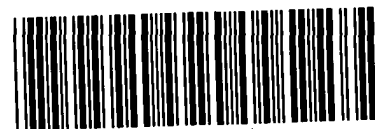


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STAPLE**OS AA01**Statement of details of parent law and other
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You may use this form to
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Part 1 Corporate company nameCorporate name of
overseas company ①

Bank of America Europe

Designated Activity Company

UK establishment
number

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

All fields are mandatory unless
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① This is the name of the company in
its home state.

**Part 2 Statement of details of parent law and other
information for an overseas company****A1 Legislation**

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

Legislation ②

COMPANIES ACT 2014

② This means the relevant rules or
legislation which regulates the
preparation of accounts.

A2 Accounting principles

Accounts

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

Please tick the appropriate box.

☐ No. Go to Section A3.

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

③ Please insert the name of the
appropriate accounting organisation
or body.

Name of organisation
or body ③

International Financial Reporting Standards as adopted by EU

OS AA01

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

A3

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐

No. Go to Part 3 'Signature'.

☒

Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'.

❶ Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ❶

Irish Law and International Standards on Auditing (UK and Ireland)

Part 3

Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X *[Handwritten Signature]* X

for and on behalf of Merrill Lynch Corporate Services Limited

This form may be signed by:

Director, Secretary, Permanent representative.

OS AA01

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



Presenter information

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

Contact name

Company name

c/o Merrill Lynch Corporate
Services Limited

Address

2 King Edward Street

Post town

London

County/Region

Postcode

E C 1 A 1 H Q

Country

DX

Telephone



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



Important information

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



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Registered number: 229165

BANK OF AMERICA EUROPE DAC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

BANK OF AMERICA EUROPE DAC

DIRECTORS

O.T. Bussmann (Independent non-executive director)
G.C. Carp (resigned 16 November 2021)
A.M. Finucane
S.A. James (Independent non-executive director)
N.M. Jordan (Independent non-executive director)
J.H. Lee (appointed 16 November 2021)
S. Lilly (resigned 15 November 2021)
R. McHugh (Independent non-executive director)
J.G. Murphy (Independent non-executive director)
F. Vicario

COMPANY SECRETARY

Merrill Lynch Corporate Services Limited

REGISTERED NUMBER

229165

REGISTERED OFFICE

Two Park Place
Hatch Street
Dublin 2

INDEPENDENT AUDITORS

Mazars
Chartered Accountants and Statutory Audit Firm
Block 3 Harcourt Centre
Harcourt Road
Dublin 2
Ireland

BANK OF AMERICA EUROPE DAC

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BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their Annual Report and the audited financial statements of Bank of America Europe DAC ("BofA Europe", "the Company") for the year ended 31 December 2021.

The Company is a registered bank in the Republic of Ireland which is authorised and regulated by the Central Bank of Ireland ("CBI") and supervised under the Single Supervisory Mechanism ("SSM") by the European Central Bank ("ECB"). The Company is a wholly owned subsidiary of Bank of America, National Association ("BANA") and the ultimate parent of the Company is Bank of America Corporation (NYSE:BAC) ("BAC").

The Company's head office is in the Republic of Ireland with branches in the United Kingdom ("UK"), Belgium, France, Germany, Greece, Italy, the Netherlands, Spain, Sweden, and Switzerland.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Irish company law requires the directors to prepare the financial statements for each financial year. Under the law, the directors have prepared the financial statements in accordance with the Companies Act 2014 and Financial Reporting Standard 101 "Reduced Disclosure Framework".

Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the assets, liabilities and financial position of the Company as at the financial end date, of the profit or loss for that financial year and otherwise comply with the Companies Act 2014.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRINCIPAL ACTIVITIES

The Company provides a range of financial services and forms part of BAC's Global Banking and Global Markets operations in the Europe, Middle East and Africa ("EMEA") region. Clients principally include large multinational groups, financial institutions, governments and government entities. The Company has the ability to conduct business with international clients and to trade throughout the European Economic Area ("EEA") and other key markets within the EMEA region.

As well as providing financial services, during the year the Company also provided support services to other companies in the BAC group in the EMEA region. Services provided include Information Technology ("IT") and

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

operations support, administration and Human Resources ("HR") support and real estate services. On 1 April 2021 the Company transferred 708 employees, along with associated support services activities, to the London branch of BANA. See note 3 for further information regarding the transfer of activities. The Company continues to charge other BAC companies in relation to costs incurred for other services provided to the BAC group.

As at 31 December 2021, the Company was rated by Fitch (AA/F1+) and Standard & Poor's (A+/A-1).

Notwithstanding the transfer of some support services activities to the London branch of BANA during the year, the directors do not anticipate any significant changes in the Company's activities in the forthcoming year.

MARKET ENVIRONMENT

Geopolitical

In 2021, there was a rebound in market and client activity driven by the roll-out of effective COVID-19 related vaccines and continued unprecedented levels of fiscal and monetary stimulus. Investment Banking activity hit new highs with global records set for announced Mergers and Acquisitions ("M&A"), Initial Public Offerings and High Yield Bond volumes. The global Investment Banking fee pool reached a record \$128B, up 39% year on year, and in EMEA fees were up 44% to \$27.4B, driven by M&A, Equity Capital Markets and Leveraged Finance market fee pools all up over 60%. Risk-on sentiment and low interest rates drove fund flows into equities and propelled global equity market capitalisation to a new all-time high, as 2021 saw record global equity fund inflows of nearly \$950B, more than the cumulative inflows of the last 20 years. (Sources: Dealogic, Emerging Portfolio Fund Research Platform, BofA Europe Global Investment Strategy).

However, COVID-19 continues to cause concern following the emergence and rapid spread of the Delta and Omicron variants. Inflation worries, ongoing supply chain issues and central bank policy tightening may lead to increased volatility in 2022 while elevated geopolitical tensions also pose risks, particularly with China/Hong Kong tensions and volatility in Turkey.

The Company is subject to numerous geopolitical, economic and other risks in the jurisdictions in which it operates. The Company does business throughout the world including in emerging markets. Economic or geopolitical stress in one or more countries could have a negative global impact, resulting in reduced market value and economic output. The businesses and revenues are subject to risk of loss from currency fluctuations, financial, social or judicial instability, electoral outcomes, changes in governmental policies or policies of central banks, price controls, high inflation, protectionist trade policies, continued trade tensions (particularly as a result of Brexit) including the risk that tariffs continue to rise and other restrictive actions are taken that weigh heavily on regional trade volumes and domestic demand through falling business sentiment and lower consumer confidence and changes in legislation. These risks are especially elevated in emerging markets.

Furthermore, changes in fiscal, monetary or regulatory policy could adversely affect the Company's business operations, organisational structure and results of operations. The Company is also subject to geopolitical risks including for example; acts or threats of terrorism and/or military conflicts which could adversely affect business and economic conditions globally.

Russia/Ukraine Conflict

Post year end, financial markets and commodities markets have been impacted by the Russia/Ukraine conflict, including the implementation of various economic sanctions by multiple jurisdictions on select Russian government and military leaders, financial institutions, business leaders and the Central Bank of Russia. In addition, the government of Russia has implemented economic sanctions on selected non-Russian institutions.

The Company's exposure to Russia is being closely monitored and the post year end impact to impairment is not considered to be material at this point. The potential impact of the conflict and sanctions regime on European and global markets and institutions remains uncertain, and episodes of economic and market volatility may continue to occur. As a result, the Company's business, results of performance, financial position and/or operational model could be adversely affected.

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Coronavirus ("COVID-19")

The COVID-19 pandemic has impacted the Company and may continue to do so, as uncertainty remains about the duration of the pandemic and the timing and strength of the global economic recovery.

The effects of the pandemic have adversely affected, and may continue to adversely affect the Company's businesses and results of operations, and the pandemic's duration and future impacts on global health, the global economy and our businesses, results of operations and financial condition remain uncertain. Pandemic developments and certain responses have also resulted in inflationary pressure and ultimately may contribute to the development of a prolonged, disruptive period of high inflation globally.

The Company continues to execute its business continuity plans in connection with the pandemic, both locally and as part of BAC's coordinated response. The Company continues to closely monitor the pandemic and related risks as they evolve. For discussion on how COVID-19 has impacted the Company's assessment of provision for loan losses, see note 16.

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

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

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

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

The Company continues to monitor current and potential regulatory, tax and accounting impacts of the transition, including Internal Revenue Service tax regulations and guidance and Financial Accounting Standards Board guidance, engage impacted clients in connection with the transition to ARRs and work actively with global regulators, industry working groups and trade associations in connection with the transition to ARRs. For a numerical analysis of exposure to LIBOR and other benchmark rates, see note 43 Interest Rate Benchmark Reform.

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

For further information on the status of the Company's IBOR transition, see note 43.

UK exit from the European Union

On 31 January 2020, the UK formally exited the European Union ("EU"). Upon exit, the UK entered into a transition period, which formally ended on 31 December 2020 when the UK left the EU's Single Market and Customs Union.

As a result of Brexit, the Company transferred loans with carrying value of \$656 million to the London branch of BANA during the year. Whilst potential further consequences of Brexit have been considered, the broad strategy and business model of the Company is not expected to change and the Company will continue to assess potential risks, including operational, regulatory and legal.

CORPORATE GOVERNANCE

The Company is subject to the CBI Corporate Governance Requirements for Credit Institutions 2015 and additional requirements outlined for high impact designated institutions. The Company is also subject to the corporate governance requirement for institutions deemed "significant" for the purposes of the European Capital Requirements Directive IV ("CRD IV") as amended by Capital Requirements Directive V ("CRD V"). The BofA Europe Board ("the Board") formally reviews the corporate governance structure of the Company, including its branches, on an annual basis to ensure that it meets regulatory and legal requirements and industry best practice.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 42).

RISK GOVERNANCE

The Board ensures suitable risk management and controls through the Board Risk Committee ("BRC"), Audit Committee ("AC"), Nominations Committee ("NC"), Remuneration Committee ("RC") and Management Risk Committee ("MRC").

The BRC assists the Board in fulfilling its oversight responsibilities relating to senior management's responsibilities regarding the identification of, management of, and planning for key risks of the Company.

The AC assists the Board in fulfilling its oversight responsibilities relating to the Company's internal financial controls; the preparation and integrity of the Company's financial statements; the Company's relationship with its Independent Auditor, including pre approval of any non-audit services; and the performance and independence of the Company's Internal Audit and Compliance functions.

The NC assists the Board in fulfilling its oversight responsibilities in relation to the governance of the Board of Directors of the Company relating to nominations to the Board and reviewing and reporting to the Board on senior management talent planning and succession planning.

The RC assists the Board in fulfilling its oversight responsibilities relating to compliance with remuneration policies and related regulatory requirements.

The MRC reports to the BRC and is responsible for providing management oversight and approval of (or reviewing and recommending to the BRC) market risk, credit risk, (in conjunction with the Credit Risk Committee), operational risk (in conjunction with the Operational Risk Committee), balance sheet, capital and liquidity management (in conjunction with the Asset and Liability Committee ("ALCO")), country risk, stress testing and concentration risk management activities of the Company (including any branches).

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

REVIEW OF FINANCIAL STATEMENTS AND RELATED ESTIMATES AND JUDGEMENTS

The BofA Europe Audit Committee discharges its responsibility for the monitoring and integrity of the financial statements through:

- review of the financial statements for completeness and compliance with relevant accounting standards and other regulatory and legal requirements;
- reporting to the BofA Europe Board on the consistency and appropriateness of critical accounting policies and any changes thereto, taking into account the views of the Independent Auditors;
- review of any correspondence from regulators in relation to financial reporting;
- review of the going concern statement; and
- review and challenge of significant financial reporting judgements, estimates and the actions and judgements of management including those in respect of valuation of financial instruments.

Further detail on the critical accounting estimates and judgements is provided in note 2.

RESULTS AND DIVIDENDS

The Company's profit on ordinary activities after taxation was \$611 million (2020: \$215 million) as set out in the income statement.

The directors do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: \$nil).

BUSINESS REVIEW

The Company's profit on ordinary activities before taxation was \$749 million, an increase of \$691 million compared with the year ended 31 December 2020. The primary driver for the increase in profits is the reduction in impairments associated with lending activities within total operating expenses.

Total operating income was \$1,992 million, an increase of \$231 million compared with the year ended 31 December 2020, this is driven by net trading income resulting from growth in global economic activity.

Total operating expenses were \$1,243 million, a reduction of \$460 million compared with the year ended 31 December 2020, this takes into account:

- the release of impairment for credit losses of \$152 million, compared to a charge for impairment for credit losses of \$439 million in the year ended 31 December 2020, this reflects the effects of economic recovery from the COVID-19 pandemic.
- the increase in other operating expenses of \$113 million compared with the year ended 31 December 2020, reflecting the increase in business volumes and operating income.

Divisional performance

Results are derived from the Company's core Global Banking and Global Markets activities and its Support Services activities, which represent reportable segments as disclosed in note 3.

Global Banking and Global Markets contributed \$1,772 million (2020: \$1,413 million) of total operating income.

The Support Services segment contributed \$220 million (2020: \$348 million) to total operating income.

BANK OF AMERICA EUROPE DAC

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Summary income statement

	2021 \$M	2020 \$M	Change \$M
Net interest, fee and commission income	862	805	57
Net trading and fair value income	316	162	154
Other operating income	814	794	20
Total operating income	1,992	1,761	231
Administrative expenses	(808)	(791)	(17)
Depreciation and other operating expense	(587)	(473)	(114)
Impairment release/(charge) for credit losses	152	(439)	591
Profit before taxation	749	58	691

Net interest, fee and commission income

This income reflects the performance of the Company's lending businesses, consisting primarily of corporate and institutional lending and investment banking fees in addition to certain asset backed lending, secured lending and leasing activity.

Net trading and fair value income

This income reflects the profits on the Company's trading asset portfolio as well as certain lending transactions which the Company has measured at fair value through profit or loss ("FVPL").

Other operating income

This income is generated through the Company's services to the broader BAC group. Service fee income is computed under arm's length principles in accordance with BAC's Global Transfer Pricing Policy. The Company's service fee income relates to both its Support Services activity and income generated by Global Banking and Global Markets activities.

Administrative expenses

Expenses are driven by compensation, overhead costs and direct trading-related costs.

Depreciation and other operating expenses

Depreciation expenses are incurred by the Company on property, plant and equipment and right of use assets used as part of its ongoing activities. Other operating expenses primarily relate to service fee expenses resulting from the purchase of services from other affiliates in the BAC group. The charges are computed under arm's length principles reflecting the economic contribution of the affiliate in accordance with BAC's Global Transfer Pricing policy.

Impairment release / (charge) for credit losses

This represents the release or charge arising from the provision for expected credit losses on the Company's lending businesses, including write-offs.

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Taxation

The Company's effective tax rate for the year is 18.5% (2020: negative 270.7%) driven mainly by the foreign tax liability arising primarily in the London and Frankfurt branches of the Company. Factors affecting the tax charge for the year are detailed in note 14.

Capital

Total eligible regulatory capital (exclusive of audited current year profits) increased from \$13,819 million as at 31 December 2020 to \$13,846 million as at 31 December 2021, which consisted of \$11,846 million Tier 1 capital (2020: \$11,819 million) and \$2,000 million Tier 2 capital (2020: \$2,000 million).

The Company's total capital ratio at 31 December 2021 as reported to the CBI was 26.2% (2020: 26.0%), exceeding the minimum capital requirement.

Further information on the Company's capital requirements under the CRD IV as amended by CRD V is available in the Company's Pillar 3 disclosure document.

Liquidity

The Company is subject to the Basel III liquidity requirements legislated by the European Commission's Capital Requirement Regulations ("CRR") and CRD IV as amended by CRD V including rules implementing the requirement for credit institutions to comply with the Liquidity Coverage Ratio.

The Company was in excess of its regulatory liquidity requirements in both 2021 and 2020.

POLITICAL CONTRIBUTIONS

The directors have satisfied themselves that there were no political contributions during the year (2020: \$nil) that require disclosure under the Electoral Act 1997.

NON FINANCIAL STATEMENT

Overview of Company and policies

As detailed earlier in this report, the Company's business model creates value for its stakeholders by providing a range of financial services to customers across EMEA. These operations expose the Company to a number of risks, including those of an environmental or social nature. BAC's Environmental and Social Risk Policy Framework ("ESRPF") aligns with BofA Europe's Risk Framework and provides additional clarity and transparency regarding our approach to environmental and social risks, inclusive of climate risk. Recognising that certain sectors are more sensitive to these types of risk, BofA Europe undertakes enhanced due diligence to analyse business activities in these sectors to evaluate the associated credit, market and reputational risks. Refer to the Management of Climate Change Risk section for additional information.

Set out below is a summary of the Company's approach to each of the main Environmental, Social and Governance ("ESG") components. Further information about BAC's approach to ESG matters can be accessed via the ESRPF at www.bankofamerica.com/ESRPF and BAC's Task Force for Climate-related Financial Disclosures available at www.bankofamerica.com/TCFD.

Environmental matters

As part of its strategy to address climate change and drive sustainable use of natural resources, BAC announced in 2021 that it will deploy and mobilise \$1 trillion by 2030 in its Environmental Business Initiative in order to accelerate the transition to a low-carbon, sustainable economy. This commitment will anchor a broader \$1.5 trillion sustainable finance goal by both environmental transition and social inclusion development

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

purposes, spanning business activities across the globe. BAC is also committed to achieving Net Zero Greenhouse Gas Emissions before 2050.

BofA Europe is engaged in the EMEA Sustainable Finance Cross Line of Business working group. This group is managed by the Sustainable Finance and ESG teams with a goal to facilitate dialogue and awareness across all front office businesses to accelerate the mobilization of capital deployment, through lending, capital raising, advisory, and investment services, and by developing innovative financial solutions, that is aligned with the 17 United Nations Sustainable Development Goals.

The Company complies with and reports to Energy and Environment Agencies on the Article 8 Energy Efficiency Directive, EU Emission Trading Scheme, and the Italian F-Gas Register, and operates towards overall BAC operational goals including maintaining carbon neutrality and purchasing 100% renewable electricity (including purchasing carbon credits where renewable energy is not available).

Management of climate change risk

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

Effective management of climate risk requires coordinated governance, clearly defined roles and responsibilities, and well-developed processes to identify, measure, monitor and control risks. BofA Europe continues to build out and enhance its climate risk management capabilities. As climate risk is interconnected with all key risk types, BofA Europe has developed and continues to enhance processes to embed climate risk considerations into its Risk Framework and risk management programmes established for strategic, credit, market, liquidity, compliance, operational and reputational risks. Refer to note 42 for additional information.

A key element of how BofA Europe manages climate risk is the Risk Identification process through which climate and other risks are identified across all front line units ("FLUs") and control functions, prioritised in its risk inventory and evaluated to determine estimated severity and likelihood of occurrence. Once identified, climate risks are assessed for potential impacts.

BofA Europe incorporates climate risks into scenario analyses, which leverage scenarios designed by the Network of Central Banks and Supervisors for Greening the Financial System, to assess how these risks could affect the Company and its clients across a range of physical and transition risk scenarios. Through the application of scenario analysis, potential pathways in the transition to a net zero economy are assessed. This includes assessing the impact of changes across both physical and transition related risks and events, and providing deeper insight into how climate-related risks and opportunities may evolve.

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

BAC has established an Enterprise Climate Risk Steering Council, with which BofA Europe is closely coordinated, to oversee the enterprise-wide climate risk management practices.

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

The Board of BofA Europe ensures suitable risk management, governance and controls for BofA Europe through appropriate committees and alignment to BAC Group policies where appropriate. This includes consideration of climate-related risks and opportunities. BofA Europe's BRC assists the Board in fulfilling its oversight responsibility relating to senior management's responsibilities regarding the identification of, management of, and planning for climate risk. The BRC has received a number of briefings at their quarterly meetings on the topic of climate risk and the progress being made to further embed climate risk management into the Risk Framework and to meet regulatory expectations on managing climate-related financial risk.

BofA Europe's MRC is responsible for providing management oversight of climate risk. The MRC receives updates on the progress being made to further embed climate into the risk framework and to meet regulatory expectations.

Within the EMEA region, the EMEA ESG Risk and Regulatory Steering Group ("Steering Group") is responsible for providing management oversight of activities related to the financial risks and opportunities from climate change and ESG-related regulatory requirements impacting BAC's EMEA legal entities. The Steering Group is attended by senior leaders from across the three lines of defence including the ESG team and is connected to the enterprise ESG and Climate Risk governance framework and to BofA Europe's governance framework. The Steering Group meets monthly and is co-chaired by the Chief Risk Officer of BofA Europe. In addition, the BofA Europe ESG Risk and Regulatory Steering Group provides oversight, challenge and review of BofA Europe's risk activities related to the management of climate and environmental risk.

BofA Europe's ESG strategy includes deepening client engagement to better understand their climate plans and to support and advise clients along their net zero journey. This includes identification and implementation of new product opportunities, data collection to support the Company's strategy, and adding ESG features in new product processes and controls. Increased awareness of climate change and its impacts, climate-related policy developments, and increasing activities to reduce emissions drove increased client demand for sustainable finance products and services. BofA Europe's product and service offerings continue to evolve to meet this increased demand.

Employee matters

The Company's HR function deals with talent acquisition, diversity and inclusion, learning and development, compensation and benefits and employee relations issues.

o Talent acquisition - The Talent Acquisition team manages talent fulfilment needs through both internal movement and through the identification and selection of external talent. All hiring activity is supported by the Talent Operations team which provides the infrastructure and control environment to ensure hiring activity is consistent, compliant with applicable laws and internal policies, guidelines and procedures and appropriately monitored. As in 2020, all Talent Acquisition events and programmes which usually run face to face have continued to be delivered virtually during 2021 as a result of the impacts of COVID-19.

o Diversity and inclusion - The Company is committed to creating an inclusive workplace where everyone has the same opportunities regardless of their gender, gender identity, gender expression, marital status, race, colour, nationality, ethnic or national origins, age, religion, sexual orientation, responsibility for dependants or physical or mental disability. This is reflected in its HR policies, guidelines and procedures. The Company also has numerous employee networks which provide engagement, development and networking opportunities for the diverse employee population. The Company complies with the applicable gender pay reporting legislation and is committed to bringing more women into financial services at a senior level. Throughout COVID-19, engagement opportunities have continued via virtual forums and event themes have been tailored to support the needs of its employees and the social changes seen during the year.

o Learning and development - The Company maintains a mandatory training programme, underpinned by a standard operating procedure and process, which is owned and monitored by the Compliance team. This includes training on, amongst other things, the Company's Code of Conduct, whistleblowing, anti-money laundering and market abuse. In addition, other training courses are made available to individuals to support

BANK OF AMERICA EUROPE DAC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

applicable development in their individual roles. A further suite of training is provided to managers to ensure they are appropriately trained on how to communicate and have crucial conversations, effective delegation, giving feedback and coaching, promoting teamwork and inclusion and managing risk responsibly. Throughout 2021 and the revised COVID-19 working arrangements, the learning offering has been delivered through a virtual learning environment enabling employees to participate regardless of location.

o Compensation and benefits - The Compensation and Benefits team support the financial management, communication and administration of BAC enterprise-wide incentive plans. All activities are underpinned by policies with training, monitoring and evaluation processes in place to ensure that roles are fulfilled in an effective and consistent manner and in compliance with all applicable regulatory and legal requirements. The cornerstone of BAC's remuneration philosophy across all lines of business is to pay for performance - BAC (inclusive of BofA Europe), line of business, and individual performance. Through BAC's performance management process, employees understand performance expectations for their role through on-going dialogue with their manager. Each employee's performance is assessed on quantitative and qualitative objectives as well as specific behaviours, and performance is factored into each employee's incentive remuneration award. As a result, an employee's remuneration can be influenced not only by what the employee achieves, but how the employee achieves it. The BofA Europe compensation team, based in Dublin, is responsible for the operation of remuneration within BofA Europe in accordance with all applicable regulations.

o Employee Relations - The Employee Relations team provides consultative expertise and tools to manage and resolve employment risks.

HR Shared Services (HR Service Centre, HR systems, HR Reporting and Payroll): Serve as a primary point of contact for HR queries; produce standard form and regulatory employment references; execute pay services delivery and ensure compliance with all relevant tax filing obligations; payroll accounting.

Generalist: Support the business leaders on HR initiatives including (but not limited to) talent & workforce planning, and provide strategic HR advice.

Regular updates have been provided to the Board throughout 2021 by HR and the resulting discussions and decisions on measures to provide support to employees in relation to the COVID-19 pandemic. The Company, as part of BAC's global response, is focused on promoting health and safety and limiting the risk of exposure, including keeping employees informed and providing timely resources, tools and wide-ranging benefits. Office locations have been assessed for employees to return in line with local government guidelines, medical advice received from advisors, and in accordance with the Company's own internal health and safety guidelines.

There are many assessing factors before the Company deems an office location ready to return. These include but are not limited to personal protective equipment, building and floor readiness including physical distancing floor plans and signage, health and wellness support channels such as the Employee Assistance Programme, and training for its employees. Lines of business and functional groups returned employees to the office and will continue to do so on a phased approach, based upon role criticality and risk considerations of working in the office or continuing to work from home.

Starting in July 2021 and as local conditions allowed, employees commenced their return to the BofA Europe offices in a phased approach, balancing risk considerations of working in the office or continuing to work from home. Established procedures and routines continue to assess pandemic information on a daily basis and successfully enable the organisation to respond and pivot to changing conditions, such as the work from home advisories in place in Ireland since Dec 2021, resulting in a number of employees returning to work from home for the time being.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Social matters

Respect for human rights:

BAC is committed to respecting human rights and demonstrates leadership in responsible workplace practices across the enterprise and in all regions where it conducts business. BAC's commitment to fair, ethical and responsible business practices, as it engages with employees, clients, vendors and communities around the world, is embodied in its values and Code of Conduct. To learn more about BAC's commitment to human rights, see about.bankofamerica.com/assets/pdf/human-rights-statement.pdf. In addition, BAC has issued a Modern Slavery Statement on behalf of itself and its subsidiaries, including but not limited to BofA Europe, see www.bankofamerica.com/modernslaveryact.

Racial equality:

In 2021, BAC increased its \$1 billion, four-year commitment to advance racial equality and economic opportunity to \$1.25 billion over five years, with a particular focus on helping create opportunity for people and communities of colour. This effort further accelerates work already under way to address racial equality and opportunity through direct actions, investments and work to catalyse similar efforts across the private sector. This commitment is designed to help local communities address economic and racial inequality accelerated by the global pandemic. The focus includes addressing four areas where systemic, long-term gaps have existed and where BAC believes that can drive positive change – capital and additional support for minority-owned small business owners, job creation and workforce development, access to healthcare, and affordable housing.

Community engagement:

In EMEA, the BAC Foundation is focused on building pathways to economic mobility by supporting initiatives that help people transition from education into sustained employment. In 2021, the BAC Foundation supported 86 charities and social enterprises with financial grants and volunteer support from employees.

In addition to the bank's commitment to racial equality, the BAC Foundation provided 8 further commitments in EMEA towards projects and partners working to address inequality as part of the bank's \$1.25 billion commitment over four years. Our total 2021 philanthropic investment within EMEA was \$10 million, including employee-directed giving.

BAC offers its employees an array of opportunities to share their skills and to volunteer with charities. Since March 2020, this programme has been fully virtual. In 2021, 1,319 employees in EMEA (15.9% volunteer participation) shared their time and skills with community organisations. Of these volunteers, 353 were employees of BofA Europe (19.6% volunteer participation).

Vendor management:

BAC is dedicated to doing business with suppliers that respect ethics, human rights, diversity and inclusion, and the environment. BAC sets expectations of suppliers through the Vendor Code of Conduct, which all suppliers are expected to adhere to while conducting business with or on behalf of Bank of America. BAC reserves the right to monitor compliance with the code using a reasonable and risk based approach and framework that is suitable for small and diverse owned businesses as well as larger businesses with more mature compliance programs. BAC contract templates contain representations and warranties to ensure that suppliers use socially and environmentally beneficial practices relevant to and in line with best practices in their particular industry. Further information on how the Company, as part of BAC, approaches vendor management can be obtained at <https://about.bankofamerica.com/en/our-company/vendor-management>.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Global compliance and operational risk

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

The Enterprise Anti-Bribery and Anti-Corruption ("ABAC") Policy and the Code of Conduct prohibits all forms of corruption conducted by the Company's employees and third parties. The ABAC Compliance programme considers the risks associated with the Company's business and the markets in which it operates, the provisions of gifts and entertainment, third party relationships and due diligence, hiring practices, political contributions charitable donations and employee conduct. In addition, ABAC Compliance considers transactions posing heightened risks, particularly in markets and economies that are more susceptible to corruption and financial crime.

Outcomes and non-financial key performance indicators ("KPIs")

Metrics specific to BofA Europe are presented below. As the Company adopts BAC's global approach to ESG issues, additional related non-financial KPIs are typically measured on a regional or global basis. Reporting of the ESG metrics aligned with external frameworks and the ESG Performance Data Summary can be found online at: www.bankofamerica.com/ESGdata2020.

Energy Consumption and Greenhouse Gas Emissions

Global environmental objectives are set at a BAC group levels and BofA Europe contributes to these targets. Being a part of a BAC group, BofA Europe recognises its responsibilities and decided to voluntarily disclose its operational energy consumption and greenhouse gases emissions in tables below.

Due to the nature of BofA Europe operations, multiple BAC entities utilise the same office space therefore, are mutually responsible for environmental impacts. For reporting purposes, we have estimated an entity-specific energy consumption and greenhouse gas emissions based on the proportion of entity's employee headcount within the space.

2021 energy consumption and associated greenhouse gas emissions for our branches outside of the UK and Ireland were estimated based on verified 2020 data due to substantial delay in obtaining the information. UK and Ireland are material locations.

Energy Consumption

	2021 kWh	2020 kWh
Scope 1 energy use*		
Gas consumption	4,623,129	5,975,058
Scope 2 energy use**		
Electricity	11,799,507	20,686,744
Total scope 1 and 2 gross energy consumption	16,422,636	26,661,802

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

*Scope 1 energy use relates to sources (consumption) that are owned or controlled by BofA Europe's activities and which result in direct emission from those activities.

** Scope 2 energy use is that relating to purchased electricity consumed by BofA Europe's activities. Scope 2 emissions physically occur at the facility where electricity is generated.

Energy data is based on utility invoices. Where actual data is not available, estimates are made based on actual data collected in the previous year.

Greenhouse gas emissions

	2021 Location based*	2021 Market based**	2020 Location based	2020 Market based
Scope 1 (tCO₂e)				
Gas consumption	900	900	1,149	1,149
Scope 2 (tCO₂e)				
Electricity	2,857	98	5,062	98
Total scope 1 and 2 gross emissions	3,757	998	6,211	1,247
Intensity ratio tonnes of CO ₂ e per m ² floor area (tCO ₂ e/m ²)	0.043	0.011	0.063	0.013

* A location-based method reflects the average emissions intensity of the energy grid.

** A market-based method reflects emissions from electricity that the Company has purposefully chosen and takes into account the impact of green contracts or other renewable energy products.

The above has been produced in line with the World Resources Institute's "Greenhouse Gas Protocol; A Corporate Accounting and Reporting Standard".

The Company considers that the most appropriate intensity metric to reflect performance is gross emissions in tonnes of CO₂e per of m² of floor area as BAC's energy consumption and associated greenhouse gas emissions are primarily driven by its real estate portfolio.

The total location-based greenhouse gas emissions decreased by 44% compared to 2020. This substantial reduction was driven primarily by the impact of reduced headcount of BofA Europe – London Branch and associated proportion of its greenhouse gas emissions.

External verification of the above energy and carbon figures has been provided by a third party consultant, Apex Companies.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

Energy efficiency measures

BofA Europe environmental objectives are aligned with BAC's operational goals.

In line with these objectives BAC actively pursues energy and greenhouse gas emission reductions primarily through energy efficiency initiatives and office consolidation projects.

BAC continues to purchase renewable energy in the UK and Ireland through green contracts with utility suppliers. These contracts are covered by relevant schemes - the EU Guarantees of Origin (GO) in Ireland and Renewable Energy Guarantees of Origin (REGOs) in the UK, administered by relevant local authorities. These programmes provides transparency to consumers about the proportion of electricity that supplier's source from renewable generation. GO and REGO certify that each mWh of electricity was generated from eligible generation sources.

Otherwise for facilities not covered by the green contract, BAC purchases unbundled GOs and REGOs. Carbon offsets are purchased for other unavoidable emissions.

EU Taxonomy

Following the adoption of the Paris Agreement on climate change, the European Commission took steps towards achieving a climate-neutral EU by 2050. This included publishing its action plan on financing sustainable growth. A key objective of this action plan was to redirect capital flows towards sustainable economic activities.

In order to achieve this objective, Regulation (EU) 2020/852 adopted by the European Parliament along with the commission delegated regulation (EU) 2021/2178 (hereinafter together referred to as the "EU Taxonomy") requires companies subject to the Non-Financial Reporting Directive ("NFRD") to disclose how their operations aligned with the sustainable economic activities identified by the EU Taxonomy. Financial undertakings are required to mandatorily disclose the proportion in total assets in scope of EU taxonomy of exposures to counterparties that are considered eligible and non-eligible under the EU Taxonomy for 2022 and 2023. Eligible counterparties are those which are subject to NFRD and are operating in economic sectors defined as eligible in the EU taxonomy.

Mandatory reporting under the EU Taxonomy should be based on information that has been publicly disclosed by the eligible counterparties themselves. As this is the first year of reporting, this information was not available at the time of preparation of this report, resulting in mandatory eligibility ratio for BofA Europe of 0%.

BofA Europe has estimated 2.5% of total assets in scope of EU taxonomy would have been considered eligible if the public disclosures of eligible counterparties had been available. This estimate was produced using internally available data to identify which counterparties were subject to NFRD reporting and the economic sector they operate in. The ratio reflects that our principal clients are financial institutions, governments and government entities, which are not participants in economic sectors considered eligible under EU Taxonomy.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

	\$B
Total assets	67.4
Less exposures not included in scope of EU Taxonomy:	
Trading assets	1.4
Assets with central governments	1.5
Assets with central banks and supranational issuers	15.5
Property, plant and equipment, Tax assets and Other assets	1.0
Assets in scope of EU Taxonomy (including \$1.5bn of derivatives)	48.0
Less assets related to counterparties not subject to NFRD reporting	42.2
Assets related to counterparties subject to NFRD reporting	5.8
EU Taxonomy eligible assets (mandatory)	0.0
Proportion of eligible assets as a % of assets in scope (mandatory)	0.0
Additional voluntary disclosure of assets related to counterparties subject to NFRD reporting:	
Less assets not associated with taxonomy eligible activities	4.6
Assets associated with taxonomy eligible activities	1.2
Proportion of eligible assets as a % of assets in scope (voluntary)	2.5%

INDEPENDENT AUDITORS

Due to mandatory firm rotation requirements, PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm, resigned from office in accordance with section 383(2), of the Companies Act 2014. Having undertaken a formal audit tender process, the Board identified Mazars, Chartered Accountants and Statutory Audit Firm, to succeed PricewaterhouseCoopers as the Company's Independent Auditors. Mazars were appointed by resolution at the Annual General Meeting on 14 May 2021.

The auditors, Mazars, Chartered Accountants and Statutory Audit Firm, have indicated their willingness to continue in office in accordance with section 383(2), of the Companies Act 2014 and a resolution that they be reappointed will be proposed at the Company's Annual General Meeting.

ACCOUNTING RECORDS

The measures taken by the directors to ensure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office.

DIRECTORS' AND SECRETARY'S INTEREST IN SHARES

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

The Directors have availed the exemption available under S260 of the Companies Act 2014 to not disclose interests of less than 1% in BAC.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

DIRECTORS

The directors of the Company who were in the office during the year and up to the date of approval of this report except where noted, were:

Executive directors

F. Vicario (Chief Executive Officer)
J.H. Lee (appointed 16 November 2021).
G. Carp (resigned 16 November 2021)

Group non-executive directors

A.M. Finucane (Chair)
S.Lilly (resigned 15 November 2021)

Independent non-executive directors

O.T. Bussmann
S.A. James
N.M. Jordan
R. McHugh
J.G. Murphy

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' COMPLIANCE STATEMENT

As required by section 225(2) of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The directors confirm that:

- a compliance policy statement (as defined in section 225(3)(a)) has been drawn up setting out the Company's policies, which, in the directors' opinion, are appropriate to ensure compliance with the Company's relevant obligations;
- appropriate arrangements or structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and
- a review of those arrangements or structures has been conducted in the financial year to which this report relates.

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**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**


ELECTRONIC DISTRIBUTION

The directors are responsible for ensuring that the Company's financial statements are provided for inclusion on the website of the Company's ultimate parent undertaking, BAC. The work carried out by the auditors does not involve consideration of these matters and accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the board on 28 March 2022 and signed on its behalf.



F. Vicario
Director



J.H. Lee
Director

Independent auditor's report to the members of Bank of America Europe DAC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of America Europe DAC ('the Company'), for the year ended 31 December 2021, which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, that Statement of Changes in Equity and notes to the Company financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in its preparation is Irish law and the Financial Reporting Standard 100 ('FRS 100') - Application of Financial Reporting Requirements and Financial Reporting Standard 101 ('FRS 101') - Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2021, and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 100 and FRS 101; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard for Auditors (Ireland) issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Company. We have provided no non-audit services to the Company in the period from 1 January 2021 to 31 December 2021.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the director's assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Understanding management's going concern assessment process, including over the preparation of financial plans and forecasts;
- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of COVID-19;
- Evaluation of the forecast financial performance, liquidity, capital position and the Bank's strategic plan over the going concern period; and
- Consideration of the funding support available to the Company from its parent.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

Key audit matter	How the matter was addressed
<p>Impairment of financial instruments IFRS 9</p> <p>In accordance with IFRS 9, the Company recognises expected credit losses ('ECL') for instruments classified at amortised cost and at FVOCI. These include loans and advances to banks and customers, including related guarantees and commitments.</p> <p>The estimation of expected credit losses ('ECL') is a complex process requiring the use of judgement and estimates. The key risks in the estimation process relate to the methodology applied and the use of inappropriate assumptions including determination of Significant Increase in Credit Risk (SICR) or forward-looking information which could potentially lead to the financial statements being materially misstated.</p> <p>Additionally, the risk of using incomplete and inaccurate input data as a basis for the computation is another area of risk that could result in mistaken estimates.</p> <p>Finally, adjustments to the model-driven ECL results can be raised by management to address known impairment model limitations, emerging trends or potential future credit risks identified by management in the context of the COVID-19 pandemic. Such adjustments are inherently uncertain and management judgement is involved in the estimation process.</p>	<p>We have addressed the audit risk attached to the Key Audit Matter by performing the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding of the overall impairment process, including key controls, the impairment model used and underlying assumptions; • Agreed and reviewed the scope of group auditors work as applicable to the Company, covering IT controls testing and model validation; • Validated the compliance of the impairment estimation process with IFRS 9 requirements, including the review of the Company's IFRS 9 Framework Document and Policy; • Tested the design, implementation and operating effectiveness of the key controls underpinning the estimation and recognition of the impairment provision in the accounting records, including relevant IT application controls; • Reviewed the impairment model significant assumptions and the methodology applied to determine whether the overall impairment adjustment is adequate. This included the assessment of the definition of default adopted by the Company, and

<p>Any over or under estimations of the impairment provision could have a material impact on the reported results.</p> <p><i>Refer to Note 1.18 Accounting Policies – Impairment of financial assets held at amortised cost and FVOCI, Note 2 Judgements in applying accounting policies, Note 16 Provision for loan loss, Note 17 Loans and Advances to banks, Note 18 Loans and advances to customers and Note 42 Risk Management.</i></p>	<p>the determination of PD, LGD and EAD. It also covered the consideration of economic variable inputs used in the estimation process;</p> <ul style="list-style-type: none"> Assessed the reasonableness of the staging applied to the portfolio and considered the allocation criteria underpinning the classification into each of the three stages defined under IFRS 9; Reviewed the model validation and parameters calibration validation performed by the Company, as well as the back testing performed to ensure model viability; For individually assessed provisions, assessed the measurement of the provision by testing the valuation of collateral where relevant and examined other cash-flow assumptions where the level of provision is not dependent on collateral values; Assessed the reasonableness and adequacy of post model adjustments and management overlays, considering specific risks arising from the actual economic environment disrupted by COVID-19; Assessed the completeness and accuracy of the data used in the computation process; and Assessed the appropriateness of the disclosures and accounting policies in the financial statements. <p>IFRS 9 specialists and Economist experts were engaged to support the audit team with some aspects of these procedures.</p> <p>Based on the evidence obtained from the above listed procedures, we consider the estimation of the impairment of financial instruments under IFRS 9 to be reasonable.</p>
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Valuation of level 3 traded loans and loans and advances to customers at Fair Value Through Profit and Loss ('FVTPL')

The valuation of level 3 traded loans and advances to customers measured at FVTPL, are based on management judgement and estimation.

The valuation of instruments with higher risk characteristics involves both significant judgement and the risk of inappropriate revenue recognition through incorrect pricing. The judgement in estimating fair value of these instruments involve complex valuation models and significant fair value adjustments both of which are reliant on data inputs where there is limited market data observability. Any error in the valuation of a financial instrument can have a significant impact on the financial statements.

The Company's Level 3 financial instruments measured at fair value include distressed debt traded loans, mortgage loans and leveraged finance loans.

Refer to Note 1.15 Accounting Policies – Financial Assets, Note 2 Judgements in applying accounting policies Note 18 Loans and Advances to customers, Note 21 Trading assets, Note 42 Risk Management and Note 44 Fair value disclosures.

We have addressed the audit risk attached to the Key Audit Matter by performing the following procedures:

- Established a cartography of products held at fair value by individual line of business desk, underlying valuation techniques/models and levelling;
- Gained an understanding of the end-to-end valuation process, including roles and responsibilities of the three line of defence, collaboration between departments and IT systems involved in the Independent Price Verification (IPV) and Fair value adjustment (FVA) computation;
- Assisted by our quantitative finance team, we evaluated the appropriateness of management's valuation methodology;
- Tested the design, implementation and operating effectiveness of the key controls underpinning the valuation of level 3 traded loans and advances to customers at fair value through profit or loss in the accounting records, including relevant IT application controls. This included the controls around IPV and FVA computation, CVA/DVA, appropriateness of external pricing sources, margin dispute resolution, collateral IPV;
- Assessed the appropriateness of tolerance to price differences (soft and hard variances, tolerable threshold);
- Understood and assessed the model governance (internal risk rating, frequency of review, identification and follow-up of model limitations);
- Assessed the sensitivity of valuation to experts' judgements and concluded on their appropriateness;
- Reviewed the valuation methodology and underlying calculation for a sample of instruments. Challenged key assumptions underpinning the valuation made by management, including observability of parameters, management overrides and levelling applied; and

	<ul style="list-style-type: none"> Reviewed compliance of fair value disclosures with IFRS 13 and IFRS 7, including assets and liabilities levelling, transfers in and out of Level 3, and sensitivities to main unobservable inputs. <p>Valuation specialists were engaged to support the audit team with some aspects of these procedures.</p> <p>Based on the evidence obtained from the above listed procedures, we consider the estimation of the valuation of level 3 traded loans and loans and advances to customers at FVTPL to be reasonable.</p>
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Our application of materiality

We apply the concept of materiality in planning and performing the audit and in evaluating the impact of misstatements, if any. Materiality is an expression of the relative significance or importance of a matter in the context of the financial statements. Misstatements in the financial statements are material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken based on the financial statements.

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	\$126,730,000
How we determined it	1% of net assets
Rationale for benchmark applied	We consider the net assets to be a key metric that the users of the financial statements focus on.
Reporting threshold	We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$3,800,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items. Where the work was performed by other auditors, we determined the level of involvement we needed to have in their audit work and issued and agreed audit instructions to ensure that appropriate audit evidence was obtained as a basis for our opinion on the financial statements as a whole.

The nature, timing and extent of the work impacting the audit opinion was determined and monitored by us. Where work was performed by the other auditors, our involvement in that work included meetings between the other auditors and senior members of the engagement teams, review of the results of their audit procedures including the nature, timing and extent of the work impacting our audit opinion and frequent communications by the engagement team to corroborate that our audit plan was appropriately executed.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit, we report that:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the directors' report has been prepared in accordance with applicable legal requirements;
- the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited; and
- the financial statements are in agreement with the accounting records.

We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the requirements of any of Sections 305 to 312 of the Act, which relate to disclosures of directors' remuneration and transactions are not complied with by the Company. We have nothing to report in this regard.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended) for the financial year ended 31 December 2021. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement out on page 1, the directors are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework that give a true and fair view, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority's website at:

[http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-](http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf)

[a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf](http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf). This description forms part of our auditor's report.

Other matters which we are required to address

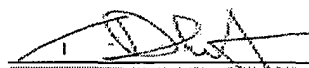
Following the recommendation of the Audit Committee, we were appointed by the Company on 11 August 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 1 year.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 auditor's 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.



Tommy Doherty
for and on behalf of Mazars
Chartered Accountants & Statutory Audit Firm
Harcourt Centre, Block 3
Harcourt Road
Dublin 2
30 March 2022

BANK OF AMERICA EUROPE DAC

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 \$M	2020 \$M
Interest income		580	696
Interest expense		(176)	(255)
NET INTEREST INCOME	4	404	441
Fee and commission income		522	405
Fee and commission expense		(64)	(41)
NET FEE AND COMMISSION INCOME	5	458	364
Net trading income		265	168
Net income/(expense) from other financial instruments at FVPL	6	51	(6)
Other operating income	7	814	794
TOTAL OPERATING INCOME		1,992	1,761
Administrative expenses	8	(808)	(791)
Depreciation and amortisation	23,24	(76)	(75)
Other operating expense	9	(511)	(398)
Impairment release/(charge) for credit losses	16	152	(439)
TOTAL OPERATING EXPENSES		(1,243)	(1,703)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		749	58
Taxation on profit on ordinary activities	14	(138)	157
PROFIT FOR THE FINANCIAL YEAR		611	215

The results above include profit post tax of \$2 million (2020: \$7 million) from discontinued operations. See note 3 for further details.

The notes on pages 32 to 122 form part of these financial statements.

BANK OF AMERICA EUROPE DAC

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021 \$M	2020 \$M
Profit for the financial year	611	215
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	(28)	16
Movement in fair value of debt instruments at FVOCI	1	-
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on retirement benefit obligations	31	(22)
	4	(6)
Total comprehensive income for the financial year	615	209

The notes on pages 32 to 122 form part of these financial statements.

BANK OF AMERICA EUROPE DAC

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

	Note	2021 \$M	2020 \$M
ASSETS			
Cash held at central banks	15	15,490	13,076
Loans and advances to banks	17	9,793	9,250
Loans and advances to customers	18	27,063	26,270
Reverse repurchase agreements	19	9,037	8,000
Market and client receivables	20	1,025	2,428
Trading assets	21	1,634	1,530
Investment securities	22	671	2,121
Derivative financial instruments		1,525	2,337
Property, plant and equipment	23	94	99
Right-of-use assets	24	417	465
Other assets	25	604	702
TOTAL ASSETS		67,353	66,278
LIABILITIES			
Deposits by banks	27	20,645	22,744
Deposits by customers	28	24,428	19,581
Debt securities	29	1,190	1,285
Market and client payables	30	536	1,581
Derivative financial instruments		2,269	3,141
Financial liabilities designated at fair value		51	16
Other liabilities	31	1,260	1,538
Accruals	33	139	129
Subordinated liabilities	34	4,000	4,000
Retirement benefit obligations	35	162	206
TOTAL LIABILITIES		54,680	54,221
CAPITAL AND RESERVES			
Called up share capital	36	32	32
Share premium account	37	9,061	9,061
Other reserves	37	60	87
Profit and loss account	37	3,520	2,877
TOTAL EQUITY		12,673	12,057

BANK OF AMERICA EUROPE DAC

**STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2021**

The financial statements were approved and authorised for issue by the board on 28 March 2022.



F. Vicario
Director



J.H. Lee
Director



A.M. Finucane
Director



S. McGuinness
for and on behalf of
**Merrill Lynch Corporate
Services Limited**
Company secretary

The notes on pages 32 to 122 form part of these financial statements.

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	\$M	\$M	\$M	\$M	\$M
At 1 January 2021	32	9,061	87	2,877	12,057
Comprehensive income for the year					
Profit for the year	-	-	-	611	611
Currency translation differences	-	-	(28)	-	(28)
Movement in fair value of debt securities at FVOCI	-	-	1	-	1
Actuarial gains relating to retirement schemes	-	-	-	31	31
Total comprehensive income for the year	-	-	(27)	642	615
Group share based payment costs recharged	-	-	-	(60)	(60)
Group share payment costs	-	-	-	61	61
At 31 December 2021	32	9,061	60	3,520	12,673

The notes on pages 32 to 122 form part of these financial statements.

BANK OF AMERICA EUROPE DAC

**STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	\$M	\$M	\$M	\$M	\$M
At 1 January 2020	32	9,061	71	2,682	11,846
Comprehensive income for the year					
Profit for the year	-	-	-	215	215
Currency translation differences	-	-	16	-	16
Actuarial losses relating to retirement schemes	-	-	-	(22)	(22)
Total comprehensive income for the year	-	-	16	193	209
Group share payment costs recharged	-	-	-	(49)	(49)
Group share payment costs	-	-	-	51	51
At 31 December 2020	32	9,061	87	2,877	12,057

The notes on pages 32 to 122 form part of these financial statements.

BANK OF AMERICA EUROPE DAC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently throughout the current and prior year, except where noted, are set out below.

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the Companies Act 2014, Financial Reporting Standard 100 ("FRS 100") - Application of Financial Reporting Requirements and Financial Reporting Standard 101 ("FRS 101") - Reduced Disclosure Framework.

FRS 100 and FRS 101 set out the disclosure exemptions for the individual financial statements of entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards that have been adopted in the EU ("EU-adopted IFRS"). References to accounting standards in these financial statements will accordingly relate to applicable International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS").

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.2 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

Below is a summary of standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2021 that have had a material impact on the Company.

Interest Rate Benchmark Reform Phase 2 was issued in August 2020 and is applicable from 1 January 2021. The amendments to IFRS 7 require certain disclosures to be made to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. See the Directors Report for further information on the Company's approach to the transition, and note 43 for information on the Company's outstanding exposures to interest rate benchmark reform.

The Phase 2 amendments to IFRS 9 implemented a practical expedient for modifications required by the reform, effectively providing relief from the application of the modification accounting requirements of IFRS 9 where such modifications are required as a direct consequence of the IBOR reform and made on an economically equivalent basis.

BANK OF AMERICA EUROPE DAC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.3 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 - Share-based Payment;
- the requirements of IAS 7 - Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 - Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of IFRS 5 paragraph 33(c) to disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

1.4 GOING CONCERN

The directors have a reasonable expectation, based on current and anticipated future performance, capital and liquidity position that the Company will continue in operational existence for a period of at least 12 months from the date of approval of the Annual report and financial statements. The directors are not aware of any material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern for at least that 12 month period. The financial statements have, therefore, been prepared on a going concern basis. Disclosures in respect of liquidity risk and capital management are set out in note 42.

1.5 INCORPORATION AND DOMICILE INFORMATION

The Company is a designated activity company and is incorporated and domiciled in the Republic of Ireland, with branches operating in Amsterdam, Athens, Brussels, Frankfurt, London, Madrid, Milan, Paris, Stockholm and Zurich. The registered office is located at Two Park Place, Hatch Street, Dublin 2.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.6 FOREIGN CURRENCIES

a. Functional and presentation currency

The financial statements have been presented in US dollars which is also the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

b. Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income ("FVOCI") are analysed between exchange gains and losses resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Exchange gains and losses related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary assets and liabilities in a foreign currency that are not measured at fair value are not subsequently re-translated for movements in prevailing exchange rates.

Exchange gains and losses on non-monetary financial assets and liabilities held at FVPL are recognised in profit or loss as part of the fair value gain or loss.

The financial statements of branches whose functional currency is not US dollars are translated to US dollars at the exchange rate prevailing at the reporting date for the statement of financial position and at the exchange rate prevailing at the date of the transaction for the income statement. Translation differences arising on profit and loss for the current year and on opening net assets of these branches are recognised in the statement of other comprehensive income and recorded as a movement in reserves.

1.7 SEGMENTAL REPORTING

The Company does not fall within the scope of IFRS 8 – Operating segments, however provides certain disaggregation of results in relation to its two operational activities, being Global Banking and Global Markets and Support Services businesses in order to meet the requirements of IFRS 15 and the Companies Act 2014. Performance is not analysed geographically as the Company operates primarily within EMEA.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.8 INTEREST INCOME AND EXPENSE

Amortised cost and effective interest rate

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

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

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

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

Calculation of interest income and expense

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

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

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

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

Interest income and expense on all trading assets and liabilities, and other financial instruments measured at FVPL, are recognised using the contractual interest rate in dealing profits and net income on other financial instruments at FVPL, respectively.

Negative interest on financial assets measured at amortised cost or FVOCI is recognised through interest expense, and negative interest on financial liabilities measured at amortised cost is recognised through interest income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1. ACCOUNTING POLICIES (CONTINUED)

1.9 NET TRADING INCOME

Net trading income includes profits and losses arising on both the purchase and sale of trading instruments and from their revaluation to fair value. Interest and dividend income earned from these instruments are also presented within net trading income. Net trading income includes gains and losses on derivatives used in the trading businesses as well as derivatives held for the purpose of hedging foreign currency exposure and any related exchange differences on the Company's foreign currency instruments.

1.10 FEES AND COMMISSIONS INCOME

Loan facility and arrangement fees are deferred and recognised over the life of the facility, where it is not considered probable that there will be a resultant loan by the Company.

Investment banking income includes underwriting, financial advisory services, and syndication fee income. The Company accounts for revenues from contracts with customers under IFRS 15. Syndication fee income represent fees earned as the agent responsible for structuring, arranging and administering a loan syndication. Revenue is typically recognised once the transaction is completed and all services have been rendered and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Financial advisory services consist of fees earned for assisting customers with transactions related to mergers and acquisitions and financial restructurings. Revenue varies depending on the size and number of services performed for each contract and is generally contingent on successful execution of the transaction. Revenue is typically recognized once the transaction is completed and all services have been rendered. Additionally, the Company may earn a fixed fee in merger and acquisition transactions to provide a fairness opinion, with the fees recognised when the opinion is delivered to the customer.

1.11 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FVPL

Net income from other financial instruments at FVPL relates to financial assets and financial liabilities designated as at FVPL, non trading assets and liabilities measured mandatorily at FVPL and certain derivative instruments used to manage credit risk relating to these assets and liabilities. The net income includes fair value changes, interest and dividends.

1.12 SERVICE FEE INCOME

Service fee income consists of charges made to affiliated undertakings to remunerate the Company for services provided or to reimburse the Company for expenditure incurred. Service fee income is recognised on an accruals basis when the transactions occurred or as the service is provided, and is recorded within other operating income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.13 LEASES

Lessor arrangements

The Company provides equipment financing to its customers through a variety of lessor arrangements. Finance leases are carried at the aggregate of lease payments receivable plus the estimated residual value of the leased property less unearned income, and are reported within loans and advances to customers. Income on finance leases is recorded in interest income using the effective interest rate method.

Lessee arrangements

For lessee arrangements, the Company records right-of-use assets separately in the statement of financial position, and lease liabilities in other liabilities, at lease commencement.

The Company made an accounting policy election not to separate lease and non-lease components of a contract that is or contains a lease for its real estate and equipment leases. As such, lease payments represent payments on both lease and non-lease components. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the Company's incremental borrowing rate. Right-of-use assets initially equal the lease liability, adjusted for any lease payments made prior to lease commencement and for any lease incentives.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term, on a straight line basis. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period.

1.14 RETIREMENT BENEFIT OBLIGATIONS

The Company participates in defined benefit and defined contribution pension schemes in the Republic of Ireland and across Europe.

For its defined benefit schemes, the Company recognises a net asset or liability, being the difference between the present value of the defined benefit obligation at the end of the reporting period and the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The income statement includes interest charged or credited on the defined benefit assets and liabilities, the impact of foreign currency revaluation and service costs.

The Company also operates defined contribution plans which receive contributions calculated as a percentage of each employee's plan salary based on their length of service. The Company's legal or constructive obligation for these plans is limited to the contributions. The contributions are recognised as employee benefit expense when they are due.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.15 FINANCIAL ASSETS

The Company recognises financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Company classifies its financial assets as measured at: amortised cost, FVOCI or FVPL. A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

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

The Company initially measures a financial asset at its fair value plus or minus, in the case of a financial asset not subsequently measured at FVPL, transaction costs that are incremental and directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Immediately after initial recognition, the Company recognises an expected credit loss allowance for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 1.18, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

A debt instrument is classified as measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes, are held to maximise cash flows through sale, or are managed on a fair value basis), then the financial assets are classified as part of an 'other' business model and are measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include:

- Past experience on how the cash flows for the assets were collected;
- How the asset's performance is evaluated and reported to key management personnel;
- How risks are assessed and managed;
- How managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, that

BANK OF AMERICA EUROPE DAC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

is to say that interest includes only consideration for the time value of money, credit risks, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value through other comprehensive income ("OCI"). This election is made on an investment-by-investment basis. The Company has not taken this election for its equity investments.

All other financial assets, including derivative assets, are classified as measured at FVPL.

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

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

1.16 FINANCIAL LIABILITIES

The Company recognises financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Derivative liabilities held for trading or held for risk management purposes are measured at FVPL.

Loan commitments that the Company designates as at FVPL are recorded on the statement of financial position at fair value at inception of the agreement. Subsequent movements in fair value are recorded in the income statement within net income from other financial instruments at FVPL. All remaining financial liabilities are carried at amortised cost using the effective interest method.

For fair value measurement technique for financial assets and liabilities, please refer to note 44.

1.17 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	– 1 to 22 years
Office equipment	– 1 to 15 years

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

At each reporting date, the Company reviews the carrying values of its property, plant and equipment assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the net realisable value and the value in use. In the event of an impairment, the carrying amount of the asset is reduced accordingly and the amount of the loss is recognised in the profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.18 IMPAIRMENT OF FINANCIAL ASSETS HELD AT AMORTISED COST AND FVOCI

The Company recognises loss allowances for expected credit loss ("ECL") on the following financial instruments that are not measured at FVPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

The Company provides loss allowances on these financial instruments based on internal assessment of the extent of a financial instruments' credit risk:

- At an amount equal to expected credit losses that result from expected default events within the 12 months after the reporting date for financial instruments on which credit risk has not increased significantly since initial recognition and which were not credit-impaired on initial recognition. ("Stage 1" or "12 month ECL").
- At an amount equal to expected credit losses that result from expected default events over the life of the financial instrument:
 - for financial instruments on which credit risk has increased significantly since initial recognition but not considered to be credit impaired. ("Stage 2" of "Lifetime ECLs Not credit-impaired loans").
 - for financial instruments which are credit-impaired meaning already in default, or non-performing (Stage 3 Lifetime ECLs Credit-impaired loans).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Measurement of ECL

The key inputs in the measurement of ECL are the following variables:

- Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation
- Loss given default ("LGD"): the magnitude of the likely loss if there is a default
- Exposure at default ("EAD"): the expected exposure in the event of a default.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. The Company generally derives these parameters from internally developed statistical models based on internally compiled data comprising quantitative and qualitative factors, as well as other historical data such as recovery rates of claims against defaulted counterparties.

ECL are a probability-weighted estimate of credit losses, measured as follows:

- For financial assets that are not credit-impaired (stage 1 and 2) at the reporting date, the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- For financial assets that are credit-impaired (stage 3) at the reporting date, the difference

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

- between the gross carrying amount and the present value of estimated future cash flows;
- For undrawn loan commitments, the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn upon and the cash flows that the Company expects to receive; and
 - For financial guarantee contracts, the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Definition of credit-impaired

The definition of credit-impaired for ECL under IFRS 9 includes defaulted exposures as defined by Article 178 of the CRR and Non-Performing Exposures.

As a result, the Company considers a financial asset to be credit impaired and stage 3 when:

- Material exposures are more than 90 days past-due and / or;
- The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

In assessing whether an exposure is credit impaired, the Company considers qualitative indicators such as breaches of covenants, as well as quantitative indicators such as overdue status and non-payment on other obligations of the same issuer.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

For financial assets measured at amortised cost, the loss allowance for ECL is presented as a deduction from the gross carrying amount of the assets. For loan commitments and financial guarantee contracts, the loss allowance is presented as a provision within other liabilities.

For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position as the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, with a corresponding charge to profit or loss.

An impairment gain or loss is recognised in the income statement at the amount of expected credit losses (or reversals) that is required to adjust the loss allowance to the amount required at the balance sheet date.

Write offs

Loans and debt securities are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. Any charge off and recoveries are recognised as a reduction (or increase) in the ECL allowance.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.19 CURRENT AND DEFERRED TAXATION

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

Current tax, including Irish corporation tax and foreign taxes, is provided for at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and is measured at the average tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised over the Company's planning horizon.

1.20 SECURITIES FINANCING TRANSACTIONS

Resale agreements are accounted for as secured financing transactions. Resale agreements are recorded at amortised cost, being their contractual amounts plus accrued interest, or mandatorily at FVPL, as a result of the business model assessment under IFRS 9. Resale agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency. Contractual interest coupon on resale agreements at amortised cost are recorded as interest income. Where resale agreements are recorded at FVPL, interest is included with changes in the fair value of resale agreements and presented in net income or expense from other financial instruments at FVPL.

The Company's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

Securities financing transactions give rise to negligible credit risk as a result of these collateral provisions. These instruments therefore are managed based on market risk rather than credit risk.

All resale activities are transacted under master agreements that give the Company the right, in the event of default of the counterparty, to liquidate collateral held and to offset receivables and payables with the same counterparty.

Securities received under resale agreements are not recognised in the statement of financial position as the risks and rewards of ownership are not obtained from the counterparty.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.21 OFFSETTING

Where the Company has the legal right to net settle and intends to do so (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously, the balance included within the financial statements is the net balance due to or from the counterparty.

Central clearing counterparties ("CCP") are individually assessed to identify if net settlement criteria are met. Where this is achieved, assets and liabilities facing the CCP are offset.

1.22 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

Modifications to the terms of financial assets and liabilities may result in derecognition if it is deemed that the modification results in an expiry of the contractual rights and obligations of the original instrument, see note 1.26 for further details.

1.23 TRADE AND SETTLEMENT DATED TRANSACTIONS

In general, funding financial instruments (e.g. loans and deposits) are recognised and derecognised on the statement of financial position on a settlement date basis and trading instruments (e.g. debt securities, derivatives) are recognised and derecognised on a trade date basis. Traded loans are recognised and derecognised on a settlement date basis.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.24 SHARE BASED PAYMENTS

BAC grants equity based payment awards to employees of the Company under various incentive schemes.

For most awards, expense is generally recognised proportionately over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, the Company accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, the Company recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

As this is a group share based payment arrangement, all awards are treated by the Company as equity settled share based payment plans and are measured based on the fair value of those awards at grant date.

The fair value determined at the grant date is expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. The Company has entered into a chargeback agreement with BAC under which it is committed to pay BAC the market value at grant date as well as subsequent movements in fair value of those awards to BAC at the time of delivery to its employees. The share based payment transaction and chargeback agreement creates a total charge to the profit and loss based on the grant date fair value of the awards adjusted for subsequent movements in the fair value of those awards prior to delivery. This is recorded in service fee income or service fee expense.

1.25 FINANCIAL GUARANTEES AND COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee, and the amount determined in accordance with the ECL model as detailed in note 1.18.

Loan commitments that the Company designates as financial liabilities at fair value through profit or loss are recognised as disclosed in note 1.16.

Other loan commitments provided by the Company are measured as the amount of the loss allowance calculated in accordance with note 1.18. The Company has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

Amounts recognised for financial guarantees and loan commitments are included within other liabilities.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES (CONTINUED)

1.26 MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

If the terms of a financial asset or financial liability are modified, the Company evaluates whether the new terms of the modified instrument are substantially different to the original terms. If the new terms are substantially different, then the original instrument is derecognised and a new instrument, based on the modified terms, is recognised at fair value. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

If the contractual terms of the modified asset or liability carried at amortised cost are not substantially different, then the modification does not result in derecognition. Instead the Company recalculates the gross carrying amount of the financial instrument based on the revised cash flows of the financial instrument and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

If such a modification of a financial asset is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases it is presented as interest income.

Where modification does result in derecognition, the date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining where a significant increase in credit risk has occurred.

A restructure can be considered substantial on a qualitative or quantitative basis.

1.27 RECOGNITION OF DAY ONE PROFIT AND LOSS

Evidence of 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 is based on a valuation technique whose variables include only data from observable markets.

The Company has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. The difference between the transaction price and the model valuation, commonly referred to as "day one profit or loss", is not recognised immediately in the income statement.

The timing of recognition of deferred day one profit or loss is determined individually and is either deferred until the instrument's fair value can be determined using market observable inputs or realised through disposal or settlement. Day one profit or loss is deferred on level 3 trades and a minimum threshold is applied per trade which on an aggregate basis is immaterial to the Company. See note 44 for further detail on the amount of the Company's deferred day one profit or loss.

The financial instrument is subsequently measured at fair value. Subsequent changes in fair value are recognised immediately in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRS 101 requires the use of accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates

(a) Impairment of financial instruments

The Company's accounting policy for losses in relation to the impairment of financial instruments is described in note 1.18. The measurement of the expected credit loss allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and customer behaviour. An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is provided in note 16, which also sets out the key sensitivities of the ECL to changes in these elements.

In applying the accounting requirements for calculating impairment, the Company has made significant judgements such as in relation to establishing groups of similar financial assets for the purposes of measuring ECL, and establishing the number and relative weightings for forward looking scenarios used in the calculation.

As part of the staging assessment required under IFRS 9, the Company applies judgement in establishing criteria for determining whether the risk of default on a financial instrument has increased significantly since initial recognition, considering reasonable and supportable information that is relevant and available without undue cost or effort.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Note 16 provides additional detail on the Company's approach to determining significant increase in credit risk.

(b) Valuation of financial instruments

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

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions. See note 44 for further detail on the Company's approach to valuation of financial instruments.

(c) Pensions

The Company has an obligation to pay pension benefits to certain employees and former employees of the BAC group. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management utilises the valuation provided by actuaries and estimates these factors in

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

determining the net pension obligation or surplus in the statement of financial position. The assumptions reflect historical experience and current trends. See note 35 Retirement benefit obligations for further information concerning the pension benefits.

Judgements

Classification of financial assets

The classification of financial assets is based on an assessment of the business model within which the assets are held. The Company follows the guidance of IFRS 9 in determining whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. In some cases this determination requires significant judgement, for example when grouping portfolios of assets managed under the same business model or when assessing the impact of contractual terms for contractually linked instruments.

In order to perform the business model assessment, the Company evaluates, among other factors, the strategy of the business and types of management information used to measure performance of the portfolio as well as information regarding sales from the portfolio. Contractual cash flow information is considered by reviewing transaction and structure documentation in conjunction with line of business experts to ensure that relevant terms are analysed. See accounting policy note 1.15 for further details regarding classification of financial assets.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

3. SEGMENTAL ANALYSIS

The Company operates two principal activities comprising, the provision of financial services within the Global Banking and Global Markets business and the provision of Support Services to affiliates. The results of these activities are set out below.

	Global Banking and Global Markets \$M	Support Services \$M	Total \$M
2021			
Net interest income	404	-	404
Net fee and commission income	458	-	458
Net trading income	265	-	265
Net income from other financial instruments at FVPL	51	-	51
Other operating income	594	220	814
Total operating income before expenses and impairment	1,772	220	1,992
Total operating expenses	(1,040)	(203)	(1,243)
Profit before taxation	732	17	749

	Global Banking and Global Markets \$M	Support Services \$M	Total \$M
2020			
Net interest income	441	-	441
Net fee and commission income	364	-	364
Net trading income	168	-	168
Net expense from other financial instruments at FVPL	(6)	-	(6)
Other operating income	446	348	794
Total operating income before expenses and impairment	1,413	348	1,761
Total operating expenses	(1,379)	(324)	(1,703)
Profit before taxation	34	24	58

Support Services activities do not represent a significant proportion of the Company's assets and liabilities, being primarily driven by support costs incurred and recharged to affiliated companies. As such a breakdown of net assets between the principal activities is not considered necessary.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

3. SEGMENTAL ANALYSIS (CONTINUED)

The below table shows a disaggregation of revenues within the scope of IFRS 15 for each of the principal activities. For further detail on investment banking fees, see note 5. Service fees are included within other operating income, see note 7.

	Global Banking and Global Markets \$M	Support services \$M	Total \$M
2021			
Investment banking fees	237	-	237
Other fee and commission income	285	-	285
Service fee income	508	220	728
	<u>1,030</u>	<u>220</u>	<u>1,250</u>

	Global Banking and Global Markets \$M	Support services \$M	Total \$M
2020			
Investment banking fees	231	-	231
Other fee and commission income	174	-	174
Service fee income	361	348	709
	<u>766</u>	<u>348</u>	<u>1,114</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

3. SEGMENTAL ANALYSIS (CONTINUED)

Discontinued operations

On 1 April 2021, the Company transferred six components of its Support Services business, including elements of Finance, Risk and Treasury, to the London branch of BANA. A total of 708 employees, representing sub-groups within the aforementioned departments, were transferred to the London branch of BANA as part of this reorganisation.

Income and expenses are recognised in the income statement in the current and prior years in relation to the transferred components and are separately disclosed as discontinued operations here in accordance with requirements of IFRS 5:

	2021 \$M	2020 \$M
DISCONTINUED OPERATIONS		
Other operating income	39	140
Administrative expenses	(36)	(130)
	<hr/>	<hr/>
Profit before tax	3	10
Tax on profit	(1)	(3)
	<hr/>	<hr/>
Profit on discontinued operations	<u>2</u>	<u>7</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

4. NET INTEREST INCOME

	2021 \$M	2020 \$M
Loans and advances to customers and banks	432	570
Debt instruments at FVOCI	1	3
Interest income on liabilities	142	96
Other	5	27
Interest receivable and similar income	580	696
Deposits by banks and customers	(26)	(110)
Subordinated debt	(50)	(66)
Interest expense on assets	(92)	(68)
Interest on lease liabilities	(8)	(11)
Interest payable and similar expense	(176)	(255)
Net interest income	404	441

	2021 \$M	2020 \$M
Amounts above include:		
Net interest income / (expense) due to affiliated companies	13	(68)

All amounts included within net interest income are calculated using the effective interest method.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

5. NET FEE AND COMMISSION INCOME

	2021 \$M	2020 \$M
Investment banking		
Financial advisory services	176	193
Loan syndication fees	61	38
Total investment banking fees	<u>237</u>	<u>231</u>
Other fee and commission income	285	174
Total fee and commission income	<u>522</u>	<u>405</u>
Fee and commission expense	(64)	(41)
Net fee and commission income	<u><u>458</u></u>	<u><u>364</u></u>

Other fee and commission income includes loan commitment fees of \$84 million (2020: \$82 million).

The net fee and commission income above includes income of \$461 million (2020: \$367 million) and expense of \$64 million (2020: \$41 million) relating to financial assets and liabilities not measured at FVPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

6. NET INCOME/(EXPENSE) FROM OTHER FINANCIAL INSTRUMENTS AT FVPL

The table below shows net income/(expense) from financial instruments measured at FVPL, other than those included in net trading income.

	2021 \$M	2020 \$M
Derivatives	(24)	(42)
Equity investments	-	3
Loans and advances	75	33
	<u>51</u>	<u>(6)</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

7. OTHER OPERATING INCOME

	2021 \$M	2020 \$M
Service fee income	728	709
Other	86	85
	<u>814</u>	<u>794</u>

8. ADMINISTRATIVE EXPENSES

	2021 \$M	2020 \$M
Staff costs (see note 11)	534	544
Professional fees	49	37
Taxes	54	52
Regulatory fees and levies	52	49
Occupancy related expenses	58	48
Other	61	61
	<u>808</u>	<u>791</u>

9. OTHER OPERATING EXPENSE

	2021 \$M	2020 \$M
Service fee expense	<u>511</u>	<u>398</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

10. AUDITORS' REMUNERATION

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

	2021 \$000	2020 \$000
Fees for the audit of the Company	1,422	1,509
Fees for audit related assurance services	15	24
	<u>1,437</u>	<u>1,533</u>

Audit related assurance service fees of \$15,000 (2020: \$24,000) relate to Country by Country Reporting.

11. STAFF COSTS

	2021 \$M	2020 \$M
Wages and salaries	446	463
Social security costs	61	49
Defined benefit and defined contribution pension scheme costs (see note 35)	27	32
	<u>534</u>	<u>544</u>

Included within wages and salaries are charges relating to share based compensation plans, see note 13 for further details.

The average monthly number of employees, including the directors, and contractors during the year was as follows:

	2021 No.	2020 No.
Support, operations and technology	1,918	2,454
Trading, sales and advisory	431	404
	<u>2,349</u>	<u>2,858</u>

The average monthly number of employees relating to support, operations and technology is lower for 2021 as a result of the transfer of support services to the London branch of BANA on 1 April 2021.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

12. DIRECTORS' REMUNERATION

Of the directors that served during the year, 10 (2020: 9) were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company based on an estimated time allocation basis.

	2021 \$'000	2020 \$'000
Non-executive directors fees	785	773
Emoluments	4,745	10,216
Pension contributions	14	39
	<u>5,544</u>	<u>11,028</u>

13. SHARE BASED PAYMENTS

BAC administers a number of equity compensation plans, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, BAC grants stock-based awards, restricted stock and restricted stock units ("RSUs").

On April 20, 2021, BAC shareholders approved the amendment and restatement of the KEEP, changing its name to the "Bank of America Corporation Equity Plan".

An RSU is deemed equivalent in fair market value to one share of BAC common stock. In 2021 the RSUs are authorised to settle predominantly in shares of common stock of BAC which generally vest in three or four equal annual instalments beginning one year from the grant date. Recipients of RSU awards may receive cash payments equivalent to dividends.

For most awards, expense is generally recognised proportionately over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, the company accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, the company recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

Certain awards contain claw back provisions which permit BAC to cancel all or a portion of the award under specified circumstances.

The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for the year to 31 December 2021 was \$61 million (2020: \$36 million).

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

14. TAXATION

	2021 \$M	2020 \$M
Current tax		
Foreign tax	135	(86)
Total current tax	135	(86)
Deferred tax		
Origination and reversal of timing differences (see note 26)	8	(71)
Impact of change in foreign branch tax rate	(5)	-
Total deferred tax	3	(71)
Income tax expense/(credit)	138	(157)

The tax on the Company's profit before tax differs from the amount that would arise using the tax rate applicable as follows:

	2021 \$M	2020 \$M
Profit before tax	749	58
Tax calculated at Irish tax rates applicable of 12.50%	94	7
Tax effects of:		
Expenses not deductible for tax purposes	-	18
Impact of foreign taxes	46	(86)
Recognition/derecognition of previously recognised losses	3	(97)
Other temporary differences leading to an increase in taxation	-	1
Impact of change in foreign branch tax rate	(5)	-
Total tax charge/(credit) for the year	138	(157)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

14. TAXATION (CONTINUED)**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

The deferred tax asset is recognised on the basis of estimated future taxable profits over the Company's planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset at 31 December 2021 of \$95 million (2020: \$98 million), see note 26.

The Company has unrecognised deferred tax assets as at 31 December 2021 totalling \$294 million (2020: \$341 million), primarily in relation to losses.

15. CASH HELD AT CENTRAL BANKS

	2021	2020
	\$M	\$M
Balances with central banks other than mandatory reserve deposits	14,937	12,689
Mandatory reserve deposits with central banks	553	387
	<u>15,490</u>	<u>13,076</u>

Mandatory reserve deposits with central banks are not available for use in the Company's day-to-day operations.

16. PROVISION FOR LOAN LOSS*Measurement of ECL*

When assessing the PD for loans classified as stage 1 the projection looks forward no more than 12 months.

When assessing the PD for loans classified as stage 2 and 3 the Company consider the risk of default over the maximum contractual period (including any borrower's extension options) over which the Company is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or to terminate a loan commitment or guarantee.

In order to calculate lifetime ECL for loans classified as Stage 2 or Stage 3, the Company uses existing forecast horizon followed by extrapolation to cover the lifetime of the financial asset.

Incorporation of forward-looking information

The Company incorporates forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This includes various estimates and assumptions, some of which require judgement. One use of judgement in the process is weighting forward-looking macroeconomic scenarios used within statistical models. While the Company generally relies on consensus estimates, any one economic outlook path is inherently uncertain, and as such the Company uses multiple macroeconomic scenarios in its ECL calculation. For example, starting in 2020, the scenarios incorporated a range of potential impacts including potential impacts of the pandemic and, beginning in the second quarter in 2021, an additional scenario was added to account for inflationary risk and higher interest rates.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

16. PROVISION FOR LOAN LOSS (CONTINUED)

As at 31 December 2021 five scenarios were used. These included:

- a baseline scenario in line with consensus estimates;
- two downside scenarios which assume a significantly longer period until economic recovery and risk of rising inflation;
- a tail risk scenario similar to the severely adverse scenario used in stress testing by the Company; and
- an upside scenario to reflect the potential for continued improvement in the consensus outlooks.

Scenario weightings at 31 December 2021 continue to predominantly reflect the baseline scenario, with additional weighting towards a downside scenario which assumes a slower pace of macroeconomic recovery. The other three scenarios have less significant weighting.

These scenarios include key macroeconomic variables that have historically been drivers of increases and decreases in credit losses. These variables include, but are not limited to, unemployment rate, GDP levels and corporate bond spreads. As 31 December 2021, the weighted economic outlook assumes that the UK unemployment rate and EU Developed Market High Yield at the end of 2022 would be around 5.3% and 8.2% respectively. Additionally, in this economic outlook, UK, Germany and France GDP return to pre-pandemic levels by the end of 2022. The below table summarises the range of some of the macroeconomic inputs utilised within the model across the Company's chosen scenarios:

Macroeconomic Variables	Baseline scenario	Range across scenario		
	2022	2022	2023	2024
UK Unemployment %	4.5	4.4 - 7.9	4.1 - 7.6	3.8 - 6.6
UK Real GDP %	3.6	(1.2) - 4.8	(0.3) - 2.6	0.4 - 2.0
FR Real GDP %	3.3	(2.9) - 4.2	0.3 - 2.2	0.6 - 1.7
GE Real GDP %	4.0	(5.0) - 5.3	(0.7) - 2.0	(0.3) - 1.2
EU Developed Market High Yield Spread %	4.3	3.5 - 18.1	4.4 - 14.2	5.0 - 7.8

Further information is provided below to illustrate how changes in macroeconomic assumptions could impact our modelled ECLs. However, it is not intended to forecast how our allowance for credit losses is expected to change in a different macroeconomic outlook. As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Considering the variety of factors contemplated when developing and weighting macroeconomic outlooks such as recent economic events, leading economic indicators, views of internal and third-party economists and industry trends, in addition to other qualitative factors, the company believes the allowance for credit losses at 31 December 2021 reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit risk ratings

In addition to the above judgements and estimates around macroeconomic expectations, the allowance for credit losses can also be impacted by changes in asset quality of the portfolio, such as increases or decrease in credit and / or internal risk ratings within the portfolio. As the macroeconomic outlook improved in 2021, along with improvements in asset quality, the allowance for credit losses decreased to \$232 million (2020: \$401 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

16. PROVISION FOR LOAN LOSS (CONTINUED)

As part of its risk management process, the Company assigns numeric risk ratings to its corporate loan facilities based on quantitative and qualitative assessments of the obligor and facility. These risk ratings are reviewed at least annually or more often if material events have occurred related to the obligor or facility.

Credit risk ratings are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk rating. The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining a significant increase in credit risk

For a loan to qualify to be treated for lifetime losses (as Stage 2 or 3 under IFRS 9) it must be credit impaired (stage 3) or have experienced a significant increase in credit risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company compares the remaining lifetime PD as at the reporting date with the remaining lifetime PD for this point in time as estimated at the time of initial recognition of the exposure adjusted as relevant for changes in prepayment expectations. The Company calculates the remaining lifetime PD using the same methodology, obligor level data elements, and forecasted macroeconomic scenarios and scenario weights used to calculate ECL. The Company has established thresholds based on both absolute and relative change in PD, leveraging internal credit risk officers' definition of significant credit deterioration. In addition to quantitative review of PD and risk rating changes, qualitative factors aligned to internal credit risk officers' view of risk management are considered, including the overall risk rating of the obligor in periods subsequent to origination. Further, the Company applies the presumption based on delinquency, such that instruments which are more than 30 days past due should be considered to have a significant increase in credit risk. Financial instruments that have been determined to have a significant increase in credit risk are subsequently reviewed in line with rating timelines to identify whether there has been an improvement of credit quality in the underlying instrument.

Impact of COVID-19

There has been no significant impact on the Company's ECL resulting specifically from the granting of relief measures to clients in the context of COVID-19. However COVID-19 has had an impact on the macro-economic environment in which the company and its clients operate and as such has had a significant bearing on the way in which the forward looking information has been incorporated into the measurement of ECL as set out above.

Since the onset of the pandemic, the negative economic conditions and disruptions arising from it have adversely impacted our financial results to varying degrees and in various respects, including as a result of periods of increased allowance and provision for credit losses. The pandemic's impact on economic conditions remains uncertain and will continue to evolve by region, including a potential downturn in the event of the emergence of new or evolving variants of COVID-19. In recent months, the global economy has experienced supply chain disruptions and labour shortages. As a result of pandemic developments, inflationary pressures have continued to increase globally.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

16. PROVISION FOR LOAN LOSS (CONTINUED)

The Company continues to closely monitor the pandemic and related risks as they evolve and place a high level of focus on the selection of scenarios and the amount of weighting given to each scenario, both of which are reviewed on a quarterly basis. These selections depend on a variety of factors including recent economic events, leading economic indicators and views of internal and third-party economists and industry trends. The Company also includes qualitative reserves to cover losses that are expected but, in the Company's assessment, may not be adequately represented in the economic assumptions described above. For illustration, factors that the Company considers include, but are not limited to: changes in business conditions, asset quality, the nature and size of the portfolio, and portfolio concentrations. Further, the Company considers the inherent uncertainty in statistical models that are built on historical data.

Sensitivity

The calculation of the ECL allowance is dependent on a number of judgements and estimates as to the inputs and assumptions inherent in the model. Variables around stage determination, scenario weighting, and other macroeconomic forecast assumptions are considered to have the most material impact on the ECL calculations for the Company's third party loan and lease population. Review of the assumptions is integrated into the Company's risk and governance processes. As part of these governance processes, the Company has adopted a framework to assess certain risks that may not be fully captured in the modelled ECL computation. These factor into the ECL an estimated impact from higher-risk segments that includes leveraged loans, country of risk and industries such as travel and entertainment, which have been adversely impacted by the effects of COVID-19. In addition, the Company considers the potential for further losses from large single-name 'fallen angel' exposures. The results of this assessment are then overlaid to the modelled output to result in the overall ECL provision. Total judgemental overlays at 31 December 2021 amounted to \$123 million (2020: \$113 million). Included in the judgemental overlays are post model adjustments which represent 21% and 12% of the total ECL for risk of failure of significant single name exposures ("fallen angels") and leveraged loans respectively.

Whilst overlays to the modelled output are intended to ensure that the Company has appropriately captured the risks from which credit losses may be expected to arise, the ECL provision remains sensitive to changes in the model assumptions. To provide an illustration of the sensitivity of the macroeconomic scenarios and other assumptions on the estimate of our allowance for credit losses, the Company assessed modelled ECL changes driven by stage and scenarios, shown below:

- In relation to stage determination, calculating ECL for all loans on a 12-month basis would reduce the allowance by approximately \$46 million (2020: \$64 million), whereas moving all loans to the lifetime loss horizon (stage 2 or 3) would increase the ECL allowance by approximately \$87 million (2020: \$88 million).
- Running staging and ECL calculations using only upside scenario would reduce the ECL allowance by approximately \$64 million (2020: \$78 million), whereas using only the rising inflation scenario (a new scenario for 2021) would increase ECL allowance by approximately \$113 million.
- The ECL allowance would increase by \$221 million (2020: \$597 million) if the most severe macroeconomic scenario was weighted to 100% probability.

While the sensitivity analysis may be useful to understand how changes in macroeconomic assumptions could impact our modelled ECLs, it is not meant to forecast how our allowance for credit losses is expected to change in a different macroeconomic outlook. Importantly, the above sensitivities do not incorporate a variety of factors, including qualitative reserves and the weighting of alternate scenarios, which could have offsetting effects on the estimate. For example, qualitative reserves are determined based on a number of risk factors not reflected in the modelled results and could increase or decrease depending on methodological or scenario weighting inputs.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

16. PROVISION FOR LOAN LOSS (CONTINUED)

Collective based and other loss allowance assessment

The primary credit exposures of the Company falling within the impairment provisions of IFRS 9 relate to the Company's portfolio of loans and advances to third party customers and banks, as well as its third party loan commitments. Loss allowances for these financial instruments are modelled on an instrument by instrument basis, determining the relevant PD, LGD and EAD using statistical data as described above and throughout this note.

For other financial instruments the Company assesses the ECL on either a collective or an individual basis using a reduced complexity calculation, whilst still incorporating, where relevant, quantitative historical loss experience data and forward looking information as well as qualitative information as to the nature of risks inherent in the instruments. In the case of the Company's reverse repurchase agreement the majority of credit exposure is over collateralised, and the Company's customer and other receivables are typically short dated. The Company's investment securities at FVOCI are held in high investment grade assets. As a result the PD, LGD, or both are such that the resulting ECL is not significant to the Company. Actual amounts written off during the year on these other financial instruments are also not significant to the Company. In light of this, separate disclosure of ECL allowance or amounts written off on these instruments is not considered necessary in the financial statements.

Reconciliation of loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. An explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired is included within the accounting policy note 1.18.

Loans and advances to banks

	12 month ECL	Lifetime ECL Not- credit impaired loans	Total
	\$M	\$M	\$M
As at 1 January 2021	2	3	5
New financial assets originated or purchased	2	1	3
Financial assets derecognised during the year (not written off)	(1)	(1)	(2)
As at 31 December 2021	<u>3</u>	<u>3</u>	<u>6</u>

	12 month ECL	Lifetime ECL Not-credit impaired loans	Total
	\$M	\$M	\$M
As at 1 January 2020	3	-	3
New financial assets originated or purchased	1	-	1
Transfers to lifetime ECLs – not credit impaired loans	(3)	3	-
Net changes in credit risk	1	-	1
As at 31 December 2020	<u>2</u>	<u>3</u>	<u>5</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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16. PROVISION FOR LOAN LOSS (CONTINUED)

Loans and advances to customers

	12 month ECL	Lifetime ECLs Not credit- impaired loans	Lifetime ECLs Credit- impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2021	42	122	65	229
Transfers to 12 month ECLs	13	(13)	-	-
Transfers to lifetime ECLs - not credit-impaired loans	(4)	7	(3)	-
Transfers to lifetime ECLs - credit impaired loans	-	(23)	23	-
New financial assets originated or purchased	14	12	13	39
Net changes in credit risk	(19)	13	(8)	(14)
Changes to model assumptions and methodologies	(2)	(3)	(2)	(7)
Amounts written off	-	-	(9)	(9)
Financial assets derecognised during the year (not written off)	(13)	(72)	(41)	(126)
Exchange and other adjustments	1	1	2	4
As at 31 December 2021	32	44	40	116
	12 month ECL	Lifetime ECLs Not credit- impaired loans	Lifetime ECLs Credit- impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2020	37	24	27	88
Transfers to 12 month ECLs	9	(9)	-	-
Transfers to lifetime ECLs – not credit impaired loans	(19)	25	(6)	-
Transfers to lifetime ECLs – credit impaired loans	-	(29)	29	-
New financial assets originated or purchased	32	59	25	116
Net changes in credit risk	(6)	66	244	304
Changes to model assumptions and methodologies	19	30	7	56
Amounts written off	-	-	(188)	(188)
Financial assets derecognised during the year (not written off)	(30)	(44)	(73)	(147)
As at 31 December 2020	42	122	65	229

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

16. PROVISION FOR LOAN LOSS (CONTINUED)

Guarantees and commitments

	12 month ECL	Lifetime ECLs Not credit- impaired loans	Lifetime ECLs Credit- impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2021	63	95	9	167
Transfers to 12 month ECLs	37	(37)	-	-
Transfers to lifetime ECLs - not credit-impaired loans	(12)	14	(2)	-
Transfers to lifetime ECLs - credit impaired loans	(1)	(6)	7	-
New guarantees / commitments originated or purchased	46	32	6	84
Net changes in credit risk	(41)	(2)	(2)	(45)
Changes to model assumptions and methodologies	(2)	(5)	(1)	(8)
Financial assets derecognised during the year (not written off)	(46)	(38)	(5)	(89)
Exchange and other adjustments	-	1	-	1
As at 31 December 2021	44	54	12	110

	12 month ECL	Lifetime ECLs Not credit- impaired loans	Lifetime ECLs Credit- impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2020	28	22	11	61
Transfers to 12 month ECLs	6	(6)	-	-
Transfers to lifetime ECLs – not credit impaired loans	(23)	23	-	-
Transfers to lifetime ECLs – credit impaired loans	-	(1)	1	-
New guarantees / commitments originated or purchased	83	50	20	153
Net changes in credit risk	(2)	(5)	3	(4)
Changes to model assumptions and methodologies	17	43	1	61
Guarantees/commitments derecognised during the year (not written off)	(46)	(31)	(27)	(104)
As at 31 December 2020	63	95	9	167

As at 31 December 2021, credit impaired loans include Purchased or Originated Credit Impaired ("POCI") loans with loss allowance of \$17 million based on gross carrying amount of \$431 million. There were no POCI assets as at 31 December 2020.

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**NOTES TO THE FINANCIAL STATEMENTS
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16. PROVISION FOR LOAN LOSS (CONTINUED)

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement activity is \$8 million (2020: \$61 million).

Impact to the loss allowance of significant changes in the gross carrying amount

During the year the gross carrying amount on 3rd party loans and advances impacting the loss allowance decreased by \$1 billion reflecting customer net pay downs on loan facilities. Loans identified as stage 2 decreased by approximately \$3 billion and loans identified as stage 1 loans increased by \$2 billion reflecting positive economic outlook and portfolio performance. However, loan volumes in stage 3 remained largely consistent during the year.

ECL on the gross carrying amount reduced by \$87 million on stage 1 and stage 2 positions, this reduction was partly the result of the improvements in asset quality but primarily due to the improved macro economic outlook. ECL on stage 3 positions reduced by \$25 million primarily driven by in the improvement in the macro-economic environment.

The overall allowance (including ECL on off-balance sheet guarantees and commitments) decreased from an amount of \$401 million as at 31 December 2020 to \$232 million as at 31 December 2021.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 1.26. Where the modification does not result in derecognition of the financial asset, the gross carrying value of the asset is recalculated and the difference is recognised as a modification gain or loss. The total impact of loan modifications for the year was \$1 million increase in the carrying amount of the loans modified (2020: \$2 million). The total amortised cost of loans pre-modification gross of loan loss provisions totalled \$43 million (2020: \$136 million).

For further information on the Company's exposure to and management of credit risk, see note 42.

17. LOANS AND ADVANCES TO BANKS

	2021 \$M	2020 \$M
Gross carrying amount of loans and advances to banks at amortised cost	9,408	8,465
Allowance for impairment (see note 16)	(6)	(5)
	<u>9,402</u>	<u>8,460</u>
Loans and advances to banks at FVPL	391	790
Total loans and advances to banks	<u>9,793</u>	<u>9,250</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. LOANS AND ADVANCES TO BANKS (CONTINUED)

	2021 \$M	2020 \$M
Analysed by maturity		
On demand	1,311	722
Within three months	7,212	6,631
Between three months and one year	432	810
Between one year and five years	844	702
After more than five years	-	390
	<u>9,799</u>	<u>9,255</u>
Allowance for impairment	(6)	(5)
Total loans and advances to banks	<u><u>9,793</u></u>	<u><u>9,250</u></u>
Amounts above include:		
Due from affiliated companies	<u>7,471</u>	<u>6,786</u>

Included within loans and advances to banks at FVPL is an amount of \$391 million (2020: \$390 million) relating to deposits held as part of certain derivative sinking fund transactions, and are not available for use in the Company's day-to-day operations.

18. LOANS AND ADVANCES TO CUSTOMERS

	2021 \$M	2020 \$M
Gross carrying amount of loans and advances to customers at amortised cost	23,922	24,049
Allowance for impairment (see note 16)	(116)	(229)
	<u>23,806</u>	<u>23,820</u>
Loans and advances to customers at FVPL	3,257	2,450
Total loans and advances to customers	<u><u>27,063</u></u>	<u><u>26,270</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)	2021 \$M	2020 \$M
Analysed by maturity		
On demand	256	313
Within three months	1,608	1,253
Between three months and one year	3,891	2,053
Between one year and five years	14,422	17,553
More than five years	7,002	5,327
	<u>27,179</u>	<u>26,499</u>
Allowance for impairment	(116)	(229)
Total loans and advances to customers	<u><u>27,063</u></u>	<u><u>26,270</u></u>

Loans and advances to customers includes \$27 million (2020: \$38 million) of finance lease receivables. See note 24 for further details regarding these finance leases.

19. REVERSE REPURCHASE AGREEMENTS

	2021 \$M	2020 \$M
Analysed by maturity		
On demand	8,250	8,000
Within three months	113	-
Between three months and one year	674	-
	<u>9,037</u>	<u>8,000</u>

Reverse repurchase agreements includes \$8,250 million (2020: \$8,000 million) held with an affiliated company at amortised cost and are repayable on demand. Amounts repayable within three months and between three months and one year are due from a third party and are measured at FVPL.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. MARKET AND CLIENT RECEIVABLES

	2021 \$M	2020 \$M
On demand	1,025	2,428

Market and client receivables relate to cash collateral and trades pending settlement, and are considered by the Company to be repayable on demand. Due to short term contractual nature of the receivable balances, credit losses are not probable/expected due to minimal credit involved.

21. TRADING ASSETS

	2021 \$M	2020 \$M
Government debt securities	289	311
Traded loans	1,275	1,182
Other debt securities	70	37
	<u>1,634</u>	<u>1,530</u>

	2021 \$M	2020 \$M
Analysed by maturity		
Within three months	97	55
Between three months and one year	79	96
Between one year and five years	728	500
More than five years	730	879
	<u>1,634</u>	<u>1,530</u>

Distressed debt assets included in the above are presented according to their contractual maturity. Where the contractual maturity date has passed, or the resulting claim is otherwise to be settled at an uncertain date in the future, the balance has been presented as due within three months amounting to \$69 million.

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**NOTES TO THE FINANCIAL STATEMENTS
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22. INVESTMENT SECURITIES

	2021 \$M	2020 \$M
Debt instruments held at FVOCI	623	2,073
Equity instruments held at FVPL	48	48
	671	2,121
	2021 \$M	2020 \$M
Analysed by maturity		
Equity instruments	48	48
Within three months	459	1,716
Between three months and one year	164	357
	671	2,121

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

23. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$M	Office equipment \$M	Total \$M
COST OR VALUATION			
At 1 January 2021	176	36	212
Additions	13	9	22
Disposals	(2)	(1)	(3)
Exchange differences	(3)	(2)	(5)
At 31 December 2021	184	42	226
DEPRECIATION			
At 1 January 2021	95	18	113
Charge for the year	20	4	24
Disposals	(3)	-	(3)
Exchange differences	(1)	(1)	(2)
At 31 December 2021	111	21	132
NET BOOK VALUE			
At 31 December 2021	73	21	94
At 31 December 2020	81	18	99

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold improvements \$M	Office equipment \$M	Total \$M
COST OR VALUATION			
At 1 January 2020	195	46	241
Additions	16	4	20
Transfers intra group	2	-	2
Disposals	(42)	(16)	(58)
Exchange differences	5	2	7
At 31 December 2020	176	36	212
DEPRECIATION			
At 1 January 2020	118	28	146
Charge for the year	16	4	20
Transfers intra group	2	-	2
Disposals	(42)	(15)	(57)
Exchange differences	1	1	2
At 31 December 2020	95	18	113
NET BOOK VALUE			
At 31 December 2020	81	18	99
At 31 December 2019	77	18	95

Intra group transfers during 2020 included fixed assets acquired from an affiliated entity as part of the establishment of the Company's branch in Athens, Greece.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. LEASES**Lessor arrangements**

The Company's lessor arrangements consist of finance leases for equipment and machinery. Lease agreements may include options to renew or for the lessee to purchase the leased item at the end of the lease term.

For the year ended 31 December 2021, total lease income was \$1 million (2020: \$1 million), which relates to finance income on the net investment in finance leases.

The following table sets out the maturity analysis of the Company's finance lease receivables:

	2021 \$M	2020 \$M
Less than one year	10	12
One to two years	10	10
Two to three years	4	10
Three to four years	2	3
Four to five years	1	2
More than five years	-	1
	<u>27</u>	<u>38</u>
Discounted unguaranteed residual value	-	-
Unearned finance income	-	-
Net investment in lease	<u>27</u>	<u>38</u>

The Company's finance leases include agreements where the finance income is based on floating rates of interest. For these agreements, the amounts included above represent the fixed principal repayments only.

Lessee arrangements

The Company's lessee arrangements consist of leases for premises. Lease terms may contain renewal and extension options and early termination features. Generally, these options do not impact the lease term because the Company is not reasonably certain that it will exercise the options. The weighted-average lease term was 7.5 years at 31 December 2021 (2020: 7.9 years).

	2021 \$M	2020 \$M
Carrying amount as at 1 January	465	488
Carrying amount at 31 December	<u>417</u>	<u>465</u>

Additions to the right-of-use assets during the year totalled \$4 million (2020: \$34 million).

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

24. LEASES (CONTINUED)

Lease liabilities

	2021 \$M	2020 \$M
Maturity analysis – contractual undiscounted cash flows		
Less than one year	35	66
One to five years	210	187
More than five years	216	304
	<u>461</u>	<u>557</u>
	2021 \$M	2020 \$M
Lease liabilities included in the statement of financial position		
Current	31	57
Non - current	399	436
Total lease liability (see note 31)	<u>430</u>	<u>493</u>
	2021 \$M	2020 \$M
Amounts recognised in profit or loss		
Interest on lease liabilities	8	11
Amortisation charge for the year	52	55
Variable lease payments not included in the measurement of lease liabilities	<u>15</u>	<u>14</u>

Variable lease costs primarily relate to business rates payable as part of the Company's leasing arrangements. The total cash outflow for leases during the year was \$65 million (2020: \$73 million).

During the year, terms on one of the Company's reversionary leases of UK property were revised, including a reduction in the leased space. Undiscounted lease rentals payable on the lease were reduced by \$39 million. The incremental borrowing rate for the lease was also updated as part of the modification, such that the overall impact to the right of use asset and discounted lease liability was not significant.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

25. OTHER ASSETS

	2021 \$M	2020 \$M
Amounts owed by group undertakings	146	206
Deferred tax (see note 26)	95	98
Taxation	147	140
Prepayments	4	4
Other	212	254
	<u>604</u>	<u>702</u>

Amounts owed by group undertakings are repayable on demand. The other category primarily relates to amounts receivable in the process of settlement.

26. DEFERRED TAXATION

	2021 \$M	2020 \$M
At 1 January	98	2
(Charged)/credited to profit or loss (see note 14)	(8)	71
Impact of change in foreign branch tax rate	5	-
Transfer of assets from/to an affiliated company	-	25
At 31 December	<u>95</u>	<u>98</u>

The deferred tax asset is made up as follows:

	2021 \$M	2020 \$M
Accelerated capital allowances	43	29
Timing differences relating to compensation and social security costs	28	19
Losses	32	72
Goodwill	18	-
Timing differences in relation to capital gains	(2)	3
Timing differences in relation to the provision for loans	(24)	(25)
	<u>95</u>	<u>98</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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27. DEPOSITS BY BANKS

	2021 \$M	2020 \$M
Analysed by maturity		
On demand	972	552
Within three months	464	45
Between three months and one year	226	874
Between one year and five years	18,983	21,273
	<u>20,645</u>	<u>22,744</u>
Amounts above include:		
Due to affiliated companies	<u>20,485</u>	<u>22,570</u>

28. DEPOSITS BY CUSTOMERS

	2021 \$M	2020 \$M
Analysed by maturity:		
On demand	23,910	18,985
Between three months and one year	66	69
Between one year and five years	452	527
	<u>24,428</u>	<u>19,581</u>
Amounts above include:		
Due to affiliated companies	<u>1,228</u>	<u>959</u>

**NOTES TO THE FINANCIAL STATEMENTS
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29. DEBT SECURITIES

Debt securities consist entirely of Certificates of Deposit and are analysed by maturity below:

	2021 \$M	2020 \$M
Within three months	701	762
Between three months and one year	489	523
	<u>1,190</u>	<u>1,285</u>

30. MARKET AND CLIENT PAYABLES

	2021 \$M	2020 \$M
Analysed by maturity:		
On demand	<u>536</u>	<u>1,581</u>

Market and client payables relate to cash collateral and trades pending settlement. All amounts are due to third parties.

31. OTHER LIABILITIES

	2021 \$M	2020 \$M
Amounts owed to affiliated companies	169	302
Tax liabilities	45	11
Provisions (see note 32)	129	174
Lease liabilities (see note 24)	430	493
Trading liabilities (see note 44)	7	-
Other	480	558
	<u>1,260</u>	<u>1,538</u>

Amounts owed to affiliated companies are payable on demand. The other category primarily relates to amounts payable in the process of settlement.

Trading liabilities of \$7 million (2020: \$nil) consist of fair value of unfunded loans managed on a trading basis.

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**NOTES TO THE FINANCIAL STATEMENTS
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32. PROVISIONS

	2021 \$M	2020 \$M
Provision for loan loss - guaranties and commitments (see note 16)	110	167
Other provisions	19	7
	<u>129</u>	<u>174</u>

At 31 December 2021, the Company had the following provisions under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets reflected in other liabilities:

1. \$5 million (2020: \$7 million) to reflect a payment that is expected to be made to the UK tax authority, Her Majesty's Revenue and Customs ("HMRC") in respect of value added tax ("VAT") on Head Office expense allocations. The timing of the expected payment is not known at the current time. HMRC are conducting an industry-wide review of the VAT treatment of these services. The provision has been measured based on:

- the value of services that have specifically been queried by the tax authorities; and
- conclusions made from previous communication with those authorities.

The reduction from prior year is based on correspondence with HMRC in 2021. The principles governing the resolution of this issue have now been agreed with the HMRC team dealing with the enquiry and these are reflected in the revised tax reserve calculations.

2. \$14 million (2020: nil) to reflect a legal obligation to restore facilities to their original specification in advance of the planned exit from one of the Company's premises in December 2022. The provision has been measured based on:

- payment due to the landlord on hand back of lease; and
- estimated costs of works to restore premises to their original specification.

33. ACCRUALS

	2021 \$M	2020 \$M
Other accruals	<u>139</u>	<u>129</u>

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34. SUBORDINATED LIABILITIES

	2021 \$M	2020 \$M
US Dollar denominated loan notes maturing in 2027 and bearing interest at overnight SOFR Rate plus 202 basis points (2020: 3 month USD LIBOR plus 176 basis points)	1,000	1,000
US Dollar denominated loan notes maturing in 2028 and bearing interest at overnight SOFR Rate plus 159 basis points (2020: 3 month USD LIBOR plus 133 basis points)	1,000	1,000
US Dollar denominated internal MREL loan maturing in 2026 (2020: 2022) and bearing interest at SOFR Rate plus 77 basis points (2020: Federal Funds Rate plus 69 basis points)	2,000	2,000
	<u>4,000</u>	<u>4,000</u>

The Minimum requirements for own funds and eligible liabilities ("MREL") loan is subordinate to the claims of other creditors of the Company, with the exception of the other subordinated loans to which it ranks as senior. The MREL-eligible debt does not qualify as a tier 2 instrument for regulatory capital purposes.

All subordinated liabilities due are owed to affiliated companies.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

35. RETIREMENT BENEFIT OBLIGATIONS

The Company participates in a number of defined benefit and defined contribution pension schemes in the Republic of Ireland and Europe.

Defined contribution schemes

The main schemes are:

- The Bank of America UK Retirement Plan (formerly the Bank of America Merrill Lynch UK Pension Plan) ("the UK Plan") which is generally available to the employees of the London branch of BofA Europe. The principal employer of the UK Plan is Merrill Lynch International ("MLI").
- The Bank of America Ireland Pension Scheme (formerly the Bank of America Merrill Lynch Ireland Pension Scheme) ("the Ireland Plan") which is generally available to the employees of BofA Europe based in Ireland.

The costs of defined contribution pension schemes are a percentage of each employee's plan salary for the UK Plan based on the length of service. The employer pays between 8% and 12% of plan salary. The costs is a percentage of each employee's salary for the Ireland Plan and are based on member contributions and length of service. The employer contribution rates are between 6% and 15% of pensionable salary. The costs are charged to the income statement in the period in which they fall due.

The Company's pension cost for the year in respect of defined contribution schemes was \$27 million (2020: \$25 million).

Defined benefit schemes

The Company participates in defined benefit plans relating to former BAC group branches and legal entities. The plans consist of both funded and unfunded arrangements.

The main defined benefit obligations of the Company are in respect of German and Swiss employees. There are also defined benefit obligations relating to French, Dutch and Italian employees.

Defined benefit scheme - Switzerland

The Zurich Plan is a stand-alone pension foundation (the "Foundation") providing cash balance benefits in accordance with mandatory Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge / Loi Fédérale sur la Prévoyance Professionnelle Vieillesse, Survivants et Invalidité ("LPP/BVG") requirements. The retirement benefits are provided either as a lump sum at retirement, or as an annuity, and there are associated benefits on death or disability. The Foundation is governed by a Board, which is legally responsible for all aspects of the operation of the Foundation including overseeing the investments and the distribution of the benefits.

There is equal representation of Board members with half appointed by the employer and half elected by the membership. The participating employers in the Foundation consists of BofA Europe and other Swiss subsidiaries of the Bank of America Group and BofA Europe is the principal employer in Switzerland.

The employer contributions are generally made in accordance with the benefit formula (i.e. contribution credits) plus an allowance for death and disability benefit costs and administration costs but under the plan rules and affiliation agreement the employer is contractually obliged to pay additional deficit contributions in the case of underfunding. Total defined benefit employer contributions made in 2021 were \$1 million (2020: \$1 million).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

In respect of future funding:

All employers – Employer share of the retirement credits: equal to the total credits less the member contributions as specified in the Zurich Plan rules.

All employers – 5.2% of total risk insured salaries for risk, administration and other costs: 2.15% of total insured salaries for risk benefits in respect of the Foundation's risk insurance premium and an additional allowance for the administration and other costs of running the Zurich Plan.

Plan valuations under IAS19 are undertaken annually.

Defined benefit schemes – Germany

The plans are as follows:

ML International Bank Defined Pension Plan is sponsored by the London branch of BofA Europe. The plan relates to former German Global Wealth and Investment Management ("GWIM") employees.

ML Capital Markets Bank Defined Benefit Plan and the ML Capital Markets Bank Deferred Compensation Plan ("MLCMB DCP") are sponsored by the BofA Europe head office (for non-active members) and the Frankfurt branch of BofA Europe (for active employees).

ML Management GmbH DB Plan is sponsored by the Frankfurt branch of BofA Europe and consists of liabilities in respect of German employees following the dissolution of ML Management GmbH during 2016.

ML IM Defined Benefit Plan and ML IM DCP are sponsored by the Frankfurt Branch of BofA Europe. These plans relate to German former GWIM employees.

BofA Europe Pension Plan 1992 and BoA Europe DAC Pension Plan 1992 DCP are sponsored by the Frankfurt branch of BofA Europe. These plans are both unfunded and relate to active members in Germany.

The Company applies a Book-Reserve funding approach to all these Defined Benefit Plans, with the exception of the MLCMB DCP which is partially funded by insurance contracts. The Company is also legally obliged to contribute to the Pension Protection Association (Pensions-Sicherungs-Verein aG – PSVaG), which protects the members benefit promises from employer insolvency. These promises are the direct responsibility of the Company. There are no Trustees or other such plan board members.

The Company is consequently exposed to interest, inflation, disability and mortality risks, and must have the available cashflow to meet the benefits when they fall due in future.

Total defined benefit employer contributions made in 2021 were \$3 million (2020:\$3 million).

Plan valuations under IAS19 are undertaken annually.

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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)**Defined benefit schemes - Other**

The Other plans consist of a funded defined benefit pension arrangement in the Netherlands administered via an insurance contract held by the Company, an unfunded Termination Indemnity ("TFR") benefits in Italy and unfunded defined benefit pension arrangement in France.

Employer contributions in the Netherlands plan are equal to the ongoing insurance premiums and in the unfunded plans, are equal to the benefits due, which the employer pays directly. Total defined benefit employer contributions in respect of the other plans made in 2021 were \$1 million (2020: \$nil).

The below table shows the net pension liability on the statement of financial position and associated expense in the income statement.

	2021	2020
	\$M	\$M
Fair value of scheme assets	123	112
Present value of defined benefit obligations	(285)	(318)
Net pension liability on statement of financial position	(162)	(206)
Current service cost	5	5
Interest expense	1	2
Net defined benefit pension expense on income statement	6	7

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NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

	Present value of obligation Switzerland \$M	Present value of obligation Germany \$M	Present value of obligation Other \$M	Fair value of plan assets Switzerland \$M	Fair value of plan assets Germany \$M	Fair value of plan assets Other \$M	Present value of obligation Total \$M	Fair value of plan assets Total \$M	Net pension liability \$M
At 1 January 2021	(136)	(172)	(10)	102	4	6	(318)	112	(206)
Transferred in	-	-	-	-	-	-	-	-	-
	(136)	(172)	(10)	102	4	6	(318)	112	(206)
Amounts recognised in P&L:									
Current service cost	(3)	(1)	(1)	-	-	-	(5)	-	(5)
Interest expense	-	(1)	-	-	-	-	(1)	-	(1)
	(3)	(2)	(1)	-	-	-	(6)	-	(6)
Amounts recognised in OCI:									
Return on plan assets (excluding interest income)	-	-	-	16	-	-	-	16	16
Gain/(loss) from change in experience assumptions	(2)	3	-	-	-	-	1	-	1
Gain from change in demographic assumptions	4	-	-	-	-	-	4	-	4
Gain from change in financial assumptions	4	6	-	-	-	-	10	-	10
	6	9	-	16	-	-	15	16	31

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NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

	Present value of obligation Switzerland	Present value of obligation Germany	Present value of obligation Other	Fair value of plan assets Switzerland	Fair value of plan assets Germany	Fair value of plan assets Other	Present value of obligation Total	Fair value of plan assets Total	Net pension liability
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Foreign exchange differences	4	12	1	(3)	-	-	17	(3)	14
Contributions									
Employer	-	-	-	1	3	1	-	5	5
Plan participants	(1)	-	-	1	-	-	(1)	1	-
	3	12	1	(1)	3	1	16	3	19
Payments from plan									
Benefit payments	4	3	1	(4)	(3)	(1)	8	(8)	-
At 31 December 2021	(126)	(150)	(9)	113	4	6	(285)	123	(162)

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NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

	Present value of obligation Switzerland	Present value of obligation Germany	Present value of obligation Other	Fair value of plan assets Switzerland	Fair value of plan assets Germany	Fair value of plan assets Other	Present value of obligation Total	Fair value of plan assets Total	Net pension liability
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
At 1 January 2020	(107)	(147)	(6)	87	4	5	(260)	96	(164)
Transferred in	-	-	-	-	-	-	-	-	-
	(107)	(147)	(6)	87	4	5	(260)	96	(164)
Amounts recognised in P&L:									
Current service cost	(3)	(1)	(1)	-	-	-	(5)	-	(5)
Interest (expense)/income	-	(1)	(1)	-	-	-	(2)	-	(2)
	(3)	(2)	(2)	-	-	-	(7)	-	(7)
Amounts recognised in OCI:									
Return on plan assets (excluding interest income)	-	-	-	6	-	-	-	6	6
loss from change in experience assumptions	(11)	(5)	-	-	-	-	(16)	-	(16)
Loss from change in financial assumptions	(5)	(7)	-	-	-	-	(12)	-	(12)
	(16)	(12)	-	6	-	-	(28)	6	(22)
Foreign exchange differences	(11)	(14)	(2)	9	-	1	(27)	10	(17)
Contributions									
Employer	-	-	-	1	3	-	-	4	4
Plan participants	(1)	-	-	1	-	-	(1)	1	-
	(12)	(14)	(2)	11	3	1	(28)	15	(13)

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NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

	Present value of obligation Switzerland	Present value of obligation Germany	Present value of obligation Other	Fair value of plan assets Switzerland	Fair value of plan assets Germany	Fair value of plan assets Other	Present value of obligation Total	Fair value of plan assets Total	Net pension liability
Payments from plan									
Benefit payments	2	3	-	(2)	(3)	-	5	(5)	-
At 31 December 2020	(136)	(172)	(10)	102	4	6	(318)	112	(206)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

The principal actuarial assumptions were as follows and are weighted by the size of the pension liability:

	2021	2020
Discount rate	0.66%	0.42%
Pension growth rate	1.05%	1.08%
CPI inflation	1.55%	1.56%

	2021	2020
Life expectancy for males aged 65	21	21
Life expectancy for females aged 65	24	23
Life expectancy at 65 for male currently aged 50	23	22
Life expectancy at 65 for females currently aged 50	25	25

The mortality assumptions are based on actuarial advice in accordance with published statistics and past experience and allow for expected future improvements in mortality rates.

The overall plan assets (all of which are at quoted market price) are invested in the following asset classes:

	2021 \$M	2020 \$M
Equities	51	38
Debt	24	28
Real Estate	20	20
Other	28	26
	123	112

The average durations of the year-end obligations were as follows:

	2021 Years	2020 Years
Switzerland	17.5	19.0
Germany	16.3	17.3
Other plans	18.1	18.2

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**NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Defined benefit obligation 2021 \$M	Defined benefit obligation 2020 \$M
Current value as at 31 December	285	318
Following a 1.0% increase in the discount rate	-	-
Change	(46)	(53)
New value	239	265
Following a 1.0% increase in the inflation assumption	-	-
Change	18	21
New value	303	339
Following an increase in life expectancy of one year	-	-
Change	10	11
New	295	329

The plan exposes the Company to a number of risks, the most significant of which are:

Changes in bond yields

Corporate bond yields of a term and currency similar to the liabilities are used as a basis for setting the discount rate for each plan. An increase in Eurozone and / or Swiss corporate bond yields will decrease the value placed on the plans' liabilities for accounting purposes.

Inflation risk

A proportion of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities.

Life expectancy

The majority of the plans' liabilities are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Expected contribution for year 2022

Employer contribution to the Defined Benefit schemes for the next annual reporting period is expected to be \$2 million.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

36. SHARE CAPITAL

	2021 \$M	2020 \$M
Authorised		
55,051,000 (2020: 55,051,000) Ordinary shares of \$1.00 each	55	55
Called up, issued and fully paid		
32,067,011 (2020: 32,067,011) Ordinary shares of \$1.00 each	32	32

37. RESERVES

Share premium account

Under the terms of the 2018 merger with Bank of America Merrill Lynch International Limited ("BAMLI Ltd"), a share of nominal value \$1 was issued by the Company to the immediate parent BANA as consideration for the net assets of BAMLI Ltd. Group reconstruction relief was applied to limit the increase in the Company's share premium to \$9,061 million.

Retained earnings

The difference between equity-settled share scheme awards costs as calculated in accordance with IFRS 2 Share Based Payments and the amounts recharged for such awards by the intermediate parent undertaking during the year was \$1 million debit (2020: \$2 million debit) and is included within profit and loss reserves.

	Movement in fair value of debt securities at FVOCI \$M	Foreign exchange reserve \$M	Capital contribution reserve \$M	Total \$M
Other reserves				
As at 1 January 2021	(1)	29	59	87
Current year movement	1	(28)	-	(27)
As at 31 December 2021	-	1	59	60

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38. OTHER FINANCIAL COMMITMENTS

	2021	2020
	\$M	\$M
Undrawn commitments	42,342	41,630
Purchase commitments	365	943
Financial guarantees	478	722
	43,185	43,295

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39. FINANCIAL INSTRUMENTS BY CATEGORY

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by statement of financial position heading:
31 December 2021

	Amortised cost \$M	Mandatorily at FVPL \$M	Designated at FVPL \$M	FVOCI - debt instruments \$M	FVPL - equity instruments \$M	Total \$M
Cash at central banks	15,490	-	-	-	-	15,490
Loans and advances to banks	9,402	391	-	-	-	9,793
Loans and advances to customers	23,806	3,257	-	-	-	27,063
Reverse repurchase agreements	8,250	787	-	-	-	9,037
Market and client receivables	1,025	-	-	-	-	1,025
Trading assets	-	1,634	-	-	-	1,634
Investment securities	-	-	-	623	48	671
Derivative financial instruments	-	1,525	-	-	-	1,525
Other assets	146	-	-	-	-	146
Financial assets	58,119	7,594	-	623	48	66,384
Deposits by banks	20,645	-	-	-	-	20,645
Deposits by customers	24,428	-	-	-	-	24,428
Debt securities	1,190	-	-	-	-	1,190
Market and client payables	536	-	-	-	-	536
Derivative financial instruments	-	2,269	-	-	-	2,269
Financial liabilities designated FVPL	-	-	51	-	-	51
Other liabilities	599	7	-	-	-	606
Accruals	139	-	-	-	-	139
Subordinated liabilities	4,000	-	-	-	-	4,000
Financial liabilities	51,537	2,276	51	-	-	53,864

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**NOTES TO THE FINANCIAL STATEMENTS
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**39. FINANCIAL INSTRUMENTS BY CATEGORY
(CONTINUED)**

31 December 2020

	Amortised cost \$M	Mandatorily at FVPL \$M	Designated at FVPL \$M	FVOCI - debt instruments \$M	FVPL - equity instruments \$M	Total \$M
Cash at central banks	13,076	-	-	-	-	13,076
Loans and advances to banks	8,460	790	-	-	-	9,250
Loans and advances to customers	23,820	2,450	-	-	-	26,270
Reverse repurchase agreements	8,000	-	-	-	-	8,000
Market and client receivables	2,428	-	-	-	-	2,428
Trading assets	-	1,530	-	-	-	1,530
Investment securities	-	-	-	2,073	48	2,121
Derivative financial instruments	-	2,337	-	-	-	2,337
Other assets	206	-	-	-	-	206
Financial assets	55,990	7,107	-	2,073	48	65,218
Deposits by banks	22,744	-	-	-	-	22,744
Deposits by customers	19,581	-	-	-	-	19,581
Debt securities	1,285	-	-	-	-	1,285
Market and client payables	1,581	-	-	-	-	1,581
Derivative financial instruments	-	3,141	-	-	-	3,141
Financial liabilities designated FVPL	-	-	16	-	-	16
Other liabilities	795	-	-	-	-	795
Accruals	129	-	-	-	-	129
Subordinated liabilities	4,000	-	-	-	-	4,000
Financial liabilities	50,115	3,141	16	-	-	53,272

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

40. TRANSFERRED ASSETS AND UNCONSOLIDATED STRUCTURED ENTITIES

Nature, purpose and extent of the Company's exposure to structured entities

The Company enters into transactions in the normal course of business with various structured entities which have been designed to achieve a specific business objective. A structured entity (sometimes called a Special Purpose Entity) is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

The Company's exposure to structured entities relates to its provisioning of financing in the forms of loans or similar advances to clients, backed by specific pools of assets. Structured entities' legal forms may vary, but generally include limited liability corporations, trusts, funds and partnership.

Consolidated structured entities

The Company does not have any consolidated structured entities, as its involvement with structured entities typically does not result in the Company having control over their investment making decisions.

Unconsolidated structured entities

The Company's interest in an unconsolidated structured entity is considered as the contractual and non-contractual involvement that exposes the Company to variability of returns from the performance of the structured entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

As noted above, the Company provides financing to structured entities in the normal course of business, and assesses the risk and exposure of this activity consistently with other financing activities by reviewing the creditworthiness of the counterparties involved, the amount and quality of collateral in the vehicle, and the contractual arrangements in place including for example any guarantees received from other parties. The Company typically does not have a significant level of involvement with the design or operation of these structured entities and does not consider itself to be the sponsor of the arrangements. The Company reports this activity within loans and advances to customers consistent with other financing activities.

Transfers of financial assets

The Company also uses structured entities to securitise commercial real estate loans and advances as a source of finance and a means of risk transfer. The loans and advances are transferred by the Company to the structured entities for cash, and the structured entities issue debt securities to investors. The transferred assets are typically derecognised from the Company's balance sheet, as the Company transfers substantially all of the risks and rewards of ownership of the asset. Refer to note 1.15 and 1.22 for the accounting policy that governs recognition and derecognition of financial assets.

The Company considers itself the sponsor of these structured entities, as it is primarily involved in the design and establishment of the structured entity; transfers assets to the structured entity; markets products associated with the structured entity in its own name; provides operational support to ensure the continued operation and/or provides guarantees regarding the structured entity's performance.

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**NOTES TO THE FINANCIAL STATEMENTS
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40. TRANSFERRED ASSETS AND UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

The Company typically either retains a portion of the original loan, provides a separate issuer loan to the structured entity, or provides liquidity facilities to the structured entity. These are considered to represent the Company's continuing involvement in transferred financial assets that have been derecognised in full. The total carrying amount of continuing involvement in transactions where it has transferred financial assets that were derecognised in full was \$198 million (2020: \$103 million), which is the same as its fair value for both reporting periods. The maximum exposure to loss for these assets is \$212 million (2020: \$121 million) and the total size of the structured entities is \$4,684 million (2020: \$2,343 million). There was no material income received by the Company during 2021 nor 2020 in relation to these transactions.

In addition to the above, the Company has exposure to sponsored commercial real estate securitisation vehicles within its loans and advances portfolio where the assets were transferred to the structured entity by an affiliated company in the BAC group. The total carrying value of within loans and advances was \$10 million (2020: \$10 million) with a maximum exposure to loss of \$21 million (2020: \$28 million).

During the current and prior years the Company has not provided any non contractual financial or other support to these unconsolidated structured entities.

**NOTES TO THE FINANCIAL STATEMENTS
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41. OFFSETTING

The Company did not have any instruments that met the requirements to be offset in the statement of financial position in the current or prior year. The following table presents financial instruments that are subject to enforceable master netting arrangements and other similar agreements but not offset:

31 December 2021

	Gross amount presented \$M	Financial instrument netting \$M	Cash collateral \$M	Net amount \$M
Assets				
Derivative financial instruments	<u>1,525</u>	<u>(587)</u>	<u>(435)</u>	<u>503</u>
Liabilities				
Derivative financial instruments	<u>2,269</u>	<u>(587)</u>	<u>(983)</u>	<u>699</u>

31 December 2020

	Gross amount presented \$M	Financial instrument netting \$M	Cash collateral \$M	Net amount \$M
Assets				
Derivative financial instruments	<u>2,337</u>	<u>(777)</u>	<u>(861)</u>	<u>699</u>
Liabilities				
Derivative financial instruments	<u>3,141</u>	<u>(777)</u>	<u>(1,675)</u>	<u>689</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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41. OFFSETTING (CONTINUED)**Financial instruments**

The Company can undertake a number of financial instrument transactions with a single counterparty and may enter into an International Swaps and Derivatives Association, Inc ("ISDA") master netting agreement or their equivalent ("master netting agreements") with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These agreements are commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

The Company enters into master netting agreements with the Company's major derivative counterparties. Where there is not an intention to settle on a net basis in the normal course of business, the balances have not been offset in the statement of financial position and have been presented separately in the table above.

Cash collateral

Cash collateral relates to collateral received and pledged against derivatives and which have not been offset in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT

Legal entity risk governance

BAC has established the Risk Framework, which serves as the foundation for consistent and effective management of the risks facing BAC and its subsidiaries (including BofA Europe).

The Risk Framework applies to all BAC employees. It provides an understanding of BofA Europe's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The Risk Framework sets forth roles and responsibilities for the management of risk by FLUs, independent risk management, other control functions and Corporate Audit. The following are the five components of BofA Europe's risk management approach:

- Culture of Managing Risk Well;
- Risk Appetite and Risk Limits;
- Risk Management Processes;
- Risk Data Management, Aggregation and Reporting; and
- Risk Governance.

The risk management processes outlined above allow BAC businesses (including BofA Europe) to manage risks across the seven key risk types: market, credit, compliance and operational, liquidity, reputational, strategic and capital management.

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

Market risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets and or liabilities or otherwise negatively impact earnings. Market risk is composed of price risk and interest rate risk:

Price risk

Price risk is the risk to current or projected financial condition arising from changes in the value of trading portfolios, investment securities or treasury-related funding activities. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market making, dealing and capital markets activity in interest rate, foreign exchange and credit markets.

Interest rate risk

Interest rate risk is the risk to current or projected financial condition arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in bank products or investment securities (options risk).

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is the risk to BofA Europe's current or anticipated earnings or capital arising from adverse movements in interest rates. Changes in interest rates affect BofA Europe's earnings and capital by impacting its projection of Earnings at Risk ("EaR") and the underlying economic value of its assets, liabilities and off-balance sheet items (economic value of equity ("EVE")).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Gap risk results from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel). Basis risk arises from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Interest rate risk arises in BofA Europe's Banking Book from differences in repricing, rate and maturity characteristics between its assets and liabilities.

Market risk measurement

At the asset and liability level, market risk is assessed by evaluating the impact of individual risk factors on individual exposures. At the aggregate level, price risk is assessed primarily through risk models, including Value at Risk ("VaR") models. BofA Europe's aggregate potential economic exposure, as well as earnings and capital sensitivity, to interest rate risk in the banking book is also assessed.

Value at Risk

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

The table that follows presents the Company's average and year-end VaR for 2021 and 2020. Additionally, high and low VaR is presented independently for each risk category and overall.

	Year end 2021 \$000	High 2021 \$000	Average 2021 \$000	Low 2021 \$000
99% Daily VaR				
Credit spread risk	19,707	19,940	16,604	11,685
Currency risk	1,109	3,107	1,581	599
Interest rate risk	1,056	2,867	1,950	912
Total	19,930	20,063	16,340	11,950

	Year end 2020 \$000	High 2020 \$000	Average 2020 \$000	Low 2020 \$000
99% Daily VaR				
Credit spread risk	13,035	18,710	12,116	4,762
Currency risk	2,277	3,305	2,005	1,337
Interest rate risk	1,517	3,083	2,075	802
Total	13,230	18,963	12,607	5,120

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Climate risk

Both physical and transitional climate related changes can impact market risk. Certain countries and corporates will be particularly affected by the geopolitical and economic impacts of climate change. Vendor climate models will be used to assess various climate scenarios such as acute and chronic climate perils due to rising temperatures, and / or the increased cost of adapting to new policies and customer preferences. Typically, gradual changes in asset values will be reflected in the capital markets. However, depending on the climate pathway, impacts from an immediate introduction of a carbon tax or significant deterioration of public finances from acute and chronic climate perils, which are not fully priced in, may result in financial risk from sudden and steep declines in prices of traded products. Therefore, the market risk component is most often captured through an instantaneous shock to several market risk factors such as equity volatilities, FX, credit spreads, including assets prices for commodities and real estate.

Credit risk

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. Credit risk is created when BofA Europe commits to, or enters into, an agreement with a borrower or counterparty. BofA Europe defines credit exposure to a borrower or counterparty as the loss potential arising from loans, leases, derivatives, and other extensions of credit.

Credit risk management

BofA Europe manages credit risk to a borrower or counterparty based on its risk profile, which includes assessing repayment sources, underlying collateral (if any), and the expected effects of the current and forward-looking economic environment on the borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

In its commercial FLUs, BofA Europe uses a number of actions to mitigate losses, including increased frequency and intensity of portfolio monitoring for moderate to weak risk profiles, hedging, and transferring management of deteriorated commercial exposures to special asset officers.

Credit risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities
- Establishing the allowance for credit losses, which is a reserve for expected credit losses over the life of the Company's lending commitments
- Climate risk management

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

The primary credit risks of the Company relate to its commercial lending activities. The Company also has more limited derivatives exposure.

Commercial lending

The Company's commercial lending activities consist primarily of corporate and institutional lending, in addition to certain asset backed and secured lending. Depending on market conditions, the Company may seek to mitigate or reduce loan exposure through third party syndications, securitisations, secondary loan sales or the purchase of single name and basket credit default swaps.

The Company typically provides drawn and committed but undrawn corporate and institutional lending facilities to clients for general corporate purposes, backup liquidity lines, bridge financings, and acquisition related activities. While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, the Company generally expects repayment through other sources including cash flow and/or recapitalisation. Asset backed and other secured finance facilities are typically secured by assets such as commercial mortgages, residential mortgages, auto loans, leases, consumer loans and other receivables. Credit assessment for these facilities relies primarily on the amount, asset type, quality, and liquidity of the supporting collateral, as the performance of the collateral and/or associated cash flows are the expected source of repayment.

Impaired loans are measured based on the present value of payments expected to be received, observable market prices or, where applicable, the value of any collateral that the Company would expect to realise.

Derivatives trading

The Company enters into ISDA master agreements or their equivalent ("master netting agreements") with derivative counterparties. Master netting agreements provide risk mitigation in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset when closing out the trades upon event of default. Master Netting Agreements are standardised in the industry but are negotiated bilaterally with some terms, credit terms in particular negotiated by the parties. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Credit quality analysis

The following table analyses the carrying amount and maximum credit exposure of the Company's financial assets by external credit rating or internal equivalent thereof. Where there is no rating, the balances are classified as not rated. Although the table reflects the Company's gross exposure, the Company manages its credit exposures on a net basis.

	AAA to AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
31 December 2021	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash held at central banks	10,635	4,782	10	63	15,490	-	15,490
Loans and advances to banks	-	9,264	512	23	9,799	(6)	9,793
Loans and advances to customers	2,654	14,864	9,607	54	27,179	(116)	27,063
Reverse repurchase agreements	787	8,250	-	-	9,037	-	9,037
Market and client receivables	-	1,025	-	-	1,025	-	1,025
Trading assets	4	29	703	898	1,634	-	1,634
Investment securities - debt	-	623	-	-	623	-	623
Derivative financial instruments	28	1,067	430	-	1,525	-	1,525
	<u>14,108</u>	<u>39,904</u>	<u>11,262</u>	<u>1,038</u>	<u>66,312</u>	<u>(122)</u>	<u>66,190</u>
Guarantees and commitments	1,218	30,938	10,266	763	43,185	(110)	43,075
	<u>15,326</u>	<u>70,842</u>	<u>21,528</u>	<u>1,801</u>	<u>109,497</u>	<u>(232)</u>	<u>109,265</u>

For financial instruments within the scope of the impairment provisions of IFRS 9 (i.e. financial instruments that are not measured at FVPL), the below table further analyses the credit quality of the instrument by its staging within the impairment process, between Stage 1 (12-month ECL), Stage 2 (lifetime ECL not credit-impaired) and Stage 3 (lifetime ECL credit-impaired).

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42. RISK MANAGEMENT (CONTINUED)

	AAA to A to BBB AA	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2021- Stage 1						
Cash held at central banks	10,635	4,782	10	15,490	-	15,490
Loans and advances to banks	-	8,872	202	9,097	(3)	9,094
Loans and advances to customers	2,654	12,528	5,906	21,142	(32)	21,110
Reverse repurchase agreements	-	8,250	-	8,250	-	8,250
Market and client receivables	-	1,025	-	1,025	-	1,025
Investment securities - debt	-	623	-	623	-	623
Guarantees and commitments	1,218	29,483	5,142	35,956	(44)	35,912
	<u>14,507</u>	<u>65,563</u>	<u>11,260</u>	<u>91,583</u>	<u>(79)</u>	<u>91,504</u>
	AAA to A to BBB AA	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2021 - Stage 2						
Loans and advances to banks	-	-	311	311	(3)	308
Loans and advances to customers	-	86	1,838	1,924	(44)	1,880
Guarantees and commitments	-	875	1,885	2,760	(54)	2,706
	<u>-</u>	<u>961</u>	<u>4,034</u>	<u>4,995</u>	<u>(101)</u>	<u>4,894</u>
	AAA to A to BBB AA	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2021 - Stage 3						
Loans and advances to customers	-	-	856	856	(40)	816
Guarantees and commitments	-	-	135	138	(12)	126
	<u>-</u>	<u>-</u>	<u>991</u>	<u>994</u>	<u>(52)</u>	<u>942</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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42. RISK MANAGEMENT (CONTINUED)

	AAA to AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
31 December 2020	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash held at central banks	10,198	2,806	72	-	13,076	-	13,076
Loans and advances to banks	-	8,700	555	-	9,255	(5)	9,250
Loans and advances to customers	2,113	11,615	12,017	754	26,499	(229)	26,270
Reverse repurchase agreements	-	8,000	-	-	8,000	-	8,000
Market and client receivables	-	1,648	-	780	2,428	-	2,428
Trading assets	312	-	-	1,218	1,530	-	1,530
Investment securities - debt	2,073	-	-	-	2,073	-	2,073
Derivative financial instruments	39	1,338	926	34	2,337	-	2,337
	<u>14,735</u>	<u>34,107</u>	<u>13,570</u>	<u>2,786</u>	<u>65,198</u>	<u>(234)</u>	<u>64,964</u>
Guarantees and commitments	1,439	29,766	11,065	1,025	43,295	(167)	43,128
	<u>16,174</u>	<u>63,873</u>	<u>24,635</u>	<u>3,811</u>	<u>108,493</u>	<u>(401)</u>	<u>108,092</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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42. RISK MANAGEMENT (CONTINUED)

	AAA to AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2020 - Stage 1							
Cash held at central banks	10,198	2,806	72	-	13,076	-	13,076
Loans and advances to banks	-	7,890	253	-	8,143	(2)	8,141
Loans and advances to customers	1,997	10,263	6,237	670	19,167	(42)	19,125
Reverse repurchase agreements	-	8,000	-	-	8,000	-	8,000
Market and client receivables	-	1,648	-	780	2,428	-	2,428
Investment securities - debt	2,073	-	-	-	2,073	-	2,073
Guarantees and commitments	892	25,266	5,201	19	31,378	(63)	31,315
	<u>15,160</u>	<u>55,873</u>	<u>11,763</u>	<u>1,469</u>	<u>84,265</u>	<u>(107)</u>	<u>84,158</u>
	AAA to AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2020 - Stage 2							
Loans and advances to banks	-	19	303	-	322	(3)	319
Loans and advances to customers	-	709	3,347	-	4,056	(122)	3,934
Guarantees and commitments	547	4,019	2,317	-	6,883	(95)	6,788
	<u>547</u>	<u>4,747</u>	<u>5,967</u>	<u>-</u>	<u>11,261</u>	<u>(220)</u>	<u>11,041</u>
	AAA to AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2020 - Stage 3							
Loans and advances to customers	-	-	826	-	826	(65)	761
Guarantees and commitments	-	-	296	-	296	(9)	287
	<u>-</u>	<u>-</u>	<u>1,122</u>	<u>-</u>	<u>1,122</u>	<u>(74)</u>	<u>1,048</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Collateral held and other credit enhancements

The Company holds collateral or other credit enhancements against its credit risk associated with certain of its financial assets and commitments. The following table reflects by asset class of financial instrument the amount that best represents the Company's maximum exposure to credit risk and a quantification of the extent to which collateral and other credit enhancements mitigate credit risk as viewed by management.

	2021 Maximum exposure to credit risk \$M	2021 Identifiable mitigation \$M	2020 Maximum exposure to credit risk \$M	2020 Identifiable mitigation \$M
Cash held at central banks	15,490	-	13,076	-
Loans and advances to banks	9,793	391	9,250	-
Loans and advances to customers	27,063	6,963	26,270	8,456
Reverse repurchase agreements	9,037	8,978	8,000	8,000
Market and client receivables	1,025	993	2,428	2,394
Trading assets	1,634	317	1,530	357
Investment securities	671	-	2,073	-
Derivative financial instruments	1,525	938	2,337	1,638
Other assets	358	-	206	-
	<u>66,596</u>	<u>18,580</u>	<u>65,170</u>	<u>20,845</u>
Guarantees and commitments	<u>43,185</u>	<u>112</u>	<u>43,295</u>	<u>882</u>
	<u>109,781</u>	<u>18,692</u>	<u>108,465</u>	<u>21,727</u>

For loans and advances, the Company may request that corporate borrowers provide collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. In general the Company does not routinely update the valuation of the collateral held against all loans to corporate customers as its focus is on the overall creditworthiness of the customer. Valuation of collateral for these loans is updated when a loan is put on a watch list for closer monitoring. For credit impaired loans, the Company obtains appraisals of collateral as it provides input into determining the management credit risk actions.

Market and client receivables primarily represent receivables to collateral posted by the Company to cover derivative liabilities or other short term receivables as a result of pending trade settlements. Credit risk on these positions is mitigated to the extent of the offsetting short trading position or the value of the underlying unsettled bond transaction.

Where the Company does not routinely update the valuation of the collateral held, or where specific values are not generally available for the value of collateral, no offset has been included in the identified mitigation column in the above table.

Trading assets represent primarily traded positions corporate loans and other bonds and securities. Certain traded loan positions are secured against real estate or other assets, and the Company monitors the value of the underlying collateral in determining the fair value of the position.

The Company mitigates the credit risk of derivatives and reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

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42. RISK MANAGEMENT (CONTINUED)

The Company mitigates the credit risk exposure for certain loans and loan commitments managed on a fair value basis by purchasing credit risk protection in the form of credit derivatives. As at 31 December 2021, these derivative contracts provided notional principal protection of \$456 million (2020: \$389 million).

The following table sets out the carrying amount of credit-impaired financial assets and the value of identifiable collateral and other credit mitigants.

	Amount of credit impaired financial assets	Identifiable collateral	Other credit mitigants
	\$M	\$M	\$M
31 December 2021			
Loans and advances to customers	856	689	-
31 December 2020			
Loans and advances to customers	826	271	-

The amount of identifiable collateral included above is limited to the total loan exposure to illustrate the Company's credit risk mitigation on these positions at the year end. Actual identifiable collateral values may exceed the total loan exposure that the Company holds.

As 31 December 2021, the Company has not recognised a loss allowance in relation to its reverse sale and repurchase agreements as a result of the collateral held on these positions.

The Company did not obtain any financial or non-financial assets through taking possession of collateral held as security against loans and advances.

Concentrations of credit risk

The Company monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments and guarantees is shown below.

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42. RISK MANAGEMENT (CONTINUED)

	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements	Debt financial instruments at FVOCI	Guarantees and commitments
	\$M	\$M	\$M	\$M	\$M
As at 31 December 2021					
Gross amount	9,799	27,179	9,037	623	-
Amount committed / guaranteed	-	-	-	-	43,185
	9,799	27,179	9,037	623	43,185
Portfolio concentration by geography					
Austria	-	43	-	-	404
Belgium	22	783	-	-	1,411
Denmark	-	23	-	-	949
France	402	2,336	-	171	7,976
Germany	2	1,068	-	-	5,749
Ireland	65	1,827	787	-	532
Italy	83	1,575	-	-	1,156
Jersey	-	378	-	-	418
Luxembourg	-	2,944	-	-	2,840
Netherlands	-	1,738	-	-	3,460
Norway	-	408	-	-	532
Saudi Arabia	149	1,234	-	-	950
Spain	2	1,113	-	-	1,395
Sweden	-	259	-	-	1,517
Switzerland	-	654	-	-	2,289
Turkey	464	429	-	-	-
UAE	524	183	-	-	214
UK	6,290	8,336	-	452	9,395
USA	1,150	258	8,250	-	263
Other	646	1,590	-	-	1,735
	9,799	27,179	9,037	623	43,185
Portfolio concentration by sector					
Central banks	-	1	-	-	-
Central governments	-	459	-	623	-
Non-financial corporations	-	15,549	-	-	29,491
Credit institutions	9,799	-	8,250	-	542
Other financial corporations	-	11,170	787	-	13,152
	9,799	27,179	9,037	623	43,185

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

42. RISK MANAGEMENT (CONTINUED)

	Loans and advances to banks	Loans and advances to customers	Reverse repurchase agreements	Debt financial instruments at FVOCI	Guarantees and commitments
	\$M	\$M	\$M	\$M	\$M
As at 31 December 2020					
Gross amount	9,255	26,499	8,000	2,073	-
Amount committed / guaranteed	-	-	-	-	43,295
	<u>9,255</u>	<u>26,499</u>	<u>8,000</u>	<u>2,073</u>	<u>43,295</u>
Portfolio concentration by geography					
Austria	-	58	-	-	220
Belgium	121	807	-	-	791
Denmark	-	270	-	-	685
France	398	2,072	-	595	8,514
Germany	-	2,678	-	-	6,224
Ireland	32	1,037	-	-	856
Italy	2	1,782	-	-	1,611
Luxembourg	4	2,486	-	-	1,775
Netherlands	-	2,145	-	245	3,394
Spain	7	1,718	-	-	1,591
Switzerland	-	705	-	-	1,710
UK	161	6,222	-	1,233	11,606
USA	6,785	203	8,000	-	279
Other	1,745	4,316	-	-	4,039
	<u>9,255</u>	<u>26,499</u>	<u>8,000</u>	<u>2,073</u>	<u>43,295</u>
Portfolio concentration by sector					
Central governments	-	451	-	2,073	-
Non-financial corporations	-	16,343	-	-	29,616
Credit institutions	9,255	-	8,000	-	561
Other financial corporations	-	9,705	-	-	13,118
	<u>9,255</u>	<u>26,499</u>	<u>8,000</u>	<u>2,073</u>	<u>43,295</u>

Climate risk

Climate risk management is being embedded into the credit risk framework and credit and risk officers are being trained on climate and its impact on credit risk. High, moderate, or low climate risk ratings have been assigned to industry segments and countries in BAC's coverage universe. Climate risk supplements have been developed for high and moderate risk industries and incorporated into Enterprise Industry Risk Guidance documents. These provide credit underwriters and risk officers with guidance for clients in the relevant industries and countries. The risk ratings are supplemented by borrower level assessment of climate risk since two companies in the same sector/country may be impacted differently by climate change based on their unique business model, management awareness, strategy and preparedness to deal with the risks.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Past due status of customer receivables

For customer receivables, the Company calculates loss allowance based on a provision matrix, as the short term nature of the positions are such that the past due status is the primary driver in the loss calculation (adjusted as relevant for available forward-looking information). At 31 December 2021 there were no customer receivables past due (2020: \$nil).

Security and collateral

At 31 December 2021, the fair value of financial assets accepted as collateral that the Company is permitted to use, sell or repledge in the absence of default was \$10,135 million (2020: \$9,040 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was \$510 million (2020: \$880 million). The collateral obtained is composed of cash and government and agency securities. The Company is obliged to return cash or equivalent securities as appropriate.

Security has been given by the Company by way of specific and general charges in respect of certain contractual commitments. The collateral pledged is in the form of cash and security. At 31 December 2021, the Company had delivered cash and security collateral of \$1,033 million (2020: \$1,713 million) against contractual commitments under derivative liability positions.

Compliance and operational risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Company arising from the failure of the Company to comply with the requirements of applicable laws, rules and regulations and internal policies and procedures. The Company is committed to the highest level of compliance and has no appetite for violations of legislative or regulatory requirements. The Company established a compliance risk management program that seeks to anticipate and assess compliance risks and respond to these risks effectively should they materialise.

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. The Company strives for operational excellence in everything we do. The Company has designed an operational risk management programme that seeks to anticipate and assess operational risks and respond to these risks effectively should they materialise.

Compliance and operational risk management process

The Company is committed to maintaining strong compliance and operational risk management practices across all FLUs and control functions. Compliance and operational risks are managed in an ever changing and complex regulatory environment, and with the evolving products, services and strategies offered by FLUs. The Company has an integrated set of processes and controls to manage external and internal risks, including metrics and extensive monitoring, testing and risk assessment processes.

FLUs and control functions are first and foremost responsible for managing all aspects of their businesses, including their compliance and operational risk. FLUs and control functions are required to understand their business processes and related risks and controls, including third party dependencies, the related regulatory requirements, and monitor and report on the effectiveness of the control environment. In order to actively monitor and assess the performance of their processes and controls, they must conduct comprehensive quality assurance activities and identify issues and risks to remediate control gaps and weaknesses. FLUs and control functions must also adhere to operational risk appetite limits to meet strategic, capital and financial planning objectives. Finally, FLUs and control functions are responsible for the proactive identification, management, and escalation of compliance and operational risks across the Company.

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42. RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

Liquidity risk management

The BofA Europe Liquidity Risk Policy ("BofA Europe LRP") defines the approach to managing the Company's liquidity, aligned to group processes and tailored to meet its business mix, strategy, activity profile, risk appetite and regulatory requirements and is approved by the Board. The BofA Europe MRC reviews and recommends Risk Appetite limits to the BofA Europe BRC, which in turn reviews and recommends to the Board for approval.

Each of the FLUs are accountable for managing liquidity risk within the BofA Europe Liquidity Risk Appetite. Global Risk Management ("GRM"), a second line of defence, provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of BofA Europe's liquidity risk management processes.

GRM works with Treasury and the Lines of Business to monitor actual and forecast liquidity and funding requirements with a focus on limit utilisation and trends, and any change in business / market behaviour may require a change in liquidity risk management.

The BofA Europe LRP further describes the liquidity risk roles and responsibilities including requirements for liquidity risk limits, stress testing, analytics and reporting, and recovery and resolution planning.

Liquidity risk governance

The BofA Europe Board provides oversight of BofA Europe's liquidity risk profile and at least annually, approves the Company's Risk Appetite Statement, which sets forth the level of liquidity risk that the Company may assume in connection with the Company Strategic and Capital Plan through the Company Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP"). The Board periodically reviews the liquidity risk management strategies, policies, and procedures described in the Company Risk Appetite Statement and the BofA Europe LRP.

The BofA Europe BRC is responsible for overseeing the Company's overall Risk Framework, performance against the risk appetite and the Company CEO, the Company Chief Risk Officer ("CRO") and Senior Management's identification of, measurement of, monitoring of and control of key risks. At least quarterly Senior Management reports on the Company's liquidity risk profile and liquidity risk appetite to the BofA Europe BRC.

The BofA Europe MRC provides management oversight of liquidity risk of the Company's activities. The BofA Europe MRC is responsible for holistic risk management, including an integrated evaluation of risk, earnings, capital and liquidity. The BofA Europe MRC reports utilisation against the BofA Europe Risk Appetite Statement to the BofA Europe BRC and the Board, at least quarterly.

GRM is responsible for maintaining a liquidity risk limits framework to ensure that the entity is managed within its liquidity risk appetite. Liquidity risk limits are classified as:

- Board-owned Risk Appetite
- BofA Europe MRC-owned Management Level Appetite Limits
- Non-Risk Appetite Limits
- Risk Indicators

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

Limits are monitored and reported daily and a clear escalation path to BofA Europe Senior Management, BofA Europe ALCO, BofA Europe MRC, BofA Europe BRC, and the BofA Europe Board by limit category and breach type exists.

Liquidity risk reporting

Daily liquidity reporting enables liquidity risk monitoring and appropriate risk escalation, which includes defined protocols for limit breaches and emerging risks and issues. Regular liquidity risk reports are sent to the BofA Europe Board, BofA Europe BRC, and BofA Europe Senior Management.

The tables below represent the undiscounted cash flows of the Company's financial liabilities as at 31 December, with the exception of those held for trading and financial liabilities designated at fair value, for which the fair value has been disclosed as this is consistent with the values used in the liquidity risk management of these instruments:

	On demand	<3mths	>3mths <1yr	>1yr <5yrs	>5yrs	Total
	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2021 Non- Trading Financial Liabilities						
Deposits by banks	972	464	226	18,983	-	20,645
Deposits by customers	23,910	-	66	452	-	24,428
Debt securities	-	701	489	-	-	1,190
Financial liabilities designated at fair value	51	-	-	-	-	51
Market and client payables	536	-	-	-	-	536
Lease liabilities	-	-	35	210	216	461
Subordinated liabilities	-	-	66	2,104	1,745	3,915
	25,469	1,165	882	21,749	1,961	51,226
Guarantees and commitments	43,185	-	-	-	-	43,185
	68,654	1,165	882	21,749	1,961	94,411
Trading liabilities						
Derivative financial instruments	2,269	-	-	-	-	2,269

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42. RISK MANAGEMENT (CONTINUED)

	On demand	<3mths	>3mths	<1yr	>1yr	<5yrs	>5yrs	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 December 2020 Non-Trading Financial Liabilities								
Deposits by banks	552	45		874	21,273	-	-	22,744
Deposits by customers	18,985	-		69	527	-	-	19,581
Debt securities	-	762		523	-	-	-	1,285
Market and client payables	1,581	-		-	-	-	-	1,581
Financial liabilities designated at fair value	16	-		-	-	-	-	16
Lease liabilities	-	-		66	187	304	-	557
Subordinated liabilities	-	-		76	2,201	2,092	-	4,369
	<u>21,134</u>	<u>807</u>		<u>1,608</u>	<u>24,188</u>	<u>2,396</u>		<u>50,133</u>
Guarantees and commitments	43,295	-		-	-	-	-	43,295
	<u>64,429</u>	<u>807</u>		<u>1,608</u>	<u>24,188</u>	<u>2,396</u>		<u>93,428</u>
Trading liabilities								
Derivative financial instruments	3,141	-		-	-	-	-	3,141

The Company has recorded all derivative financial instrument liabilities in the "on demand" category to reflect the common market practice of terminating such liabilities at fair value upon a client's request, although the Company is generally not contractually obliged to do so. The Company considers it unlikely that, in any given period, all of the liabilities will unwind in the short term. The Company manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows. Guarantees and commitments and financial liabilities designated at fair value are shown on the basis of the earliest date they can be called. All other figures show contractual maturities.

For maturity analysis on Financial assets, please refer to notes from note 17 to note 22.

Reputational risk

Reputational risk is the potential risk that negative perceptions of the Company's conduct or business practices will adversely affect its profitability or operations.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

42. RISK MANAGEMENT (CONTINUED)

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

Given the nature of reputational risk, the Company, aligned with BAC, does not set quantitative limits to define its associated risk appetite. Through proactive risk management, the Company seeks to minimise both the frequency and impact of reputational risk events.

The reporting of the Company's reputational risk issues is captured as part of management routines for the Reputational Risk Committee. Tracking of items presented to this Committee is maintained through a reporting protocol,¹ which provides detail such as the description of the reputational risk issue, the geographical jurisdiction, the reason for escalation and the decision reached by the Committee. In addition, the Reputational Risk Committee provides updates to the Company's Board Risk Committee.

Strategic risk

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

Strategic risk is managed by proactively considering risk throughout the strategic planning process, setting the strategies within the context of the overall risk appetite tracking and analysing the performance of the strategic plan throughout the year. Strategic risk is monitored continuously by the executive management team through a number of existing processes ranging from monitoring of financial and operating performance, through the evaluation of progress in achieving strategic objectives and also with the regular assessment of earnings and risk profile throughout the year. The executive management team provides the Board with reports on progress in meeting the strategic plan, as well as whether timelines and objectives are being met and if additional or alternative actions need to be implemented.

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

The BofA Europe strategic plan is reviewed and approved annually by the Board in consideration of the capital plan, financial operating plan, liquidity requirements and risk appetite. Strategic decisions relating to BofA Europe are presented and discussed at the BofA Europe BRC and the Board.

The Routines exist to discuss the strategic risk implications of new, expanded, or modified businesses, products or services and other strategic initiatives, and to provide formal review and approval where appropriate. Material risks are considered for capital and liquidity planning. Independent risk management, Corporate Audit and other control functions provide input, challenge and oversight to FLUs and strategic decisions and initiatives relating to BofA Europe.

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**NOTES TO THE FINANCIAL STATEMENTS
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42. RISK MANAGEMENT (CONTINUED)

Regular updates to the Board on business performance and management of strategic risk take into account analyses of performance relative to the strategic plan, risk appetite, the strength of capital and liquidity positions and stress tests (which address potential macroeconomic events, changing regulatory requirements and various market growth rate assumptions). This also includes an assessment of the level of inherent risk, control effectiveness, as well as the residual risk outlook.

Capital management

The Company's objective when managing capital is to ensure sufficient level and composition of capital to support the Company's business activities and associated risk during both normal economic environment and under stress conditions.

A strong capital position is essential to the Company's business strategy and competitive position, this is supported through its capital management framework designed to ensure that the Company is adequately capitalised at all times in relation to:

- Minimum risk-based regulatory capital requirements (Pillar 1 capital set out in Regulation (EU) No 575/2013), Pillar 2 additional own funds requirements set by the ECB, as well as buffer requirements set out in Directive 2013/36/EU and O-SII buffer set by the ECB and the CBI. In addition, an internal capital buffer above those prescribed in regulation is also maintained.
- The risks faced by the Company through regular review of the current and future business activities.
- Upcoming and future regulations impacting the Company.

The framework used to manage capital within the Company is supported by regular point in time capital calculations and reporting, supplemented by forward looking projection and stress testing. Each step of the process is supported by established controls. This includes weekly, monthly and quarterly reporting to ensure there is sufficient oversight to enabling effective management of its capital adequacy position within the Company's risk appetite limits. Escalation of issues are driven by specific triggers.

The composition of the Company's regulatory capital is as follows.

	2021	2020
	\$M	\$M
Common Equity Tier 1 (equity share capital and reserves)	11,846	11,819
Tier 2 (qualifying long-term subordinated liabilities)	2,000	2,000
Total capital resources	13,846	13,819

As at the end of the current and prior years the Company exceeded external capital requirements. Capital resources for 2021 are not inclusive of audited current year profits.

Company information is included as part of the Pillar 3 disclosures of BofA Europe made available on the firm's website in accordance with part eight of the capital requirements regulations, this can be obtained via <http://investor.bankofamerica.com>.

The Company makes country by country reporting disclosures as required under capital requirements, this can be obtained via <http://investor.bankofamerica.com>.

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**NOTES TO THE FINANCIAL STATEMENTS
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42. RISK MANAGEMENT (CONTINUED)**Climate risk management**

Like all risks, climate-related and environmental risks require coordinated governance, clearly defined roles and responsibilities, and well-developed processes to ensure they are identified, measured, monitored and controlled appropriately and in a timely manner. Both physical and transitional climate-related and environmental risks may manifest in BofA Europe's seven key risk types. In 2020 the ECB published its final Guide on Climate-related and Environmental Risks. BofA Europe is enhancing its risk management framework including risk governance, in line with industry standards and regulatory requirements, in order to manage climate-related and environmental risk. The changes being made are proportionate to the nature, scale and complexity of BofA Europe's businesses and over time the framework is expected to mature from a largely qualitative to a more quantitative basis. BofA Europe currently applies a judgemental approach to the assessment of this type of financial risk.

A cross functional steering group has been established which is responsible for providing management oversight of activities related to climate-related and environmental risk and other ESG-related regulatory requirements impacting BAC's EMEA legal entities. This steering group includes senior leaders from across the three lines of defence as well as subject matter experts, and is connected to the global ESG and climate risk governance framework. The steering group is co-chaired by the Chief Risk Officer of BofA Europe. BofA Europe's Chief Risk Officer reports to the Board and Board Risk Committee of BofA Europe and provides updates to the Management Risk Committee on matters related to climate-related and environmental risk.

As part of a global bank, BofA Europe is working to meet the regulatory expectations on managing climate-related and environmental risk in line with the global climate risk management function that has been established within BAC. That function resides within Global Risk Management and oversees climate risk practices and shapes the approach to managing climate-related risks in alignment with the Risk Framework. Further detail on climate risk management, including strategy and scenario planning, risk management, governance, metrics and targets, is included in BAC's Task Force for Climate-related Financial Disclosures ("TCFD") Report and in the Environmental and Social Risk Policy Framework. Both these documents are available at www.bankofamerica.com.

43. INTEREST RATE BENCHMARK REFORM

The following table summarises the significant exposures impacted by interest rate benchmark reform as at 31 December 2021:

	GBP LIBOR \$M	USD LIBOR \$M	CHF LIBOR \$M	EUR EONIA \$M	Other LIBOR \$M
Non derivatives financial assets	755	9,909	-	-	5
Derivatives	1,410	6,459	-	224	-
Guarantees and commitments	3,146	8,436	214	-	27
	5,311	24,804	214	224	32

Exposures disclosed represent management's assessment of positions with contractual maturities after 31 December 2021, which have yet to transition. Balances are reported using the notional contract amount for all instruments.

For non-derivative instruments such as loan contracts that may be drawn in multiple currencies, the notional contract amount is disclosed based on the underlying base currency denomination of the instrument.

For derivative instruments, where contracts have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

44. FAIR VALUE DISCLOSURES

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

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

Trading account assets, financial liabilities designated at fair value and investment securities

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

Derivative assets and liabilities

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate. Derivative assets and liabilities considered Level 3 relate to interest rate swaps and credit default swaps.

Resale agreements

The fair value for certain resale agreements is estimated using a discounted cash flow model which incorporates inputs such as interest rate yield curves. Resale agreements which are measured at fair value, are generally classified as Level 2 in the fair value hierarchy.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

44. FAIR VALUE DISCLOSURES (CONTINUED)

Fair value measurement as at 31 December 2021

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Loans and advances to banks	391	-	-	391
Loans and advances to customers	-	3,201	56	3,257
Reverse repurchase agreements	-	787	-	787
Trading assets	29	1,054	551	1,634
Derivative financial instruments	-	1,498	27	1,525
Investment securities	57	566	48	671
Total assets	477	7,106	682	8,265
Trading liabilities	-	7	-	7
Derivative financial instruments	-	2,256	13	2,269
Financial liabilities designated at fair value	-	35	16	51
Total liabilities	-	2,298	29	2,327

Fair value measurement as at 31 December 2020

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Loans and advances to banks	-	790	-	790
Loans and advances to customers	-	1,434	1,016	2,450
Trading assets	128	765	637	1,530
Derivative financial instruments	-	2,298	39	2,337
Investment securities	1,117	956	48	2,121
Total assets	1,245	6,243	1,740	9,228
Derivative financial instruments	-	3,127	14	3,141
Financial liabilities designated at fair value	-	16	-	16
Total liabilities	-	3,143	14	3,157

During 2021, there were transfers of financial instruments of \$116m (2020: \$59m) between Level 1 and Level 2 of the fair value hierarchy for certain government securities within investment securities due to a change in direct price observability of these assets.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

44. FAIR VALUE DISCLOSURES (CONTINUED)

Fair values of Level 3 assets and liabilities

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

Level 3 trading assets primarily relate to loans that have unobservable model valuation inputs.

Level 3 inputs relate to mark to model financial instruments having unobservable model inputs that have an overall significant impact on the financial instrument fair value. This is true whether the financial instrument is considered a cash security, securitised product or structured derivative.

Classification on Level 3 is a result of failure to be classified on either Levels 1 or 2. It is important to note some key points regarding the use of Level 3 inputs for the purposes of estimating fair value:

- Unobservable inputs can only be used in the absence of reliable observable market data.
- If unobservable inputs are used, they must reflect the assumptions market participants would use when pricing the asset or liability, including assumptions about risk. If the Company's own data is used to develop unobservable inputs, this should be adjusted if reasonably available information suggests other market participants would use different data.
- Assumptions about risk include the risk or uncertainty inherent in a particular valuation model used to estimate fair value, as well as the inputs used by the valuation model. A fair value estimate produced from a valuation model must be adjusted for these risks if a market participant would do so in their pricing of an asset or liability. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and are significant to the overall fair value measurement are classified as Level 3 in the fair value hierarchy.

The table below presents a reconciliation of all Level 3 financial instruments measured at fair value. Level 3 assets were \$682 million as of 31 December 2021 (2020: \$1,740 million) and represented 8 percent (2020: 19 percent) of assets measured at fair value. Level 3 liabilities were \$29 million as of 31 December 2021 (2020: \$14 million).

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**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUE DISCLOSURES (CONTINUED)

	Loans and advances to customers	Trading assets	Derivative assets	Investment securities	Derivative liabilities	Financial liabilities designated at fair value	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 January 2021	1,016	637	39	48	(14)	-	1,726
Total gains/(losses) recognised within the income statement	(4)	(22)	(8)	-	(3)	(16)	(53)
Purchases	-	277	-	-	-	-	277
Sales	(764)	(178)	-	-	-	-	(942)
Issuances	6	-	-	-	-	-	6
Settlements	(202)	(175)	(4)	-	4	-	(377)
Transfer into level 3	4	19	-	-	-	-	23
Transfer out of level 3	-	(7)	-	-	-	-	(7)
Balance at 31 December 2021	56	551	27	48	(13)	(16)	653
Unrealised gains/(losses)	(19)	(85)	(8)	-	(4)	(16)	(132)

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

	Loans and advances to customers	Trading assets	Derivative assets	Investment securities	Derivative liabilities	Total
	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 January 2020	124	654	32	45	(9)	846
Total gains/(losses) recognised within the income statement	32	17	6	3	(8)	50
Purchases	9	127	-	-	-	136
Sales	(61)	(72)	-	-	-	(133)
Issuances	518	-	-	-	-	518
Settlements	(12)	(193)	(4)	-	3	(206)
Transfer into level 3	406	134	5	-	-	545
Transfer out of level 3	-	(30)	-	-	-	(30)
Balance at 31 December 2020	1,016	637	39	48	(14)	1,726
Unrealised gains/(losses)	30	(28)	8	3	(10)	3

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**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUE DISCLOSURES (CONTINUED)

31 December 2021

Product	Valuation Technique	Significant Unobservable Inputs	Unit	Input Low	Input High	Input Weighted Average	Fair Value Assets	Fair Value Liabilities
							\$M	
Loans and advances and traded loans – backed by commercial real estate assets	Discounted cash flow	Yield Price	% \$	- -	25 100	4 57	394	(16)
Loans and advances and traded loans – commercial loans	Discounted cash flow, Market comparable	Yield Prepayment speed Default rate Loss severity Price Long-dated equity volatilities	% % % % \$ %	- 10 3 35 - -	19 20 4 40 189 45	10 16 4 37 73 n/a	213	-
Equities	Discounted cash flow, Market Comparable	Yield Prepayment speed Default rates Loss severities Price Long-dated equity volatilities	% % % % \$ %	- 10 3 35 - -	20 20 4 40 186 45	10 16 4 37 73 n/a	48	
Interest Rate Derivatives	Industry standard derivative pricing	Correlation (IR/IR) Correlation (FX/IR) Long-dated inflation rates Long-dated inflation volatilities Interest rate volatilities	% % % % %	(1) (1) (10) - -	90 58 11 2 2	54 44 3 2 1	17	(13)
Credit derivatives	Discounted cash flow, Stochastic recovery correlation Model	Credit spreads Upfront points Prepayment speed Default rate Credit correlation Price	Point Point s % % \$	7 16 15 2 20 0	155 100 15 2 60 122	62 68 n/a n/a 55 66	11	

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

44. FAIR VALUE DISCLOSURES (CONTINUED)

31 December 2020

Product	Valuation Technique	Significant Unobservable Inputs	Unit	Input Low	Input High	Input Weighted Average	Fair Value Assets	Fair Value Liabilities
							\$M	
Loans and advances and traded loans – backed by commercial real estate assets	Discounted cash flow	Yield Price	% \$	- -	25 100	4 52	1,134	-
Loans and advances and traded loans – commercial loans	Discounted cash flow, Market comparables	Yield	%	-	26	9	519	-
		Prepayment speed	%	10	20	14		
		Default rate	%	3	4	4		
		Loss severity	%	35	40	38		
		Price	\$	-	142	66		
Equities	Discounted cash flow, Market comparables	Long-dated equity volatilities	%	77	77	77	48	-
		Yield	%	-	26	9		
		Prepayment speed	%	10	20	14		
		Default rates	%	3	4	4		
		Loss severities	%	35	40	38		
Interest Rate Derivatives	Industry standard derivative pricing	Long-dated equity volatilities	%	77	77	77	20	(14)
		Price	\$	-	142	66		
		Correlation (IR/IR)	%	15	96	34		
		Correlation (FX/IR)	%	-	46	3		
		Long-dated inflation rates	%	(7)	84	14		
Credit derivatives	Discounted cash flow, Stochastic recovery correlation model	Long-dated inflation volatilities	%	-	1	1	19	
		Yield	%	5	5	5		
		Upfront points	Points	0	100	75		
		Prepayment speed	%	15	100	22		
		Default rate	%	2	2	2		
		Credit correlation	%	21	64	57		
		Price	\$	0	122	69		

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44. FAIR VALUE DISCLOSURES (CONTINUED)

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

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The ranges calculated are at a BAC group level. BofA Europe is within or at those ranges.

The Company uses multiple market approaches in valuing certain of its Level 3 financial instruments. For example, market comparables and discounted cash flows are used together. For a given product, such as corporate debt securities, market comparables may be used to estimate some of the unobservable inputs and then these inputs are incorporated into a discounted cash flow model. Therefore, the balances disclosed encompass both of these techniques.

The level of aggregation and diversity within the products disclosed in the tables result in certain ranges of inputs being wide and unevenly distributed across asset and liability categories.

Loans and securities

For instruments backed by residential real estate assets, commercial real estate assets and commercial loans, debt securities and other, a significant increase in market yields, default rates, loss severities or duration would result in a significantly lower fair value for long positions. Short positions would be impacted in a directionally opposite way. The impact of changes in prepayment speeds would have differing impacts depending on the seniority of the instrument and, in the case of Collateralised Loan Obligations, whether prepayments can be reinvested.

For instruments backed by commercial real estate assets, a significant increase in real estate asset price would result in a significantly higher fair value.

Derivative assets and liabilities

For credit derivatives, a significant increase in market yield, upfront points (i.e., a single upfront payment made by a protection buyer at inception), credit spreads, default rates or loss severities would result in a significantly lower fair value for protection sellers and higher fair value for protection buyers. The impact of changes in prepayment speeds would have differing impacts depending on the seniority of the instrument.

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

Sensitivity analysis of unobservable inputs

Where the value of financial instruments is dependent on unobservable inputs, the precise level for these parameters at the balance sheet date might be drawn from a spectrum of reasonably possible alternatives. Appropriate levels for these inputs are chosen so that they are consistent with prevailing market evidence and in line with the Company's valuation control policies. The best case scenario using the input values drawn from the extreme of the ranges of reasonable possible alternatives could increase the fair value of the financial instruments concerned by 90 million (2020: \$104 million). Conversely, by taking the worst possible scenario the value could decrease by 114 million (2020: \$161 million).

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44. FAIR VALUE DISCLOSURES (CONTINUED)

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

Day one profit / (loss)

Below is the amount that has yet to be recognised in the income statement relating to the difference between the fair value at recognition (being the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less any subsequent releases. The breakdown is as follows:

	2021 \$M	2020 \$M
At 1 January	15	15
Day one profit on new trades not recognised in income statement	-	1
Settlements/disposals	(9)	(1)
At 31 December	6	15

Financial assets and liabilities carried at amortised cost

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

Reverse repurchase agreements and repurchase agreements are classified as level 2 and the carrying amount is deemed a reasonable approximation of fair value, given the short-term nature of these instruments.

Loans and advances to banks and customers held at amortised cost are classified as level 2 and have a fair value of \$33,282 million (2020: \$32,398 million).

The fair value of subordinated liabilities and other long term funding is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities and other long term funding are classified as level 2 and have a fair value of \$3,915 million (2020: \$4,009 million). All other debtors and creditors in the statement of financial position are classified as level 2. The carrying amounts are a reasonable approximation of their fair value, due to the short term nature of these instruments.

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45. RELATED PARTY TRANSACTIONS

As detailed in note 1.3, the Company has elected to take advantage of the exemption available under FRS 101 for the requirements in IAS 24 - Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of a group.

Management consider key management personnel to be represented by the Board of directors of the Company. Details of the remuneration of the directors are included in note 12.

46. CONTROLLING PARTY

The Company's immediate parent company is BANA and the ultimate parent company and controlling party is BAC, which is organised and existing under the laws of the State of Delaware in the United States of America.

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