adequacy of MLBTC in relation to current and future activities and ensures that MLBTC maintains an appropriate amount of capital relative to the risks to which it is exposed. The ICAAP forms a key part of the governance framework, and covers MLBTC risk appetite, strategy and financial plans, capital and risk management, and stress testing. The ICAAP is approved by the MLBTC Board of Directors.

4.1 Table - Capital Structure

Stockholders' equity		12/31/2023
(in thousands of dollars)		
Paid-up share capital		449,042
Reserves		230,982
Other amounts deducted from Tier 1 capital		(12)
Tier 1 Capital		737,671
Total Eligible Capital		737,671

4.2 Table - Capital Adequacy

Credit Risk (Standardised approach)	Operational Risk (Basic Indicator Approach)	Total Tier 1 Ratio	Total Capital Ratio
(in millions)			
1,551	55	46 %	46 %

5. Credit Risk

Credit Risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. MLBTC has adopted BAC established policies to control credit risk that include, but are not limited to, authorization procedures, limit setting and monitoring. Loans with collateral positions concentrated by issuer or with non-marketable securities are subject to heightened review and credit approval by High Net Worth (“HNW”) Credit Risk. Collateral asset eligibility and loan value are established centrally with HNW Credit Risk. Loans are monitored daily leveraging enterprise securities based lending (“SBL”) platforms with collateral pricing and revolving balances updated by overnight systemic batch process. Failure of a borrower to reduce, or repay, a loan or post additional acceptable collateral to resolve deficiencies within the agreed cure period are subject to liquidation or referral to BAC’s Special Assets Group (“SAG”).

MLBTC manages SBL credit risk based on the securities pledged as collateral and the risk profile of the borrower or counterparty. The overall credit risk assessment of SBL proposals, or modifications, include the evaluation of the liquidity, diversity and quality of the collateral to be pledged and of the borrower or counterparty. SBL credit exposures generally conform to established underwriting guidelines and are subject to approval based on defined credit approval standards.

Credit risk management include the following processes:

- **Credit origination:** We assess borrowers' credit risk profiles through risk modeling, underwriting and asset analysis, while considering current and forward-looking views on economic and borrower outlooks to ensure legal entities remain within approved credit risk limits. SBL loans are underwritten in accordance with internal guidelines. The guidelines have been established to ensure that consideration is given to the individual characteristics of the collateral pledged, not simply to the loan coverage ratio and that credit decisions related to SBL activities are consistent with safe and sound credit practices.
- **Portfolio management:** Once credit has been extended daily monitoring of credit risk exposure at both the individual borrower and portfolio levels is conducted to incorporate changes in collateral prices and positions as well as loan draws and repayments.
- **Loss mitigation activities:** When loans are not compliant with terms due to collateral price fluctuations or collateral portfolio concentration thresholds borrowers are given two days to remediate or request an extension to the cure period. If counterparties are unable or otherwise do not remediate the deficiency steps will be taken to mitigate and manage losses, with teams and processes in place to appropriately manage credit events.

5.1 Table Credit quality of Assets

(in millions)		Gross carrying values of:		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	—	4,805	—	4,805
3	Off-balance sheet exposures	—	20	—	20
4	Total	—	4,825	—	4,825

The Company's estimate of credit losses includes judgement about collectability based on available information at the balance sheet date, and the uncertainties inherent in those underlying assumptions. While management has based its estimates on the best information available, future adjustments to the allowance for credit losses may be necessary as a result of changes in the economic environment or variances between actual results and the original assumptions.

In general, loans that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, including loans that are individually identified as being impaired, are classified as nonperforming unless well-secured and in the process of collection. Interest accrued but not collected is reversed when a loan is considered nonperforming and the loan is placed on non-accrual status. Interest collections on consumer loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to income when received.

As part of its credit risk management, the Company may modify a loan agreement with a borrower experiencing financial difficulties through a refinancing or restructuring of the borrower's loan agreement (modification programs). The Company uses various indicators to identify borrowers in financial difficulty. Generally, consumer

loan borrowers that are delinquent and commercial loan borrowers that are currently nonperforming or are more-likely-than-not to become nonperforming in the next six months at the modification date are the primary criteria used to identify borrowers who are experiencing financial difficulty. If a borrower is experiencing financial difficulty and their loan is modified, and they are current at the time of modification, the loan generally remains a performing loan as long as there is demonstrated performance prior to the modification and payment in full under the modified terms is expected. Otherwise, the loan is placed on nonaccrual status and reported as nonperforming, until there is sustained repayment performance for a reasonable period.

5.2 Table Credit quality of Assets - Breakdown

Categories of exposure (in millions)	Defaulted exposures	Non-defaulted exposures
Group Bank - Parent, Branch, Subsidiary or Affiliate		1,400
Group non-bank entities		601
Industrial and commercial private sector		1,931
Financial intermediaries and auxiliaries		14
Retail Lending/Consumer Loans		879
Total	0	4,825



Geographical exposure (in millions)		Defaulted exposures	Non-defaulted exposures
ARGENTINA			9
BAHAMAS			205
BARBADOS			2
BELGIUM			6
BRAZIL			80
CANADA			131
CAYMAN ISLANDS			80
CHILE			13
COLOMBIA			35
COSTA RICA			5
CURACAO			11
DOMINICAN REP			28
ECUADOR			11
EL SALVADOR			1
FRANCE			5
GB VIRGIN ISL.			566
GUATEMALA			8
HONDURAS			1
MAURITIUS			1
MEXICO			669
NETHERLANDS			28
NEW ZEALAND			17
NICARAGUA			3
PANAMA			384
PERU			11
PHILIPPINES			4
ST KITTS-NEVIS			45
SWITZERLAND			55
UNITED ARAB EMI			97
UNITED KINGDOM			55
UNITED STATES			2,155
URUGUAY			29
VENEZUELA			63
US VIRGIN ISL			11
JAMAICA			1
Total		0	4,825

MLBTC's SBL portfolio is fully collateralized with marketable securities which are monitored and marked-to-market systemically on a daily basis. Collateral calls are processed and remedied daily in accordance with BAC-wide policies and procedures which include forced collateral liquidation if client or collateral circumstances dictate. In the past ten years, MLBTC has not had a credit quality loss. There are no legally enforceable master netting agreements in place for derivative transactions.

5.3 Table Credit risk by exposure

(in millions of dollars)		Exposures unsecured: carrying amount	Exposures secured by collateral
Exposures			
1	Loans	2,068	2,737
3	Total	2,068	2,737
4	Of which defaulted	—	—

There have been no exposures that have been impaired during the year ended December 31, 2023

Credit and Counterparty Risk

MLBTC has adopted the standardised approach for calculating credit risk, the current exposure method for calculating counterparty credit risk and basic indicator approach (“BIA”) for operational risk. In order to adhere to the standardised rules set out by CIMA, MLBTC uses external ratings from External Credit Assessment Institutions (“ECAIs”) based on a combination of Moody’s Investors Service, Inc., Standard & Poor’s Financial Services LLC and Fitch Ratings, Inc.. ECAI ratings are used for all exposure classes where applicable.

5.4 Table - Credit risk exposure and CRM effects

	Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
	(in millions)						
4	Banks	2,118		2,118		846	40%
6	Corporates	603		603		603	100%
7	Regulatory retail portfolios	2,814	20	67	1	68	100%
12	Other assets	102		102		27	26%
13	Total	5,637	20	2,890	1	1,544	

For the year ended December 31, 2023, exposures post-CCF and CRM increased \$304 million and RWA increased \$67 million. These increases were primarily driven by MLR cash balances in Banks and receivables in other assets.

5.5 Table - Exposures by asset class and risk

	Risk weight*	20%	50%	100%	Total credit exposure amount (post CCF and post-CRM)
(in millions)					
	Asset classes				
4	Banks	708	1,410		2,118
6	Corporates			603	603
7	Regulatory retail portfolios			68	68
12	Other assets	94		8	102
13	Total	802	1,410	679	2,891

For the year ended December 31, 2023, total credit exposure amount increased \$304 million primarily driven by MLR cash balances in Banks and receivables in other assets within 20% risk weight category.

6. Counterparty Credit Risk

Counterparty Credit Risk is a multifaceted form of risk, affected by both the exposure to a counterparty and the credit quality of the counterparty, as well as the interaction of these risks.

MLBTC evaluates counterparty credit risk, which arises from the creditworthiness of our trading partners and varies by type of transaction. MLBTC manages counterparty credit risk with specific policies, limits and controls. Current exposure and potential exposure are measured and applicable collateral is monitored.

Regular portfolio monitoring and reporting and business-specific governance routines, enable us to detect deteriorating credit trends, develop mitigation strategies and measure the effectiveness of actions taken.

Risk Limits

As a Company, we establish and monitor metrics for the Net Credit Losses, Criticized Rate (Reservable), Classified Rate (Reservable), Non-Performing Loans and Foreclosed Properties, and 90+ Days Past Due + Non-Performing Loans (excluding fully insured loans) as a percentage of total loans.

Wrong Way Risk (“WWR”) arises when a counterparty's credit quality is correlated to the underlying risk exposure in a transaction such that as the credit quality of the counterparty deteriorates, the Mark-to-Market owed by the counterparty has a tendency to increase

BAC uses a range of policies and reporting to identify and monitor Wrong Way Risk across the portfolio. The Correlation and Concentration Risk policy describes the governance, limit frameworks, approval requirements, and roles and responsibilities for the management of WWR exposures. Forums have been established to review potential situations of Wrong Way Risk, and depending on the nature of the Wrong Way Risk, Risk Management may require pre-trade approval or apply various portfolio limits. In keeping with BAC’s Risk Management Framework, several processes exist to control and monitor Wrong Way Risk including reviews at the BAC Global Markets Risk Committee and BAC Credit Risk Committee.

The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade at December 31, 2023 was \$7 million.

Analysis of CCR exposure

Counterparty Credit Risk exposure for MLBTC arises primarily from Derivative trades. The Company enters into foreign exchange forward contracts with affiliates as hedges of foreign currency positions including the U.S. dollar costs of future foreign currency requirements. Delayed delivery and forward contracts are transactions in which one party agrees to deliver securities or a currency to a counterparty at a specified price on a specified date

6.1 Table - Counterparty Credit Risk Exposure

(in millions)		Total Replacement cost/Mark-to-market	Add-on Potential future exposure (PFE)	EAD post-CRM	RWA
1	Current Exposure Method (CEM)	7		7	7
5	Total				7

There have been no material changes relating to the counterparty credit risk for the year ended December 31, 2023.

CCR exposure by regulatory portfolio and risk weights

Disclosure of the breakout of the Other Regulatory portfolio determinations and risk weighting is not meaningful to the user due to immateriality of the \$7 million RWA.

Composition of collateral for CCR exposure

Derivatives booked in MLBTC are generally collateralized with a cash deposit to cover the trade and remains in place until the end of the contract.

6.2 Table - Collateral composition

(in millions)	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated
Cash – other currencies	7		7	
Total	7		7	

6.3 Credit derivatives exposure

(in thousands)	a	b
	Protection bought	Protection sold
Notionals		
Other credit derivatives	289,619	289,507
Total notionals	289,619	289,507
Fair values		
Positive fair value (asset)	6,807	
Negative fair value (liability)		6,721

7. Leverage ratio

7.1 Table - Comparison of accounting assets vs leverage ratio exposure measure

(in millions)		a
1	Total consolidated assets as per published financial statements	5,637
8	Adjustments for derivative financial instruments	7
13	Leverage ratio exposure measure	5,630

There are no material differences between MLBTC's balance sheet assets, net of on-balance sheet derivative assets and the on-balance sheet exposures detailed on line 1 of the table below as at December 31, 2023.

7.2 Leverage ratio disclosure

(in millions)		12/31/2023	12/31/2022
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	5,630	5,506
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)		
7	Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	5,630	5,506
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	7	8
13	Total derivative exposures (sum of rows 8 to 12)	7	8
Securities financing transaction exposures			
18	Total securities financing transaction exposures (sum of rows 14 to 17)	—	—
Other off-balance sheet exposures			
22	Off-balance sheet items (sum of rows 19 to 21)	—	—
Capital and total exposures			
23	Tier 1 capital	738	648
24	Total exposures (sum of rows 7, 13, 18 and 22)	5,637	5,514
Leverage ratio			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	13 %	12 %
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		
26	National minimum leverage ratio requirement	3 %	3 %
27	Applicable leverage buffers	10 %	9 %

MLBTC's total exposures increased during the year ended December 31, 2023 primarily driven by MLR cash balances in Banks and receivables in other assets.

8. Liquidity

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

The fundamental objective of liquidity risk management is to ensure that all financial obligations can be met across market cycles, through periods of financial stress and liquidity shocks.

The BAC Board has established the BAC Risk Framework, which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. The Risk Framework is designed to meet internal and regulatory standards. Global Liquidity Management ("GLM"), a Treasury control function, is part of CFO with teams based in key jurisdictions around the world. GLM, working in conjunction with other areas of Treasury, is responsible for the day-to-day monitoring and governance of liquidity risk in accordance with liquidity risk appetite and regulatory requirements.

The BAC Liquidity Risk Policy applies to the Enterprise and all its subsidiaries, including MLBTC, and provides the overarching governance, controls and risk management practices to monitor and manage liquidity risk across BAC. The BAC Contingency Funding Plan applies to the Parent and all its subsidiaries, including MLBTC and ensures that any management actions taken during contingent funding events are in conjunction with BAC-wide activities and consider potential impacts on franchise value. The BAC Board approves these policies, including the use of limits and early warning indicators to maintain excess liquidity within the defined parameters of its liquidity risk appetite.

As of December 31, 2024 under a severe scenario (combined market-wide and BAC stress), MLBTC would have been expected to draw up to a maximum of \$352 million of its \$3.5 billion facility. The modelled draw arises due to the estimated outflow of deposits that could arise under a stress scenario offset by repayment of loans from securities-based lending activity during the later months of the stress horizon (\$105 million). Therefore at the end of the one-year horizon, overall borrowing related to the funding gap between the third party loans and deposits would effectively decrease to zero.

As a Category B bank, MLBTC maintains a formal Liquidity Risk Management Framework and adheres to the MLR. Under the Liquidity Risk Management Framework, MLBTC is governed by both the MLBTC Liquidity Risk Policy ("MLBTC Policy") and the CFP, in addition to the BAC-level documents noted above. The MLBTC Policy outlines entity specific liquidity risk practices, as well as roles and responsibilities. The CFP addresses the strategy for handling liquidity crises and cash flow shortfalls. The MLBTC Policy and CFP provide additional requirements for reporting, stress testing, risk limits, roles and responsibilities, and regulatory requirements for MLBTC beyond those described in the BAC Policy.

GRM reports and monitors compliance with liquidity risk limits, including the MLR, and MLBTC's liquidity risk profile under baseline and stress scenarios. Treasury has day-to-day responsibility for funding MLBTC and other liquidity management activities, including maintaining the Liquidity Risk Management Framework and MLR compliance.

The MLBTC board review and approves the Liquidity Risk Management Framework, including the MLBTC Liquidity Risk Policy and MLBTC Contingency Funding Plan at least annually.

As a Category B bank, MLBTC is not required to meet the minimum requirements for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) per guidance provided under Basel III frameworks "Liquidity Risk Management - Rules and Guidelines" published in 2022.

9. Market Risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings. Derivative positions are reported at fair value with changes reflected in income. Derivative positions are subject to various changes in market-based risk factors. The majority of the risk is generated by the Company's activity in the interest rate, foreign exchange and credit markets. In addition, the

value of assets and liabilities could change due to market liquidity, correlations across the markets and expectations of market volatility.

The Company uses derivative instruments to mitigate its market exposures. Below are the two types of market risk faced by the Company.

Interest Rate Risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to, debt securities, borrowings and derivatives. Hedging instruments used to mitigate these risks may include intercompany borrowings, derivatives such as forwards and swaps.

Foreign Exchange Risk

Foreign currency risk represents exposures to changes in the values of current holdings and future cash flows denominated in currencies other than the U.S. dollar. The types of instruments exposed to this risk include future cash flows in foreign currencies arising from foreign exchange transactions and various foreign exchange derivatives whose values fluctuate with changes in the level or volatility of foreign exchange rates or non-U.S. interest rates. Hedging instruments used to mitigate this risk may include intercompany borrowings, currency forwards and swaps.

Because Market Risk in MLBTC is de minimis, neither risk appetite limits nor Enterprise approval is required.

9.1 Table Market risk under standardised approach

(In thousands)		RWA
	Outright products	
3	Foreign exchange risk	6
9	Total	6

10. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, people or external events. An operational loss event can be associated with any of the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures; and execution, delivery and process management. Operational risk includes legal risk. Although operational risk excludes strategic and reputational risks, operational risk may impact or be impacted by these risks.

Operational Risk Roles, Responsibilities and Process Owners

Enterprise operational risk policies and standards are established by Compliance & Operational Risk (“COR”) and implemented by the FLUs, control function or region, and associated independent risk management teams. These categories and the process are described in detail in the COR standard operating requirements and the Risk Framework document.

Operational Risk Governance

The Operational Risk Committee (“ORC”) oversees the enterprise-wide operational risk management program and sets strategic direction for effective operational risk program standards. Membership includes the COR Executive, independent risk management Operational Risk leads, and the Legal Operational Risk Executive. Additional nonvoting representation includes the Capital Management Executive, COR support team including Compliance

and Audit, and other enterprise officers as requested by the COR Executive or additional representation requested by ORC members.

Operational Risk Management Program Overview

COR has defined the operational risk management program using the risk management process defined in the Risk Framework. Risk program elements are monitor, assess and test.

Key Elements of the Operational Risk Management Program

In support of the risk management process, the following key elements facilitate the operational risk management program. These are carried out by the FLU in consultation with Risk:

- Risk and Control Self Assessment (“RCSA”);
- Loss Event Data Collection;
- Scenario Analysis (Enterprise, Regional and Global)

The end-to-end RCSA process incorporates risk identification and assessment of the control environment; monitoring, reporting, and escalating risk; quality assurance and data validation. The RCSA process also incorporates documentation by the FLUs and independent risk management over the business environment, risks, controls, and monitoring and reporting into the RCSA tool at an interval prescribed by COR. This results in a comprehensive risk management portfolio that enables understanding and action on operational risks and controls for all of the Bank’s processes, products, activities and systems. RCSAs are prepared for each FLU. The RCSA is completed by individual lines of business and not performed by legal entity. MLBTC’s risks are incorporated within the Merrill Lynch Wealth Management and Global Banking RCSA process.

Operational risks associated with managing the business are reviewed by the MLBTC ROC. Any MLBTC impacts identified as part of the risk coverage program.

The capital requirements for operational risk are computed using the BIA as per Basel II guidelines. MLBTC’s operational risk capital charge comprised 3% of the minimum capital requirement for the each of the years ended December 31, 2023 and December 31, 2022.

10.1 Table - Operational Risk

OPERATIONAL RISK				
(in millions)	2023		2022	
	Gross Income	RWA	Gross Income	RWA
First year	25		39	
Second Year	20		25	
Third Year	42		20	
Average	29	55	28	53

11. Interest rate risk in the banking book

MLBTC’s IRRBB internal economic capital assessment has been made using two complementary frameworks to cover both short and long term horizons:

- Economic Value of Equity (“EVE”) which captures the long term horizon; and
- Earnings at Risk (“EaR”) which captures the short term horizon

Both EVE and EaR were used to determine the risk which arises from the term structure of interest rate sensitive instruments under various interest rate scenarios.

The company measures EaR by evaluating the gain or loss on interest rate sensitive items as a result of different interest rate environments using a static balance sheet approach.

The EVE framework measures the long-term Interest Rate Risk by incorporating both interest and principal cash flows and extends the measurement horizon to a maximum of thirty years. The EVE metric computes the change in the present value of the remaining life in a runoff view, based on the principal and interest cash flows under different interest rate shock scenarios.

IRRBB is the risk of losses arising from changes in interest rates associated with banking book items. The most relevant type of IRRBB to MLBTC will be duration risk, which arises when re-pricing of banking book positions is mismatched across maturity buckets. Banking book positions are assessed by applying a parallel 200bps shock to both net interest income and economic value of equity. No assumption has been made that rates are floored at zero.

As the entity does not hold a trading portfolio, the interest rate risk in the banking book stress is the only market risk scenario.

MLBTC assesses IRRBB by examining impacts on EaR and EVE stemming from a parallel up and down 200bps shock, following the methodology outlined above. Additionally, interest rates are assumed to floor at the historical minimum by currency. The IRRBB results are:

11.1 Table - Interest Rate Risk in the Banking Book

Market Risk Scenario Assumptions (USD millions)				
Market Risk Factor	2023		2022	
	Scenario 1 - Shock	Scenario 2 - Shock	Scenario 1 - Shock	Scenario 2 - Shock
Interest rate (EAR)	200bps	(200bps)	200bps	(200bps)
Interest rate (EAR)	21.8	(17.3)	14.5	(13.6)
Interest rate (EVE)	200bps	(200bps)	200bps	(200bps)
Interest rate (EVE)	(4.4)	4.9	(3.5)	4.3

Encumbered and Unencumbered Assets



An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize, or credit enhance any transaction from which it cannot be freely withdrawn.

As at December 31, 2023 there were loans of \$2.7 billion that were pledged as collateral for intercompany lending

(in millions)	Encumbered assets	Unencumbered assets	Total
Assets			
Cash and cash equivalents	—	1	1
Time deposits placed and other	—	707	707
Loans	2,695	109	2,804
Short-term investments			
Advances to affiliates	—	2,001	2,001
Accrued interest receivable	—	25	25
Receivables from affiliates	—	92	92
Derivative assets	—	7	7
Total Assets			<u>5,637</u>

List of Acronyms

Acronym	Definition
MLBTC	Merrill Lynch Bank and Trust Company (Cayman) Limited
CIMA	Cayman Island Monetary Authority
BAC	Bank of America Corporation
FLU	Front Line Units
ROC	Risk Oversight Committee
GRM	Global Risk Management
MLR	Minimum Liquidity Ratio
CFP	MLBTC Contingency Funding Plan
ICAAP	Internal Capital Adequacy Assessment Process
HNW	High Net Worth
SBL	Securities Based Lending
SAG	Special Asset Group
TDR	Troubled Debt Restructurings
BIA	Basic Indicator Approach
ECAI	External Credit Assessment Institutions
WWR	Wrong Way Risk
GLM	Global Liquidity Management
COR	Compliance & Operational Risk
ORC	Operational Risk Committee
RCSA	Risk and Control Self Assessment
EVE	Economic Value of Equity
EaR	Earnings at Risk