Merrill Lynch Kingdom of Saudi Arabia Company

Pillar 3 Disclosure

As at 31 December 2017

Contents

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List of Abbreviations

BAC	Bank of America Corporation
CFP	Contingency Funding Plan
CMA	Capital Market Authority
EMEA	Europe, Middle East, Africa
Fitch	Fitch Ratings, Inc.
FLU	Front Line Unit
GRM	Global Risk Management
ICAAP	Internal Capital Adequacy Assessment Process
MLKSA	Merrill Lynch Kingdom of Saudi Arabia
Moody’s	Moody’s Investors Service, Inc.
S&P	Standard & Poor’s
SAMA	Saudi Arabian Monetary Agency
SAR	Saudi Riyals
USD	United States Dollars

1. Introduction

1.1. Overview and Purpose of Document

This document contains the Pillar 3 disclosures as at 31 December 2017 in respect of capital and risk management for Merrill Lynch Kingdom of Saudi Arabia Company ("MLKSA"), a Saudi Arabian Closed Joint Stock Company.

The Basel II framework was implemented by the Capital Market Authority ("CMA") through its Prudential Rules in 2013. The Prudential Rules consist of three Pillars, Pillar 1 is defined as "Minimum Capital Requirements", Pillar 2 "Assessment of All Risks" and Pillar 3 "Disclosure and Reporting". The aim of Pillar 3 is to encourage market discipline by allowing market participants to access key information regarding the capital adequacy of institutions through a prescribed set of disclosure requirements.

The document provides details on the capital resources available to MLKSA ("Capital Resources") and the regulatory defined Pillar 1 minimum capital requirements for MLKSA ("Minimum Capital Requirements"), and demonstrates that MLKSA has Capital Resources in excess of these requirements and robust risk management and controls.

1.1.1. Merrill Lynch Kingdom of Saudi Arabia Company

MLKSA is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010245128 issued in Riyadh on Safar 29, 1429H (corresponding to March 7, 2008), CMA license No. 07066-37 dated 26 Jumadah Al-Awwal 1428H (corresponding to June 12, 2007). The Company received its full CMA operating license in January 2011.

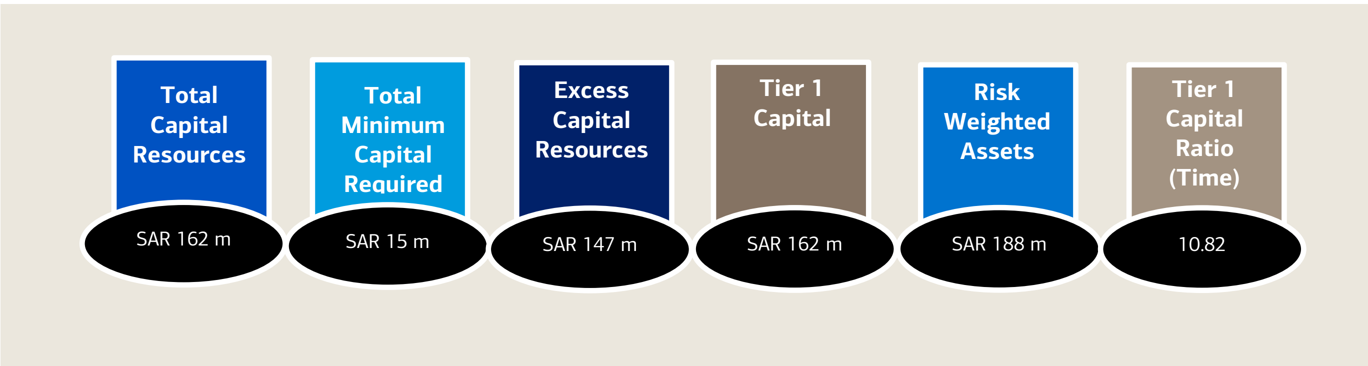
MLKSA is Bank of America Corporation's ("BAC" or "the Company") Saudi Arabian broker-dealer. MLKSA is a wholly-owned indirect subsidiary of BAC. MLKSA has its office in Riyadh, in Saudi Arabia, and plays a key role within the wider BAC group, providing access to the Saudi Arabian market for Global Banking and Global Markets clients. MLKSA is BAC's exclusive Global Markets trading entity in Saudi Arabia.

The activities of MLKSA are to engage in dealing activities in its capacity as an agent and principal and to undertake underwriting, arranging, advisory and custody services for securities.

1.1.2. MLKSA's Capital Position as at 31 December 2017

MLKSA has Capital Resources of SAR 162.3 million made up exclusively of Tier 1 Capital. MLKSA has a Tier 1 Capital Ratio (time) of 10.82 (defined by the CMA as Tier 1 Capital over Total Minimum Capital Requirement) and a surplus over Total Minimum Capital Requirements of SAR 147.3 million. Figure 1 illustrates MLKSA's key capital metrics.

Figure 1. Summary of Key Metrics as at 31st December 2017



1.2. Basis of Preparation

The information contained in these disclosures has been prepared in accordance with regulatory capital adequacy concepts and CMA Prudential Rules. The information is not directly comparable with the annual financial statements and the disclosures are not required to be audited by the external auditors.

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

These disclosures are published on both MLKSA and BAC corporate websites:
http://investor.bankofamerica.com
www.ml-ksa.com

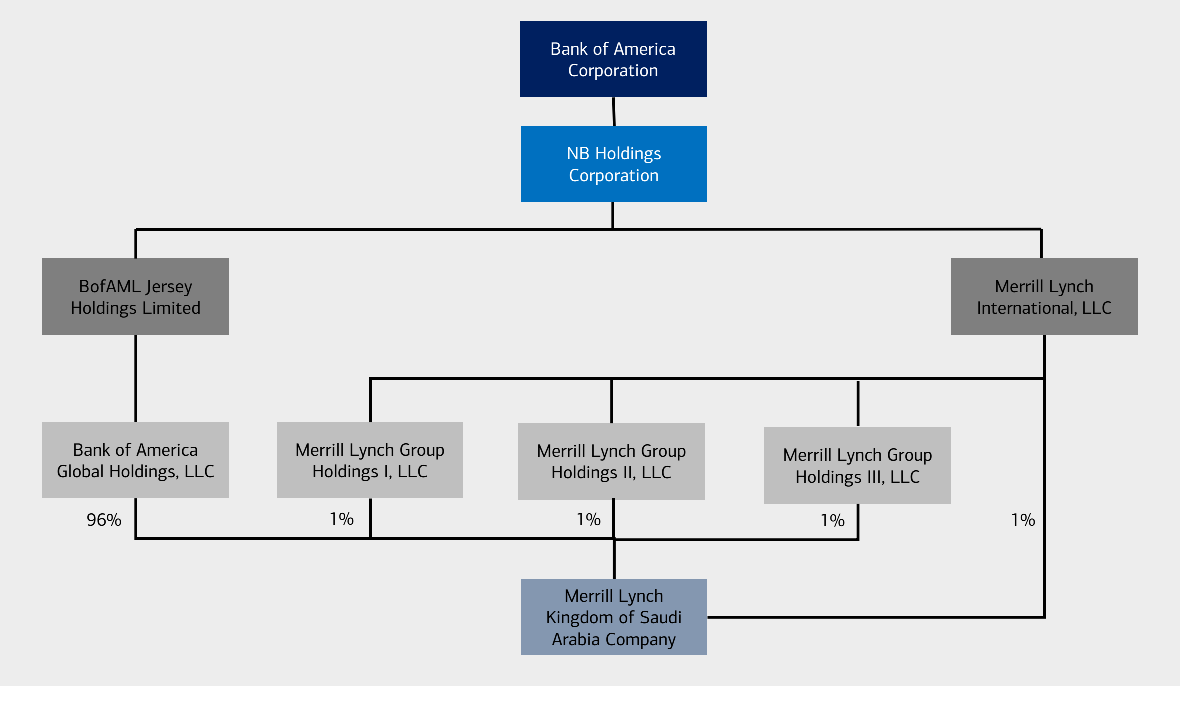
1.3. Operation, Structure and Organisation

MLKSA has a key role within the wider BAC group, by providing Saudi Arabian market access for Global Banking and Global Markets clients. MLKSA is BAC's exclusive Global Markets trading entity in Saudi Arabia.

The principal activities of MLKSA are to engage in dealing activities in its capacity as an agent and principal and to undertake underwriting, arranging, advisory and custody services for securities.

For a full BAC organisation chart, please refer to the investor relations website at http://investor.bankofamerica.com.

Figure 2. Organisation Chart



2. Capital Resources and Minimum Capital Requirements

2.1. Capital Resources

2.1.1. Summary of Capital Resources in 2017

Capital resources represent the amount of regulatory capital available to an entity in order to cover all risks. Defined under the CMA's Prudential Rules, capital resources are designated into 2 tiers, Tier 1 and Tier 2 Capital. Tier 1 Capital is the highest quality of capital and typically represents equity and audited reserves. Tier 2 Capital typically consists of subordinated debt capital instruments, and capital contributions not meeting the conditions of Tier 1.

MLKSA's Capital Resources are composed entirely of Tier 1 Capital.

Table 1. Capital Resources

(SAR in Thousands)	**2017**	**2016**
Fully Paid Up Ordinary Share Capital	**143,000**	**143,000**
Statutory Reserve	**5,047**	**4,505**
Profit and Loss Account and Other Reserves	**16,445**	**11,573**
Total Tier 1 Capital Before Deductions	**164,492**	**159,078**
Deferred tax assets	**(2,209)**	**(2,208)**
Tier 1 Capital	**162,283**	**156,871**
Tier 2 Capital	**0**	**0**
Total Capital Resources (net of deductions)	**162,283**	**156,871**

2.1.2. Key Movements in 2017

MLKSA's Tier 1 Capital base increased from SAR 156.9 million in 2016 to SAR 162.3 million in 2017 as a result of the addition of 2017 audited post-tax profits.

MLKSA's Tier 1 Capital ratio (time), as defined by the CMA, decreased to 10.82 from 11.63 as a result of increased Capital Requirements in 2017.

2.1.3. Transferability of Capital within the Group

MLKSA's Capital Resources are satisfied by sourcing capital either directly from BAC or from other affiliates.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

2.2. Minimum Capital Requirements

2.2.1. Summary

MLKSA must ensure that its capital resources remain above the CMA's Pillar 1 minimum capital requirements at all times. MLKSA's capital resources must be greater than its Total Minimum Capital Requirements, allowing for a capital surplus to cover any additional requirements, for example, Pillar 2.

MLKSA's Total Minimum Capital Requirement principally comprises of credit risk in non-trading books, operational risk and market risk requirements. MLKSA does not have risks in the trading book nor any commodity risk.

MLKSA has a Total Minimum Capital Requirement of SAR 15.0 million, this included a credit risk requirement of SAR 7.6 million, an operational risk requirement of SAR 7.0 million, and market risk requirement of SAR 0.5 million.

Table 2 details the Minimum Capital Requirements for MLKSA by type of risk. MLKSA's Capital Resources are significantly in excess of the Pillar 1 Minimum Capital Requirements.

Table 2. Minimum Capital Requirements

(SAR in Thousands)	2017	2016
Total Capital Resources	**162,283**	**156,871**
Market Risk	463	380
Credit Risk	7,572	6,039
Operational Risk	6,970	7,069
Total Minimum Capital Requirements	**15,005**	**13,488**
Surplus over Requirements	**147,278**	**143,383**

2.2.2. Key Movements in 2017

MLKSA's Total Minimum Capital Requirements increased to SAR 15.0 million in 2017 from SAR 13.5 million in 2016. The increase in market risk capital requirement was derived from an increase in USD foreign exchange ("FX") risk. The increase in credit risk capital requirement was driven by exposures to unrated corporates relating to the Tadawul's T+2 settlement cycle as at 31st December 2017, in 2016 MLKSA provided Global Markets Equities clients prefunding facilities which did not ordinarily give rise to credit risk. The increases in credit and market risk were offset by a reduction in operational risk capital requirement from a lower expense base in 2017.

2.2.3. Minimum Capital Requirements Approach

MLKSA has adopted the approach specified by the CMA in their Prudential Rules for calculating credit and market risk capital requirements and expenditure based approach for calculating the operational risk capital requirement. MLKSA uses external ratings based on a combination of Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P") and Fitch Ratings, Inc. ("Fitch"), and adheres to the Prudential Rules set out by the CMA.

2.3. Capital Resources vs. Minimum Capital Requirements and Tier 1 Capital Ratio (time)

2.3.1. Capital Resources vs. Total Minimum Capital Requirements

MLKSA had SAR 147.3 million of Capital Resources in excess of Total Minimum Capital Requirements as at 31 December 2017. The Capital Surplus over Total Minimum Requirements increased from SAR 143.4 million in 2016. The increase in the Capital Surplus is driven by the addition of 2017 audited post-tax profits to Capital Resources. MLKSA continuously maintains a surplus over Total Minimum Capital Requirements.

2.3.2. Tier 1 Capital Ratio (time)

An entity's Tier 1 Capital Ratio (time) is defined by the CMA as Total Tier 1 Capital over Total Minimum Capital Requirement.

MLKSA's Tier 1 Capital Ratio (time) has decreased from 11.63 to 10.82 over the year due to an increase in Total Minimum Capital Requirements. MLKSA's Tier 1 Capital Ratio (time) is in excess of the CMA ratio requirement of 1.00.

Table 3. Capital Surplus over Minimum Capital Requirements and Tier 1 Capital Ratio (time)

(SAR in Thousands)	2017	2016
Total Capital Resources	**162,283**	**156,871**
Total Minimum Capital Requirements	**15,005**	**13,488**
Surplus over Requirements	**147,278**	**143,383**
Tier 1 Capital Resources	**162,283**	**156,871**
Tier 1 Capital Ratio (time)	**10.82**	**11.63**

3. Liquidity Position

3.1. Liquidity Position

3.1.1. Regulatory Requirements

MLKSA is subject to Minimum Liquidity Requirements set out by the CMA and is required to manage its liquidity risks in accordance with the CMA's Prudential Rules.

MLKSA has a Liquidity Risk Policy that is appropriate and tailored to its business objectives, in which it defines roles and responsibilities in relation to liquidity risk management and monitoring.

3.1.2. Liquidity Position

MLKSA maintains sufficient access to liquidity resources to meet its financial obligations. As of 31 December 2017, MLKSA held SAR 166.4 million in the form of cash and cash equivalents, up from SAR 156.5 million in 2016.

The Current Ratio for the entity as of 31 December 2017 was 1,317%, down from 3,714% as of 31 December 2016, the decrease being attributable to the increase in due to related party balances.

3.1.3. Funding Profile

MLKSA has minimal inherent liquidity risk within its business activities. MLKSA maintains a Contingency Funding Plan ("CFP"), which represents management's strategy to address potential liquidity shortfalls during periods of stress.

The MLKSA contingency funding plan includes two contingency funding levels.

- Level 1: Elevated Liquidity Monitoring
- Level 2: Contingency Actions / Recovery Plan

For each level of heightened management action, the MLKSA CFP describes:

- Potential indicators that may lead to activation
- The governance structure to activate and revoke
- A menu of available funding sources
- Escalation procedures

4. Risk Management, Objectives and Policy

4.1. BAC Risk Framework

BAC has established a risk governance framework (the “Risk Framework”) which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries. BAC adopted the 2017 Risk Framework in December 2016. The key enhancements from the 2016 Risk Framework include the incorporation of the responsible growth strategy and updates to various definitions, and organisation and governance structures.

MLKSA is integrated into and adheres to the global management structure including risk management and oversight, as adapted to reflect local business, legal and regulatory requirements.

The following sections lays out the risk management approach and key risk types for MLKSA.

4.2. Risk Management Approach

Risk is inherent in all business activities. Managing risk well is the responsibility of every employee. Sound risk management enables MLKSA to serve customers and deliver for the shareholders. If not managed well, risks can result in financial loss, regulatory sanctions and penalties, and damage to MLKSA’s reputation, each of which may adversely impact MLKSA’s ability to execute its business strategy. Managing risk well is fundamental to delivering on MLKSA’s strategy for responsible growth. It is critical that every employee embraces sound risk management practices as a core component of his or her role and responsibilities.

The Risk Framework provides an understanding of MLKSA’s approach to risk management and each employee’s responsibilities for managing risk. The following are the five components of MLKSA’s risk management approach:

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

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

4.3. Culture of Managing Risk Well

A culture of managing risk well is fundamental to BAC’s core values and operating principles. It requires MLKSA to focus on risk in all activities and encourages the necessary mind-set and behaviour to enable effective risk management and promote sound risk-taking within BAC’s risk appetite. Sustaining a culture of managing risk well throughout the organization is critical to the success of MLKSA and is a clear expectation of MLKSA’s Board of Directors and its management team.

The following principles form the foundation of BAC’s culture of managing risk well, and apply to MLKSA as follows:

- Managing risk well protects MLKSA and its reputation and enables MLKSA to deliver on its purpose and strategy.
- MLKSA treats customers fairly and acts with integrity to support the long-term interests of its employees, customers and shareholders. Improper conduct, behaviour or practices by the entity, its employees or representatives could harm MLKSA, shareholders or customers, or damage the integrity of the financial markets.

- Individual accountability and an ownership mind-set are the cornerstones of BAC's Code of Conduct. All MLKSA employees are subject to the principles defined in the BAC Risk Framework and BAC Code of Conduct.
- All MLKSA employees are responsible for proactively managing risk as part of their day-to-day activities through prompt identification, escalation and debate of risks.
- While MLKSA employs models and methods to assess risk and better inform MLKSA's decisions, proactive debate and a thorough challenge process lead to the best outcomes.
- MLKSA's lines of business and other front line units are first and foremost responsible for managing all aspects of their businesses, including all types of risk.
- The MLKSA Country Risk Manager, part of Independent Risk Management, provides independent oversight and effective challenge, while Corporate Audit provides independent assessment and validation.
- MLKSA strives to be best-in-class by continually working to improve risk management practices and capabilities.

4.4. Risk Appetite and Risk Limits

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

The BAC Risk Appetite Statement is rooted in several principles:

- **Overall risk capacity:** BAC's overall capacity to take risk is limited; therefore, it prioritizes the risks it takes. BAC's risk capacity informs BAC's risk appetite, which is the level and types of risk BAC is willing to take to achieve its business objectives.
- **Financial strength to absorb adverse outcomes:** BAC must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of organic growth opportunities. Therefore, BAC set objectives and targets for capital and liquidity that permit BAC to continue to operate in a safe and sound manner at all times, including during periods of stress.
- **Risk-reward evaluation:** Risks taken must fit BAC's risk appetite and offer acceptable risk-adjusted returns for shareholders.
- **Acceptable risks:** BAC consider all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statement describes BAC's approach to managing such risks in a manner consistent with its culture. For example, actions considered in a line of business that unduly threaten BAC's reputation should be escalated and restricted appropriately.
- **Skills and capabilities:** BAC seek to assume only those risks we have the skills and capabilities to identify, measure, monitor and control.

The BAC Risk Appetite Statement covers the following seven key risk types: Credit, Operational, Market, Liquidity, Strategic, Reputational and Compliance Risks.

Under the Internal Capital Adequacy Process ("ICAAP"), MLKSA collectively defines the aggregate level and types of risks that MLKSA is willing to accept in order to achieve its business objectives. MLKSA activities and culture are consistent with aggregate Risk Appetite at the BAC level.

4.5. Risk Management Processes

BAC's Risk Framework requires that strong risk management practices are integrated in key strategic, capital and financial planning processes and day-to-day business processes. MLKSA follows the same approach and ensures risks are appropriately considered, evaluated and responded to in a timely manner.

MLKSA approach to Risk Management Processes:

- All employees are responsible for proactively managing risk.
- Risk considerations are part of all daily activities and decision-making.
- MLKSA encourages a thorough challenge process and maintains processes to identify, escalate and debate risks.
- MLKSA utilises timely and effective escalation mechanisms for risk limit breaches.

The front line units have primary responsibility for managing risks inherent in their businesses. MLKSA employs an effective risk management process, referred to as: Identify, Measure, Monitor and Control as part of its daily activities.

4.6. Risk Data Management, Aggregation and Reporting

Effective risk data management, aggregation and reporting are critical to provide a clear understanding of current and emerging risks and enable MLKSA to proactively and effectively manage risk.

Risk Data Management, Aggregation and Reporting Principles:

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

4.7. Risk Governance

BAC adheres to a risk governance framework that is designed by independent risk management and approved by the BAC Board of Directors. The MLKSA Board of Directors is responsible for oversight of adequate risk management and controls for the entity and ensures this through its committees, executive officers and risk limits established for material activities.

BAC's risk governance principles serve as the cornerstone of MLKSA's risk governance framework. The BAC Code of Conduct, Risk Framework, Risk Appetite Statement and Strategic Plan are overarching documents that firmly embed MLKSA's culture of managing risk well in everything it does.

4.8. Key Risk Types

The risk management processes outlined above allow MLKSA to manage risks across the seven key risk types: Credit, Operational, Market, Liquidity, Strategic, Reputational and Compliance. Details of how risk is managed within MLKSA is given below.

4.8.1. Credit Risk

Definition

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations.

Credit Risk Management

MLKSA's Credit risk is managed in line with BAC's global credit policies and standards, credit risk appetite and applicable Saudi Arabian laws and regulations.

MLKSA 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.

Credit Risk management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

These processes create a comprehensive and consolidated view of companywide credit risks, thus providing executive management with the information required to guide or redirect front line units and certain legal entity strategic plans, if necessary. Front line units manage credit risk through increased frequency and intensity of portfolio monitoring for moderate to weak risk profiles, hedging and transferring management of deteriorated commercial exposures to specialized asset officers. Limits and ratings are applied based on the appropriate authorities.

Risk management is overseen by the Board of Directors of MLKSA in collaboration with other Risk groups. MLKSA's Equity Trading in conjunction with CFO and Operations are responsible for ensuring that all transactions are conducted with approved clients, limits and policies. At the front line unit level, Independent Risk oversees credit risk management processes and governance in accordance with BAC requirements and authority levels. MLKSA Operations produce daily reporting on positions. The Global Markets Equities business activity carried out by the entity gives rise to counterparty risk. Client profiles are used to assign credit limits to each counterparty in the trading system limiting exposures and ensuring counterparty risk and the associated capital charge remained within the Company's limits. At an Enterprise level, BAC's credit risk reporting enables appropriate risk escalation, which includes defined protocols to be followed for policy violations, limit breaches, exceptions, emerging risks and issues.

Further details on MLKSA's credit and counterparty risk are supplied in section 5.

4.8.2. Operational Risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Management

Since operational risk is inherent in every activity across the entity, the firm relies on all employees to conduct themselves properly, contribute to an effective internal control environment and manage operational risk within their roles.

Operational risk is managed by all employees as part of their day-to-day activities. Front line units and Control Functions are responsible for monitoring, assessing and testing the effectiveness of controls, while continuing to identify, escalate, debate and report operational risks. Independent risk management teams actively oversee the front line units ("FLUs") and control functions to monitor adherence to the program and identify, advise and challenge operational risks.

4.8.3. Market Risk

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

Market Risk Management
The Global Markets division of BAC seeks to run its business on a globally consistent basis. This means that the market risks assumed by Global Markets are identified, measured and controlled on a consistent basis irrespective of the location in which they are taken and booked.

MLKSA offers direct equities market access to Gulf Cooperation Council institutional clients and Qualified Foreign Investor institutions on an agency basis which does not give rise to market risk capital requirements. Market risk capital requirement for MLKSA arises from foreign exchange rate risk associated with non-trading book foreign currency assets and liabilities.

4.8.4. Liquidity Risk

Definition
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
Each of the FLU's are accountable for managing liquidity risk by establishing appropriate processes to identify, measure, monitor and control the risks associated with their activities. Global Risk Management ("GRM") provides independent oversight and supervision of FLU activities, an independent view of the liquidity risk of FLU activities and assesses the effectiveness of the MLKSA's liquidity risk management processes.

The MLKSA Liquidity Risk Policy establishes the overarching governance, controls and risk management practices to monitor and manage liquidity risk across MLKSA. In certain jurisdictions, such as Saudi Arabia, liquidity management responsibilities are undertaken by local finance and management teams, who consult with Corporate Treasury and GRM.

Regular liquidity risk reports are sent to the MLKSA Board and Senior Management.

4.8.5. Strategic Risk

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

Strategic Risk Management
Strategic risk is managed through the assessment of effective delivery of strategy and business performance is monitored by the executive management team to assess strategic risk and find early warning signals so that risks can be proactively managed.

MLKSA strategic execution and risk management processes are aligned to the overall BAC strategic plans through a formal planning and approval process and are set within the context of overall risk appetite. During the planning process, the BAC

Board provides credible challenge to management's assumptions and recommendations, and approves the strategic plans after a comprehensive assessment of the risks.

The BAC Board is responsible for overseeing the strategic planning process and management's implementation of the resulting strategic plan. BAC's strategic plan is reviewed and approved annually by the BAC Board.

Strategic planning at BAC level is representative of more detailed planning undertaken at the business unit, regional and MLKSA level. The MLKSA strategy is reviewed by MLKSA Board on an annual basis. Strategic decisions relating to MLKSA are presented and discussed at MLKSA Board.

The executive management team provides the BAC Board with progress reports on the strategic plan, including timelines and objectives and recommendation of any additional or alternative actions to be implemented.

Front line units provide updates to MLKSA Board on their business performance and management of strategic risk. Updates take into account analyses of performance relative to the strategic plan, financial operating plan, risk appetite and performance relative to peers.

4.8.6. Reputational Risk

Definition

Reputational risk is the potential risk that negative perceptions of BAC's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer / client relationships or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

Reputational Risk Management

BAC manages 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.

For the Europe, Middle East and Africa ("EMEA") region there is a dedicated committee, the EMEA Reputational Risk Committee, whose mandate includes consideration of reputational risk issues and to provide 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. Reputational risk items relating to MLKSA are considered as part of the EMEA Reputational Risk Committee.

Ultimately, to ensure that reputational risk is mitigated through regular business activity, awareness of reputational risk is integrated into the overall governance process, as well as incorporated into the roles and responsibilities for employees.
Given the nature of reputational risk, BAC does not set quantitative limits for the level of acceptable risk. Through proactive risk management, BAC seeks to minimise both the frequency and impact of reputational events.

Through the EMEA Regional Risk Committee and the EMEA Reputational Risk Committee, BAC has an appropriate organisational and governance structure in place to ensure strong oversight at the entity business level.

The EMEA Reputational Risk Committee is a sub-committee of both the EMEA Regional Risk Committee and the Global Reputational Risk Committee and is applicable to all key legal operating entities in the region.

Items requiring increased attention may be escalated from the EMEA Reputational Risk Committee to the Global Reputational Risk Committee as appropriate.

Reporting of reputational risk issues is captured as part of management routines for the EMEA Reputational Risk Committee. Items presented to the EMEA Reputational Risk Committee are maintained through reporting which includes description of the reputational risk issue, geographical jurisdiction, reason for escalation and decision reached. A summary report of issues discussed at the EMEA Reputational Risk Committee is provided to the EMEA Regional Risk Committee on a quarterly basis.

4.8.7. Compliance Risk

Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of BAC arising from the failure of BAC to comply with requirements of applicable laws, rules and regulations and related self-regulatory organizations' standards and codes of conduct.

Compliance Risk Management

Front line units are responsible for the proactive identification, management and escalation of compliance risks across BAC. Global Compliance is responsible for setting Company-wide policies and standards and provides independent challenge and oversight to the front line units. BAC's approach to the management of compliance risk is further described in the Global Compliance Policy, which outlines the requirements of the Company's Global Compliance Program and defines roles and responsibilities related to the implementation, execution and management of the compliance programme by Global Compliance.

MLKSA is required to comply with CMA rules and its implemented regulation including Authorized Person Regulation which sets the rules of conduct that authorized persons must comply with when conducting their business. MLKSA has implemented a monitoring and testing programme to capture the main Saudi Arabian compliance related topics which are reviewed on a periodic basis.

Compliance training is provided to all staff at induction and on an ongoing basis as required. The MLKSA Compliance function works closely with the business on any issues arising. Any issues arising are reported to the MLKSA local management team, compliance management, the Compliance Committee of MLKSA and MLKSA Board of Directors, as required.

4.9. Other Risk Considerations

4.9.1. Wrong Way Risk

Wrong-way risk ("WWR") arises when a counterparty's credit quality is correlated to the underlying risk exposure in a transaction such that as the credit quality of the counterparty deteriorates, the mark-to-market owed by the counterparty has a tendency to increase. There are two classifications of WWR:

Specific WWR: Self-referencing transactions e.g. counterparties trading own securities, or related group entities, directly or indirectly or via derivative type contracts with their securities, or related group entities, as reference assets.

General WWR: Arises when the likelihood of default by a counterparty is positively correlated with general market risk factors such that corresponding mar-to-market increases as credit quality of the counterparty deteriorates.

BAC uses additional policies and reporting to identify and monitor wrong-way risk across the portfolio. Forums have been established to review potential situations of wrong-way risk, and depending on the nature of the wrong way risk, Risk Management may require pre-trade approval or apply various portfolio limits. In keeping with BAC's risk management framework, several processes exist to control and monitor wrong-way risk including reviews at the Global Markets Risk Committee.

4.9.2. Internal Capital Adequacy Process

MLKSA prepares an ICAAP document annually in compliance with CMA's Prudential Rules. The ICAAP assesses the capital adequacy of MLKSA in relation to current and future activities and ensures that MLKSA maintains an appropriate amount of capital relative to the risks to which it is exposed. The ICAAP forms a key part of the governance framework and is approved by the MLKSA Board of Directors.

5. Further Detail on Credit and Counterparty Risk

5.1. Credit and Counterparty Risk

Credit and Counterparty Risk is the risk of loss arising from a borrower or counterparty failing to meet its obligations. Credit and Counterparty Risk Capital Requirements are derived from risk-weighted exposures, determined using the method prescribed by the CMA in its Prudential Rules.

MLKSA uses external ratings based on a combination of Moody's Investors Service, Inc., Standard and Poor's and Fitch Ratings, Inc. The external credit rating against an exposure is then used to assign a Credit Quality Step according to the classification of the counterparty, as prescribed by the CMA in the Prudential Rules. The same approach for assigning a credit rating is used for all exposures. MLKSA itself is not externally credit rated.

5.2. Credit Risk Exposures

MLKSA had no 'past due' claims, impaired liabilities or specific provisions as at December 31, 2017. There were no events that would give rise to any charges for impairments or specific provisions during the last financial year. Exposures are not covered by collateral, guarantees or credit derivatives. As such, the exposure amounts upon which the Credit Risk Capital Requirement is calculated has not been adjusted for credit risk protection.

MLKSA has credit and counterparty risk exposure as a result of non-trading book receivables in the form of deposits with local, Saudi Arabian Monetary Agency ("SAMA") regulated settlement banks, deposits with foreign banks, inter-affiliate receivables, tangible fixed assets and prepaid expenses. The table below details the risk weighted exposures and credit risk capital requirements for MLKSA by counterparty type.

Table 4. Credit Exposures by Counterparty Type, Non-trading Activities

(SAR in Thousands)		2017		2016	
	CQS	RWA	Capital	RWA	Capital
Exposures to local banks	1	**30,203**	**4,229**	31,293	4,382
Exposures to foreign banks	1	**3,071**	**430**	0	0
Exposures to authorised persons and banks	2	**389**	**55**	539	75
Exposures to authorised persons and banks	Unrated	**2,213**	**310**	2,824	395
Corporates	Unrated	**8,846**	**1,238**	0	0
Tangible assets	n.a.	**3,140**	**440**	3,868	542
Prepaid Expenses	n.a.	**6,222**	**871**	4,611	645
		54,084	**7,572**	43,135	6,039

n.a. : Not applicable

Credit Risk in MLKSA arises from its established Global Markets Equities business. MLKSA is exposed to credit risk on trades where it is the cash custodian for clients.