

DON'T
STAPLE**OS AA01**Statement of details of parent law and other
information for an overseas company

Companies House

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

✗ **What this form is NOT**
You cannot use this form
an alteration of manner
with accounting requirements.

THURSDAY



A25 *AADMGM5D* #405
23/09/2021
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ①	Bank of America Europe
	Designated Activity Company
UK establishment number	B R 0 0 0 8 3 3 9

→ **Filling in this form**

Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

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.
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Name of organisation or body ③	International Financial Reporting Standards as adopted by EU
--------------------------------	--

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

OS AA01

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

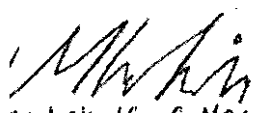
A3

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'.	● Please insert the name of the appropriate accounting organisation or body.
Name of organisation or body ●	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  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 Mervill Lynch

CORPORATE SERVICES LIMITED

Address

2 KING EDWARD STREET

Post town

LONDON

County/Region

Postcode

EC1A 1HQ

Country

DX

Telephone



Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

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



Important information

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



Where to send

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
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Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:

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



Further information

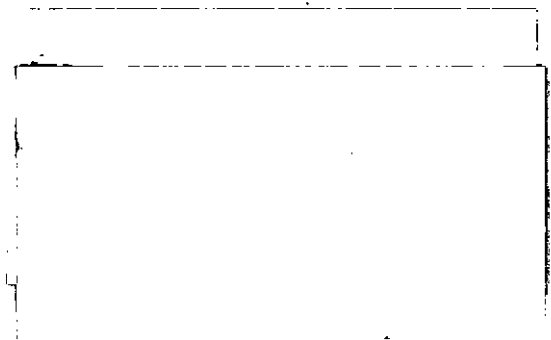
For further information, please see the guidance notes on the website at www.gov.uk/companieshouse or email enquiries@companieshouse.gov.uk

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

BANK OF AMERICA EUROPE DAC
(Formerly Bank of America Merrill Lynch International DAC)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



BANK OF AMERICA EUROPE DAC (FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)
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COMPANY INFORMATION

DIRECTORS

O.T. Bussmann (Independent non-executive director)
G.C. Carp
A.M. Finucane
S.A. James (Independent non-executive director)
N.M. Jordan (Independent non-executive director)
S. Lilly
R. McHugh (Independent non-executive director)
J.G. Murphy (Independent non-executive director)
B.R. Thompson (resigned 18 December 2020)
F. Vicario (appointed 18 December 2020)

COMPANY SECRETARY

Merrill Lynch Corporate Services Limited

REGISTERED NUMBER

229165

REGISTERED OFFICE

Two Park Place
Hatch Street
Dublin 2

INDEPENDENT AUDITORS

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
Dublin 1
Ireland

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BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020.

On 30 October 2020, the Company changed its name from Bank of America Merrill Lynch International DAC to Bank of America Europe DAC.

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.

On 30 September 2020, the Company established a new branch in Athens, Greece with banking and financing activity transferring from an existing BAC group branch on 1 November 2020. On the same day, the Company migrated certain existing business from a BAC group branch in Frankfurt, Germany into its operations within the Frankfurt branch of BofA Europe. The migrations resulted in an increase to the Company's central bank placements and deposit liabilities of approximately \$1.9 billion. In addition, 38 employees were transferred to the Company, along with access to the Euro clearing TARGET2 system.

The Company is required to maintain a minimum requirement for own funds and eligible liabilities ("MREL") as part of ensuring that it has a sufficient level of loss absorbing capacity and provide for recapitalisation in a resolution. To meet this requirement, the Company on 10 February 2020, issued \$2 billion of MREL-eligible debt.

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 year 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 or causes to be kept 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on BAC's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)**

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

PRINCIPAL ACTIVITIES

The Company provides a range of financial services and forms part of BAC's Global Banking and Markets ("GBAM") 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"). 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. Support services provided included Information Technology ("IT") and operations support, administration and Human Resources ("HR") support and real estate services.

As at 31 December 2020, the Company was rated by Fitch (AA-/F1+) and Standard & Poor's (A+/A-1).

FUTURE DEVELOPMENTS

The directors expect the principal activities of the Company to continue. Following the receipt of regulatory approval in January 2021, the Company is preparing to transfer a significant part of its remaining support services activities to the London branch of BANA.

PRINCIPAL RISK AND UNCERTAINTIES TO MARKET ENVIRONMENT

Coronavirus ("COVID-19")

In the first quarter of 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic. In an attempt to contain the spread and impact of the COVID-19 pandemic, travel bans and restrictions, quarantines, stay-at-home orders and limitations on business activity have been implemented. Additionally, there has been a decline in global economic activity, reduced global economic output and a deterioration in macroeconomic conditions globally.

This has resulted in, among other things, high rates of unemployment and underemployment and caused volatility and disruptions in the global financial markets. Although vaccines have been approved for immunisation against COVID-19 in certain countries and restrictive measures have been eased in certain areas, COVID-19 cases have significantly increased in recent months in many regions of the world compared to earlier levels. Businesses, market participants, the Company's counterparties, clients and global economies have been negatively impacted and are likely to be so for an extended period of time, as there remains significant uncertainty about the timing and strength of an economic recovery.

The Company has taken actions to mitigate the impacts of COVID-19, both locally and as part of BAC's coordinated response, which has included moving a majority of staff to a work from home posture. For further details on the impacts to the Company's employees, see the Employee matters section of the Non financial statement.

Although the macroeconomic outlook improved modestly during the second half of 2020, the future direct and indirect impact of COVID-19 on the Company's businesses, results of operations and financial condition of the Company remains highly uncertain. Should current economic conditions persist or deteriorate, this macroeconomic environment will have a continued adverse effect on the Company's businesses and results of operations and could have an adverse effect on its financial condition. For discussion on how COVID-19 has impacted the Company's assessment of provision for loan losses, see note 16.

UK Exit from the European Union ("Brexit")

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. The UK and the EU have secured a deal on trade and co-operation, the intention of which is that there will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the EU from 1 January 2021. However, this agreement does not confer cross-border trade in services rights, nor does it currently provide a determination of the concept of equivalence, for the financial services industry in the UK. 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.

BANK OF AMERICA EUROPE DAC
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DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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

In 2017, the UK Financial Conduct Authority ("FCA") announced that it would no longer compel participating banks to submit rates for LIBOR. Following the announcement, regulators, trade associations and financial industry working groups have identified recommended replacement rates for LIBOR, as well as other Interbank Offered Rates ("IBORs"), and have published recommended conventions to allow new and existing products to incorporate fallbacks or that reference these Alternative Reference Rates ("ARRs"). In late November 2020, Intercontinental Exchange ("ICE") LIBOR Benchmark Administration ("IBA"), launched a consultation process seeking feedback on the proposal to cease publication of all non-USD LIBOR (GBP, JPY, EUR, CHF) settings after 31 December 2021 (as well as one-week and two-month USD LIBOR tenors) and all remaining USD LIBOR settings after 30 June 2023. The consultation process closed on 25 January 2021 and on 5 March 2021 the FCA formally announced the completion of the assessment and confirmed the aforementioned timings.

As a result of this and other announcements, financial benchmark reforms, regulatory guidance and changes in short term interbank lending markets more generally, a major transition is in progress in global financial markets with respect to the replacement of IBORs, including LIBOR, and certain other benchmarks. The transition of IBORs to ARRs is a complex process impacting a variety of global financial markets and the Company's business and operations.

IBORs, and LIBOR in particular, are used in many of the Company's products and contracts. The discontinuation of IBORs, including LIBOR, requires the Company to transition a significant number of IBOR-based products and contracts, including related hedging arrangements. The aggregate notional amount of these products and contracts is material to the Company and there are significant risks and challenges associated with the transition which may result in significant uncertainty, or have other consequences that cannot be fully anticipated, which expose the Company to various financial, operational, supervisory, conduct and legal risks. The Company is part of a BAC-wide programme established in 2018, structured to address industry and regulatory engagement, client and financial contract changes, introduction of new products, migration of existing clients, and programme strategy and governance.

A significant majority of the Company's LIBOR-based products and contracts maturing after 2021 include or have been updated to include fallbacks to ARRs, based on market driven protocols, regulatory guidance and industry recommended fallback provisions and related mechanisms. For certain of the remaining products and contracts, the transition will be more complex, particularly where there is no industry-wide protocol or similar mechanism. The programme is executing transition plans that are intended to be in line with applicable major industry-wide IBOR product cessation and launch milestones recommended by the Alternative Reference Rates Committee ("ARRC"), a group of private-market participants and official-sector entities convened by the Federal Reserve and the Federal Reserve Bank of New York, and the Bank of England Sterling Risk Free Rate Working Group.

Employee training programmes have been developed as well as other internal and external sources of information on the various challenges and opportunities that the replacement of IBORs presents. As the transition to ARRs evolves, the Company continues to monitor and participate in the development and usage of certain ARRs, including Secured Overnight Financing Rate, Euro Short Term Rate and the Sterling Overnight Index Average. The Company has been part of BAC's key transition efforts to date, including facilitating debt issuances linked to ARRs by clients and secondary market liquidity for products linked to ARRs, and hedging arrangements, executing, trading, market making and clearing ARR-based derivatives, and launching capabilities and services to support the issuance and trading in products indexed to certain ARRs. Operational models, systems, procedures and internal infrastructure have been updated in connection with the transition to ARRs by the central clearing counterparties ("CCPs"). In October 2020, the Company adhered to the International Swaps and Derivatives Association, Inc. 2020 IBOR Fallbacks Protocol, effective 25 January 2021, which provides a mechanism to enable market participants to incorporate fallbacks for certain legacy non-cleared derivatives linked to certain IBORs.

The Company is continuing to evaluate potential regulatory, tax and accounting impacts of the transition, engage impacted clients in connection with the transition to ARRs and work actively with global regulators, industry working groups and trade associations to develop strategies for an effective transition to ARRs. The Company also continues to engage with its clients, industry working groups, trade associations and other market participants to support LIBOR transition.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

Geopolitical

The impact of COVID-19 continued to dominate events throughout the year, causing market volatility and uncertainty on a global level. Towards the end of the year the news regarding several virus vaccine breakthroughs sparked investor optimism that a return to economic normality is in sight, the significant increase in infection rates and the resulting government stimulus packages kept overall sentiment muted during the quarter and kept yields low overall.

In the UK, COVID-19 support measures for workers put in place via the furlough scheme have been extended until September 2021. Further, the government guaranteed COVID-19 business loan schemes have been extended until the end of March 2021. The schemes have already provided over £68 billion in guaranteed loans to business in all sectors of the UK economy impacted by the virus. In Europe, The European Central Bank ("ECB") increased the overall size of its Pandemic Emergency Purchase Program by €500 billion to €1.85 trillion and extended its term by 9 months to March 2022, easing the financial burden on corporates. The ECB is set to monitor the euro over the next few months to combat stagnant inflation. However, Europe's major currencies did capitalise on the weakening dollar, making strong gains over the fourth quarter of the year. In the UK and Europe, the lack of progress in deal negotiations until the very end of the year caused further political and economic challenges.

In the United States ("US"), the events surrounding the US election and President Joe Biden's transition into power drove volatility in US Treasuries yields. Following three cuts during 2019, the Fed continued rate cuts earlier in 2020 in response to the virus pandemic with an upper bound of 0.25%, and held that rate steady in the fourth quarter of 2020. Congress enacted multiple stimulus plans targeted at relief of the economic effect of the virus, varying from secondary market debt purchases, low interest loans, direct payments to individuals, and modified tax payment dates.

The Company is subject to numerous geopolitical, economic and other risks in the jurisdictions in which it operates. The Company does business in UK and various European countries in the EU, UK and certain 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.

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 (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.

OTHER 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).

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

RISK GOVERNANCE

The Board ensures suitable risk management and controls through the Board Risk Committee ("BRC"), Audit Committee, Nominations Committee, Remuneration Committee 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 Audit Committee 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 Auditors, including pre approval of any non-audit services; and the performance and independence of the Company's Internal Audit and Compliance functions.

The Nominations Committee 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 Remuneration Committee 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, the Board or other committees, as appropriate) market risk, credit risk (in conjunction with the Credit Risk Committee ("CRC")), operational risk (in conjunction with the Operational Risk Committee ("ORC")), 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).

MANAGEMENT OF CLIMATE CHANGE RISK

There is an increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change are driven by extreme weather events such as hurricanes and floods, as well as chronic longer-term shifts such as temperature increases and sea level rises. An increase in the frequency and severity of extreme weather events and natural disasters could disrupt BofA Europe's operations or the operations of clients or third parties on which BofA Europe rely. Such disasters could negatively impact BofA Europe's clients' ability to pay outstanding loans or result in the deterioration of the value of collateral or the market price of assets.

Additionally, climate change concerns could result in transition risks. Changes in consumer preferences and additional legislation and regulatory requirements, including those associated with the transition to a low-carbon economy, could increase expenses or otherwise adversely impact BofA Europe, its businesses or its clients.

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.

BANK OF AMERICA EUROPE DAC
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DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS AND DIVIDENDS

The Company's profit on ordinary activities after taxation was \$215 million (2019: \$448 million) as set out in the income statement.

The directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: \$nil).

BUSINESS REVIEW

Company profits after tax were down \$233 million on prior year, as the negative economic conditions arising from the COVID-19 pandemic negatively impacted financial results during 2020 in various respects, including contributing to increases in the Company's impairment charges for credit losses. The decline in global economic activity and falling interest rates contributed to the Company's decreased trading income and lower net interest income for the year. Other operating income declined, driven by the transfer of certain support services to the London branch of BANA in 2019; however, this has largely been offset by a corresponding decrease in administrative expenses. The discontinued support services contributed \$38 million to the Company's profitability in 2019.

Divisional performance

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

The Global Banking and Markets segment contributed \$1,413 million (2019: \$1,757 million) in terms of total operating income.

The Support Services segment contributed \$348 million (2019: \$828 million) to total operating income. This has decreased from the prior year following the transfer of the Company's Preferred Service Provider ("PSP") responsibilities and part of its related support services activities to the London branch of BANA in September 2019.

Summary income statement

	2020	2019	Change
	\$M	\$M	\$M
Net interest, fee and commission income	805	860	(55)
Net trading and fair value income	162	442	(280)
Other operating income	794	1,283	(489)
Total operating income	1,761	2,585	(824)
Administrative expenses	(791)	(1,324)	533
Depreciation and other operating expense	(473)	(478)	5
Impairment charge for credit losses	(439)	(140)	(299)
Profit before taxation	58	643	(585)

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").

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 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 charge for credit losses

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

Taxation

The Company's effective tax rate for the year is negative 270.7% (2019: positive 30.3%) driven mainly by the recognition by the Company of previously unrecognised deferred tax relating to brought forward losses. The factors affecting the tax charge for the year are detailed in note 14.

Capital

Total eligible regulatory capital (inclusive of audited current year profits) increased from \$13,786 million as at 31 December 2019 to \$13,819 million as at 31 December 2020, which consisted of \$11,819 million Tier 1 capital (2019: \$11,786 million) and \$2,000 million Tier 2 capital (2019: \$2,000 million).

The Company's total capital ratio at 31 December 2020 as reported to the CBI was 26.0% (2019: 23.7%), exceeding the minimum capital requirement.

Further information on the Company's capital requirements under the Capital Requirements Directive IV ("CRD IV") as amended by Capital Requirements Directive V ("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 Capital Requirements Directive IV ("CRD IV") as amended by Capital Requirements Directive V ("CRD V") including rules implementing the requirement for credit institutions to comply with the Liquidity Coverage Ratio ("LCR").

The Company was in excess of its regulatory liquidity requirements in both 2020 and 2019.

POLITICAL CONTRIBUTIONS

The directors have satisfied themselves that there were no political contributions during the year (2019: \$nil) that require disclosure under the Electoral Act 1997.

**BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)**

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

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. The BAC Environmental and Social Risk Policy Framework (the "ESRP Framework") forms the basis of how environmental and social risks facing BAC and its subsidiaries (including BofA Europe) are identified, measured, monitored and controlled.

The ESRP Framework applies to all BAC employees as part of their wider responsibilities for managing risk (see note 42 for further detail on the Company's approach to risk management) under the BAC risk governance framework. Environmental and social issues can cross many of the seven key risk types faced by the Company.

Leadership under the ESRP Framework is delivered through both regional and global Environmental, Social and Governance ("ESG") committees with focus on ESG embedded across the business to reflect how BAC deploys capital to drive economic and environmental progress in its communities; how the Company builds trust and credibility; and how it creates a place that people want to work at, invest in and do business with. The ESG committees engage with risk management and other management committees as necessary on environmental and social issues.

Front line units ("FLUs") and risk teams determine if a proposed transaction or relationship presents potential environmental or social risks as part of Know Your Customer ("KYC"), due diligence and other on-boarding processes. This determination is driven by a number of factors, including: cross-referencing BAC's prohibition list and heightened sensitivity list, which are both part of the ESRP Framework; understanding the customers' business, industry, management and reputation; application of BAC policies; adherence to regulation; and consultation with subject matter experts and those teams focused on customer screening and on boarding.

Set out below is a summary of the Company's approach to each of the main ESG components. Further information about BAC's approach to ESG matters can be accessed via the ESRP Framework at about.bankofamerica.com/assets/pdf/Environmental-and-Social-Risk-Policy-Framework.pdf. The BAC ESRP Framework, reporting of the ESG metrics aligned with external frameworks and the ESG performance data summary can be found online at: about.bankofamerica.com.

Environmental matters

The Company complies with and reports to Energy and Environment Agencies on the Article 8 Energy Efficiency Directive ("Article 8 EED"), 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).

As part of its strategy to address the climate change and drive sustainable use of natural resources, BAC has mobilised more than \$200 billion in capital since 2007 and committed to mobilise an aggregate of at least \$445 billion by 2030 under its Environmental Business Initiative.

BofA Europe is a member of BAC's Sustainable Finance Working Group which has been established in EMEA to review the legislative and supervisory initiatives being pursued by the EU and the UK to better understand, assess and prepare for the impact they will have primarily on the Company's platforms but also on its global franchise.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

Employee matters

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

- **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. During 2020, Talent Acquisition events and programmes which are usually run face to face have been delivered virtually as a result of the impacts of COVID-19.

- **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.

- **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 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 2020 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.

- **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 BofA Europe'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.

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

Regular updates have been provided to the Board throughout 2020 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 guidance with the local government guidelines, medical advice received from advisors, and in accordance with the Company's own internal health and safety guidelines.

**BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)**

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

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 will plan to return employees to the office on a phased approach, based upon role criticality and risk considerations of working in the office or continuing to work from home.

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 BofA Europe, see about.bankofamerica.com/assets/pdf/Modern-Slavery-Act.pdf.

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 2020, the BAC Foundation supported over 68 charities and social enterprises with financial grants and volunteer support from employees.

In addition the BAC Foundation provided 50 investments in EMEA as part of BAC's global \$100 million response to the pandemic. In EMEA, funds helped to increase medical response capacity, address food insecurity, increase access to learning as a result of school closures, and provide support to EMEA's most vulnerable populations.

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, with 1,380 employees (17%) in EMEA sharing their time and skills with community organisations. Of these volunteers 498 were employees of the Company.

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 about.bankofamerica.com/en-us/what-guides-us/vendor-management.html.

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 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.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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")

As the Company adopts BAC's global approach to ESG issues, related non-financial KPIs are typically measured on a regional or global basis. Further information on BAC reporting of ESG performance, of which the Company is a part, can be obtained at about.bankofamerica.com/assets/pdf/ESGData2019_R26_Final.pdf and at about.bankofamerica.com/en-us/what-guides-us/report-center.html?bcen=8a6b.

AUDITORS

Due to the mandatory firm rotation requirements, the Independent Auditors, PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm, have indicated their intention to resign from office in accordance with section 383(2), of the Companies Act 2014. The Board has undertaken a formal audit tender process during the year, and a successor has been identified. A resolution will be proposed at the Annual General Meeting to appoint the succeeding auditors, Mazars, Chartered Accountants and Statutory Audit Firm.

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.

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

G. Carp

B.R. Thompson (Chief Executive Officer) (resigned 18 December 2020)

F. Vicario (Chief Executive Officer) (appointed 18 December 2020)

Group non-executive directors

A.M. Finucane (Chair)

S. Lilly

Independent non-executive directors

O.T. Bussmann (appointed 31 July 2020)

S.A. James

N.M. Jordan

R. McHugh

J.G. Murphy

BANK OF AMERICA EUROPE DAC
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DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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 Independent Auditors does not involve consideration of these matters and accordingly, the Independent 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.

SUBSEQUENT EVENTS

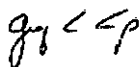
Subsequent to the year end, the Company received regulatory approval to transfer a significant part of its remaining support services activities to the London branch of BANA. Approximately 700 employees are expected to transfer from the Company to the London branch of BANA, reducing the Company's cost base and associated amounts recharged to affiliated companies. The transfer is not expected to have a material impact on the profit of the Company. The Company intends to complete the transfer during the second quarter of 2021.

In February 2021, the Company refinanced its existing MREL-eligible debt to extend the maturity date to February 2026, as part of ongoing support for the bank's resolution strategy and business model.

This report was approved by the board on 29 March 2021 and signed on its behalf.



F. Vicario
Director



G.C. Carp
Director



Independent auditors' report to the members of Bank of America Europe Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, Bank of America Europe Designated Activity Company's financial statements:

- give a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise:

- the Statement of Financial Position as at 31 December 2020;
- the Income Statement and the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

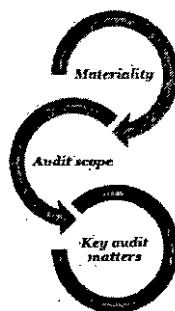
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Overview



Materiality

- Overall materiality: \$135 million (2019: \$133 million) – based on c. 1% of total capital resources

Audit scope

- We performed a full scope audit of the Company's financial statements

Key audit matters

- Valuation of level 3 traded loans and loans and advances to customers at fair value through profit and loss
- Impairment of loans and advances to customers and banks

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The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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 auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of level 3 traded loans and loans and advances to customers at fair value through profit and loss <i>Refer to note 1, note 2, note 18, note 21, note 42 and note 43 to the financial statements</i> The level 3 loans of the Company include: • a portfolio of traded loans which are acquired and then held at fair value through profit and loss until disposal; and • mortgage loans and leveraged finance loans portfolios which are held at fair value through profit and loss. Within these portfolios there are level 3 loans which by their nature are less liquid or which may show signs of distress. These are inherently more complex to value as there are limited or no external comparable market transactions upon which to base the fair value. The availability of external information in the year ended 31 December 2020 was further limited due to the impact of COVID-19 on market volatility. In estimating the fair value of these level 3 loans, management uses modelling techniques which incorporate mainly unobservable inputs. We determined this to be a key audit matter as the methodology to determine the fair values for level 3 loans is subjective in nature and involves assumptions which are highly judgemental.	We understood and evaluated the design and tested the operational effectiveness of key controls over the valuation of these level 3 loans. These controls included the performance of a monthly price verification process. The operation of this control for level 3 loans includes reperforming the valuation used by the front office using observable inputs, where available, and unobservable inputs. We used our internal valuation experts to revalue a sample of level 3 loans using independent assumptions and data that included considerations to address the impact of COVID-19 on the overall fair value. We concluded that the valuation of level 3 loans is materially within an acceptable range of reasonable estimates.



Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers and banks <i>Refer to note 1, note 2, note 16, note 17, note 18 and note 42 to the financial statements</i> IFRS 9 requires the Company to recognise impairment for loans and advances to customers and banks on an expected, forward looking basis including reflecting the Company's view of potential future economic events. The expected credit loss (ECL) calculation is a complex estimation which requires significant management judgement. Uncertainty associated with COVID-19 and its consequent implications, including lockdowns, recovery assumptions as well as government intervention and the impact on macroeconomic variables, increased the level of judgement in determining ECL provisions as at 31 December 2020. We focussed on the areas which required the greatest level of management judgement including: 1. The application of forward-looking information which is a critical part of the determination of ECL. The consideration and selection of appropriate macroeconomic factors and in particular determining the appropriate economic scenarios (base, three downside and one upside) and their associated probability weightings is a key driver of the overall ECL. 2. The determination of when there has been a Significant Increase in Credit Risk (SICR). This is one of the key judgements in the ECL process because a SICR requires the related impairment provision to be measured using a lifetime ECL rather than 12 month ECL. 3. The consideration of the need for post model overlays to address known model limitations and latent risks including risk concentration. These adjustments are by their nature inherently uncertain and the most judgemental.	With the assistance of our internal credit modelling specialists, we understood and critically assessed the overall methodology applied, including individual models used, in the measurement of ECL for the loans and advances to customers and banks to ensure that the provision was determined in accordance with IFRS 9. This included an end to end review to understand the key systems and controls used in the process. We also considered the impact of COVID-19 on ECL as part of our overall assessment. We considered the overall control framework and tested key controls including controls relating to model performance, approval of model changes, input data, credit risk rating, approval of macroeconomic scenarios for forward looking information and approval of post model overlays. We compared, on a sample basis, the base case forward looking macroeconomic assumptions to publicly available benchmark information where applicable, including the impact of COVID-19. We also considered the reasonableness of management's downside and upside assumptions. We assessed the SICR triggers identified by management for appropriateness and completeness and we re-performed key aspects of the SICR calculation. We reperformed model calculations on a sample basis. We understood and assessed the appropriateness of material post model adjustments made by management to adjust their model output for known limitations and specific risk aspects of the portfolio, including risk concentration, and those which were applied as a result of COVID-19. We concluded that the ECL provision is materially within an acceptable range of reasonable estimates.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company is structured along two operating segments, Global Banking and Markets and Support services and has nine branches in Europe. The Company's operations are supported by shared service centres in Ireland and the UK.



We determined whether the work would be performed by us or by other PwC network firms operating under our instruction (component auditors) in relation to controls and activities outside of Ireland. The most significant overseas territory is the UK.

In establishing the overall approach to the audit, we determined the type of work that needed to be performed on each financial statement line item by us or by component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been 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 in Ireland. Where work was performed by component auditors, our involvement in that work included meetings between the component 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.

Materiality

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 in aggregate 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	\$ 135 million (2019: \$ 133 million).
How we determined it	c.1% of total capital resources
Rationale for benchmark applied	The use of total capital resources is considered appropriate as it reflects the key area of focus of management and users of the financial statements who are focused on the level of capital resources as the Company is a regulated bank entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$ 6.7 million (2019: \$ 6.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of COVID-19.
- Understanding and evaluating the Company's financial forecasts and the Company's stress testing of liquidity and regulatory capital. In evaluating these forecasts we considered the Company's financial position, regulatory capital requirements, historic performance, its past record of achieving strategic objectives and management's assessment of the likely impact which COVID-19 may have on financial performance, capital and liquidity for a period of 12 months from the date on which the financial statements are authorised for issue.

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 on which the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.



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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non Financial Statement" on which we are not required to report) for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our 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 (excluding the information included in the "Non Financial Statement" on which we are not required to report).

Responsibilities for the financial statements and the audit*Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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 the directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.



A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

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

Prior financial year Non Financial Statement

We are required to report if 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 in respect of the prior financial year. We have nothing to report arising from this responsibility.

Appointment

We were appointed by the directors on 15 September 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2009 to 31 December 2020.

John McDonnell
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

30 March 2021

BANK OF AMERICA EUROPE DAC (FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)
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INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 \$M	2019 \$M
Interest income		696	961
Interest expense		(255)	(463)
NET INTEREST INCOME	4	441	498
Fee and commission income		405	370
Fee and commission expense		(41)	(8)
NET FEE AND COMMISSION INCOME	5	364	362
Net trading income		168	360
Net (expense)/income from other financial instruments at FVPL	6	(6)	82
Other operating income	7	794	1,283
TOTAL OPERATING INCOME		1,761	2,585
Administrative expenses	8	(791)	(1,324)
Depreciation and amortisation	23, 24	(75)	(104)
Other operating expense	9	(398)	(374)
Impairment charge for credit losses		(439)	(140)
TOTAL OPERATING EXPENSES		(1,703)	(1,942)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		58	643
Taxation on profit on ordinary activities	14	157	(195)
PROFIT FOR THE FINANCIAL YEAR		215	448

During the year, there were no discontinued operations. In the prior year, profit before tax of \$38 million from discontinued operations was included in the results above. See note 3 for further details.

The notes on pages 25 to 106 form part of these financial statements.

BANK OF AMERICA EUROPE DAC (FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)
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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 \$M	2019 \$M
Profit for the financial year		215	448
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		16	12
Movement in fair value of debt instruments at FVOCI		-	(1)
Items that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit obligations		(22)	(17)
		(6)	(6)
Total comprehensive income for the financial year		209	442

The notes on pages 25 to 106 form part of these financial statements.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 \$M	2019 \$M
ASSETS			
Cash held at central banks	15	13,076	9,155
Loans and advances to banks *	17	9,250	8,612
Loans and advances to customers *	18	26,270	28,802
Reverse repurchase agreements	19	8,000	5,500
Market and client receivables	20	2,428	1,328
Trading assets	21	1,530	1,544
Investment securities	22	2,121	1,617
Derivative financial instruments *		2,337	1,594
Property, plant and equipment	23	99	95
Right-of-use assets	24	465	488
Other assets *	25	702	250
TOTAL ASSETS		66,278	58,985
LIABILITIES			
Deposits by banks *	27	22,744	27,787
Deposits by customers	28	19,581	11,788
Debt securities	29	1,285	814
Market and client payables	30	1,581	781
Derivative financial instruments		3,141	2,261
Financial liabilities designated at fair value		16	16
Other liabilities	31	1,538	1,453
Accruals *	33	129	75
Subordinated liabilities	34	4,000	2,000
Retirement benefit obligations	35	206	164
TOTAL LIABILITIES		54,221	47,139

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020 (CONTINUED)

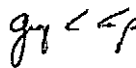
	Note	2020 \$M	2019 \$M
CAPITAL AND RESERVES			
Called up share capital	36	32	32
Share premium account	37	9,061	9,061
Other reserves	37	87	71
Profit and loss account	37	2,877	2,682
TOTAL EQUITY		12,057	11,846
TOTAL LIABILITIES AND EQUITY			
		66,278	58,985

The financial statements were approved and authorised for issue by the board on 29 March 2021.



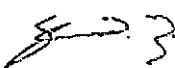
F. Vicario

Director



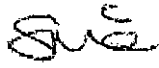
G.C. Carp

Director



S. Lilly

Director



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

The notes on pages 25 to 106 form part of these financial statements.

* Prior period re-presented – for more information refer to note 1.1

BANK OF AMERICA EUROPE DAC
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**STATEMENT OF CHANGES IN EQUITY
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
Movement in fair value of debt securities at FVOCI	-	-	-	-	-
Actuarial losses relating to retirement schemes	-	-	-	(22)	(22)
Total comprehensive income for the year	-	-	16	193	209
Group share based payment costs	-	-	-	51	51
Group share based payment costs recharged	-	-	-	(49)	(49)
At 31 December 2020	32	9,061	87	2,877	12,057

The notes on pages 25 to 106 form part of these financial statements.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	\$M	\$M	\$M	\$M	\$M
At 1 January 2019	32	9,061	60	2,231	11,384
Comprehensive income for the year					
Profit for the year	-	-	-	448	448
Currency translation differences	-	-	12	-	12
Movement in fair value of debt securities at FVOCI	-	-	(1)	-	(1)
Actuarial losses relating to retirement schemes	-	-	-	(17)	(17)
Total comprehensive income for the year	-	-	11	431	442
Group share based payment costs	-	-	-	84	84
Group share based payment costs recharged	-	-	-	(64)	(64)
At 31 December 2019	32	9,061	71	2,682	11,846

The notes on pages 25 to 106 form part of these financial statements.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

Certain information included in the notes to the financial statements, clearly identified as unaudited, does not form part of the audited financial statements.

Re-presentation of 2019 accrued interest income and interest payable

Previously interest accrued on loans and advances to banks and loans and advances to customers was included in prepayments and accrued income, this has been re-presented in loans and advances to banks and loans and advances to customers, for the current and prior year. Other prepayments previously presented in this line item have been re-presented within other assets. Furthermore, previously interest accrued on deposits by banks was included in accruals, this has been re-presented in deposits by banks, for the current and prior year. The impact as at 31 December 2019 is summarised below:

- Loans and advances to banks increased by \$6 million
- Loans and advances to customers increased by \$76 million
- Other assets increased by \$5 million
- Prepayments and accrued income reduced by \$87 million
- Deposits by banks increased by \$29 million
- Accruals reduced by \$29 million

Re-presentation of 2019 sinking fund transactions

Deposit balances associated with certain derivative transactions were previously recorded as part of the derivative assets balance. This has been re-presented in loans and advances to banks, for the current and prior year. This change increased loans and advances to banks and decreased derivative financial assets by \$319 million as at 31 December 2019.

BANK OF AMERICA EUROPE DAC
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

1.2 NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2020 that have had a material impact on the Company.

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 paragraphs 40 (A-D) of IAS 1 - Presentation of Financial Statements to disclose a third balance sheet on retrospective accounting policy changes, restatements, or reclassifications;
- 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

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.

1.6 FOREIGN CURRENCIES

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

Monetary assets and liabilities denominated in foreign currencies are 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.

BANK OF AMERICA EUROPE DAC
(FORMERLY BANK OF AMERICA MERRILL LYNCH INTERNATIONAL DAC)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

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 fair value through profit or loss ("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 conducts two operational activities, comprising Global Banking and Markets and the Support Services business. Segment performance is not analysed geographically as the Company operates primarily within EMEA.

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

Calculation of interest income and expense

Interest income and expense for all financial instruments measured at amortised cost or at 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 net trading income and net income on other financial instruments at FVPL, respectively.

1.9 NET TRADING INCOME

Net trading income was termed as dealing profits in the prior year financial statements and 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

Loan facility and arrangement fees are deferred and recognised over the life of the facility.

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 represents 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 recognised 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

1.12 SERVICE FEE INCOME

Service fee income consists of charges made to affiliated companies 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 occur or as the service is provided, and is recorded within other operating income.

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 recognised 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 SCHEMES

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

For the 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 directly 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

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 staff costs when they are due.

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 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

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 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 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 fair value through profit or loss.

Loan commitments that the entity 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.

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:

Freehold property	– 5 to 40 years
Leasehold improvements	– 1 to 22 years
Office equipment	– 1 to 15 years

Depreciation policies are reviewed at appropriate intervals and are revised in line with actual useful life compared to original estimates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 measures loss allowances at an amount equal to 12-month ECL for financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.

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

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

- For financial assets that are not credit-impaired 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 at the reporting date, the difference 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.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified, or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income ("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. Contractual interest coupon on resale agreements at amortised cost is recorded within net interest income.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS
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1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS
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1. ACCOUNTING POLICIES (CONTINUED)

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 43 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.

NOTES TO THE FINANCIAL STATEMENTS
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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, and the impact of COVID-19 on 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 Company's accounting policy for valuation of financial instruments is included in notes 1.15 and 1.16. 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.

The Company has continued to focus on its governance and controls around valuing financial instruments, including where the decline in global economic activity during the year has resulted in increased use of unobservable inputs or models to determine fair values. Note 43 further discusses the valuation of financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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
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3. SEGMENTAL ANALYSIS

The segmental analysis of the Company's results and financial position is set out below. The Company operates two principal activities, comprising the Global Banking and Markets business and Support Services.

	Global Banking and 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

	Global Banking and Markets \$M	Support Services \$M	Total \$M
2019			
Net interest income	498	-	498
Net fee and commission income	362	-	362
Net trading income	360	-	360
Net income from other financial instruments at FVPL	82	-	82
Other operating income	455	828	1,283
Total operating income before expenses and impairment	1,757	828	2,585
Total operating expenses	(1,166)	(776)	(1,942)
Profit before taxation	591	52	643

The Support Services segment does not contribute 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 by segment is not considered necessary.

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3. SEGMENTAL ANALYSIS (CONTINUED)

As a result of the transfers to the London branch of BANA on 1 September 2019, the Company's Support Services activities have reduced. Throughout 2020, the Company has continued to provide support services to companies in the BAC group for its remaining activities.

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

	Global Banking and 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>
	Global Banking and Markets \$M	Support Services \$M	Total \$M
2019			
Investment banking fees	223	-	223
Other fee and commission income	147	-	147
Service fee income	396	828	1,224
	<u>766</u>	<u>828</u>	<u>1,594</u>

Discontinued operations

Components of the Support Services business which had been fully transferred to the London branch of BANA during 2019 were disclosed as discontinued operations, with the following amounts recognised in the income statement:

	2019 \$M
Other operating income	498
Depreciation	(24)
Administrative expenses	(436)
Profit before tax attributable to discontinued operations	<u><u>38</u></u>

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4. NET INTEREST INCOME

	2020 \$M	2019 \$M
Loans and advances to customers and banks	570	784
Debt instruments at FVOCI	3	8
Interest income on liabilities	96	16
Other	27	153
Interest receivable and similar income	696	961
Deposits by banks and customers	(110)	(320)
Subordinated debt	(66)	(81)
Interest expense on assets	(68)	(50)
Interest on lease liabilities	(11)	(12)
Interest payable and similar expense	(255)	(463)
Net interest income	441	498

Amounts above include:

Net interest expense due to affiliated companies	(68)	(171)
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All amounts included within net interest income are calculated using the effective interest method.

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**NOTES TO THE FINANCIAL STATEMENTS
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5. NET FEE AND COMMISSION INCOME

	2020 \$M	2019 \$M
Investment banking		
Financial advisory services	193	148
Loan syndication fees	38	75
Total investment banking fees	<u>231</u>	<u>223</u>
Other fee and commission income	174	147
Total fee and commission income	<u>405</u>	<u>370</u>
Fee and commission expense	(41)	(8)
Net fee and commission income	<u>364</u>	<u>362</u>

Other fee and commission income is comprised primarily of loan commitment fees.

The net fee and commission income above includes income of \$367 million (2019: \$294 million) and expense of \$41 million (2019: \$8 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 (EXPENSE)/ INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FVPL

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

	2020 \$M	2019 \$M
Derivatives	(42)	(45)
Equity investments	3	-
Loans and advances	33	127
	<u>(6)</u>	<u>82</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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7. OTHER OPERATING INCOME

	2020 \$M	2019 \$M
Service fee income	709	1,224
Other	85	59
	<u>794</u>	<u>1,283</u>

8. ADMINISTRATIVE EXPENSES

	2020 \$M	2019 \$M
Staff costs (see note 11)	544	975
Other	247	349
	<u>791</u>	<u>1,324</u>

9. OTHER OPERATING EXPENSE

	2020 \$M	2019 \$M
Service fee expense	398	372
Other	-	2
	<u>398</u>	<u>374</u>

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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:

	2020 \$000	2019 \$000
Fees for the audit of the Company	1,509	1,384
Fees for audit related assurance services	24	42
	<u>1,533</u>	<u>1,426</u>

Included within the fees for audit related assurance services are fees of \$24,000 (2019: \$22,000) in relation to Country by Country Reporting. There are no fees charged this year (2019: \$20,000) for other agreed upon procedures.

11. STAFF COSTS

	2020 \$M	2019 \$M
Wages and salaries	463	839
Social security costs	49	89
Defined benefit and defined contribution pension scheme costs (see note 35)	32	47
	<u>544</u>	<u>975</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:

	2020 No.	2019 No.
Support, operations and technology	2,454	5,207
Trading, sales and advisory	404	387
	<u>2,858</u>	<u>5,594</u>

The average monthly number of employees relating to support, operations and technology is lower for 2020 as a result of the transfer of support services to the London branch of BANA on 1 September 2019.

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12. DIRECTORS' REMUNERATION

Of the directors that served during the year, 9 (2019: 9) were remunerated by the Company and the amounts included below are those relating to their services as directors for the Company based on either an estimated time allocation basis or a contractual basis.

	2020 \$'000	2019 \$'000
Non-executive directors fees	773	705
Emoluments	10,216	18,358
Pension contributions	39	64
	11,028	19,127

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").

An RSU is deemed equivalent in fair market value to one share of BAC common stock. In 2020 the RSUs are authorised to settle predominantly in shares of common stock of BAC which generally vest in three 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 2020 was \$36 million (2019: \$123 million), including any additional amounts payable or receivable under the chargeback agreement with BAC.

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14. TAXATION

	2020 \$M	2019 \$M
Current tax		
Foreign tax	(86)	185
Total current tax	<u>(86)</u>	<u>185</u>
Deferred tax		
Origination and reversal of timing differences (see note 26)	(71)	11
Impact of change in foreign branch tax rate	-	(1)
Total deferred tax	<u>(71)</u>	<u>10</u>
Income tax (credit)/expense	<u><u>(157)</u></u>	<u><u>195</u></u>

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

	2020 \$M	2019 \$M
Profit before tax	<u>58</u>	<u>643</u>
Tax calculated at Irish tax rates applicable of 12.50%	7	80
Tax effects of:		
Expenses not deductible for tax purposes	18	-
Impact of foreign taxes	(86)	185
Utilisation of prior year losses	(97)	(80)
Other temporary differences leading to an increase in taxation	1	11
Impact of change in foreign branch tax rate	-	(1)
Total tax (credit)/charge for the year	<u><u>(157)</u></u>	<u><u>195</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS
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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 2020 of \$98 million (2019: \$2 million), see note 26.

The Company has unrecognised deferred tax assets as at 31 December 2020 totalling \$341 million (2019: \$371 million), primarily in relation to losses.

15. CASH HELD AT CENTRAL BANKS

	2020	2019
	\$M	\$M
Balances with central banks other than mandatory reserve deposits	12,689	8,862
Mandatory reserve deposits with central banks	387	293
	<u>13,076</u>	<u>9,155</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

The key inputs in the measurement of ECL are the term structure of 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.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower extension options) over which it 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 terminate a loan commitment or guarantee.

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 is implemented through the use of macroeconomic scenarios applied over the forecasted life of the assets.

As any one economic outlook is inherently uncertain, the Company leverages multiple scenarios which represent a range of possible outcomes. The scenarios that are chosen each quarter and the weighting

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

given to each scenario depend on a variety of factors including recent economic events, leading economic indicators, internal and third-party economist views, and industry trends. As at 31 December 2020 five scenarios were used. These included:

- a baseline scenario in line with consensus estimates;
- two separate downside scenarios which assume a significantly longer period until economic recovery;
- 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 2020 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, gross domestic product ("GDP") levels and corporate bond spreads. The weighted economic outlook assumes that the UK unemployment rate and EU Developed Market High Yield at the end of 2021 would be around 6.6% and 8.1% respectively. Additionally, in this economic outlook, UK GDP returns to pre-pandemic levels by the end of 2023 with GDP in France and Germany returning by mid-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 scenarios		
	2021	2021	2022	2023
UK Unemployment %	6.9	6.7 – 8.3	4.9 – 7.4	4.1 – 6.9
UK Real GDP %	9.7	0.2 – 10.9	(0.1) – 4.8	0.5 – 2.1
FR Real GDP %	7.9	0.9 – 8.6	1.6 – 3.6	2.0 – 2.9
GE Real GDP %	5.3	(1.6) – 6.6	(0.9) – 3.8	(0.3) – 1.4
EU Developed Market High Yield Spread %	6.3	5.0 – 19.4	5.3 – 14.6	6.0 – 8.4

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.

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. The Company considers these forecasts to represent the best estimate of the possible outcomes and the chosen scenarios are appropriately representative of the range of possible scenarios. For further illustration of the potential sensitivity to scenario weightings, see the sensitivity section below.

Credit risk ratings

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.

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

Determining 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 in IFRS 9 of a backstop based on delinquency, such that instruments which are more than 30 days past due would 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

Given the widespread impact of the COVID-19 pandemic on the global economy, a number of industries have been and will likely continue to be adversely impacted. The Company continues to monitor all industries, particularly higher risk industries which are experiencing or could experience a more significant impact to their financial condition.

The Company continues to 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, 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 example, factors the Company considers include changes in business conditions, the nature and size of the portfolio, portfolio concentrations and the effect of external factors such as competition and legal and regulatory requirements, among others. Further, the Company considers the inherent uncertainty in qualitative models that are built on historical data.

The calculation of ECL can also be impacted by unanticipated changes in asset quality of the portfolio, such as increases in risk rating downgrades in the portfolio. In addition, while the Company has incorporated its estimated impact of COVID-19 into its ECL allowance, the ultimate impact of the pandemic is still unknown, including how long economic activities will be impacted and what effect the unprecedented levels of government fiscal and monetary actions will have on the economy and the Company's credit losses.

The Company's overall assessment of the deterioration in economic outlook and client credit standing during the year, including the impact of COVID-19, is reflected in the increase in ECL from \$152 million to \$401 million as at 31 December, and the increase in proportion of Stage 2 and Stage 3 loans from 4% to 16% of the total population.

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 primary third party loan and lease population.

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

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 included leveraged loans and industries such as travel and entertainment, which have been adversely impacted by the effects of COVID-19, as well as the energy sector. 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 2020 amounted to \$113 million (2019: \$80 million).

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, for example:

- In relation to stage determination, calculating ECL for all loans on a 12-month basis would reduce the allowance by approximately \$64 million (2019: \$26 million), whereas moving all loans to the lifetime loss horizon would increase the ECL allowance by approximately \$88 million (2019: \$61 million).
- Running staging and ECL calculations using only the upside scenario would reduce the ECL allowance by approximately \$78 million (2019: \$6 million), whereas using only the moderate downside scenario would increase ECL allowance by approximately \$42 million (2018: \$58 million).
- The ECL allowance would increase by \$597 million (2019: \$183 million) if the most severe macroeconomic scenario was weighted to 100% probability.

Note that the above sensitivities do not incorporate the potential impact on model overlays. This disclosure is intended to illustrate the relative sensitivity of the ECL allowance calculation and is not predictive or indicative of future loss experience.

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 as 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 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.

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16. PROVISION FOR LOAN LOSS (CONTINUED)

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 2020	3	-	3
New financial assets originated or purchased	1	-	1
Transfers to lifetime ECLs – not credit impaired loans	(3)	3	-
Changes in PDs / LGDs / EADs	1	-	1
Changes to model assumptions and methodologies	-	-	-
Financial assets derecognised during the period (not written off)	-	-	-
As at 31 December 2020	2	3	5

	12 month ECL	Lifetime ECL Not-credit impaired loans	Total
	\$M	\$M	\$M
As at 1 January 2019	1	-	1
New financial assets originated or purchased	4	-	4
Changes in PDs/LGDs/EADs	-	-	-
Changes to model assumptions and methodologies	(1)	-	(1)
Financial assets derecognised during the year (not written off)	(1)	-	(1)
As at 31 December 2019	3	-	3

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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 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
Changes in PDs / LGDs / EADs	(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
	12 month ECL	Lifetime ECLs Not credit- impaired loans	Lifetime ECLs Credit-impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2019	13	54	12	79
Transfers to 12 month ECLs	3	(3)	-	-
Transfers to lifetime ECLs – not credit impaired loans	(1)	1	-	-
Transfers to lifetime ECLs – credit impaired loans	(1)	(14)	15	-
New financial assets originated or purchased	20	25	9	54
Changes in PDs / LGDs / EADs	3	(13)	17	7
Changes to model assumptions and methodologies	19	3	6	28
Amounts written off	-	-	(26)	(26)
Financial assets derecognised during the year (not written off)	(20)	(29)	(6)	(55)
Exchange and other adjustments	1	-	-	1
As at 31 December 2019	37	24	27	88

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 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
Changes in PDs / LGDs / EADs	(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
	12 month ECL	Lifetime ECLs Not credit-impaired loans	Lifetime ECLs Credit-impaired loans	Total
	\$M	\$M	\$M	\$M
As at 1 January 2019	4	13	4	21
Transfers to 12 month ECLs	1	(1)	-	-
Transfers to lifetime ECLs – credit impaired loans	-	(3)	3	-
New guarantees / commitments originated or purchased	21	12	-	33
Changes in PDs / LGDs / EADs	4	15	6	25
Changes to model assumptions and methodologies	18	(2)	3	19
Guarantees / commitments derecognised during the year (not written off)	(16)	(10)	(5)	(31)
Exchange and other adjustments	(4)	(2)	-	(6)
As at 31 December 2019	28	22	11	61

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2020 and that are still subject to enforcement activity is \$61million (2019: \$87 million).

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

During the first half of the year the gross carrying amount increased by \$4 billion reflecting customer draw downs on existing facilities. In that same period, loans identified as stage 2 and stage 3 increased by approximately \$4 billion and \$1 billion respectively as the initial impacts of the global economic uncertainty were assessed within the ECL model. Subsequently, the second half of the year saw paydowns by a number of customers, resulting in a reduction overall in the gross carrying value. The year on year reduction in loans and advances was \$3 billion at 31 December 2020. Loan volumes in stage 2 and stage 3 have however remained largely consistent since the half year, reflecting the ongoing

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16. PROVISION FOR LOAN LOSS (CONTINUED)

challenging economic environment. This, when combined with the further regular updates to the Company's assessment of macro-economic variables, resulted in an increase in the ECL on the gross carrying amount to \$234 million at 31 December 2020.

The overall allowance (including ECL on off-balance sheet guarantees and commitments) increased from an amount of \$152 million as at 31 December 2019 to \$401 million as at 31 December 2020.

Definition of default

The Company considers a financial asset to be in default 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.

Any exposure which is deemed to be in default per the Article 178 of the CRR is deemed to be non-performing. The Company treats non-performing exposures as defaulted exposures for provisioning, capital and financial reporting purposes.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, 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. Data from external sources is also used in the consideration of whether a borrower is in default.

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. The total impact of loan modifications for the year was \$2 million increase in the carrying amount of the loans modified (2019: \$nil). The total amortised cost of loans pre-modification gross of loan loss provisions totalled \$136 million (2019: \$nil).

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

17. LOANS AND ADVANCES TO BANKS

	2020 \$M	2019 \$M
Gross carrying amount of loans and advances to banks at amortised cost	8,465	7,898
Allowance for impairment (see note 16)	(5)	(3)
	<u>8,460</u>	<u>7,895</u>
Loans and advances to banks at FVPL	790	717
Total loans and advances to banks	<u>9,250</u>	<u>8,612</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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17. LOANS AND ADVANCES TO BANKS (CONTINUED)

	2020 \$M	2019 \$M
Analysed by maturity		
On demand	722	833
Within three months	6,631	4,906
Between three months and one year	810	970
Between one year and five years	702	1,587
After more than five years	390	319
	<u>9,255</u>	<u>8,615</u>
 Allowance for impairment	 (5)	 (3)
Total loans and advances to banks	<u>9,250</u>	<u>8,612</u>

Amounts above include:

Due from affiliated companies	<u>6,786</u>	<u>5,608</u>
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Previously accrued income of \$6 million on loans to banks was included in prepayments, this has been re-presented in loans and advances to banks for the current and prior year.

Included within loans and advances to banks at FVPL is an amount of \$390 million (2019: \$319 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. These balances were previously presented within derivative assets, and have been re-presented to loans and advances for the current and prior year.

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NOTES TO THE FINANCIAL STATEMENTS
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18. LOANS AND ADVANCES TO CUSTOMERS

	2020 \$M	2019 \$M
Gross carrying amount of loans and advances to customers at amortised cost	24,049	26,547
Allowance for impairment (see note 16)	(229)	(88)
	<u>23,820</u>	<u>26,459</u>
Loans and advances to customers at FVPL	2,450	2,343
Total loans and advances to customers	<u>26,270</u>	<u>28,802</u>
	2020 \$M	2019 \$M
Analysed by maturity		
On demand	313	258
Within three months	1,253	2,090
Between three months and one year	2,053	3,683
Between one year and five years	17,553	18,590
More than five years	5,327	4,269
	<u>26,499</u>	<u>28,890</u>
Allowance for impairment	(229)	(88)
Total loans and advances to customers	<u>26,270</u>	<u>28,802</u>

Previously accrued income of \$76 million on loans to customers were included in prepayments, this has been re-presented in loans and advances to customers for the current and prior year.

Loans and advances to customers includes \$38 million (2019: \$57 million) of finance lease receivables. See note 24 for further details regarding these finance leases.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

19. REVERSE REPURCHASE AGREEMENTS

	2020 \$M	2019 \$M
Analysed by maturity		
On demand	<u>8,000</u>	<u>5,500</u>

All reverse repurchase agreements are held with an affiliated company and are repayable on demand.

20. MARKET AND CLIENT RECEIVABLES

	2020 \$M	2019 \$M
On demand	<u>2,428</u>	<u>1,328</u>

Market and client receivables relate to cash collateral and trades pending settlement, and are considered by the Company to be repayable on demand.

21. TRADING ASSETS

	2020 \$M	2019 \$M
Government debt securities	311	268
Traded loans	1,182	1,194
Other debt securities	37	82
	<u>1,530</u>	<u>1,544</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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21. TRADING ASSETS (CONTINUED)

	2020 \$M	2019 \$M
Analysed by maturity		
Within three months	55	60
Between three months and one year	96	107
Between one year and five years	500	350
More than five years	879	1,027
	<u>1,530</u>	<u>1,544</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 after more than five years.

22. INVESTMENT SECURITIES

	2020 \$M	2019 \$M
Debt instruments held at FVOCI	2,073	1,572
Equity instruments held at FVPL	48	45
	<u>2,121</u>	<u>1,617</u>

	2020 \$M	2019 \$M
Analysed by maturity		
Equity instruments	48	45
Within three months	1,716	463
Between three months and one year	357	1,109
	<u>2,121</u>	<u>1,617</u>

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NOTES TO THE FINANCIAL STATEMENTS
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23. PROPERTY, PLANT AND EQUIPMENT

	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 the year include fixed assets acquired by the Company from an affiliated entity as part of establishing a new branch in Athens, Greece.

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NOTES TO THE FINANCIAL STATEMENTS
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23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold property \$M	Leasehold improvements \$M	Office equipment \$M	Total \$M
COST OR VALUATION				
At 1 January 2019	95	169	398	662
Additions	-	50	45	95
Transfers intra group	(95)	(14)	(396)	(505)
Disposals	-	(10)	(1)	(11)
At 31 December 2019	-	195	46	241
DEPRECIATION				
At 1 January 2019	67	116	287	470
Charge for the year	1	16	28	45
Transfers intra group	(68)	(6)	(286)	(360)
Disposals	-	(8)	(1)	(9)
At 31 December 2019	-	118	28	146
NET BOOK VALUE				
At 31 December 2019	-	77	18	95
At 31 December 2018	28	53	111	192

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**NOTES TO THE FINANCIAL STATEMENTS
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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 2020, total lease income was \$1 million (2019: \$2 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:

	2020 \$M	2019 \$M
Less than one year	12	19
One to two years	10	11
Two to three years	10	10
Three to four years	3	10
Four to five years	2	4
More than five years	1	3
	<u>38</u>	<u>57</u>
Discounted unguaranteed residual value	-	-
Unearned finance income	-	-
Net investment in lease	<u><u>38</u></u>	<u><u>57</u></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.

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NOTES TO THE FINANCIAL STATEMENTS
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24. LEASES (CONTINUED)

Lessee arrangements

The Company's lessee arrangements predominantly consist of leases for premises, in addition the Company leases equipment assets and has identified embedded leases in relation to its third party data colocation arrangements.

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 7.9 years at 31 December 2020 (2019: 8.3 years).

	Real estate \$M	Equipment \$M	Total \$M
2020			
Carrying amount as at 1 January 2020	488	-	488
Carrying amount as at 31 December 2020	<u>465</u>	<u>-</u>	<u>465</u>
	Real estate \$M	Equipment \$M	Total \$M
2019			
Carrying amount on transition at 1 January 2019	551	4	555
Carrying amount as at 31 December 2019	<u>488</u>	<u>-</u>	<u>488</u>

Additions to the right-of-use assets during the year totalled \$34 million (2019: \$8 million).

Lease liabilities

	2020 \$M	2019 \$M
Maturity analysis – contractual undiscounted cash flows		
Less than one year	66	69
One to five years	187	173
More than five years	304	335
	<u>557</u>	<u>577</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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24. LEASES (CONTINUED)

	2020 \$M	2019 \$M
Lease liabilities included in the statement of financial position		
Current	57	59
Non-current	436	442
Total lease liability (see note 31)	493	501

	2020 \$M	2019 \$M
Amounts recognised in profit or loss		
Interest on lease liabilities	11	12
Amortisation charge for the year	55	59
Variable lease payments not included in the measurement of lease liabilities	<u>14</u>	<u>17</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 \$73 million (2019: \$77 million).

25. OTHER ASSETS

	2020 \$M	2019 \$M
Amounts owed by group undertakings	206	163
Deferred tax (see note 26)	98	2
Taxation	140	47
Prepayments	4	5
Other	254	33
	<u>702</u>	<u>250</u>

Previously, prepayments were included in an individual separate note, this has been re-presented within other assets for the current and prior year. Amounts owed by group undertakings are repayable on demand. The other category primarily relates to amounts receivable in the process of settlement.

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**NOTES TO THE FINANCIAL STATEMENTS
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26. DEFERRED TAXATION

	2020 \$M	2019 \$M
At 1 January	2	88
Credited / (charged) to profit or loss (see note 14)	71	(11)
Impact of change in foreign branch tax rate	-	1
Transfer of assets from/to an affiliated company	25	(76)
At 31 December	98	2

The deferred tax asset is made up as follows:

	2020 \$M	2019 \$M
Accelerated capital allowances	29	8
Timing differences relating to compensation and social security costs	19	20
Losses	72	-
Timing differences in relation to capital gains	3	-
Timing differences in relation to the provision for loans	(25)	(26)
	98	2

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

	2020 \$M	2019 \$M
Analysed by maturity		
On demand	552	235
Within three months	45	45
Between three months and one year	874	5,903
Between one year and five years	21,273	19,988
After five years	-	1,616
	<u>22,744</u>	<u>27,787</u>

Amounts above include:

Due to affiliated companies	22,570	27,764
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Previously interest payable on deposits were included in accruals and deferred income, this has been re-presented in deposits by banks for the current and prior year.

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NOTES TO THE FINANCIAL STATEMENTS
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28. DEPOSITS BY CUSTOMERS

	2020 \$M	2019 \$M
Analysed by maturity:		
On demand	18,985	10,702
Within three months	-	112
Between three months and one year	69	63
Between one year and five years	527	911
	<u>19,581</u>	<u>11,788</u>

Amounts above include:

Due to affiliated companies	959	1,442
	<u>959</u>	<u>1,442</u>

29. DEBT SECURITIES

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

	2020 \$M	2019 \$M
Within three months	762	56
Between three months and one year	523	758
	<u>1,285</u>	<u>814</u>

30. MARKET AND CLIENT PAYABLES

	2020 \$M	2019 \$M
Analysed by maturity:		
On demand	<u>1,581</u>	<u>781</u>

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

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31. OTHER LIABILITIES

	2020 \$M	2019 \$M
Amounts owed to affiliated companies	302	289
Tax creditor	11	90
Provisions (see note 32)	174	74
Lease liabilities (see note 24)	493	501
Other	558	499
	<u>1,538</u>	<u>1,453</u>

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

32. PROVISIONS

	2020 \$M	2019 \$M
Loan commitments and financial guarantees issued (see note 16)	167	61
Other provisions	7	13
	<u>174</u>	<u>74</u>

At 31 December 2020, the Company had a provision of \$7 million (2019: \$13 million) under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets to reflect the payment that is expected to be made to the UK tax authority, Her Majesty's Revenue and Customs ("HMRC") in respect of VAT on Head Office expense allocations. The timing of the expected payment was not known at that time. HMRC are conducting an industry-wide review of the VAT treatment of these services. This amount is also reflected in other creditors and accruals. 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

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**NOTES TO THE FINANCIAL STATEMENTS
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33. ACCRUALS

	2020 \$M	2019 \$M
Other accruals	<u>129</u>	<u>75</u>

Previously interest payable on deposits were included in accruals and deferred income, this has been re-presented in deposits by banks for the current and prior year.

34. SUBORDINATED LIABILITIES

	2020 \$M	2019 \$M
US Dollar denominated loan notes maturing in 2027 and bearing interest at 3 month USD LIBOR plus 176 basis points	1,000	1,000
US Dollar denominated loan notes maturing in 2028 and bearing interest at 3 month USD LIBOR plus 133 basis points	1,000	1,000
US Dollar denominated internal MREL loan maturing in 2022 and bearing interest at Federal Funds Rate plus 69 basis points.	2,000	-
	<u>4,000</u>	<u>2,000</u>

The 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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35. RETIREMENT BENEFIT SCHEMES

The Company participates in a number of defined benefit and defined contribution pension schemes in the Republic of Ireland and across 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. They are a percentage of each employee's salary for the Ireland Plan and are based on member contributions and length of service. 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 \$25 million (2019: \$42 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 Dutch, French 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 BAC 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 2020 were \$1 million (2019: \$1 million).

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.

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

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.

All of the above plans are unfunded, with the exception of the MLCMB DCP which is partially funded by insurance contracts.

Total defined benefit employer contributions made in 2020 were \$3 million (2019:\$3 million).

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") benefit plan in Italy and an unfunded retirement indemnity plan 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 2020 were \$0.2 million (2019: \$0.2 million).

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35. RETIREMENT BENEFIT SCHEMES (CONTINUED)

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

	2020 \$M	2019 \$M
Fair value of scheme assets	112	96
Present value of defined benefit obligations	(318)	(260)
Net pension liability on statement of financial position	<u><u>(206)</u></u>	<u><u>(164)</u></u>
Current service cost	5	3
Interest expense	2	2
Net defined benefit pension expense on income statement	<u><u>7</u></u>	<u><u>5</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
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35. RETIREMENT BENEFIT SCHEMES (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	-	(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)
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
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35. RETIREMENT BENEFIT SCHEMES (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 2019	(95)	(125)	(5)	76	4	4	(225)	84	(141)
Transferred in	-	(7)	-	-	-	-	(7)	-	(7)
	(95)	(132)	(5)	76	4	4	(232)	84	(148)
Amounts recognised in P&L:									
Current service cost	(2)	(1)	-	-	-	-	(3)	-	(3)
Interest (expense)/income	(1)	(2)	-	1	-	-	(3)	1	(2)
	(3)	(3)	-	1	-	-	(6)	1	(5)
Amounts recognised in OCI:									
Return on plan assets (excluding interest income)	-	-	-	10	-	1	-	11	11
Gain/(loss) from change in experience assumptions	3	(1)	-	-	-	-	2	-	2
Loss from change in financial assumptions	(13)	(16)	(1)	-	-	-	(30)	-	(30)
	(10)	(17)	(1)	10	-	1	(28)	11	(17)
Foreign exchange differences	(1)	2	-	1	-	-	1	1	2
Contributions									
Employer	-	-	-	1	3	-	-	4	4
Plan participants	(1)	-	-	1	-	-	(1)	1	-
	(2)	2	-	3	3	-	-	6	6
Payments from plan									
Benefit payments	3	3	-	(3)	(3)	-	6	(6)	-
At 31 December 2019	(107)	(147)	(6)	87	4	5	(260)	96	(164)

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

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

	2020	2019
Discount rate	0.42%	0.68%
Pension growth rate	1.08%	1.12%
CPI inflation	<u>1.56%</u>	<u>1.68%</u>
	2020	2019
Life expectancy for males aged 65	20.5	20.5
Life expectancy for females aged 65	23.4	23.4
Life expectancy at 65 for male currently aged 50	22.2	22.2
Life expectancy at 65 for females currently aged 50	<u>24.8</u>	<u>24.8</u>

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:

	2020 \$M	2019 \$M
Equities	38	31
Debt	28	26
Real Estate	20	18
Other	26	21
	<u>112</u>	<u>96</u>

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35. RETIREMENT BENEFIT SCHEMES (CONTINUED)

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

	Defined benefit obligation 2020 \$M	Defined benefit obligation 2019 \$M
Current value as at 31 December	318	260
Following a 1.0% increase in the discount rate		
Change	(53)	(40)
New value	265	219
Following a 1.0% increase in the inflation assumption	-	-
Change	21	24
New value	339	284
Following an increase in life expectancy of one year	-	-
Change	11	9
New	329	269

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.

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36. SHARE CAPITAL

	2020 \$M	2019 \$M
Authorised, allotted, called up and fully paid		
32,067,011 (2019: 32,067,011) Ordinary shares of \$1.00 each	<u>32</u>	<u>32</u>

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 share premium on BofA Europe to \$9,061 million.

Profit and loss account

The difference between equity-settled share based payment 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 \$2 million debit (2019: \$20 million debit) and is included within profit and loss reserves.

Other 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 2020	(1)	13	59	71
Current year movement	-	16	-	16
As at 31 December 2020	<u>(1)</u>	<u>29</u>	<u>59</u>	<u>87</u>

38. OTHER FINANCIAL COMMITMENTS

	2020 \$M	2019 \$M
Undrawn commitments	41,630	39,722
Purchase commitments	943	437
Financial guarantees	722	1,734
	<u>43,295</u>	<u>41,893</u>

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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 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 and deferred income	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
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39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

31 December 2019

	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	9,155	-	-	-	-	9,155
Loans and advances to banks	7,895	717	-	-	-	8,612
Loans and advances to customers	26,459	2,343	-	-	-	28,802
Reverse repurchase agreements	5,500	-	-	-	-	5,500
Market and client receivables	1,328	-	-	-	-	1,328
Trading assets	-	1,544	-	-	-	1,544
Investment securities	-	-	-	1,572	45	1,617
Derivative financial instruments	-	1,594	-	-	-	1,594
Other assets	163	-	-	-	-	163
Financial assets	50,500	6,198	-	1,572	45	58,315
Deposits by banks	27,787	-	-	-	-	27,787
Deposits by customers	11,788	-	-	-	-	11,788
Debt securities	814	-	-	-	-	814
Market and client payables	781	-	-	-	-	781
Derivative financial instruments	-	2,261	-	-	-	2,261
Financial liabilities designated FVPL	-	-	16	-	-	16
Other liabilities	790	-	-	-	-	790
Accruals and deferred income	75	-	-	-	-	75
Subordinated liabilities	2,000	-	-	-	-	2,000
Financial liabilities	44,035	2,261	16	-	-	46,312

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NOTES TO THE FINANCIAL STATEMENTS
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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 partnerships.

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

This 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.

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 \$103 million (2019: \$53 million), which is the same as its fair value for both reporting periods. The maximum exposure to loss for these assets is \$121 million (2019: \$69 million) and the total size of the structured entities is \$2,343 million (2019: \$1,359 million). There was no material income received by the Company during 2020 nor 2019 in relation to these transactions.

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40. TRANSFERRED ASSETS AND UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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 (2019: \$nil) with a maximum exposure to loss of \$28 million (2019: \$8 million). The amounts relating to the prior year have been re-presented to more accurately reflect the nature and extent of the Company's involvement with these entities.

During the year the Company has not provided any non contractual financial or other support to these unconsolidated structured entities.

41. OFFSETTING

The following table presents financial instruments that are subject to enforceable master netting arrangements and other similar agreements but not offset:

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>
31 December 2019				
	Gross amount presented \$M	Financial instrument netting \$M	Cash collateral \$M	Net amount \$M
Assets				
Derivative financial instruments	<u>1,594</u>	<u>(473)</u>	<u>(651)</u>	<u>470</u>
Liabilities				
Derivative financial instruments	<u>2,261</u>	<u>(473)</u>	<u>(1,253)</u>	<u>535</u>

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.

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41. OFFSETTING (CONTINUED)

Cash collateral

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

42. RISK MANAGEMENT

Legal entity risk governance

BAC has established a risk governance framework (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 and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. 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 and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (re-pricing 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 (options risk). Interest rate risk arises in BofA Europe's non-trading book from differences in re-pricing, rate and maturity characteristics between its assets and liabilities. Interest rate risk is measured as the potential change in net interest income or economic value of equity caused by movements in market interest rates.

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42. RISK MANAGEMENT (CONTINUED)

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 2020 and 2019. Additionally, high and low VaR is presented independently for each risk category and overall.

	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
	Year end 2019 \$000	High 2019 \$000	Average 2019 \$000	Low 2019 \$000
99% Daily VaR				
Credit spread risk	5,622	6,493	5,386	3,984
Currency risk	1,357	3,428	1,593	55
Interest rate risk	426	1,882	1,252	342
Total	5,718	7,279	5,840	4,332

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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42. RISK MANAGEMENT (CONTINUED)

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 in to, 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

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.

The primary credit risks of the Company relate to its commercial lending activities. The Company 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.

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42. RISK MANAGEMENT (CONTINUED)

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.

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 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
	14,735	34,107	13,570	2,786	65,198	(234)	64,964
Guarantees and commitments	1,439	29,766	11,065	1,025	43,295	(167)	43,128
	16,174	63,873	24,635	3,811	108,493	(401)	108,092

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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 2019	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash held at central banks	3,653	5,468	34	-	9,155	-	9,155
Loans and advances to banks	-	7,421	1,066	128	8,615	(3)	8,612
Loans and advances to customers	1,802	17,163	8,949	976	28,890	(88)	28,802
Reverse repurchase agreements	-	5,500	-	-	5,500	-	5,500
Market and client receivables	-	1,218	-	110	1,328	-	1,328
Trading assets	20	-	-	1,524	1,544	-	1,544
Investment securities - debt	1,572	-	-	-	1,572	-	1,572
Derivative financial instruments	61	851	671	11	1,594	-	1,594
	<u>7,108</u>	<u>37,621</u>	<u>10,720</u>	<u>2,749</u>	<u>58,198</u>	<u>(91)</u>	<u>58,107</u>
Guarantees and commitments	<u>1,125</u>	<u>30,082</u>	<u>9,472</u>	<u>1,214</u>	<u>41,893</u>	<u>(61)</u>	<u>41,832</u>
	<u>8,233</u>	<u>67,703</u>	<u>20,192</u>	<u>3,963</u>	<u>100,091</u>	<u>(152)</u>	<u>99,939</u>

For financial instruments within the scope of the impairment provisions of IFRS 9, 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).

	AAA to A AA	A to BBB	BB and lower	Not rated	Total gross amount	Impairment Allowance	Overall exposure
31 December 2020- Stage 1	\$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	-	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
	<u>14,268</u>	<u>30,607</u>	<u>6,562</u>	<u>1,450</u>	<u>52,887</u>	<u>(44)</u>	<u>52,843</u>
Guarantees and commitments	<u>892</u>	<u>25,266</u>	<u>5,201</u>	<u>19</u>	<u>31,378</u>	<u>(63)</u>	<u>31,315</u>
	<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>

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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 2019 -Stage 1							
Cash held at central banks	3,653	5,468	34	-	9,155	-	9,155
Loans and advances to banks	-	6,704	1,066	128	7,898	(3)	7,895
Loans and advances to customers	1,802	15,975	6,958	582	25,317	(37)	25,280
Reverse repurchase agreements	-	5,500	-	-	5,500	-	5,500
Market and client receivables	-	1,218	-	110	1,328	-	1,328
Investment securities - debt	1,572	-	-	-	1,572	-	1,572
	7,027	34,865	8,058	820	50,770	(40)	50,730
Guarantees and commitments	1,124	29,704	5,992	237	37,057	(28)	37,029
	8,151	64,569	14,050	1,057	87,827	(68)	87,759
	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
	547	4,747	5,967	-	11,261	(220)	11,041
	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 2019 - Stage 2							
Loans and advances to customers	-	-	627	20	647	(24)	623
Guarantees and commitments	-	-	442	-	442	(22)	420
	-	-	1,069	20	1,089	(46)	1,043
	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
	-	-	1,122	-	1,122	(74)	1,048

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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 2019 - Stage 3							
Loans and advances to customers	-	1	581	1	583	(27)	556
Guarantees and commitments	-	-	121	6	127	(11)	116
	-	1	702	7	710	(38)	672

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.

	2020 Maximum exposure to credit risk \$M	2020 Identifiable mitigation \$M	2019 Maximum exposure to credit risk \$M	2019 Identifiable mitigation \$M
Cash held at central banks	13,076	-	9,155	-
Loans and advances to banks	9,250	-	8,612	-
Loans and advances to customers	26,270	8,456	28,802	9,943
Reverse repurchase agreements	8,000	8,000	5,500	5,500
Market and client receivables	2,428	2,394	1,328	1,253
Trading assets	1,530	357	1,544	309
Investment securities	2,073	-	1,572	-
Derivative financial instruments	2,337	1,638	1,594	1,124
Other assets	206	-	163	-
	65,170	20,845	58,270	18,129
Guarantees and commitments	43,295	882	41,893	408
	108,465	21,727	100,163	18,537

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.

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42. RISK MANAGEMENT (CONTINUED)

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 repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

The Company mitigates the credit risk exposure for certain loans and loan commitments by purchasing credit risk protection in the form of credit derivatives. As at 31 December 2020, these derivative contracts provided notional principal protection of \$389 million (2019: \$101 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 2020			
Loans and advances to customers	826	271	-
31 December 2019			
Loans and advances to customers	581	117	-

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 2020, 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.

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42. RISK MANAGEMENT (CONTINUED)

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.

	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
	9,255	26,499	8,000	2,073	43,295
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
	9,255	26,499	8,000	2,073	43,295
Portfolio concentration by sector					
Central banks	-	-	-	-	-
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
	9,255	26,499	8,000	2,073	43,295

Within loans and advances to non-financial corporations at 31 December 2020 was \$4,441 million relating to higher-risk segments that include industries such as travel and entertainment, which have been adversely impacted by the effects of COVID-19, as well as the energy sector. Guarantees and commitments included exposures totalling \$6,049 million to these sectors.

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42. RISK MANAGEMENT (CONTINUED)

	Loans and advances to banks \$M	Loans and advances to customers \$M	Reverse repurchase agreements \$M	Debt financial instruments at FVOCI \$M	Guarantees and commitments \$M
As at 31 December 2019					
Gross amount	8,615	28,890	5,500	1,572	-
Amount committed / guaranteed	-	-	-	-	41,893
	<u>8,615</u>	<u>28,890</u>	<u>5,500</u>	<u>1,572</u>	<u>41,893</u>
Portfolio concentration by geography					
Austria	-	84	-	-	996
Belgium	111	785	-	-	746
Denmark	-	240	-	-	497
France	319	2,206	-	57	7,804
Germany	56	1,652	-	-	4,050
Ireland	40	1,531	-	-	851
Italy	-	1,614	-	-	1,625
Luxembourg	-	2,512	-	-	3,788
Netherlands	-	2,417	-	-	4,166
Spain	7	1,875	-	-	1,150
Switzerland	-	890	-	-	1,750
UK	168	7,636	-	1,492	10,562
USA	5,519	224	5,500	-	344
Other	2,395	5,224	-	23	3,564
	<u>8,615</u>	<u>28,890</u>	<u>5,500</u>	<u>1,572</u>	<u>41,893</u>
Portfolio concentration by sector					
Central banks	-	-	-	-	-
Central governments	-	552	-	1,572	-
Non-financial corporations	-	18,288	-	-	27,818
Credit institutions	8,615	-	5,500	-	743
Other financial corporations	-	10,050	-	-	13,332
	<u>8,615</u>	<u>28,890</u>	<u>5,500</u>	<u>1,572</u>	<u>41,893</u>

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 2020 there were no customer receivables past due (2019: \$nil).

Security and collateral

At 31 December 2020, 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 \$9,040 million (2019: \$6,285 million). The actual fair value of financial assets accepted as collateral that have been used, sold or repledged was \$880 million (2019: \$675 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. At 31 December 2020, the Company had delivered cash collateral of \$1,713 million (2019: \$1,328 million) against contractual commitments under derivative liability positions.

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42. RISK MANAGEMENT (CONTINUED)

Compliance and operational risk (unaudited)

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 seeks to anticipate and assess compliance risks to core businesses and respond to these risks effectively should they materialise. Whilst the Company strives to prevent compliance violations in everything it does, the Company cannot fully eliminate compliance risk, but manage it by defining risk tolerances to reduce the Company's exposure to financial loss, reputational harm or regulatory sanctions.

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. The Company has designed an operational risk management programme which incorporates and documents the process for identifying, measuring, monitoring, controlling and reporting operational risk information to executive management and the BofA Europe Board of Directors, or appropriate board-level committees. The Company manages operational risk by defining risk tolerances to reduce the Company's exposure to financial loss, reputational harm or regulatory sanctions.

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 risk are managed through an integrated set of controls and processes to address external and internal risks, including a complex and dynamic regulatory environment and the evolving products, services and strategies of the FLUs and control functions. Every employee of the Company is responsible for understanding these risks and to identify, mitigate and escalate compliance and operational risks and issues.

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.

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.

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42. RISK MANAGEMENT (CONTINUED)

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 Businesses 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 ("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 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

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 Board, BofA Europe BRC, and BofA Europe Senior Management.

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42. RISK MANAGEMENT (CONTINUED)

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 \$M	<3mths \$M	>3mths <1yr \$M	>1yr <5yrs \$M	>5yrs \$M	Total \$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
Subordinated liabilities	-	-	76	2,201	2,092	4,369
Lease liabilities	-	-	66	187	304	557
	<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	<u>43,295</u>	-	-	-	-	<u>43,295</u>
	<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
	On demand \$M	<3mths \$M	>3mths <1yr \$M	>1yr <5yrs \$M	>5yrs \$M	Total \$M
31 December 2019						
Non-trading financial liabilities						
Deposits by banks	235	45	5,903	19,988	1,616	27,787
Deposits by customers	10,702	112	63	911	-	11,788
Debt securities	-	56	741	-	-	797
Market and client payables	781	-	-	-	-	781
Financial liabilities designated at fair value	16	-	-	-	-	16
Subordinated liabilities	-	-	66	261	2,237	2,564
Lease liabilities	-	-	69	173	335	577
	<u>11,734</u>	<u>213</u>	<u>6,842</u>	<u>21,333</u>	<u>4,188</u>	<u>44,310</u>
Guarantees and commitments	<u>41,456</u>	<u>437</u>	-	-	-	<u>41,893</u>
	<u>53,190</u>	<u>650</u>	<u>6,842</u>	<u>21,333</u>	<u>4,188</u>	<u>86,203</u>
Trading liabilities						
Derivative financial instruments	2,261	-	-	-	-	2,261

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.

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42. RISK MANAGEMENT (CONTINUED)

Reputational risk (unaudited)

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

Reputational risk items 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.

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.

At the enterprise level, reputational risk is reviewed by the 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.

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, 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 (unaudited)

Strategic risk is the risk resulting to current or projected financial condition and operational readiness 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 through the assessment of effective delivery of strategy. Strategic risk is monitored continuously by the Executive Management Team through a number of existing processes ranging from monitoring of financial and operating performance, through to the management of the Recovery Plan and also with the regular assessment of earnings and risk profile throughout the year. The Executive Management Team provides the BofA Europe 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.

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42. RISK MANAGEMENT (CONTINUED)

Strategy execution and risk management involves a formal planning and approval process. The BofA Europe Strategic Plan is set within the context of overall risk appetite and the strategic planning process includes an evaluation of the internal and external environment and its strengths, weaknesses, opportunities and threats.

The BofA Europe Strategic Plan is reviewed and signed-off by the Board. Strategic decisions relating to BofA Europe are presented and discussed at the BofA Europe BRC and the Board.

Routines exist to discuss the Strategic Risk implications of new, expanded or modified businesses, products or services and other strategic initiatives, and to provide approvals where appropriate. 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.

Regular updates to the BofA Europe 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 under CRD IV as amended by CRD V) and Pillar 2 / individual capital guidance ("ICG") set by the CBI and relevant CRD IV as amended by CRD V and CBI buffers and the application of an internal capital buffer above those prescribed in regulation
- 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:

	2020	2019
	\$M	\$M
Common Equity Tier 1 (equity share capital and reserves)	11,819	11,786
Tier 2 (qualifying long-term subordinated liabilities)	2,000	2,000
Total capital resources	<u>13,819</u>	<u>13,786</u>

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

As at 31 December 2020 the Company exceeded external capital requirements. Capital resources are 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 can be obtained via <http://investor.bankofamerica.com>.

Climate risk management (unaudited)

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.

NOTES TO THE FINANCIAL STATEMENTS
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43. 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.

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

Fair value measurement as at 31 December 2020

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Loans and advances to customers	-	1,434	1,016	2,450
Loans and advances to banks	-	790	-	790
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

Fair value measurement as at 31 December 2019

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Loans and advances to customers	-	2,219	124	2,343
Loans and advances to banks	-	717	-	717
Trading assets	-	890	654	1,544
Derivative financial instruments	-	1,562	32	1,594
Investment securities	57	1,515	45	1,617
Total assets	57	6,903	855	7,815
Derivative financial instruments	-	2,252	9	2,261
Financial liabilities designated at fair value	-	16	-	16
Total liabilities	-	2,268	9	2,277

During 2020, there were transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy for certain government securities within trading assets and investment securities due to a change in direct price observability for these assets. There were transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy for certain government securities within trading assets during 2019.

Fair values of Level 3 assets and liabilities

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

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43. FAIR VALUE DISCLOSURES (CONTINUED)

Level 3 loans and advances to customers and 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 loan or 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 \$1,740 million as of 31 December 2020 (2019: \$855 million) and represented 19 percent (2019: 11 percent) of assets measured at fair value. Level 3 liabilities were \$14 million as of 31 December 2020 (2019: \$9 million).

	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 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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43. FAIR VALUE DISCLOSURES (CONTINUED)

The transfers into Level 3 from Level 2 during the year were due to lack of observable market pricing data subsequent to purchase or issuance. 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	Financial liabilities designated at fair value	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 January 2019	30	848	5	45	(5)	(4)	919
Total gains/(losses) recognised within the income statement	(9)	73	12	-	(5)	(1)	70
Purchases	-	188	-	-	-	-	188
Sales	-	(185)	-	-	-	-	(185)
Issuances	96	-	-	-	-	-	96
Settlements	(8)	(443)	(12)	-	1	5	(457)
Transfer into level 3	23	244	27	-	-	-	294
Transfer out of level 3	(8)	(71)	-	-	-	-	(79)
Balance at 31 December 2019	124	654	32	45	(9)	-	846
Unrealised gains/(losses)	(10)	(19)	12	-	(5)	-	(22)

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

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

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43. 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		
Long-dated equity volatilities	%	77	77	77				
Equities	Discounted cash flow, Market comparables	Yield	%	-	26	9	48	-
		Prepayment speed	%	10	20	14		
		Default rates	%	3	4	4		
		Loss severities	%	35	40	38		
		Long-dated equity volatilities	%	77	77	77		
Price	\$	-	142	66				
Interest Rate Derivatives	Industry standard derivative pricing	Correlation (IR/IR)	%	15	96	34	20	(14)
		Correlation (FX/IR)	%	-	46	3		
		Long-dated inflation rates	%	(7)	84	14		
		Long-dated inflation volatilities	%	-	1	1		
Credit derivatives	Discounted cash flow, Stochastic recovery correlation model	Yield	%	5	5	5	19	
		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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43. FAIR VALUE DISCLOSURES (CONTINUED)

31 December 2019

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	%	-	30	14	394	-
					100			
			\$	-		55		
Loans and advances and traded loans – commercial loans	Discounted cash flow, Market comparables	Yield	%	1	20	6	384	-
		Prepayment speed	%	10	20	13		
		Default rate	%	3	4	4		
		Loss severity	%	35	40	38		
		Price	\$	-	142	72		
		Long-dated equity volatilities	%	35	35	35		
Equities	Discounted cash flow, Market comparables	Yield	%	1	20	6	45	-
		Prepayment speed	%	10	20	13		
		Default rates	%	3	4	4		
		Loss severities	%	35	40	38		
		Price	\$	-	142	68		
Interest Rate Derivatives	Industry standard derivative pricing	Correlation (IR/IR)	%	15	94	52	12	(9)
		Correlation (FX/IR)	%	-	46	2		
		Long-dated inflation rates	%	(23)	56	16		
		Long-dated inflation volatilities	%	-	1	1		
Credit derivatives	Discounted cash flow, Stochastic recovery correlation model	Yield	%	5	5	5	20	-
		Upfront points	Points	0	100	63		
		Prepayment speed	%	15	100	22		
		Default rate	%	1	4	2		
		Loss severity	%	35	35	35		
		Price	\$	0	104	73		

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43. FAIR VALUE DISCLOSURES (CONTINUED)

Loans and securities

For commercial loans, a significant increase in market yields, default rates, loss severities or duration would result in a significantly lower fair value for long positions. 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. Were the Company to have valued the financial instruments concerned using input values drawn from the extremes of the ranges of reasonable possible alternatives then as at 31 December 2020, they could have increased fair value by as much as \$104 million (2019: \$75 million) or decreased fair value by as much as \$161 million (2019: \$57 million).

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.

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43. FAIR VALUE DISCLOSURES (CONTINUED)

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:

	2020 \$M	2019 \$M
At 1 January	15	-
Day one profit on new trades not recognised in income statement	1	15
Settlements/disposals	(1)	-
At 31 December	15	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 \$32,398 million (2019: \$33,397 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 \$4,009 million (2019: \$2,098 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.

44. 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.

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45. EVENTS AFTER THE REPORTING DATE

Subsequent to the year end, the Company received regulatory approval to transfer a significant part of its remaining support services activities to the London branch of BANA. Approximately 700 employees are expected to transfer from the Company to the London branch of BANA, reducing the Company's cost base and associated amounts recharged to affiliated companies. The transfer is not expected to have a material impact on the profit of the Company. The Company intends to complete the transfer during the second quarter of 2021.

In February 2021, the Company refinanced its existing MREL-eligible debt to extend the maturity date to February 2026, as part of ongoing support for the bank's resolution strategy and business model.

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/.