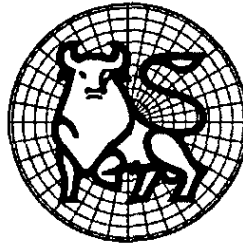


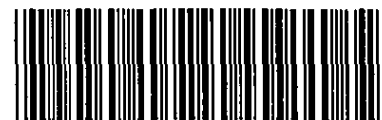
635620/30.

R226157



**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

TUESDAY



\*LHQ7INSW\*

LD9

28/09/2010

76

COMPANIES HOUSE

**MERRILL LYNCH INTERNATIONAL BANK LIMITED  
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**CONTENTS**

	<b>PAGE</b>
DIRECTORS AND OTHER INFORMATION	1
EXTRACT FROM 'REPORT OF THE DIRECTORS'	2 - 7
STATEMENT OF DIRECTORS' RESPONSIBILITIES	8
INDEPENDENT AUDITORS' REPORT	9 - 10
STATEMENT OF ACCOUNTING POLICIES	11 - 18
CONSOLIDATED PROFIT AND LOSS ACCOUNT	19
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	20
GROUP BALANCE SHEET	21
COMPANY BALANCE SHEET	22
NOTES TO THE FINANCIAL STATEMENTS	23 - 67
HEAD OFFICE, BRANCHES AND SUBSIDIARIES	68

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**DIRECTORS AND OTHER INFORMATION**

---

**DIRECTORS**

Jonathan Moulds - Chairman  
Michael G Ryan - Managing Director  
Andrew Briski  
Gavin Caldwell  
Eva Castillo  
Kevin Cox  
Michael J D'Souza  
Robert Everett  
David Gu  
Robert G Murphy  
Liam O'Reilly  
Gordon Sangster  
Price Sloan  
Paddy Teahon

**REGISTERED OFFICE**

Treasury Building  
Lower Grand Canal Street  
Dublin 2

**SECRETARY**

Merrill Lynch Corporate Services Limited  
Merrill Lynch Financial Centre  
2 King Edward Street  
London  
EC1A 1HQ

**AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

The directors have pleasure in submitting their report along with the audited financial statements of Merrill Lynch International Bank Limited ('MLIB'), the 'Company', and together with its subsidiaries, the 'Group', for the period ended 26 December 2008

Merrill Lynch Capital Markets Bank Limited ('MLCMB') was formed in 1995. In 2006, the worldwide businesses of Merrill Lynch's United Kingdom based bank ('MLIB UK'), were acquired by MLCMB. On completion of the acquisition of the businesses, MLCMB changed its name to MLIB. The Group is incorporated in Ireland and is regulated by the Financial Regulator.

### **PRINCIPAL ACTIVITIES**

The Group is the primary non-US banking entity of Merrill Lynch & Co. Inc. ("ML&Co"). The Group has its head office in Ireland with branch offices in Amsterdam, Bahrain, Frankfurt, London, Madrid, Milan, Dubai and Singapore. During the period, the Group opened branches in Seoul, Toronto, Paris and Brussels.

The Group acts as a principal for debt derivative and foreign exchange transactions and engages in advisory, lending, loan trading and institutional sales activity. The Group also provides collateralised lending, letters of credit, guarantees and foreign exchange services to, and accepts deposits from, its clients. The Group provides mortgage lending, administration and servicing in the UK non-conforming residential mortgage market.

Merrill Lynch Bank (Suisse) S.A., a subsidiary of MLIB, is a Swiss licensed bank that provides a full array of banking, asset management and brokerage products and services to international clients, including securities trading and custody, secured loans and overdrafts, deposits, foreign exchange trading and portfolio management services.

### **RESULTS AND DIVIDENDS**

The Group's loss for the year on ordinary activities after taxation was US\$1,542 million (2007 Profit of US\$751 million) as set out in the consolidated Profit and Loss Account. The directors have recommended that no dividends be declared (2007 US\$Nil).

The Group's trading assets increased from \$195 billion to \$603 billion in the period under review. The increase is attributable to an increase in both the number and mark-to-market value of derivative financial instruments in the trading portfolio which, in accordance with FRS 25 Financial Instruments - Presentation, ("FRS 25"), are reported separately as assets and liabilities with counterparties regardless of whether a legal right of setoff exists under a master netting agreement as per FRS 25. The increase in trading assets is largely offset by an increase in trading liabilities from \$200 billion to \$603 billion and does not represent a significant change to the market risk in the Group as discussed in note 29, Financial Risk Management.

The Group's key financial and other performance indicators during the period were as follows:

	2008	2007	Movement
	US\$'000	US\$'000	%
Dealing profit	1,143,033	1,112,324	3%
(Loss)/profit on ordinary activities before taxation	(1,475,038)	854,925	N/M*
(Loss)/profit on ordinary activities after taxation	(1,541,692)	751,016	N/M
Shareholder's funds	8,423,891	8,665,869	(3%)
Trading Assets	603,206,633	194,753,955	208%

\*Not Meaningful

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

---

**GOING CONCERN**

The Group relies upon its ultimate parent, ML&Co (with effect from 1 January 2009, BAC), to provide capital to support its business operations. Consequently, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**POST BALANCE SHEET EVENTS**

On 1 January 2009, Bank of America Corporation ("BAC") completed its all-stock acquisition of ML&Co, the ultimate parent company and controlling party of the Group.

**BUSINESS ENVIRONMENT**

Global market and economic conditions were extremely difficult throughout 2008, particularly during the latter portion of the year, which was characterised by asset price declines, increased illiquidity in the credit markets, continued volatility, and lower business and consumer confidence due to weaker economic data and increased concerns about corporate earnings. During 2008, economic growth across the globe contracted, while major equity market indices declined sharply. In the US, the Standard & Poors 500 Index declined 39% and the UK FTSE 100 index declined 31%. Oil prices also experienced high levels of volatility, reaching record highs in July 2008 but then falling sharply during the second half of the year.

Throughout the year, Central Banks globally conducted unprecedented policy actions in an effort to stimulate economic activity and to stabilise the financial markets. The European Central Bank (the "ECB") lowered its benchmark interest rate by an aggregate of 1.5% to 2.5%, the Federal Reserve System lowered the federal funds rate several times throughout the year, from 4.25% to a target rate of 0% to 0.25% and The Bank of England reduced its official bank rate to 2.0% in December 2008.

The Group's full year results reflect this continued weakness which has negatively impacted the valuation of its net exposures to non-conforming related assets and other residential and commercial real estate related loans. This has resulted in an increased impairment charge of US\$715 million (2007: US\$99 million) for the period. The Group also realised losses of US\$940 million on the sale of loans as part of its policy of reducing aggregate exposures to the above sectors.

**OUTLOOK**

Global economic growth is expected to continue to slow during 2009, reflecting the difficult conditions in the global financial markets and the overall global economic slowdown. Although the Group has no exposure to US subprime related assets or US collateralised debt obligations, the continued challenging credit conditions are expected to adversely impact the Group's exposures to UK residential real estate assets, European commercial real estate and other asset backed loans and European leveraged finance loans.

Future market conditions in both the leveraged finance and commercial real estate markets will likely remain challenged due to increased market volatility, uncertain economic conditions and reduced demand from market participants. The Group continues to focus on reducing its aggregate exposures, monitoring the underlying fundamentals of these positions and exercising prudent underwriting discipline with respect to any new financing commitments.

Even with these challenging credit conditions and capital market uncertainties, the Group's rates and currencies businesses are expected to benefit from proprietary trading opportunities and client trading activity. Given the Group's regional and product diversification, the directors expect to achieve future growth by focusing on those business areas generating profits, whilst continuing to review and reduce the cost base.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

---

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's business is exposed to a variety of risks that are inherent to the financial services industry. The most significant risks that the Group faces relate to market risk, credit risk, liquidity risk and operational risk. A more detailed description of these risks and how the Group manages them is provided in Note 29 to the financial statements.

**BOOKS OF ACCOUNT**

To comply with the requirement that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, the directors have ensured that appropriately qualified accounting personnel have been employed and that appropriate computerised accounting systems are maintained. The books of account are located at the Group's registered office.

**DIRECTORS AND SECRETARY**

The directors at the date of this report and those who served during the period were as follows:

Jonathan Moulds - Chairman	Appointed 19 March 2009
Michael G Ryan - Managing Director	
Robert Wigley - ex-Chairman	Resigned 31 December 2008
Nasser Azam	Resigned 27 June 2008
Andrew Brisk	
Allen G Braithwaite III	Resigned 5 March 2008
Terry Winder	Appointed 13 March 2008
	Resigned 19 March 2009
Andrew Chan	Appointed 17 September 2008
	Resigned 31 January 2009
Gavin Caldwell	
Eva Castillo	
Kevin Cox	
Michael J D'Souza	
David Gu	
Chris Hayward	Resigned 3 March 2009
Eng Huat Kong	Resigned 17 September 2008
Robert G Murphy	
Liam O'Reilly	
Paddy Teahon	
Robert Everett	Appointed 19 March 2009
Gordon Sangster	Appointed 19 March 2009
Price Sloan	Appointed 19 March 2009

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

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

---

**DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES**

The directors and the company secretary had no beneficial interest in the shares of the Company or its subsidiaries at any time during the year

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

---

**CORPORATE GOVERNANCE**

The Group's Board of Directors ('the Board') is responsible for approving the corporate strategy for the Group, monitoring and reviewing performance and providing oversight of major initiatives for the Group. The Board meets at least quarterly, to review the Group's business. In the course of conducting its business operations, the Group is exposed to a variety of risks including market, credit, liquidity and operational risks that are material and require comprehensive controls and ongoing oversight. To properly identify, measure, monitor and manage these risks, the Group has established a governance and risk management process to ensure that its risk-taking is consistent with its business strategy, capital structure and current and anticipated market conditions. The Board formally reviews its corporate governance on an annual basis to ensure that it meets industry best practice.

The Board has delegated day-to-day control and management of the Group's activities to management and various Board approved management committees. The Managing Director and other members of the management team report at least quarterly to the various committees. The charters and composition of the various committees are reviewed annually and approved by the Board.

These committees perform an important oversight function for the Group.

The Risk Policy and Oversight Committee (the 'Risk Committee') is chaired by Mr Robert G Murphy and its membership includes five additional directors. The Risk Committee is responsible for reviewing the Group's risk-taking activities and ensuring that such activities are prudently managed and within acceptable risk tolerance levels. The Credit Committee, the Asset and Liability Committee, the New Product Committee and the Operational Risk Committee report to the Risk Committee on a quarterly basis. These committees are responsible for ensuring that the Group's market, credit, liquidity and operational risks (among others) are properly identified, monitored and controlled.

The Audit Committee is also chaired by Mr Robert G Murphy and its membership comprises four other non-executive directors. The Audit Committee monitors and reports to the Board on all audit and compliance matters affecting the Group. The Compliance Committee reports to the Audit Committee on all matters of a compliance, legal or regulatory nature affecting the Group.

**REGULATORY DISCLOSURES**

Under the guidance of the Financial Regulator, MLIB is required to provide certain regulatory disclosures. Copies of these disclosures can be obtained direct from [CompaniesSecretariesOfficeLondon@ml.com](mailto:CompaniesSecretariesOfficeLondon@ml.com)



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**EXTRACT FROM 'REPORT OF THE DIRECTORS'**

---

**CHARITABLE AND POLITICAL CONTRIBUTIONS**

The total sum donated during the year by the Group to charitable organisations was US\$127,288 (2007: US\$226,803). The Group provides matched funding of certain contributions made by employees under a Give As You Earn scheme and donations made by employees to certain specified charities. There were no political donations made during the year (2007: US\$Nil).

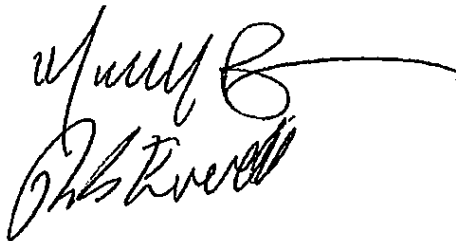
**ENVIRONMENT**

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

**AUDITORS**

The auditors, Deloitte & Touche, Chartered Accountants, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board:



} DIRECTORS

19 March 2009

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

---

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies for the Group and the parent company financial statements and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

---

We have audited the financial statements of Merrill Lynch International Bank Limited for the period ended 26 December 2008 which comprise of the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Statement of Total Recognised Gains and Losses, the Company Balance Sheet and the related notes 1 to 40. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Company's members, as a body, in accordance with Section 193 the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the financial statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006, and the European Communities (Credit Institutions Accounts) Regulations, 1992. We also report to you whether in our opinion proper books of account have been kept by the company, whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company, and whether the information given in the directors' report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Company's balance sheet are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

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

---

**BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements

**OPINION**

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Company and the Group as at 26 December 2008 and of the loss of the Group for the period then ended, and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements

The net assets of the Company, as stated in the Company balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 26 December 2008 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company

*Deloitte & Touche*

Deloitte & Touche  
Chartered Accountants and Registered Auditors  
Dublin  
19 March 2009

## **MERRILL LYNCH INTERNATIONAL BANK LIMITED**

### **STATEMENT OF ACCOUNTING POLICIES**

---

The significant accounting policies adopted by the Group are set out below

#### **BASIS OF PREPARATION**

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland are those issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

#### **ACCOUNTING CONVENTION**

The financial statements are prepared under the historical cost convention, as modified to include certain assets and liabilities at market value and are denominated in US Dollars (US\$). Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

#### **FINANCIAL REPORTING STANDARDS**

The Group adopted the recognition and derecognition requirements in FRS 26 - Financial instruments recognition and measurement ("FRS 26") with effect from 29 December 2007. In accordance with the transitional provisions in FRS 26, the Group has applied the requirements to all transactions that were previously reported using the linked presentation in accordance with FRS 5 - Reporting the substance of transactions ("FRS 5") and prospectively to all other transactions occurring on or after 30 December 2006.

The adoption of this amendment to FRS 26 resulted in changes to accounting policies that deal with the recognition and derecognition of financial instruments. The adoption of this amendment did not have a material impact on the consolidated financial statements.

The Group has also adopted the amendment issued to FRS 26 to permit reclassification of financial instruments. The Group has not made any reclassifications under this amendment.

#### **GROUP ACCOUNTS**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company where the Company has the power directly or indirectly to govern the financial and operating policies of that entity. All intra-group balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration at the date of acquisition, plus costs directly attributable to the acquisition. Goodwill arising on consolidation of subsidiary undertakings, being the excess of the cost of the investment over the fair value of the Group's share of separable net assets at the date of acquisition, is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**GROUP ACCOUNTS (CONTINUED)**

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and receivables

All financial assets subject to securitisation continue to be held on the Group's balance sheet and a liability is recognised for the proceeds of the funding received, unless

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

**INTEREST INCOME AND EXPENSE**

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

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

**FEES AND COMMISSIONS**

The Group earns fee income from a diverse range of services. Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition.

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

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

**DEALING PROFITS**

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

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**FINANCIAL ASSETS**

On initial recognition, financial assets are classified into financial assets held for trading, loans and receivables or available-for-sale financial assets

**(a) Financial assets held for trading**

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

Long and short inventory positions, including debt securities and other fixed income securities, held for trading purposes are recorded on a trade date basis and are valued at market price at the close of business on the balance sheet date. The net changes in fair values are reflected in the profit and loss account for the current year. Further details about the Group's financial instruments are included in the risk management section in Note 29 to the financial statements.

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, (b) those that the Group upon initial recognition designates as available-for-sale, or (c) those for which the Group may not recover substantially all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are initially recognised at fair value plus direct and incremental transaction costs and are then carried at amortised cost using the effective interest rate method less an allowance for impairment. Interest calculated using the effective interest rate method is recognised in the profit and loss account on an accruals basis.

The Group's lending activities include commercial lending, residential mortgage lending, securities based lending and interbank placements.

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

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

Available-for-sale financial assets are initially recognised at fair value including direct and incremental transaction costs and interest calculated using the effective interest rate method is recognised in the profit and loss account on an accruals basis. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the profit and loss account.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

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

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

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

**(a) Fair value hedge**

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the profit and loss account over the period to maturity using the effective interest rate method.

**(b) Net investment hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in dealing profits. Gains and losses accumulated in equity are included in the profit and loss account on disposal or substantial disposal of the foreign operation.

**FINANCIAL LIABILITIES**

On initial recognition, a financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of trading instruments that are managed together and for which there is evidence of short term profit taking. Held for trading financial liabilities are recognised at fair value with transaction costs being recognised in the profit and loss account. Subsequently they are measured at fair value. Gains and losses are recognised through the profit and loss account as they arise.

All other financial liabilities are measured at amortised cost using the effective interest rate method.



## **MERRILL LYNCH INTERNATIONAL BANK LIMITED**

### **STATEMENT OF ACCOUNTING POLICIES**

---

#### **FAIR VALUE**

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

The Group has entered into transactions where fair value is determined using valuation models for which not all significant inputs are market observable prices or rates. Such trading instruments are initially recognised at the transaction price although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value is not recognised immediately in the profit and loss account, but deferred until the instrument's fair value can be determined using market observable inputs, or is realised. Subsequent changes in fair value are recognised immediately in the profit and loss account.

The fair values of quoted investments in active markets are based on current prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. More detailed information in relation to the fair value of financial instruments is included in Note 27.

#### **MARKET AND CLIENT RECEIVABLES AND PAYABLES**

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

#### **SALE AND REPURCHASE AGREEMENTS**

Securities sold under agreements to repurchase and securities purchased under agreements to resell are recorded as financing transactions at the amount received or paid and are measured at amortised cost using the effective interest rate method.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received and are measured at amortised cost using the effective interest rate method.

#### **DERECOGNITION**

Transfers of financial assets and liabilities are derecognised where the Group transfers substantially all the risks and rewards of the asset. If substantially all the risks and rewards are retained, the Group retains the financial assets on its balance sheet with an associated liability for the consideration received. If the Group neither transfers nor retains substantially all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset to the extent of its continuing involvement and an associated liability measured on a basis that reflects the rights and obligations retained by the Group.

#### **NETTING**

Where the Group intends to settle (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously and the Group has the legal right to do so, the balance included within the financial statements is the net balance due to or due from the customer. Financial instruments are reported separately as assets and liabilities regardless of whether a legal right of set-off exists under a master netting agreement enforceable in law as there is no intention to settle net under such an agreement in the ordinary course of business.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**IMPAIRMENT OF FINANCIAL ASSETS**

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

**(a) Individually assessed loans**

At each balance sheet date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant.

Objective evidence of impairment exists if one or more of the following events have occurred:

- the borrower is in significant difficulty,
- actual breach of contract, such as default or delinquency, in interest or principal payments,
- the lender grants concessions to the borrower, for reasons relating to the borrower's financial difficulty, that are more favourable conditions than the lender would otherwise consider,
- there is a high probability that the borrower will undergo bankruptcy or other financial reorganisation,
- there is deterioration in the value of collateral for the loan, or
- there is a downgrading of assets below investment grade.

Impairment losses are calculated by discounting the expected future cash flows of a loan using its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. Any loss is charged to the profit and loss account. The carrying amount of impaired loans on the balance sheet is reduced through the use of an allowance account.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The reversal is recognised in the profit and loss account.

Loans (and the related impairment allowance account) are normally written off, either partially or in full, when there is no realistic expectation of recovery of these amounts.

**(b) Collectively assessed loans**

Collectively assessed loans are split into two groups: provisions for loans in arrears that are below individual assessment thresholds (collective impaired provisions) and loan losses that have been incurred but that had not been separately identified at the balance sheet date (latent provisions). Individually assessed loans for which no evidence of loss has been specifically identified and which are not in arrears are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses incurred at the balance sheet date which will only be individually identified in the future.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics,
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan, and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**GOODWILL**

Goodwill arising on acquisition of subsidiary undertakings is defined as the excess of the cost of investment over the fair value of the Group's share of separable net assets at the date of acquisition. Recognised goodwill is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life. Impairment testing is performed by comparing the present value of the expected future cash flows from a business with the carrying amount of its net assets, including attributable goodwill. Goodwill is stated at amortised cost less accumulated impairment losses which are charged to the profit and loss account.

**TANGIBLE FIXED ASSETS AND DEPRECIATION**

All tangible fixed assets are stated at historical cost, net of accumulated depreciation.

Depreciation is provided to write off the cost less the estimated residual value of the assets in equal annual instalments over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years or remaining lease term if shorter
Furniture and fittings	3 to 10 years
Communication equipment	5 years
Motor vehicles	5 years
Computer equipment	2 to 4 years

**TAXATION**

Income tax on the profit or loss for the year comprises current tax and deferred tax.

Current tax is the tax expected to be payable on the result for the year, calculated using tax rates enacted at the balance sheet date, taking into account overseas taxation where appropriate and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised as a liability or an asset if, prior to the balance sheet date, the Group or Company has entered into transactions or events that have occurred and that give rise to timing differences giving the Group or Company an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised to the extent that they are considered recoverable by management and are reviewed at each balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

**SHARE BASED PAYMENTS**

ML&Co, the ultimate parent company and controlling party of the Group (with effect from 1 January 2009, BAC), grants equity settled share based payment awards to employees of the Group under various incentive schemes. Equity settled share based payment plans are measured based on the fair value of those awards at grant date and are passed down via a recharge from the parent company and as such are accounted for under the equity method. The fair value determined at the grant date is expensed over the vesting period, based on the Group's estimate of shares that will eventually vest.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**STATEMENT OF ACCOUNTING POLICIES**

---

**PENSIONS**

The Group participates in a number of defined benefit and defined contribution pension schemes

The Group is one of a number of Merrill Lynch employers which participate in the Merrill Lynch (UK) Pension Plan, (the 'Plan', formerly the Merrill Lynch (UK) Final Salary Plan) which was closed to new entrants with effect from 30 June 1997 and to contributions from existing members with effect from 30 June 2004. The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The Group has been unable to identify its share of the underlying assets and liabilities of the Plan due to contributions being set for the scheme as a whole rather than reflecting the actuarial characteristics of the employees of the individual employer and accordingly accounts for the Plan as if it were a defined contribution scheme.

The Group also operates a defined benefit scheme in Germany, all other schemes operated by the Group are defined contribution schemes. The major defined contribution scheme in Ireland is the Merrill Lynch Employee Benefit Plan. The costs of defined contribution schemes are calculated as a percentage of each employee's annual salary based on their age and length of service with the Group and are charged to the profit and loss account in the year in which they fall due.

**LEASES**

All leases are operating leases and the annual rentals are charged to the profit and loss account in the accounting period to which they relate.

**FOREIGN CURRENCIES**

The functional and presentational currency of the Group is US Dollars (US\$).

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

The financial statements of branches and subsidiaries whose functional currency is not the US Dollar are translated into US Dollars at the closing rate for the balance sheet and at the average rate of exchange for the year for the profit and loss account. Translation differences arising on the profit and loss generated for the current year and on opening net assets are taken directly as a movement in reserves.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

	Notes	2008 US\$'000	2007 US\$'000
Interest income:	1		
- Other interest receivable and similar income		2,252,080	2,509,541
- Interest payable and similar charges		(1,573,496)	(1,745,653)
Fees and commissions	2		
- Receivable		831,221	773,292
- Payable		(1,143,425)	(897,409)
Dealing profits	3	1,143,033	1,112,324
Other operating income		15,831	112,367
<b>TOTAL OPERATING INCOME</b>		<b>1,525,244</b>	<b>1,864,462</b>
Administrative expenses	4	825,017	835,095
Depreciation		11,396	8,072
Amortisation and impairment of goodwill	16	104,641	32,110
Other operating charges	5	1,344,644	34,928
Provisions for bad and doubtful debts	29	714,584	99,332
<b>TOTAL OPERATING EXPENSES</b>		<b>3,000,282</b>	<b>1,009,537</b>
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
	6	(1,475,038)	854,925
Tax on (loss) / profit on ordinary activities	8	(66,654)	(103,909)
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>(1,541,692)</b>	<b>751,016</b>

All gains and losses arise from continuing activities. Notes 1 to 40 and the statement of accounting policies form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 March 2009 and signed on its behalf by:



} DIRECTORS

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**CONSOLIDATED STATEMENT OF TOTAL**  
**RECOGNISED GAINS AND LOSSES**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

	2008 US\$'000	2007 US\$'000
<b>CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</b>		
(Loss) / profit on ordinary activities after taxation	(1,541,692)	751,016
Transition adjustment on adopting FRS 26	-	1,592
Tax effect on transition adjustment on adopting FRS 26	-	(557)
Losses on revaluation of available-for-sale investments taken to equity	-	(1,553)
Tax effect on revaluation of available-for-sale investments	-	557
Exchange differences on translation of foreign operations	(27,448)	51,554
Exchange differences on translation of net investment hedge	52,201	(8,369)
	<hr/>	<hr/>
Total recognised (losses) / gains for the year	(1,516,939)	794,240
	<hr/>	<hr/>

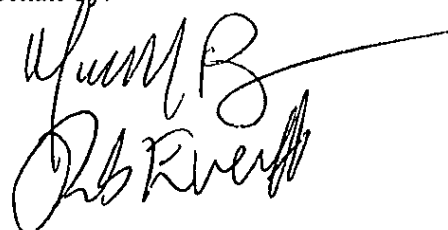
Notes 1 to 40 and the statement of accounting policies form an integral part of the financial statements

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**GROUP BALANCE SHEET AS AT 26 DECEMBER 2008**

	Notes	2008 US\$'000	2007 US\$'000 as restated
<b>ASSETS</b>			
Cash and balances at Central Bank	9	1,783,406	4,155,376
Loans and advances to banks	10	8,696,219	6,405,477
Loans and advances to customers	11	30,125,323	29,964,148
Market and client receivables	12	16,068,949	11,876,270
Debt securities and other fixed income securities	14	1,443,624	1,036,020
Trading assets	29	603,206,633	194,753,955
Deferred taxation	15	28,116	43,020
Goodwill	16	-	150,336
Tangible fixed assets		41,489	29,617
Other assets	17	12,506,451	11,630,598
<b>TOTAL ASSETS</b>		<b>673,900,210</b>	<b>260,044,817</b>
<b>LIABILITIES</b>			
Deposits by banks	18	2,251,994	2,405,172
Customer accounts	19	17,594,384	25,502,615
Non-recourse financing	13	1,950,703	1,853,456
Market and client payables	20	31,521,953	8,074,042
Trading liabilities	29	602,654,072	199,856,302
Other liabilities	22	5,725,654	10,508,452
Accruals and deferred income		530,559	418,909
Subordinated debt	23	3,247,000	2,760,000
<b>TOTAL LIABILITIES</b>		<b>665,476,319</b>	<b>251,378,948</b>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	24	32,067	32,067
Share premium account	25	3,898,359	3,898,359
Capital contribution	25	2,065,875	790,875
Available-for-sale reserve	25	-	39
Retained earnings	25	2,427,590	3,944,529
		8,423,891	8,665,869
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>673,900,210</b>	<b>260,044,817</b>
<b>MEMORANDUM ITEMS</b>			
Guarantees, undrawn commitments and assets pledged as collateral security	29	41,191,191	52,130,685

Notes 1 to 40 and the statement of accounting policies form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 March 2009 and signed on its behalf by:



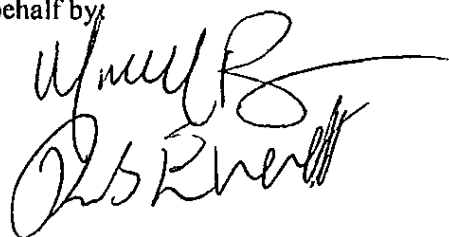
} DIRECTORS

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**COMPANY BALANCE SHEET AS AT 26 DECEMBER 2008**

	Notes	2008 US\$'000	2007 US\$'000 as restated
<b>ASSETS</b>			
Cash and balances at Central Bank	9	1,353,814	3,797,935
Loans and advances to banks	10	8,665,478	6,255,852
Loans and advances to customers	11	29,209,851	28,529,985
Market and client receivables	12	15,819,171	11,682,640
Debt securities and other fixed income securities	14	1,443,624	1,036,020
Trading assets	29	601,613,343	194,736,244
Deferred taxation	15	25,138	39,670
Investment in subsidiaries	36	268,641	256,172
Tangible fixed assets		33,964	22,517
Other assets	17	13,013,691	12,388,668
<b>TOTAL ASSETS</b>		<b>671,446,715</b>	<b>258,745,703</b>
<b>LIABILITIES</b>			
Deposits by banks	18	2,106,561	2,247,892
Customer accounts	19	17,085,300	25,060,994
Non-recourse financing	13	1,950,703	1,853,456
Market and client payables	20	31,195,663	8,079,994
Trading liabilities	29	601,056,786	199,842,760
Other liabilities	22	5,819,429	10,496,312
Accruals and deferred income		938,039	226,275
Subordinated debt	23	3,247,000	2,760,000
<b>TOTAL LIABILITIES</b>		<b>663,399,481</b>	<b>250,567,683</b>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	24	32,067	32,067
Share premium account	25	3,898,359	3,898,359
Capital contribution	25	2,065,875	790,875
Available-for-sale reserve	25	-	39
Retained earnings	25	2,050,933	3,456,680
		<b>8,047,234</b>	<b>8,178,020</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>671,446,715</b>	<b>258,745,703</b>
<b>MEMORANDUM ITEMS</b>			
Guarantees, undrawn commitments and assets pledged as collateral security	29	41,093,297	52,041,233

Notes 1 to 40 and the statement of accounting policies form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 March 2009 and signed on its behalf by



} DIRECTORS



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>1. INTEREST INCOME</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Other interest receivable and similar income		
- Loans and advances to banks	288,829	547,255
- Loans and advances to customers	1,629,158	1,657,497
- Debt securities and other fixed income securities	157,212	62,279
- Loans to affiliates	173,577	236,894
- Other assets	3,304	5,616
	<u>2,252,080</u>	<u>2,509,541</u>

Interest payable and similar charges		
- Deposits by banks	(242,433)	(266,615)
- Customer accounts	(601,393)	(893,230)
- Non-recourse financing	(131,725)	(112,603)
- Loans from affiliates	(593,869)	(470,251)
- Other liabilities	(4,076)	(2,954)
	<u>(1,573,496)</u>	<u>(1,745,653)</u>

Included in interest receivable is US\$29.4 million (2007 US\$7.1 million) of interest on impaired loans and advances to customers, accrued but not yet received

<b>2. FEES AND COMMISSIONS</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Receivable		
- Intercompany service fees	592,911	571,114
- Investment banking fees	72,514	81,989
- Private client fees	134,576	90,788
- Commissions	20,839	11,322
- Other fees	10,381	18,079
	<u>831,221</u>	<u>773,292</u>
Payable		
- Intercompany service fees	(930,151)	(724,633)
- Brokerage fees	(90,582)	(111,049)
- Exchange and clearing house fees	(18,974)	(25,180)
- Other fees	(103,718)	(36,547)
	<u>(1,143,425)</u>	<u>(897,409)</u>

**3. DEALING PROFITS**

Dealing profits are generated from trading assets and trading liabilities

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>4. ADMINISTRATIVE EXPENSES</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Wages and salaries	511,402	547,910
Social welfare	31,379	32,501
Pension costs (Note 21)	24,103	11,072
Other administrative expenses	258,133	243,612
	<u>825,017</u>	<u>835,095</u>

<b>5. OTHER OPERATING CHARGES</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Realised loss on sale of loans to customers	939,615	-
FX revaluation losses	405,029	34,928
	<u>1,344,644</u>	<u>34,928</u>

The FX revaluation losses include amounts relating to transactions that have been undertaken to provide economic hedges of certain fair value adjustments on the Group's loan portfolio. These adjustments are recognised in the ultimate parent company's accounts under US Generally Accepted Accounting Practice ("GAAP"), but are not in the Group's accounts under Irish GAAP. Thus although the Merrill Lynch Group is economically hedged against foreign exchange movements on these fair value adjustments, that hedging will give rise to foreign exchange volatility in the Group's profit and loss account under Irish GAAP.

<b>6. (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
(Loss) / profit on ordinary activities before taxation is stated after (charging)		
Depreciation of tangible fixed assets	(11,396)	(8,072)
Directors' remuneration		
Fees paid by the Group	(398)	(358)
Other emoluments	(11,957)	(18,354)
(Included in 2008 US\$73,000 (2007 US\$75,000) in respect of pension contributions)		
Operating lease rentals (Note 34)	(27,318)	(27,043)
Auditors' remuneration	(3,570)	(2,767)

**7. PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE COMPANY**

Of the consolidated loss after tax for the financial year, losses of US\$1,384 million (2007 profit of US\$788 million) are attributable to the operations of the Company. The profit and loss account of the Company is not presented by virtue of the exemption contained within Section 3(2) of the Companies (Amendment) Act 1986.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>8. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES</b>	2008 US\$'000	2007 US\$'000
Taxation on (loss) / profit on ordinary activities		
Corporation tax charge	42,162	9,232
Deferred tax credit	<u>2,170</u>	<u>(14,408)</u>
	44,332	(5,176)
Adjustments in respect of prior years	<u>22,322</u>	<u>109,085</u>
	<u>66,654</u>	<u>103,909</u>

The effective tax rate for 2008 is (4.52%) (2007: (12.15%))

Factors affecting the tax charge for the period

The current tax charge for the year differs from the current credit / charge that would result from applying the standard rate of Irish Corporation tax (2008 and 2007: 12.5%) to the (loss) / profit on ordinary activities. The difference is explained below:

	2008 US\$'000	2007 US\$'000
(Loss) / profit on ordinary activities before tax	<u>(1,475,038)</u>	<u>854,925</u>
Tax charge at the standard rate of corporation tax of 12.5%	(184,380)	106,866
Effects of:		
Foreign taxes	(232,973)	115,641
Tax losses received from affiliates for no payment	-	(222,853)
Tax losses surrendered to affiliates for no payment	99,420	-
Income generated from undertakings with affiliated companies*	375,060	-
Other	<u>(14,965)</u>	<u>9,578</u>
Corporation tax charge	<u>42,162</u>	<u>9,232</u>

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

Ireland	12.5%	Germany	15.0%
UK	28.5%	Switzerland	8.5%
Singapore	18.0%	Belgium	33.0%
Netherlands	25.5%	Dubai	0.0%
Spain	30.0%	France	33.3%
Bahrain	0.0%	Korea	25.0%
Italy	27.5%	Canada	20.5%

\*In 2008, the UK branch of the Company entered into transactions with other ML&Co group companies which utilised certain 2008 UK tax losses which would otherwise have been denominated in Pounds Sterling. As a consequence of these transactions, future UK corporate tax deductions denominated in US Dollars totalling \$1,316 million may arise either in a Merrill Lynch affiliate company (and be surrendered by way of group relief to the Company) or in the Company itself. These transactions were undertaken for foreign exchange risk management reasons.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>9. CASH AND BALANCES AT CENTRAL BANK</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>- Group</b>		
Cash in hand	1,375,245	3,203,729
Balances with central banks other than mandatory reserve deposits	36,852	28,228
Mandatory reserve deposits with Central Banks	371,309	923,419
	<u>1,783,406</u>	<u>4,155,376</u>
<b>- Company</b>		
Cash in hand	948,149	2,848,662
Balances with central banks other than mandatory reserve deposits	36,852	28,228
Mandatory reserve deposits with Central Banks	368,813	921,045
	<u>1,353,814</u>	<u>3,797,935</u>
<b>10. LOANS AND ADVANCES TO BANKS</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>- Group</b>		
Analysed by remaining maturity		
Repayable on demand	41,970	15,253
3 months or less but not on demand	6,919,777	6,257,033
1 year or less but over 3 months	1,342,952	60,578
5 years or less but over 1 year	-	72,613
Over 5 years	391,520	-
	<u>8,696,219</u>	<u>6,405,477</u>
<b>- Company</b>		
Analysed by remaining maturity		
Repayable on demand	-	-
3 months or less but not on demand	6,931,006	6,133,239
1 year or less but over 3 months	1,342,952	50,000
5 years or less but over 1 year	-	72,613
Over 5 years	391,520	-
	<u>8,665,478</u>	<u>6,255,852</u>
<b>11. LOANS AND ADVANCES TO CUSTOMERS</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>- Group</b>		
Analysed by remaining maturity		
Repayable on demand	9,432,753	2,068,008
3 months or less but not on demand	3,885,689	6,092,322
1 year or less but over 3 months	5,242,463	5,547,795
5 years or less but over 1 year	5,312,829	5,353,695
Over 5 years	6,251,589	10,902,328
	<u>30,125,323</u>	<u>29,964,148</u>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

	2008 US\$'000	2007 US\$'000 as restated
<b>- Company</b>		
Analysed by remaining maturity		
Repayable on demand	9,125,861	1,909,501
3 months or less but not on demand	3,242,875	5,048,369
1 year or less but over 3 months	4,707,808	5,354,523
5 years or less but over 1 year	5,216,273	5,294,083
Over 5 years	6,917,034	10,923,509
	<u>29,209,851</u>	<u>28,529,985</u>

There were provisions for bad and doubtful debts of US\$843.8 million as at 26 December 2008 (2007 US\$129.2 million) against assets in the Group's portfolio. Further information is given in Note 29 under credit risk impairment charges. Provisions for bad and doubtful debts in respect of assets in the Company's portfolio amounted to US\$806.3 million as at 26 December 2008 (2007 US\$122.2 million).

**12. MARKET AND CLIENT RECEIVABLES**

	2008 US\$'000	2007 US\$'000
<b>- Group</b>		
Analysed by remaining maturity		
On demand	<u>16,068,949</u>	<u>11,876,270</u>
	<u>16,068,949</u>	<u>11,876,270</u>
<b>- Company</b>		
Analysed by remaining maturity		
On demand	<u>15,819,171</u>	<u>11,682,640</u>
	<u>15,819,171</u>	<u>11,682,640</u>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**13. NON-RECOURSE FINANCING**

Loans and advances to customers include mortgage loans which are subject to non-recourse finance arrangements. These loans have been transferred to special purpose securitisation companies, Mortgages No 6 Plc, Mortgages No 7 Plc, Newgate Funding Plc, Ludgate Funding Plc and Taurus CMBS No 2 Srl which are ultimately beneficially owned by charitable trusts and have been funded primarily through the issuance of floating rate notes. No gain or loss has been recognised as a result of these transfers. The special purpose securitisation companies are consolidated as legal subsidiaries, under FRS 2 'Accounting for Subsidiary Undertakings', the Companies Acts 1963 to 2006 and the European Communities (Credit Institutions, Account) Regulations, 1992. A list of all of the Group's principal subsidiaries is included in Note 36.

Holders of the floating rate notes are only entitled to obtain payment of principal and interest to the extent that the resources of the securitisation companies are sufficient to support such payments and the holders of the floating rate notes have no recourse in any other form. The priority and amount of claims on the proceeds generated by the assets are determined in accordance with a strict priority of payments.

The Group is entitled to receive payment of deferred consideration for the sale of the mortgage loans. As part of the deferred consideration, the Group is entitled to receive any residual amounts less a predetermined amount of the outstanding principal on the floating rate notes on each interest determination date. The Group is also entitled to receive mortgage redemption penalty interest on the securitised loans.

The Group has no obligation or intention to repurchase any securitised loans unless certain representations and warranties given by the Group at the time of transfer are breached. The Group also has no obligation or intention to financially support any of the securitisation companies and does not intend to do so. The special purpose securitisation companies are as follows:

- Group and Company Securitisation Company	Date of Securitisation	2008	2008	2007	2007
		Gross Assets Securitized US\$'000	Non-recourse finance US\$'000	Gross Assets Securitized US\$'000	Non-recourse finance US\$'000
Mortgages No 6 Plc	Dec 2004	150,796	144,737	277,140	307,767
Mortgages No 7 Plc	Aug 2005	349,775	342,715	696,773	746,830
Taurus CMBS No 2 Srl	Dec 2005	170,952	213,654	139,322	152,126
Newgate Funding Plc (2007-03)	Dec 2007	1,193,799	809,151	1,691,309	646,733
Ludgate Funding Plc (2008-01)	Jan 2008	534,208	440,446	-	-
		<u>2,399,530</u>	<u>1,950,703</u>	<u>2,804,544</u>	<u>1,853,456</u>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**14. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES**

	2008 US\$'000	2007 US\$'000
<b>- Group and Company</b>		
Held for Trading		
Listed securities		
- Government securities	973,829	567,075
- Corporate bonds	310,555	378,906
	<u>1,284,384</u>	<u>945,981</u>
Available-for-sale		
Unlisted securities		
- Short term government securities	159,240	90,039
	<u>159,240</u>	<u>90,039</u>
Total debt securities and other fixed income securities	<u>1,443,624</u>	<u>1,036,020</u>
Analysed by remaining maturity		
Due within one year	294,295	90,039
Due one year and over	1,149,329	945,981
	<u>1,443,624</u>	<u>1,036,020</u>

The risks associated with debt securities and other fixed income securities are dealt with in detail in Note 29

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>15. DEFERRED TAXATION</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>- Group</b>		
Timing differences related to		
- Accelerated capital allowances	1,665	351
- Compensation and social security costs	7,911	1,603
- Timing differences in respect of provisions	-	28,240
- Other timing differences	18,540	12,826
	<u>28,116</u>	<u>43,020</u>
<b>- Company</b>		
Timing differences related to		
- Accelerated capital allowances	1,665	351
- Compensation and social security costs	7,911	1,603
- Timing differences in respect of provisions	-	28,240
- Other timing differences	15,562	9,476
	<u>25,138</u>	<u>39,670</u>
<b>Movement on deferred taxation:</b>	<b>2008</b>	<b>2007</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>- Group</b>		
Balance at start of year	43,020	26,731
Deferred tax charge in profit and loss account relating to current year	(2,170)	14,408
Adjustment relating to change in future tax rate	65	(1,960)
Adjustment in respect of previous years	(12,799)	3,841
Balance at end of year	<u>28,116</u>	<u>43,020</u>
<b>- Company</b>		
Balance at start of year	39,670	24,263
Deferred tax charge in profit and loss account relating to current year	(2,248)	16,151
Adjustment relating to change in future tax rate	65	(1,960)
Adjustment in respect of previous years	(12,349)	1,216
Balance at end of year	<u>25,138</u>	<u>39,670</u>

Management is of the opinion that the Company and the Group will be able to generate future taxable income to recover the deferred tax asset recognised at the balance sheet date, having considered historic performance



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**16. GOODWILL**

	Cost	Impairment	Amortisation	Exchange translation	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 28 December 2007	198,520	(21,500)	(30,407)	3,723	150,336
Impairment		(135,048)	30,407	-	(104,641)
Exchange translation	-	-	-	(45,695)	(45,695)
As at 26 December 2008	198,520	(156,548)	-	(41,972)	-

Goodwill acquired through business combinations was reviewed for permanent impairment during the year. Based on this analysis, a permanent impairment charge for the full book value was taken based on a value in use calculation.

**17. OTHER ASSETS**

	2008 US\$'000	2007 US\$'000 as restated
<b>- Group</b>		
Amounts due from affiliate companies	11,358,943	11,120,754
Prepaid taxation	26,371	70,824
Prepayments and accrued income	1,121,137	439,020
	<u>12,506,451</u>	<u>11,630,598</u>
<b>- Company</b>		
Amounts due from affiliate companies	12,098,360	11,976,246
Prepaid taxation	26,921	65,555
Prepayments and accrued income	888,410	346,867
	<u>13,013,691</u>	<u>12,388,668</u>

Amounts owed from affiliate companies at 26 December 2008 included no amounts due from the Group's immediate parent, Merrill Lynch Group Holdings Limited (2007 US\$8,367,943)

**18. DEPOSITS BY BANKS**

	2008 US\$'000	2007 US\$'000
<b>- Group</b>		
Analysed by remaining maturity		
Repayable on demand	501,155	1,001,267
3 months or less but not on demand	712,547	1,395,905
1 year or less but over 3 months	1,038,292	8,000
	<u>2,251,994</u>	<u>2,405,172</u>
<b>- Company</b>		
Analysed by remaining maturity		
Repayable on demand	355,722	843,987
3 months or less but not on demand	712,547	1,395,905
1 year or less but over 3 months	1,038,292	8,000
	<u>2,106,561</u>	<u>2,247,892</u>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>19. CUSTOMER ACCOUNTS</b>	2008 US\$'000	2007 US\$'000
<b>- Group</b>		
Analysed by remaining maturity		
Repayable on demand	5,573,423	3,834,016
3 months or less but not on demand	10,875,522	19,172,670
1 year or less but over 3 months	893,291	2,271,908
5 years or less but over 1 year	199,953	56,894
Over 5 years	52,195	167,127
	<u>17,594,384</u>	<u>25,502,615</u>
<b>- Company</b>		
Analysed by remaining maturity		
Repayable on demand	5,020,999	3,392,395
3 months or less but not on demand	10,918,862	19,172,670
1 year or less but over 3 months	893,291	2,271,908
5 years or less but over 1 year	199,953	56,894
Over 5 years	52,195	167,127
	<u>17,085,300</u>	<u>25,060,994</u>
<b>20. MARKET AND CLIENT PAYABLES</b>	2008 US\$'000	2007 US\$'000
<b>- Group</b>		
Analysed by remaining maturity		
On demand	<u>31,521,953</u>	<u>8,074,042</u>
	31,521,953	8,074,042
<b>- Company</b>		
Analysed by remaining maturity		
On demand	<u>31,195,663</u>	<u>8,079,994</u>
	31,195,663	8,079,994

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**21. PENSIONS**

The Group operates pension plans both in Ireland and in its overseas branches and subsidiaries. The pension charges for the year are as follows:

<b>- Group</b>	2008 US\$ '000	2007 US\$ '000
Defined contribution scheme	16,689	12,996
Defined benefit scheme	7,414	(1,924)
	<u>24,103</u>	<u>11,072</u>

The Group is a member of a multi-employer group scheme, the Merrill Lynch (UK) Pension Plan ('the Plan'), formerly the Merrill Lynch (UK) Final Salary Plan. Valuations of the Plan are carried out triennially with the last valuation being performed at 1 January 2006. That assessment showed that the Plan had a deficit of £103.3 million that represented a funding level of 83%.

On the basis of actuarial advice, it was agreed that the employing entities would pay further contributions to fund the deficit. The employing entities would pay an additional contribution of £25 million in the year to 31 December 2007 (as had previously been agreed and was paid in March 2007) followed by contributions of £23.7 million per year during each of the three calendar years 2008 (which was paid in March 2008), 2009 and 2010. These contributions are in addition to a contribution of £25 million paid in December 2006. An informal funding review of the Plan was carried out at 1 January 2008. This showed that the deficit in the plan had decreased to £45 million. No changes were made to the contributions requirements. In addition, a formal actuarial valuation as at 31 December 2008 is in the process of being completed. Contributions to the Plan are recorded in the Company's accounts as 'defined contribution' in line with accounting rules on multi-employer schemes.

A defined benefit scheme is operated in Germany and the main economic assumptions employed for determining the costs of that scheme are as follows:

Date of latest valuation	1 January 2009
Salary growth	3.00%
Pension increases	2.00%
Discount rate	6.25%

The German scheme's liabilities at 26 December 2008 were US\$43.1 million (2007: US\$45.2 million) and are provided in the accounts. In line with German business practices, the defined benefit pension scheme is not funded. The scheme's liabilities represent the net present value of future pension obligations to eligible past and current employees. These pension obligations are partially covered by an independent insurance provider.

The costs of defined contribution schemes are calculated as a percentage of each employee's annual salary based on their age and length of service with the Group and are charged to the profit and loss account in the year in which they fall due. The assets of all defined contribution schemes operated by the Group are held separately in independently administered funds. The charge in respect of these schemes is calculated on the basis of contributions due in the financial year.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

<b>22. OTHER LIABILITIES</b>	2008 US\$'000	2007 US\$'000 as restated
<b>- Group</b>		
Amounts owed to affiliate companies	5,233,817	10,276,334
Provision for pensions	43,448	60,053
Corporation tax payable	59,616	74,733
Other accruals	365,570	85,622
Payroll taxes	15,161	2,888
VAT	8,042	8,822
	<u>5,725,654</u>	<u>10,508,452</u>
<b>- Company</b>		
Amounts owed to affiliate companies	5,374,734	10,334,523
Provision for pensions	43,448	60,053
Corporation tax payable	28,200	43,649
Other accruals	350,724	46,377
Payroll taxes	14,281	2,888
VAT	8,042	8,822
	<u>5,819,429</u>	<u>10,496,312</u>

Amounts due to affiliate companies at 26 December 2008 includes an amount of US\$597,710 (2007 US\$Nil) due to the Group's immediate parent, Merrill Lynch Group Holdings Limited

<b>23. SUBORDINATED DEBT</b>	2008 US\$'000	2007 US\$'000
<b>- Group and Company</b>		
US\$ 4,680 million subordinated debt repayable 01 February 2013, Libor + 100bps	3,247,000	2,760,000
	<u>3,247,000</u>	<u>2,760,000</u>

During 2008, the Group increased its facility with ML&Co to US\$4,680 million (2007 US\$3,680 million) as shown above. The Group also retains a second facility with ML&Co of US\$500 million maturing on 1 February 2010 at Libor + 100bps (2007 US\$2,250 million maturing on 1 February 2010 at Libor + 100bps) which remained undrawn throughout the year.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**24. SHARE CAPITAL**

**- Group and Company**

<b>Authorised</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>No</b>	<b>US\$</b>	<b>No</b>	<b>US\$</b>
Ordinary shares US\$1	30,000,000	30,000,000	10,000,000	10,000,000
A Ordinary shares US\$1	15,000,000	15,000,000	15,000,000	15,000,000
B Ordinary shares US\$1	30,000	30,000	30,000	30,000
IR Ordinary shares US\$1	1,000	1,000	1,000	1,000
IT Ordinary shares US\$1	10,000	10,000	10,000	10,000
NL Ordinary shares US\$1	5,000	5,000	5,000	5,000
S Ordinary shares US\$20	500,000	10,000,000	500,000	10,000,000
SP Ordinary shares US\$1	5,000	5,000	5,000	5,000
	<b>45,551,000</b>	<b>55,051,000</b>	<b>25,551,000</b>	<b>35,051,000</b>
<b>Called up, issued and fully paid</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>No</b>	<b>US\$</b>	<b>No</b>	<b>US\$</b>
Ordinary shares US\$1	9,207,075	9,207,075	9,207,075	9,207,075
A Ordinary shares US\$1	14,320,617	14,320,617	14,320,617	14,320,617
B Ordinary shares US\$1	377	377	377	377
IR Ordinary shares US\$1	163	163	163	163
IT Ordinary shares US\$1	4,012	4,012	4,012	4,012
NL Ordinary shares US\$1	1,080	1,080	1,080	1,080
S Ordinary shares US\$20	426,642	8,532,840	426,642	8,532,840
SP Ordinary shares US\$1	846	846	846	846
	<b>23,960,812</b>	<b>32,067,010</b>	<b>23,960,812</b>	<b>32,067,010</b>

During the period, the Group increased the authorised amount of ordinary shares by US\$20 million. All shares in issue at 26 December 2008 rank pari passu in all respects save that upon the return of capital, such capital shall be applied in the following order of priority: Ordinary Shares followed by the B Ordinary Shares, IR Ordinary Shares, IT Ordinary Shares, NL Ordinary Shares, SP Ordinary Shares, A Ordinary Shares and finally the S Ordinary Shares. Any surplus after the repayment of such amounts shall be distributed between the holders of the shares in proportion to their holdings.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**25. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT IN RESERVES**

<b>- Group (all in US\$'000)</b>	<b>Share Capital</b>	<b>Share Premium</b>	<b>Capital Contribution</b>	<b>Available- for-sale Reserve</b>	<b>Retained Earnings</b>	<b>Total</b>
As at 28 December 2007	32,067	3,898,359	790,875	39	3,944,529	8,665,869
Capital contribution	-	-	1,275,000	-	-	1,275,000
Loss for the year	-	-	-	-	(1,541,692)	(1,541,692)
Currency translation adjustment	-	-	-	-	(27,448)	(27,448)
Net investment hedge	-	-	-	-	52,201	52,201
Movement in available-for-sale reserve	-	-	-	(39)	-	(39)
As at 26 December 2008	32,067	3,898,359	2,065,875	-	2,427,590	8,423,891

<b>- Company (all in US\$'000)</b>	<b>Share Capital</b>	<b>Share Premium</b>	<b>Capital Contribution</b>	<b>Available- for-sale Reserve</b>	<b>Retained Earnings</b>	<b>Total</b>
As at 28 December 2007	32,067	3,898,359	790,875	39	3,456,680	8,178,020
Capital contribution	-	-	1,275,000	-	-	1,275,000
Loss for the year	-	-	-	-	(1,384,337)	(1,384,337)
Currency translation adjustment	-	-	-	-	(73,611)	(73,611)
Net investment hedge	-	-	-	-	52,201	52,201
Movement in available-for-sale reserve	-	-	-	(39)	-	(39)
As at 26 December 2008	32,067	3,898,359	2,065,875	-	2,050,933	8,047,234

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**25. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT IN RESERVES (CONTINUED)**

**- Group (all in US\$'000)**

	Share Capital	Share Premium	Capital Contribution	Available- for-sale Reserve	Retained Earnings	Total
As at 29 December 2006	31,985	3,872,970	190,875	-	3,169,521	7,265,351
Prior period adjustment	-	-	-	-	(19,194)	(19,194)
As restated	31,985	3,872,970	190,875	-	3,150,327	7,246,157
Transition adjustment on adoption of FRS 26	-	-	-	1,592	-	1,592
Tax effect on transition adjustment on adopting FRS 26	-	-	-	(557)	-	(557)
As at 30 December 2006	31,985	3,872,970	190,875	1,035	3,150,327	7,247,192
Issue of new shares	82	25,389	-	-	-	25,471
Capital contribution	-	-	600,000	-	-	600,000
Profit for the year	-	-	-	-	751,016	751,016
Currency translation adjustment	-	-	-	-	51,555	51,555
Net investment hedge	-	-	-	-	(8,369)	(8,369)
Movement in available-for-sale reserve	-	-	-	(1,553)	-	(1,553)
Tax effect on movement in available-for-sale reserve	-	-	-	557	-	557
As at 28 December 2007	32,067	3,898,359	790,875	39	3,944,529	8,665,869

**- Company (all in US\$'000)**

	Share Capital	Share Premium	Capital Contribution	Available- for-sale Reserve	Retained Earnings	Total
As at 29 December 2006	31,985	3,872,970	190,875	-	2,684,776	6,780,606
Prior period adjustment	-	-	-	-	(19,194)	(19,194)
As restated	31,985	3,872,970	190,875	-	2,665,582	6,761,412
Transition adjustment on adopting FRS 26	-	-	-	1,592	-	1,592
Tax effect on transition adjustment on adopting FRS 26	-	-	-	(557)	-	(557)
As at 30 December 2006	31,985	3,872,970	190,875	1,035	2,665,582	6,762,447
Issue of new shares	82	25,389	-	-	-	25,471
Capital contribution	-	-	600,000	-	-	600,000
Profit for the year	-	-	-	-	788,291	788,291
Currency translation adjustment	-	-	-	-	11,176	11,176
Net investment hedge	-	-	-	-	(8,369)	(8,369)
Movement in available-for-sale reserve	-	-	-	(1,553)	-	(1,553)
Tax effect on movement in available-for-sale reserve	-	-	-	557	-	557
As at 28 December 2007	32,067	3,898,359	790,875	39	3,456,680	8,178,020

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**26. FINANCIAL INSTRUMENTS**

The following table analyses the carrying amount of the Group's financial assets and liabilities by category and by balance sheet heading

2008

All figures in US\$'M

	Held for trading	Loans and receivables	Other financial liabilities	Available-for-sale	Derivatives designated as hedges	Total
<b>ASSETS</b>						
Cash and balances at Central Bank	-	1,783	-	-	-	1,783
Loans and advances to banks	-	8,696	-	-	-	8,696
Loans and advances to customers	-	30,125	-	-	-	30,125
Market and client receivables	-	16,069	-	-	-	16,069
Debt securities and other fixed income securities	1,285	-	-	159	-	1,444
Trading assets	603,207	-	-	-	-	603,207
	<b>604,492</b>	<b>56,673</b>	<b>-</b>	<b>159</b>	<b>-</b>	<b>661,324</b>
<b>LIABILITIES</b>						
Deposits by banks	-	-	2,252	-	-	2,252
Customer accounts	-	-	17,594	-	-	17,594
Non-recourse financing	-	-	1,951	-	-	1,951
Market and client payables	-	-	31,522	-	-	31,522
Trading liabilities	602,646	-	-	-	8	602,654
Subordinated debt	-	-	3,247	-	-	3,247
	<b>602,646</b>	<b>-</b>	<b>56,566</b>	<b>-</b>	<b>8</b>	<b>659,220</b>



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The following table analyses the carrying amount of the Group's financial assets and liabilities by category and by balance sheet heading

2007

All figures in US\$'M

	Held for trading	Loans and receivables	Other financial liabilities	Available-for-sale	Derivatives designated as hedges	Total
<b>ASSETS</b>						
Cash and balances at Central Bank	-	4,155	-	-	-	4,155
Loans and advances to banks	-	6,405	-	-	-	6,405
Loans and advances to customers	-	29,964	-	-	-	29,964
Market and client receivables	-	11,876	-	-	-	11,876
Debt securities and other fixed income securities	946	-	-	90	-	1,036
Trading assets	194,754	-	-	-	-	194,754
	<b>195,700</b>	<b>52,400</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>248,190</b>
<b>LIABILITIES</b>						
Deposits by banks	-	-	2,405	-	-	2,405
Customer accounts	-	-	25,503	-	-	25,503
Non-recourse financing	-	-	1,853	-	-	1,853
Market and client payables	-	-	8,074	-	-	8,074
Trading liabilities	199,853	-	-	-	3	199,856
Subordinated debt	-	-	2,760	-	-	2,760
	<b>199,853</b>	<b>-</b>	<b>40,595</b>	<b>-</b>	<b>3</b>	<b>240,451</b>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by balance sheet heading

2008

All figures in US\$'M

	Held for trading	Loans and receivables	Other financial liabilities	Available-for-sale	Derivatives designated as hedges	Total
<b>ASSETS</b>						
Cash and balances at Central Bank	-	1,354	-	-	-	1,354
Loans and advances to banks	-	8,665	-	-	-	8,665
Loans and advances to customers	-	29,210	-	-	-	29,210
Market and client receivables	-	15,819	-	-	-	15,819
Debt securities and other fixed income securities	1,285	-	-	159	-	1,444
Trading assets	601,613	-	-	-	-	601,613
	<b>602,898</b>	<b>55,048</b>	<b>-</b>	<b>159</b>	<b>-</b>	<b>658,105</b>
<b>LIABILITIES</b>						
Deposits by banks	-	-	2,107	-	-	2,107
Customer accounts	-	-	17,085	-	-	17,085
Non-recourse financing	-	-	1,951	-	-	1,951
Market and client payables	-	-	31,196	-	-	31,196
Trading liabilities	601,049	-	-	-	8	601,057
Subordinated debt	-	-	3,247	-	-	3,247
	<b>601,049</b>	<b>-</b>	<b>55,586</b>	<b>-</b>	<b>8</b>	<b>656,643</b>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by balance sheet heading

2007

All figures in US\$'M

	Held for trading	Loans and receivables	Other financial liabilities	Available-for-sale	Derivatives designated as hedges	Total
<b>ASSETS</b>						
Cash and balances at Central Bank	-	3,798	-	-	-	3,798
Loans and advances to banks	-	6,256	-	-	-	6,256
Loans and advances to customers	-	28,530	-	-	-	28,530
Market and client receivables	-	11,683	-	-	-	11,683
Debt securities and other fixed income securities	946	-	-	90	-	1,036
Trading assets	194,736	-	-	-	-	194,736
	<b>195,682</b>	<b>50,267</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>246,039</b>
<b>LIABILITIES</b>						
Deposits by banks	-	-	2,248	-	-	2,248
Customer accounts	-	-	25,061	-	-	25,061
Non-recourse financing	-	-	1,853	-	-	1,853
Market and client payables	-	-	8,080	-	-	8,080
Trading liabilities	199,840	-	-	-	3	199,843
Subordinated debt	-	-	2,760	-	-	2,760
	<b>199,840</b>	<b>-</b>	<b>40,002</b>	<b>-</b>	<b>3</b>	<b>239,845</b>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**27. FAIR VALUE INFORMATION**

The following table provides an analysis of the fair value of financial instruments of the Group and Company not carried at fair value on the balance sheet

<b>- Group</b>		<b>2008</b>		<b>2007</b>	
All figures in US\$'M		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>					
Cash and balances at Central Bank	1,783	1,783	4,155	4,155	
Loans and advances to banks	8,696	8,615	6,405	6,404	
Loans and advances to customers	30,125	27,438	29,964	28,954	
Market and client receivables	16,069	16,069	11,876	11,876	
<b>Financial Liabilities</b>					
Deposits by banks	2,252	2,252	2,405	2,405	
Customers accounts	17,594	17,594	25,503	25,503	
Non-recourse financing	1,951	1,754	1,853	1,853	
Market and client payables	31,522	31,522	8,074	8,074	
Subordinated debt	3,247	3,015	2,760	2,691	
<b>- Company</b>		<b>2008</b>		<b>2007</b>	
All figures in US\$'M		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>					
Cash and balances at Central Bank	1,354	1,354	3,797	3,797	
Loans and advances to banks	8,665	8,584	6,256	6,255	
Loans and advances to customers	29,210	27,113	28,530	27,757	
Market and client receivables	15,819	15,819	11,683	11,683	
<b>Financial Liabilities</b>					
Deposits by banks	2,107	2,107	2,248	2,248	
Customers accounts	17,085	17,085	25,061	25,061	
Non-recourse financing	1,951	1,754	1,853	1,853	
Market and client payables	31,196	31,196	8,080	8,080	
Subordinated debt	3,247	3,015	2,760	2,691	

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

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

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

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

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**27. FAIR VALUE INFORMATION (CONTINUED)**

**Day one profits**

For derivative transactions where significant inputs into the valuation model are unobservable, the amount that has yet to be recognised in the consolidated profit and loss account relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques been applied at initial recognition, less subsequent release, is as follows

	2008 US\$'000	2007 US\$'000
At start of the year	118,832	-
New trades deemed unobservable	77,960	143,771
Less Buybacks/defeasements	(69,668)	(24,939)
Less Released due to subsequent observability	(1,004)	-
At end of the year	<u>126,120</u>	<u>118,832</u>

**28. HEDGE ACCOUNTING**

At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group also monitors the position on an ongoing basis to ensure that the risk management objectives continue to be achieved.

**(a) Fair value hedges**

The Group's fair value hedges principally comprise interest rate swaps that have been designated as hedging instruments to protect the Group against changes in the fair value of certain fixed rate loans due to movements in market interest rates.

<b>Gains or losses arising from fair value hedges</b>	2008 US\$'000	2007 US\$'000
Gains/(losses)		
- on hedging instruments	(5,198)	(2,773)
- on the hedged items attributable to the hedged risk	4,584	2,679
Total ineffectiveness	<u>(614)</u>	<u>(94)</u>

The notional amount of financial instruments held to manage interest rate risk as a fair value hedge at 26 December 2008 was the same as the notional of the loans being hedged and amounted to US\$121.2 million (2007 US\$154.7 million). The fair value of derivatives used as a fair value hedge amounted to (US\$8.0 million) (2007 (US\$2.8 million)) at 26 December 2008.

**(b) Net investment hedges**

The Group's consolidated balance sheet is affected by exchange differences between the US dollar and all the non-US dollar functional currencies of its branches. Hedging is undertaken by entering into derivative transactions in the same currency as the functional currency involved. As at 26 December 2008, the Group had derivatives equivalent to US\$197 million hedging overseas net assets, the amount of ineffectiveness was negligible. Changes in US dollar value of the borrowings were taken to equity during the period, matching gains and losses of overseas operations upon consolidation.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT**

Financial instruments are dealt with in both the trading book and non-trading book of the Group. Both trading book and non-trading book activities may expose the Group to various categories of risk. These risks are continually monitored through a comprehensive risk management process.

The Group systematically manages the following risk categories most relevant to its business:

- **Market risk** The current or future threat to our earnings and capital base as a result of a change in the value of an asset due to a movement in credit spreads, interest rates, foreign exchange rates or equity prices,
- **Credit risk** The potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations to the Group,
- **Liquidity risk** The potential inability to meet financial obligations, on or off-balance sheet, as they fall due, and
- **Operational risk** The risk of loss resulting from the failure of people, internal processes and systems, or from external events.

The Group approves and monitors risk tolerance levels (i.e. credit, market, liquidity and operational risks) through the Risk Policy and Oversight Committee, chaired by a non-executive director. This committee reviews reports from the Group's credit, asset and liability and operational risk committees. These committees identify and monitor risk limits based on recommendations and analysis provided by independent risk management groups who work with the business units in establishing suitable risk profiles for each of the business units.

The initial responsibility in the risk management process rests with the individual business units in managing the risks that arise on individual transactions or portfolios of similar transactions. Business units manage these risks by adhering to established risk policies and procedures.

In addition to risk management at the business unit level, the Group has developed corporate governance policies and procedures that require corporate personnel, who are independent of business units, to participate in the risk management process. The primary independent groups responsible for the maintenance of risk policies and procedures and for establishing, controlling and monitoring risk limits are market risk management, credit risk management, liquidity risk management and operational risk management. To ensure a proper system of checks and balances, these groups are independent of business units and report to senior management in the Group.

Following the acquisition of ML&Co by Bank of America Corporation, risk management and governance practices are being integrated with the goals of maintaining disciplined risk-taking throughout the transition and establishing best practices for the integrated firm going forward.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Market risk**

The Group uses conventional risk measures and internal mathematical and statistical measures, specifically Value at Risk (VaR), to manage its market risk positions both in and outside the trading portfolio on a daily basis

The main elements of market risk relevant to the Group are

- **Interest Rate Risk** the potential for loss due to adverse changes in interest rates Interest rate swap agreements, futures and securities are common interest rate risk management tools,
- **Currency Risk** the potential for loss due to fluctuations in foreign exchange rates Trading assets and liabilities include both cash instruments in, and derivatives linked to, over 30 currencies including Japanese Yen, Euro, Swiss Franc and Pounds Sterling Currency forwards, swaps and options are commonly used to manage currency risk associated with these instruments, and
- **Credit Spread Risk** the potential for loss due to changes in credit spreads Credit spreads represent the credit risk premiums required by market participants for a given credit quality Credit default swaps are commonly used credit spread risk management tools

The Global Risk Management group ('GRM') and other independent risk and control groups are responsible for monitoring the products and markets in which the Group's business units and functions will transact and take risk Moreover, this group is responsible for identifying the risks to which these business units will be exposed in these approved products and markets GRM uses a variety of quantitative methods to assess the risk of the Group's positions and portfolios, in both trading and non- trading books In particular, GRM quantifies the sensitivities of the Group's current portfolios to changes in market variables These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that the Group's current portfolios would have incurred throughout the historical period From these distributions, GRM derives a number of useful risk statistics, including VaR

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Market risk (continued)**

The VaR disclosed in the accompanying table is an estimate of the amount that the Group's current trading and non-trading portfolios could lose with a specified degree of confidence, over a given time interval. The aggregate VaR for the Group's trading and non-trading portfolios is less than the sum of the VaR for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaR for individual risk categories and the VaR calculated for all risk categories is shown in the following table and may be viewed as a measure of the diversification within the Group's portfolios. Management believe that the tabulated risk measures provide broad guidance as to the amount the Group could lose in future periods, and management work continually to improve the Group's measurement and the methodology of VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk. In addition, VaR is not intended to capture worst case scenario losses.

To calculate VaR, the Group aggregates sensitivities to market risk factors and combines them with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, which include exposure to volatility risk found in certain products, such as options.

The table that follows presents the Group's average and year-end VaR for trading and non-trading portfolios for 2008 and 2007. Additionally, high and low VaR for 2008 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

95% Daily (scaled) VaR in US\$'000	Year End 2008	Daily Average	High	Low	Year End 2007
<b>Group (Total)</b>	<b>26,194</b>	<b>24,043</b>	<b>36,482</b>	<b>14,598</b>	<b>24,155</b>
of which					
FX	5,283	5,949	12,807	1,177	6,122
Rates	14,142	10,960	27,773	5,032	10,151
Credit	24,484	25,649	35,610	14,642	21,530
Commodity	-	9	2,076	-	-
Equity	-	497	2,133	-	-
95% Daily (scaled) VaR in US\$'000	Year End 2007	Daily Average	High	Low	Year End 2006
<b>Group (Total)</b>	<b>24,155</b>	<b>16,429</b>	<b>30,280</b>	<b>6,784</b>	<b>8,667</b>
of which					
FX	6,122	4,357	10,368	1,221	3,504
Rates	10,151	10,759	25,040	2,901	4,770
Credit	21,530	13,087	21,530	8,583	8,782



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Market risk (continued)**

GRM applies an enhanced historical simulation methodology, using the most recent four years of historical observations, updated monthly. To this historical observation set we add a hypothetical observation set consisting of the opposite of the historical movements. Together, the historical data and the simulated observations comprise the total observation set. Since there are typically 209 weeks in a four-year historical period, the total observation set for the weekly VaR typically consists of 418 observations.

The aim of the enhanced historical simulation methodology is to increase the number of potential observations and to reduce potential biases in the historical data by including states of the world that reverse any longer-term trends evident in benchmark time series over the historical observation period. All scenario submissions are mapped to a benchmark time series in the total observation set.

To calculate VaR, the profits or losses for each submission are calculated for all dates in the total observation set. For a given scenario and benchmark observation, if the shift in the benchmark time series falls between two scenario shocks, then profit and loss ('P&L') is calculated using linear interpolation from the two scenario points that straddle the shift. If the shift exceeds the range of the scenario shocks, then linear extrapolation is applied to the two extreme scenario points closest to that shift.

P&L results are calculated independently for each scenario and for each observation in the total observation set. The results for each draw are then summed across all scenarios. The aggregate draws are each ranked by P&L.

For 99% and 95% confidence level VaR, the VaR is defined as the 1% or 5% order statistic of the aggregate draws. In the case of weekly observations, since there are typically 418 observations in the total observation set, the 1% and 5% order statistics are the 5<sup>th</sup>-ranked and 21<sup>st</sup>-ranked observations.

**(b) Credit risk**

The Group defines credit risk as the potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations to the Group. The credit risk framework is the primary tool that is used to communicate firm wide credit limits and monitor exposure by constraining the magnitude and tenor of exposure to counterparty and issuer families. Additionally, there are country risk limits that constrain total aggregate exposure across all counterparties and issuers (including sovereign entities) for a given country within predefined tolerance levels.

The Group's credit department assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firm wide credit risk levels within the credit risk framework among other tools. This department reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. They are also responsible for the ongoing monitoring of credit quality and limit compliance and actively work with all of the Group's business units to manage and mitigate credit risk.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

The credit department uses a variety of methodologies to set limits on exposure and potential loss resulting from an individual, counterparty or issuer failing to fulfil its contractual obligations. The credit department performs analyses in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure as well as potential loss and are set and monitored by broad risk type, product type, and maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavourable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees and the purchase of credit default protection. The credit department, in conjunction with the Group's senior management, conducts regular portfolio reviews, monitors counterparty creditworthiness and evaluates potential transaction risks with a view toward early problem identification and protection against unacceptable credit related losses. The Group continues to invest additional resources to enhance its methods and policies to assist in managing the Group's credit risk and to address evolving regulatory requirements.

Senior members of the credit department chair various commitment committees with membership across business, control and support units. These committees review and approve commitments, underwritings and syndication strategies related to debt, syndicated loans, real estate, leveraged finance and asset-backed finance.

The primary credit risks of the Group relate to its lending and derivative activities.

**Lending activities**

The Group's commercial lending activities consist primarily of corporate and institutional lending, asset-backed finance, commercial real estate related activities, and leveraged finance. In evaluating certain potential commercial lending transactions, a risk adjusted return on capital model is used in addition to other methodologies. The Group typically provides corporate and institutional lending facilities to clients for general corporate purposes, backup liquidity lines, bridge financings, and acquisition related activities. The Group seeks to syndicate corporate and institutional loans through assignments and participations to unaffiliated third parties. While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, the Group generally expects repayment through other sources including cash flow and/or recapitalisation.

Certain exposures in the corporate and institutional lending portfolio are mitigated by purchasing single name and basket credit default swaps as well as by evaluating and selectively executing loan sales in the secondary markets.

Asset-backed finance facilities are typically secured by financial assets such as mortgages, auto loans, leases, credit card and other receivables. Credit assessment for these facilities relies primarily on the amount, asset type, quality, and liquidity of the supporting collateral, as the collateral is the expected source of repayment. Limits are monitored against potential loss upon default taking these factors into consideration.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

The Group's other commercial real estate related activities consist of commercial mortgage originations and other extensions of credit connected to the financing of commercial properties or portfolios of properties. The Group may seek to reduce or eliminate these exposures through third-party syndications or securitisations. The Group's assessment of creditworthiness and credit approval is highly dependent upon the anticipated performance of the underlying property and/or associated cash flows.

The Group had historically originated residential mortgage loans through its subsidiary operations. The loans are secured on residential property and advances are made subject to underwriting guidelines. The carrying value of such loans amounted to US\$4,730 million at 26 December 2008 (2007 US\$5,546 million).

**Derivative activities**

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

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

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

The following is a summary of counterparty credit ratings, which are the credit rating agency equivalent of internal credit ratings, for the Group's financial assets as at 26 December 2008 and 28 December 2007

<b>2008</b>					
<b>Group</b>					
<b>(all figures US\$'000)</b>	<b>AAA to AA</b>	<b>A to BBB</b>	<b>BB and lower</b>	<b>Not Rated*</b>	<b>Total</b>
Cash and balances at Central Bank	1,462,204	93,214	6,871	221,117	1,783,406
Loans and advances to banks	6,187,469	2,462,430	-	46,320	8,696,219
Loans and advances to customers	407,630	10,279,427	8,639,618	10,798,648	30,125,323
Market and client receivables	9,403,712	5,570,674	179,592	914,971	16,068,949
Debt securities and other fixed income securities	1,228,175	198,024	17,425	-	1,443,624
Trading assets	472,063,560	126,108,614	3,300,375	1,734,084	603,206,633
<b>Total financial assets</b>	<b>490,752,750</b>	<b>144,712,383</b>	<b>12,143,881</b>	<b>13,715,140</b>	<b>661,324,154</b>
Guarantees, undrawn commitments and assets pledged as collateral security	5,467,082	6,011,390	971,790	28,740,929	41,191,191
<b>Maximum credit exposure</b>	<b>496,219,832</b>	<b>150,723,773</b>	<b>13,115,671</b>	<b>42,456,069</b>	<b>702,515,345</b>
<b>2007</b>					
<b>Group</b>					
<b>(all figures US\$'000)</b>	<b>AAA to AA</b>	<b>A to BBB</b>	<b>BB and lower</b>	<b>Not Rated*</b>	<b>Total</b>
Cash and balances at Central Bank	3,081,456	1,073,920	-	-	4,155,376
Loans and advances to banks	6,065,700	339,777	-	-	6,405,477
Loans and advances to customers	1,178,440	5,431,386	8,544,415	14,809,907	29,964,148
Market and client receivables	5,746,589	4,885,605	23,008	1,221,068	11,876,270
Debt securities and other fixed income securities	336,017	603,642	46,147	50,214	1,036,020
Trading assets	153,586,744	39,243,082	724,553	1,199,576	194,753,955
<b>Total financial assets</b>	<b>169,994,946</b>	<b>51,577,412</b>	<b>9,338,123</b>	<b>17,280,765</b>	<b>248,191,246</b>
Guarantees, undrawn commitments and assets pledged as collateral security	13,296,809	11,376,846	3,551,602	23,905,428	52,130,685
<b>Maximum credit exposure</b>	<b>183,291,755</b>	<b>62,954,258</b>	<b>12,889,725</b>	<b>41,186,193</b>	<b>300,321,931</b>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

The following is a summary of counterparty credit ratings, which are the credit rating agency equivalent of internal credit ratings, for the Company's financial assets as at 26 December 2008 and 28 December 2007

<b>2008</b>					
<b>Company</b>					
<b>(all figures US\$'000)</b>	<b>AAA to AA</b>	<b>A to BBB</b>	<b>BB and lower</b>	<b>Not Rated*</b>	<b>Total</b>
Cash and balances at Central Bank	1,058,878	66,948	6,871	221,117	1,353,814
Loans and advances to banks	6,176,768	2,488,696	-	14	8,665,478
Loans and advances to customers	2,480,540	10,595,484	8,663,250	7,470,577	29,209,851
Market and client receivables	9,403,712	5,570,711	179,592	665,156	15,819,171
Debt securities and other fixed income securities	1,228,175	198,024	17,425	-	1,443,624
Trading assets	470,470,270	126,108,614	3,300,375	1,734,084	601,613,343
<b>Total financial assets</b>	<b>490,818,343</b>	<b>145,028,477</b>	<b>12,167,513</b>	<b>10,090,948</b>	<b>658,105,281</b>
Guarantees, undrawn commitments and assets pledged as collateral security	5,467,082	6,011,390	971,790	28,643,035	41,093,297
<b>Maximum credit exposure</b>	<b>496,285,425</b>	<b>151,039,867</b>	<b>13,139,303</b>	<b>38,733,983</b>	<b>699,198,578</b>
<b>2007 as restated</b>					
<b>Company</b>					
<b>(all figures US\$'000)</b>	<b>AAA to AA</b>	<b>A to BBB</b>	<b>BB and lower</b>	<b>Not Rated*</b>	<b>Total</b>
Cash and balances at Central Bank	2,778,063	1,019,872	-	-	3,797,935
Loans and advances to banks	6,058,239	197,613	-	-	6,255,852
Loans and advances to customers	2,869,749	5,431,386	8,544,415	11,684,435	28,529,985
Market and client receivables	5,746,589	4,885,605	23,008	1,027,438	11,682,640
Debt securities and other fixed income securities	336,017	603,642	46,147	50,214	1,036,020
Trading assets	153,569,033	39,243,082	724,553	1,199,576	194,736,244
<b>Total financial assets</b>	<b>171,357,690</b>	<b>51,381,200</b>	<b>9,338,123</b>	<b>13,961,663</b>	<b>246,038,676</b>
Guarantees, undrawn commitments and assets pledged as collateral security	13,296,809	11,376,846	3,551,602	23,815,976	52,041,233
<b>Maximum credit exposure</b>	<b>184,654,499</b>	<b>62,758,046</b>	<b>12,889,725</b>	<b>37,777,639</b>	<b>298,079,909</b>

\*The majority of the Group's exposure to 'Not Rated' counterparties relates to its activities in the residential mortgages and private client securities based lending areas. Both of these activities are characterised by the provision of lending facilities which are secured on assets in the form of residential property, cash or securities.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

**Collateral**

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

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is US\$39,359 million (2007 US\$9,833 million) The fair value of financial assets accepted as collateral that have been sold or repledged is US\$39,106 million (2007 US\$9,824 million)

The Group has pledged US\$14,598 million (2007 US\$9,800 million) of its financial assets, as collateral for liabilities

The Group is obliged to return equivalent securities These transactions are conducted under terms that are usual and customary to standard collateral and securities financing activities

**Past due, but not impaired assets**

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

**2008**

<b>(All figures US\$'000)</b>	<b>0 to 30</b>	<b>31 to 60</b>	<b>61 to 90</b>	<b>91 to 120</b>	<b>121 to 180</b>	<b>180</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	<b>days +</b>
Market and client receivables	820,646	14,311	229	12,043	3,308	-
Loans and advances to customers	100,289	51,163	40,385	22,323	8,393	14,173
Fair value of associated collateral	122,885	65,342	49,051	28,352	11,743	17,618

**2007**

<b>(All figures US\$'000)</b>	<b>0 to 30</b>	<b>31 to 60</b>	<b>61 to 90</b>	<b>91 to 120</b>	<b>121 to 180</b>	<b>180</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	<b>days +</b>
Market and client receivables	502,486	261,787	421,296	177,317	631,905	-
Loans and advances to customers	111,096	52,995	16,101	5,001	2,298	5,515
Fair value of associated collateral	134,667	64,309	19,855	6,460	2,872	6,762

Market and client receivables includes amounts due from affiliates under derivative transactions Past due loans are deemed to be impaired if the borrower is in arrears and there is insufficient equity in the property to avoid a loss on eventual redemption

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

**Impairment charges**

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

<b>- Group</b>	<b>Individual impairment US\$'000</b>	<b>Collective impairment US\$'000</b>	<b>Latent impairment US\$'000</b>	<b>Total impairment charges US\$'000</b>
At 28 December 2007	17,040	19,267	92,913	129,220
Amounts written off and subsequently recovered	-	-	(1,790)	(1,790)
Charge to profit and loss account	479,649	236,725	-	716,374
Provision for bad and doubtful debts	479,649	236,725	(1,790)	714,584
At 26 December 2008	496,689	255,992	91,123	843,804

<b>- Company</b>	<b>Individual impairment US\$'000</b>	<b>Collective impairment US\$'000</b>	<b>Latent impairment US\$'000</b>	<b>Total impairment charges US\$'000</b>
At 28 December 2007	9,973	19,267	92,913	122,153
Amounts written off and subsequently recovered	-	-	(2,686)	(2,686)
Charge to profit and loss account	486,716	200,120	-	686,836
Provision for bad and doubtful debts	486,716	200,120	(2,686)	684,150
At 26 December 2008	496,689	219,387	90,227	806,303

Interest accrued on individually impaired assets during the period was US\$9.7 million (2007: US\$7.1 million). The Group holds collateral in respect of certain loans and advances to customers that are past due or impaired. Such collateral includes mortgages over both residential and commercial property.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk**

The Group defines liquidity risk as the potential inability to meet financial obligations, on or off-balance sheet, as they become due. Liquidity risk relates to the ability of a company to repay short term borrowings with new borrowings or with assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Liquidity risk also includes both the potential inability to raise funding with appropriate maturity, currency and interest rate characteristics and the inability to liquidate assets in a timely manner. The Group actively manages the liquidity risks in its businesses that can arise from asset-liability mismatches, credit sensitive funding, commitments or contingencies.

The primary liquidity objectives are to ensure liquidity through market cycles and periods of financial stress. The Group manages liquidity risk through holding a portfolio of cash and highly liquid assets which can be readily realised for cash, by maintaining committed credit facilities, by appropriately matching the liquidity profile of its assets and liabilities and by maintaining a funding profile which is well diversified on a client, segmental, geographical and duration basis.

The Board sets the Group's liquidity risk tolerance, and maintains a comprehensive liquidity policy, investment policy and a formal contingency financing plan. The plan is comprehensive and includes detailed actions which may be required depending on the nature and severity of the potential liquidity stress event.

Through its Risk Policy and Oversight Committee, the Board ensures suitable systems and controls, risk limits, risk assessments, management responsibilities and limit controls which are in turn monitored by the Asset and Liability Committee. The Group has a comprehensive stress testing framework which is consistent with market practice for liquidity risk stress and scenario testing. The stress tests incorporate both market and Group specific stresses.

Liquidity Risk Management ('LRM') is responsible for measuring, monitoring and controlling the Group's liquidity risks. LRM establishes methodologies and specifications for measuring liquidity risks, performs scenario analysis and liquidity stress testing, and sets and monitors liquidity limits. LRM works with the Group's business units to limit liquidity risk exposures and reviews liquidity risks associated with new products and new business strategies.

Liquidity risk is measured using the cash flow mismatch methodology in conformity with the regulatory liquidity requirements introduced in 2007 by the Financial Regulator. Under this methodology, modelled, contractual and contingent cash inflows and outflows are reported in pre-determined time bands and managed against limits as established in the Group's Board approved liquidity policy. Conservative modelling assumptions, reviewed by the Financial Regulator, imply degrees of hypothetical stress to ensure that the Group will be able to continue to operate as a going concern under such stress conditions.



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

The following table shows the liability maturity profile of the Group at 26 December 2008 and 28 December 2007

**2008**

<b>- Group</b> <b>(all figures US\$'000)</b>	<b>On demand</b>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>
<b>NON-TRADING LIABILITIES</b>				
Deposits by banks	501,155	1,750,839	-	-
Customers accounts	5,573,423	11,768,813	199,953	52,195
Non-recourse financing	-	-	-	1,950,703
Market and client payables	31,521,953	-	-	-
Subordinated debt	-	-	-	3,247,000

**OFF-BALANCE SHEET**

Guarantees, undrawn commitments and assets pledged as collateral security	6,923,316	31,531,806	2,140,528	595,541
---	-----------	------------	-----------	---------

**TRADING LIABILITIES\***

Trading liabilities	602,654,072	-	-	-
---------------------	-------------	---	---	---

**2007**

<b>- Group</b> <b>(all figures US\$'000)</b>	<b>On demand</b>	<b>Due within 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>
<b>NON-TRADING LIABILITIES</b>				
Deposits by banks	1,001,267	1,403,905	-	-
Customers accounts	3,834,016	21,444,578	56,894	167,127
Non-recourse financing	-	-	-	1,853,456
Market and client payables	8,074,042	-	-	-
Subordinated debt	-	-	-	2,760,000

**OFF-BALANCE SHEET**

Guarantees, undrawn commitments and assets pledged as collateral security	3,601,813	42,187,748	4,254,927	2,086,197
---	-----------	------------	-----------	-----------

**TRADING LIABILITIES\***

Trading liabilities	199,856,302	-	-	-
---------------------	-------------	---	---	---

\*Trading liabilities primarily consist of derivative liabilities. The Group has recorded all derivative liabilities in the 'on demand' category to reflect the common market practice of terminating derivative contracts at fair value upon a client's request. The Group has provided the present value rather than contractual undiscounted cash flows for these instruments. It should be noted however, that it is remote that in any given period all of the derivatives will unwind in the short term, and although it is current market practice to terminate contracts upon a client's request, the Group is generally not contractually obligated to do so. The Group manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows. All other figures are undiscounted and show contractual maturities.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

The following table shows the liability maturity profile of the Company at 26 December 2008 and 28 December 2007

**2008**

**- Company**

**(all figures US\$'000)**

**NON-TRADING LIABILITIES**

	On demand	Due within 1 year	Due between 1 and 5 years	Due after 5 years
Deposits by banks	355,722	1,750,839	-	-
Customers accounts	5,020,999	11,812,153	199,953	52,195
Non-recourse financing	-	-	-	1,950,703
Market and client payables	31,195,663	-	-	-
Subordinated debt	-	-	-	3,247,000

**OFF-BALANCE SHEET**

Guarantees, undrawn commitments and assets pledged as collateral security	6,825,422	31,531,806	2,140,528	595,541
---	-----------	------------	-----------	---------

**TRADING LIABILITIES\***

Trading liabilities	601,056,786	-	-	-
---------------------	-------------	---	---	---

**2007**

**- Company**

**(all figures US\$'000)**

**NON-TRADING LIABILITIES**

	On demand	Due within 1 year	Due between 1 and 5 years	Due after 5 years
Deposits by banks	843,987	1,403,905	-	-
Customers accounts	3,392,395	21,444,578	56,894	167,127
Non-recourse financing	-	-	-	1,853,456
Market and client payables	8,079,994	-	-	-
Subordinated debt	-	-	-	2,760,000

**OFF-BALANCE SHEET**

Guarantees, undrawn commitments and assets pledged as collateral security	3,512,361	42,187,748	4,254,927	2,086,197
---	-----------	------------	-----------	-----------

**TRADING LIABILITIES\***

Trading liabilities	199,842,760	-	-	-
---------------------	-------------	---	---	---

\*Trading liabilities primarily consist of derivative liabilities. The Company has recorded all derivative liabilities in the 'on demand' category to reflect the common market practice of terminating derivative contracts at fair value upon a client's request. The Company has provided the present value rather than contractual undiscounted cash flows for these instruments. It should be noted however, that it is remote that in any given period all of the derivatives will unwind in the short term, and although it is current market practice to terminate contracts upon a client's request, the Company is generally not contractually obligated to do so. The Company manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows. All other figures are undiscounted and show contractual maturities.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Operational risk**

The Group defines operational risk as the risk of loss resulting from the failure of people, internal processes and systems, or from external events. Operational risk can arise from many sources including theft and fraud, improper business practices, claims from clients, and from events which disrupt business.

The primary responsibility for managing operational risk on a day-to-day basis lies with the Group's businesses and support functions. Each business and support group has established processes, systems and controls to address operational risks within their unit. These include the use of technology to automate processes and key controls, the provision and testing of business continuity plans to protect against major disruptions, the establishment of control committees to oversee the effectiveness of the control environment, and the training, supervision and development of staff.

Operational Risk Management ('ORM') is an independent risk management function responsible for providing a framework and infrastructure to support the effective management and oversight of the firm's exposure to operational risk. The framework includes:

- Identification, assessment and monitoring of risks - ORM works closely with business management, GRM, and other independent control functions to identify, assess and monitor the critical operational risks impacting the business,
- Loss analysis - ORM systematically captures, analyses, and reports operational risk loss data based on a structured classification of risk. Risk categories used for analysis of both firm and industry loss data include business disruption, business practices, client selection and exposure, client suitability and servicing, employment practices, key person, technology, theft and fraud, transaction execution, and valuation and reporting, and
- Reporting to governance committees - ORM presents analysis of all elements of the operational risk framework to key governance, risk, and control committees both regionally and globally.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**30. CAPITAL RISK MANAGEMENT**

It is the Group's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group is headquartered in Ireland and directly regulated and subject to the capital requirements of the Financial Regulator. The Group is required to meet minimum regulatory capital requirements under European Union ('EU') banking law as implemented in Ireland and supervised by the Financial Regulator. At 26 December 2008, the Group's capital ratio was above the minimum requirement at 11.68% (2007: 11.59%) and its financial resources were US\$11,078 million (2007: US\$10,236 million), exceeding the minimum requirement by US\$1,496 million (2007: US\$3,365 million).

Capital Type	2008 US\$ M	2007 US\$ M
Tier One	7,453	7,404
Tier Two	3,025	2,532
Tier Three	600	300

Tier One capital is the Group's core capital and includes its equity capital, share premium and retained earnings. Tier Two and Tier Three capital consists of the Group's subordinated debt which it has received from its ultimate parent ML&Co. In addition, Tier Three capital can include the Group's unaudited trading book profits. Tier Two capital has a maturity profile of no less than five years, Tier Three a maturity profile of no less than two years.

The Group's policy is to hold capital in excess of its regulatory capital requirements. Compliance with this policy is monitored daily and reported to appropriate governance forums monthly and quarterly, and to the Financial Regulator quarterly.

The Basel Committee on Banking Supervision has published a framework for calculating minimum capital requirements which is known as Basel II. It replaces the 1988 Basel Capital Accord. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

With respect to the first pillar, minimum capital requirements, Basel II provides three approaches of increasing sophistication for the calculation of credit risk regulatory capital, the Standardised Approach which requires firms to use external credit ratings to determine the risk weightings applied to rated counterparties, the Foundation Internal Ratings Based Approach ('FIRB') which determines risk weightings on the basis of an internal assessment of the probability that a counterparty will default, but uses standard supervisory parameters for loss given default, and Advanced Internal Ratings Based Approach ('AIRB') which allows banks to use their own internal assessment not only of the counterparties probability of default but also of the loss given default.

From 1 January 2008 the Group has implemented the FIRB Approach for the majority of its business units.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**31. NON-TRADING BOOK ACTIVITIES**

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

**Interest rate sensitivity gap analysis - Group**

Part of the Group's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The tables below summarises these repricing mismatches on the Group's non-trading book as at 26 December 2008 and at 28 December 2007. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

2008	Not more than three months US\$ M	Not more than six months US\$ M	Not more than one year US\$ M	Not more than five years US\$ M	More than five years US\$ M	Non- interest bearing US\$ M	Total US\$ M
<b><u>Assets</u></b>							
Cash and balances at Central Banks	1,783	-	-	-	-	-	1,783
Loans and advances to banks	6,962	-	1,343	-	391	-	8,696
Loans and advances to customers	9,433	3,886	5,242	5,313	6,251	-	30,125
Market and client receivables	16,069	-	-	-	-	-	16,069
Other assets	10,706	-	-	-	-	1,800	12,506
<b>Total assets</b>	<b>44,953</b>	<b>3,886</b>	<b>6,585</b>	<b>5,313</b>	<b>6,642</b>	<b>1,800</b>	<b>69,179</b>
<b><u>Liabilities</u></b>							
Deposits by banks	1,214	-	1,038	-	-	-	2,252
Customer Accounts	16,450	-	893	200	52	-	17,595
Non-recourse finance	-	-	-	-	1,951	-	1,951
Market and client payables	31,522	-	-	-	-	-	31,522
Other liabilities	5,275	-	-	-	-	451	5,726
Subordinated debt	-	-	-	3,247	-	-	3,247
Shareholders' funds	-	-	-	-	-	8,620	8,620
<b>Total Liabilities</b>	<b>54,461</b>	<b>-</b>	<b>1,931</b>	<b>3,447</b>	<b>2,003</b>	<b>9,071</b>	<b>70,913</b>
<b>Interest rate sensitivity gap</b>	<b>(9,508)</b>	<b>3,886</b>	<b>4,654</b>	<b>1,866</b>	<b>4,639</b>	<b>(7,271)</b>	<b>(1,734)</b>
<b>Cumulative Gap</b>	<b>(9,508)</b>	<b>(5,622)</b>	<b>(968)</b>	<b>898</b>	<b>5,537</b>	<b>(1,734)</b>	

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**31. NON-TRADING BOOK ACTIVITIES (CONTINUED)**

2007 as restated	Not more than three months US\$ M	Not more than six months US\$ M	Not more than one year US\$ M	Not more than five years US\$ M	More than five years US\$ M	Non- interest bearing US\$ M	Total US\$ M
<b>Assets</b>							
Cash and balances at Central Banks	4,155	-	-	-	-	-	4,155
Loans and advances to banks	6 271	61	-	73	-	-	6,405
Loans and advances to customers	2 068	6 092	5,548	5,354	10,902	-	29,964
Market and client receivables	11,876	-	-	-	-	-	11,876
Other assets	11,235	-	-	-	-	619	11 854
Total assets	35,605	6,153	5,548	5,427	10,902	619	64,254
<b>Liabilities</b>							
Deposits by banks	2,397	8	-	-	-	-	2,405
Customer Accounts	23,007	2,272	-	57	167	-	25,503
Non-recourse finance	-	-	-	1,853	-	-	1,853
Market and client payables	8,074	-	-	-	-	-	8,074
Other liabilities	10,094	-	-	-	-	833	10,927
Subordinated debt	-	-	-	-	2,760	-	2 760
Shareholders' funds	-	-	-	-	-	8,666	8,666
Total Liabilities	43,572	2,280	-	1,910	2,927	9,499	60 188
Interest rate sensitivity gap	(7,967)	3,873	5,548	3,517	7,975	(8,880)	4,066
Cumulative Gap	(7,967)	(4,094)	1,454	4,971	12,946	4,066	

**Currency risk disclosures**

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

	2008 US\$'000	2007 US\$'000
Swiss Franc	547,442	493,401
Euro	(76,967)	42,669
Korean Wan	72,446	-
Canadian Dollar	14,290	-
Bahraini Dinar	2,031	1,438
Pounds Sterling	373,964	139,844
	<u>933,206</u>	<u>677,352</u>

Transactional currency exposures are non-structural currency exposures, which arise on the monetary assets and liabilities of the Group that are not denominated in the base currency of the operating unit involved

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**32. CONTINGENT LIABILITIES AND COMMITMENTS**

In 1998, MLIB acted as manager for a \$284 million issuance of notes for an Italian library of movies, backed by the future flow of receivables to such movie rights Mediafiction S p A (Mediafiction) was responsible for collecting payments in connection with the rights to the movies and forwarding the payments to MLIB for distribution to note holders Mediafiction failed to make the required payments to MLIB and subsequently filed for protection under the bankruptcy laws of Italy MLIB filed claims in the Mediafiction bankruptcy proceeding for amounts that Mediafiction failed to pay on the notes and Mediafiction filed a counterclaim alleging that the agreement between MLIB and Mediafiction is null and void and seeking return of the payments previously made by Mediafiction to MLIB In October 2008, the Court in Rome granted Mediafiction S p A's counter-claim against MLIB in the amount of \$137 million In February 2009, the Court in Rome, suspended the enforcement of this judgment against MLIB pending appeal to the Court of Appeals Due to the continuing uncertainty over the date of this appeal and the possible outcome, the Group has not made any provision for this amount

**33. SHARE BASED PAYMENTS**

To align the interests of employees with those of shareholders, the Group's ultimate parent, ML&Co, sponsors several employee compensation plans that provide eligible employees with shares or options to purchase shares On 1 January 2009, ML&Co was acquired by BAC The details of the merger are set out in Note 40 The following disclosures reflect MLIB's historical employee incentive plan information for all periods presented The disclosures do not reflect the effects of the January 1, 2009 acquisition by BAC or the effects of any employee incentive plan modifications that may occur as a result of the acquisition The following disclosures reflect Merrill Lynch's historical employee incentive plan information for all periods presented The total pre-tax compensation cost recognised in the profit and loss account for share based compensation plans for 2008 was US\$32 million (2007 Restated US\$58 million)

**Long Term Incentive Compensation Plans ('LTIC Plans'), Employee Stock Compensation Plan ('ESCP') and Equity Capital Accumulation Plan ('ECAP')**

LTIC Plans, ESCP and ECAP provide for grants of equity and equity related instruments to certain employees LTIC Plans consist of a shareholder approved plan used for grants to executive officers, and the long term incentive compensation plan for managers and producers, a broad-based plan which was approved by the Board, but has not been shareholder approved LTIC Plans provide for the issuance of restricted shares, restricted units and non-qualified stock options, as well as incentive stock options, performance shares, performance units, performance options, and other securities of Merrill Lynch ESCP, a broad-based plan approved by shareholders in 2003, provides for the issuance of restricted shares, restricted units and non-qualified stock options ECAP, a shareholder-approved plan, provides for the issuance of restricted shares, as well as performance shares All plans under LTIC Plans, ESCP and ECAP may be satisfied using either treasury or newly issued shares As of 26 December 2008, no instruments other than restricted shares, restricted units, non-qualifying stock options and performance options had been granted

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**33. SHARE BASED PAYMENTS (CONTINUED)**

**Restricted shares and restricted units**

Restricted shares are shares of ML&Co common stock carrying voting and dividend rights. A restricted unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of restricted unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer or assignment until the end of the restricted period. Such shares and units are subject to forfeiture during the vesting period for grants under LTIC Plans or the restricted period for grants under ECAP. Restricted share and unit grants made prior to 2003 generally cliff vest in three years. Restricted share and unit grants made in 2003 through 2005 generally cliff vest in four years. Restricted share and unit grants made from 2006, generally step vest in four years. In December 2007, Merrill Lynch modified the vesting schedule of certain previously granted stock bonus awards. As a result all outstanding stock bonus awards held by employees other than current or former executive officers that were scheduled to vest on 31 January 2009 vested on 31 January 2008.

From 2006, participation units were granted from the LTIC Plans under Merrill Lynch's managing partners incentive program. The awards granted under this program are fully at risk, and the potential payout will vary depending on Merrill Lynch's financial performance against pre-determined return on average common stockholders' equity targets. One-third of the participation units will convert into restricted shares on 31 January 2007. No Participation Units converted as a result of Merrill Lynch's 2008 or 2007 performance, however all remaining Participation Units converted on January 1, 2009 due to change in control provisions included within the Plan and Bank of America's acquisition of ML&Co as of that date.

The activity for restricted shares and units under these plans during 2008 and 2007 is as follows:

	Restricted Shares	Restricted Units
Outstanding, beginning of 2007	679,331	665,267
Granted – 2007	343,953	371,196
Paid, forfeited, or released from contingencies	34,226	50,822
Outstanding, end of 2007	1,057,510	1,087,285
Granted – 2008	5,292	1,424,422
Paid, forfeited, or released from contingencies	256,490	(208,022)
Outstanding, end of 2008	1,319,292	2,303,685



**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**33. SHARE BASED PAYMENTS (CONTINUED)**

**Non-qualified stock options**

Non-qualified stock options granted under LTIC Plans between 1996 and 2000 generally became exercisable over five years, options granted in 2001 and 2002 became exercisable after approximately six months. Options made after 2002 generally become exercisable over four years. The exercise price of these grants is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML&Co common stock on the date of grant. Options expire ten years after their grant date. All Options outstanding as of 26 December 2008 are fully vested or expected to vest.

The activity for non-qualified stock options under LTIC Plans for 2008 and 2007 is as follows:

	Options outstanding	Weighted average exercise price	Weighted average share price at date of exercise
Outstanding, beginning of 2007	2,177,492	53.7	
Granted – 2007	4,450	95.8	
Exercised	(320,725)	46.6	90.95
Forfeited	(91,474)	49.4	
Outstanding, end of 2007	1,769,743	54.7	
Granted – 2008	336,192	55.6	
Exercised	(150,027)	37.7	62.35
Forfeited	(134,348)	60.4	
Outstanding, end of 2008	1,821,560	56.1	
Exercisable, end of 2008	1,580,279	56.0	

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**33. SHARE BASED PAYMENTS (CONTINUED)**

At year end 2008, the weighted-average remaining contractual terms of options outstanding and exercisable were 3.37 years and 2.36 years, respectively. The weighted-average fair value of options granted in 2008 and 2007 was US\$15.47 and, US\$19.29 per option, respectively. The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 26 December 2008

Range of exercise prices	2008 Number	Weighted average remaining contractual life - 2008	2007 Number	Weighted average remaining contractual life - 2007
\$20.00-\$30.00	-	-	-	-
\$30.00-\$40.00	348,120	2.08	447,098	2.08
\$40.00-\$50.00	223,516	2.59	239,271	3.58
\$50.00-\$60.00	742,100	4.29	564,005	4.08
\$60.00-\$70.00	7,216	1.59	7,216	2.59
\$70.00-\$80.00	496,158	2.08	507,703	3.07
\$80.00-\$90.00	-	-	-	-
\$90.00-\$100.00	4,450	3.07	4,450	4.07

The fair value of each option award is estimated on the date of grant based on a Black-Scholes option pricing model using the following weighted-average assumptions

- The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of grant,
- The expected term of options granted is estimated based on an analysis of historical exercise activity, and
- Beginning in 2008, expected volatilities were based on the implied volatility of ML&Co common stock. Prior to 2008, expected volatilities were based upon the historic volatility of ML&Co common stock. The expected dividend is based on the current dividend rate at the time of grant.

	2008	2007
Risk free interest rate	3.14%	4.79%
Expected life	6.6 years	4.3 years
Expected volatility	39.42%	21.39%
Expected dividend yield	3.20%	1.49%

**34. LEASE COMMITMENTS**

During the year, the Group is committed to pay US\$27 million (2007: US\$27.0 million) in respect of operating leases as follows

Maturity of lease	2008 US\$'000		2007 US\$'000	
	Land and Building	Other	Land and Building	Other
1 year to 5 years	16,760	4,464	17,816	2,819
Over 5 years	5,773	-	6,408	-
	<u>22,533</u>	<u>4,464</u>	<u>24,224</u>	<u>2,819</u>

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**35. PARENT COMPANY AND RELATED PARTY TRANSACTIONS**

The Company is a subsidiary of Merrill Lynch Group Holdings Limited and the ultimate parent company and controlling party is ML&Co a company incorporated in the State of Delaware in the United States of America. The parent company of the largest group that includes the Company and for which group financial statements are prepared is ML&Co (with effect from 1 January 2009, BAC). Copies of the group financial statements of ML&Co are available from the Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com) or by contacting the Corporate Secretary by mail at 222 Broadway, 17th Floor, New York, NY 10038, USA or by e-mail at [corporate\\_secretary@ml.com](mailto:corporate_secretary@ml.com). The parent undertaking of the smallest group, including the Company, which prepares group financial statements is Merrill Lynch Group Holdings Limited, a company incorporated in Ireland. Copies of the group financial statements of Merrill Lynch Group Holdings Limited are available at the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

With effect from 1 January 2009, as referenced in the Directors' Report, the Company's ultimate parent company and controlling party became BAC, a company incorporated in the State of Delaware in the United States of America.

The Group has availed itself of an exemption, contained in FRS 8 "Related Party Disclosures", from detailing transactions and balances with group companies. There were no related party transactions other than those with affiliated companies covered by this exemption.

Regarding transactions with Directors, officers and others,

- (a) At 26 December 2008, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group were US\$26,000 in respect of loans to persons who were Directors of the Group (or persons connected with them) at any time during the financial period and no balances outstanding to people who were officers of the Group at any time during the financial period.
- (b) There were no amounts outstanding at 26 December 2008 (2007: US\$Nil) in respect of loans made to Directors by subsidiary undertakings which were not authorised institutions.
- (c) For the purposes of FRS 8 "Related Party Disclosures", key management comprise Directors of the Group and members of the Executive Management Committee. The captions in the primary financial statements include the following amounts attributable, in aggregate, to key management:

Loans to Directors				
Name	Aggregate amount outstanding at the end of 2008	Repaid during 2008	Number of Directors	Number of connected persons
	US \$'000	US \$'000		
Andrew Chan	26	36	1	-
Nasser Azam	-	449	1	-
Total	26	485	2	-

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

**35. PARENT COMPANY AND RELATED PARTY TRANSACTIONS (CONTINUED)**

Key management have banking relationships with Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Key management had no reportable transactions or balances with the holding company except for dividends.

**36. SUBSIDIARY COMPANIES**

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

Company	Principal Activity	Country of Incorporation	Proportion of Ordinary shares held	Book Value of Ordinary Shareholding US\$'000
Merrill Lynch Bank (Suisse) SA*	Private client banking	Switzerland	100%	21,561
Majestic Acquisitions*	Mortgage lending	United Kingdom	100%	161,542
Mortgages Plc	Mortgage lending	United Kingdom	100%	-
Mortgages No 1 Ltd	Mortgage lending	United Kingdom	0%	-
Mortgages No 6 Plc	Securitisation vehicle	United Kingdom	0%	-
Mortgages No 7 Plc	Securitisation vehicle	United Kingdom	0%	-
Wave Lending Limited*	Mortgage lending	United Kingdom	100%	60,067
Taurus CMBS No 2 Srl	Securitisation vehicle	Italy	0%	-
Newgate Funding Plc (2007-03)	Securitisation vehicle	United Kingdom	0%	-
Ludgate Funding Plc (2008-01)	Securitisation vehicle	United Kingdom	0%	-
Merrill Lynch Financial Services Ltd*	Financial services	Ireland	100%	25,471
Picture Financial Funding (No 3) Ltd	Securitisation vehicle	United Kingdom	0%	-
Thor Mortgages Ltd	Securitisation vehicle	United Kingdom	0%	-
Blue Motor Loans Ltd	Securitisation vehicle	United Kingdom	0%	-
				268,641

Mortgages No 1 Ltd, Mortgages No 6 Plc, Mortgages No 7 Plc, Taurus CMBS No 2 Srl, Newgate Funding Plc (2007-03), Ludgate Funding Plc (2008-01), Picture Financial Funding (No 3) Ltd, Thor Mortgages Ltd and Blue Motor Loans Ltd are not owned by the Group but their results are consolidated, as they meet the definition of legal subsidiaries for these accounts under FRS 2 'Accounting for Subsidiary Undertakings', the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions Accounts) Regulations, 1992.

**MERRILL LYNCH INTERNATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**37. CASH FLOW STATEMENT**

The Group is exempt from the requirement to prepare a cash flow statement under FRS 1 'Cash Flow Statements', as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, ML&Co

**38. SEGMENTAL REPORTING**

The Group's activities are derived from Global Markets and Investment Banking and Global Wealth Management. The Group's ultimate parent, ML&Co, manages the entire group's businesses along these segments. From a Group perspective however, it is not possible to allocate trading revenues or net assets to any particular geographical source as one trade may involve parties situated in a number of different geographical areas.

**39. EMPLOYEE INFORMATION**

Average number of persons employed	2008	2007
Sales and trading	609	610
Sales and trading support	226	228
Other support services	1,657	1,849
	<u>2,492</u>	<u>2,687</u>

The above averages include Group staff in both Ireland and its overseas operations

**40. POST BALANCE SHEET EVENTS**

On January 1, 2009, ML&Co was acquired by Bank of America Corporation. Upon completion of the acquisition, a wholly owned subsidiary of Bank of America Corporation merged with and into ML&Co with ML&Co continuing as the surviving corporation and is now a wholly owned subsidiary of Bank of America Corporation. Upon completion of the acquisition, each outstanding share of ML&Co common stock was converted into 0.8595 shares of Bank of America Corporation common stock.

In February 2009, when reviewing certain trading positions, MLIB discovered some irregularities which were immediately notified to our regulators. The financial statements for December 26, 2008 were adjusted to reflect the impact as at that date.

**OFFICES OF MERRILL LYNCH INTERNATIONAL BANK LIMITED  
HEAD OFFICE, BRANCHES AND SUBSIDIARIES  
FOR THE PERIOD ENDED 26 DECEMBER 2008**

---

**Ireland**

Treasury Building  
Lower Grand Canal Street  
Dublin 2  
Tel 353 1 243 8500

**Germany**

Main Tower  
Neue Mainzer Strasse 52  
Frankfurt 60311  
Tel 49 69 5899 5000

**Italy**

Via Turati, 9  
20121 Milan  
Tel 39 02 655 301

**Bahrain**

Bahrain Middle East Bank Building  
PO Box 10399  
Diplomatic Area  
Manama  
Tel 973 17 530 260

**Singapore**

2 Raffles Link  
Marina Bayfront  
Singapore 039392  
Tel 65 6331 388

**Belgium**

273 Avenue de Tervueren  
Brussels, B-1150  
Tel 32 2 761 9520

**France**

112 Avenue Kleber  
2<sup>nd</sup> Floor  
BP 2002-16  
Paris, 75116  
Tel 33 1 5365 5555

**United Kingdom**

Merrill Lynch Financial Centre  
2 King Edward Street  
London, EC1A 1HQ  
Tel 44 20 7628 1000

**Netherlands**

Rembrandt Tower, 27<sup>th</sup> Floor  
Amstelplein 1  
1096 HA Amsterdam  
Or Postbus 95232  
1090 HE Amsterdam  
Tel 31 20 5925 777

**Spain**

Edificio Torre Picasso, 40<sup>th</sup> Floor  
Plaza Pablo Ruiz Picasso, 1  
28020 Madrid  
Tel 34 91 514 3000

**Switzerland**

13 Route de Florissant  
PO Box 3070  
CH-1211 Geneva 3  
Tel 41 22 703 1717

**Korea**

28F, Seoul Finance Centre  
84 Taepvungro-ka, Chung-ku  
Seoul, 100-768  
Tel 82 2 3707 0400

**Canada**

BCE Place, Wellington Tower  
181 Bay Street  
4<sup>th</sup> and 5<sup>th</sup> Floors  
Toronto, ON M5J 2V8  
Tel 1 416 369 7400