Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

(SEC ID No. 8-7221)

Consolidated Balance Sheet (Unaudited)

June 30, 2019

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
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Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Consolidated Balance Sheet (Unaudited)
June 30, 2019

(dollars in millions, except share and per share amounts)

ASSETS		
Cash and cash equivalents	$	1,864
Cash and securities segregated for regulatory purposes or deposited with clearing organizations		453
Securities financing transactions		
Receivables under resale agreements		13,653
Receivables under securities borrowed transactions		478
		14,131
Trading assets, at fair value		
Corporate debt		42
Other trading assets		7
		49
Other receivables		
Customers		5,025
Brokers and dealers		204
Interest and other, including loans due from affiliates		1,564
		6,793
Right-of-use lease assets		1,158
Equipment and facilities, net		277
Goodwill and intangible assets		1,813
Other assets		195
TOTAL ASSETS	$	26,733

The accompanying notes are an integral part of the Consolidated Balance Sheet.

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Consolidated Balance Sheet (Unaudited)
June 30, 2019

(dollars in millions, except share and per share amounts)	
LIABILITIES	
Securities financing transactions	
Payables under securities loaned transactions	$ 746
Trading liabilities, at fair value	
Derivative contracts	25
Other trading liabilities	11
	36
Other payables	
Customers	11,693
Brokers and dealers	238
Compensation and benefits	629
Interest and other	2,008
Loans due to affiliates	2,214
	16,782
Commitments, contingencies and guarantees (See Note 12)	
Lease liabilities	1,206
Subordinated borrowings	1,520
Total Liabilities	20,290
STOCKHOLDER'S EQUITY	
Common stock, par value $1 per share; 1,200 shares authorized; 1,000 shares issued and outstanding	—
Paid-in capital	6,348
Accumulated other comprehensive loss (net of tax)	(4)
Retained earnings	99
Total Stockholder's Equity	6,443
Total Liabilities and Stockholder's Equity	$ 26,733

The accompanying notes are an integral part of the Consolidated Balance Sheet.

1. Organization

Description of Business

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), together with its subsidiaries (the "Company"), is registered as a broker-dealer and investment adviser with the U.S. Securities and Exchange Commission ("SEC"), and is a member firm of the Financial Industry Regulatory Authority ("FINRA"), the New York Stock Exchange ("NYSE"), and other securities exchanges. MLPF&S is also registered as an introducing broker with the U.S. Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA"); additionally, it is registered as a swap firm with the NFA.

The Company provides its clients with investment-related products and services, including brokerage services and discretionary and non-discretionary investment advisory services through its investment advisory programs. Through its retirement group, the Company provides a wide variety of investment and custodial services to Individual Retirement Accounts ("IRAs") and other retirement plans for small businesses. The Company also provides investment, administration, communications, and consulting services to corporations and their employees for their retirement programs, including 401(k), pension, profit-sharing and nonqualified deferred compensation plans. In addition, the Company provides financing to clients, including margin lending and other extensions of credit. Certain products and services may be provided through affiliates.

Prior to the completion of the Broker-Dealer Separation transaction (as defined below), the Company also conducted various business activities for institutional clients. In this capacity, the Company was a broker for corporate, institutional government and other clients and a dealer in the purchase and sale of various financial instruments, including corporate debt, equity securities, United States ("U.S.") Government securities, and U.S. Government agency obligations. The Company was an investment banking entity, and was also registered as a futures commission merchant and a swap firm with the U.S. Commodity Futures Trading Commission. After the Broker-Dealer Separation was completed in May 2019, these institutional securities business activities are no longer conducted by the Company.

The Company is a wholly-owned indirect subsidiary of Bank of America Corporation ("Bank of America" or the "Parent"). The Company's direct parent is BAC North America Holding Company, which is a wholly-owned subsidiary of NB Holdings Corporation ("NB Holdings"). NB Holdings is a wholly-owned subsidiary of Bank of America.

In addition to the net assets transferred in connection with the Broker-Dealer Separation, during the six months ended June 30, 2019, the Company also contributed its investment in one of its subsidiaries to an affiliated entity. The contribution was recorded as a reduction to Stockholder's Equity of $165 million.

Broker-Dealer Separation

In July 2015, Bank of America announced a decision to separate the retail and institutional broker-dealer activities that were conducted through the Company into two distinct legal entities (the "Broker-Dealer Separation"). Retail customers will continue to be serviced through the Company, while institutional clients that had transacted through the Company would move to a new broker-dealer entity, BofA Securities, Inc. (formerly known as BofAML Securities, Inc.). BofA Securities, Inc. ("BofAS") is also a wholly-owned indirect subsidiary of Bank of America.

The migration of institutional broker-dealer activities to BofAS was completed on May 11, 2019.

In accordance with Accounting Standard Codification ("ASC") 805, *Business Combinations*, since MLPFS and BofAS are entities under the common control of Bank of America, the assets and liabilities transferred to BofAS in connection with the Broker-Dealer Separation were accounted for by the Company as a capital distribution at their respective carrying values at the date of transfer. In addition, the Company will classify the revenues and expenses associated with the institutional businesses as a discontinued operation.

The net assets of the institutional securities businesses that were transferred by the Company to BofAS upon completion of the Broker-Dealer Separation was approximately $15.7 billion. Included in the net assets contributed to BofAS was the Company's investment in Merrill Lynch Professional Clearing Corp. ("MLPCC"), a broker-dealer that provides prime brokerage services such as margin lending, securities financing, and clearing and settlement to broker-dealers, introducing broker-dealers and other professional trading entities on a fully disclosed basis. As a result, effective with the completion of the Broker-Dealer Separation, MLPCC became a subsidiary of BofAS.

2. Summary of Significant Accounting Policies

Basis of Presentation
The Consolidated Balance Sheet is presented in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). Intercompany transactions and balances have been eliminated. The Consolidated Balance Sheet is presented in U.S. dollars.

Consolidation Accounting
The Consolidated Balance Sheet includes the accounts of the Company and its subsidiaries in which the Company has a controlling financial interest.

The Company determines whether it is required to consolidate an entity by first evaluating whether the entity qualifies as a voting rights entity ("VRE") or as a variable interest entity ("VIE").

VREs - VREs are defined to include entities that have both equity at risk that is sufficient to fund future operations and have equity investors that have a controlling financial interest in the entity through their equity investments. In accordance with Accounting Standards Codification ("ASC") 810, *Consolidation*, ("Consolidation Accounting"), the Company generally consolidates those VREs where it has the majority of the voting rights.

VIEs - Those entities that do not meet the VRE criteria are generally analyzed for consolidation as VIEs. A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The Company consolidates a VIE if it has both the power to direct the activities that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. On a quarterly basis, the Company reassesses its involvement with the VIE and evaluates the impact of changes in governing documents and its financial interests in the VIE. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively, with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

The Company consolidates certain VIEs if it has control over the initial design of the vehicle or manages the assets in the vehicle and also absorbs potentially significant gains or losses through an investment in the vehicle, derivative contracts or other arrangements. The Company does not consolidate a VIE if a single investor controlled the initial design of the vehicle or manages the assets in the vehicles or if the Company does not have a variable interest that could potentially be significant to the vehicle.

Use of Estimates

In presenting the Consolidated Balance Sheet, management makes estimates including the following:

- Valuations of assets and liabilities requiring fair value estimates;
- The ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions;
- The carrying amount of goodwill and intangible assets;
- The outcome of pending litigation;

- Incentive-based compensation accruals and valuation of share-based payment compensation arrangements; and
- Other matters that affect the reported amounts and disclosure of contingencies in the Consolidated Balance Sheet.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Balance Sheet, and it is possible that such changes could occur in the near term. A discussion of certain areas in which estimates are a significant component of the amounts reported in the Consolidated Balance Sheet follows:

Fair Value Measurement
The Company accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Company accounts for certain financial assets and liabilities at fair value under various accounting literature that requires an entity to base fair value on an exit price, including ASC 815, *Derivatives and Hedging,* ("Derivatives Accounting"). The Company also accounts for certain assets at fair value under applicable industry guidance, namely ASC

940 *Financial Services - Brokers and Dealers* ("Broker-Dealer Guide"). ASC 820, *Fair Value Measurements and Disclosures*, ("Fair Value Accounting") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

In determining fair value of financial assets and financial liabilities, the Company considers the credit risk of its counterparties, as well as its own creditworthiness. The Company attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is valued for counterparty creditworthiness and the resultant credit valuation adjustment ("CVA") is incorporated into the fair value of the financial assets. As of June 30, 2019, the impact of CVA was not material to the Company.

Fair Value Accounting also requires that the Company consider its own creditworthiness when determining the fair value of certain instruments (i.e., debit valuation adjustment or "DVA"). The impact of the Company's DVA is incorporated into the fair value of instruments such as over-the-counter ("OTC") derivatives contracts. As of June 30, 2019, the impact of DVA was not material to the Company.

The Company includes a funding valuation adjustment ("FVA") into valuation estimates primarily to include funding costs on uncollateralized derivatives and derivatives where the Company is not permitted to use the collateral it receives. FVA related to derivative assets and liabilities is the effect of funding costs on the fair value of these derivatives. The impact of the Company's FVA is incorporated into the fair value of its derivatives. As of June 30, 2019, the impact of FVA was not material to the Company.

Legal Reserves

The Company is occasionally a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. Accruals are subject to significant estimation by management, with input from any outside counsel handling the matter. Refer to Note 12 for further information.

Income Taxes

The Company provides for income taxes on all transactions that have been recognized in the Consolidated Balance Sheet in accordance with ASC 740 *Income Taxes* ("Income Tax Accounting"). Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. Pursuant to Income Tax Accounting, the Company may consider various sources of evidence in assessing the necessity of valuation allowances to reduce deferred tax assets to amounts more-likely-than-not to be realized, including the following: 1) past and projected earnings, including losses, of the Company and Bank of America, as certain tax attributes such as U.S. net operating losses ("NOLs"), U.S. capital loss carryforwards and foreign tax credit carryforwards can be utilized by Bank of America in certain income tax returns, 2) tax carryforward periods, and 3) tax planning strategies and other factors of the legal entities, such as the intercompany tax allocation agreement. Included within the Company's net deferred tax assets are carryforward amounts generated in the U.S. that are deductible in the future as NOLs. The Company has concluded that these net deferred tax assets are more-likely-than-not to be fully utilized prior to expiration, based on the projected level of future taxable income of the Company and Bank of America, which is relevant due to the intercompany tax allocation agreement. For this purpose, future taxable income was projected based on forecasts, historical earnings after adjusting for past market disruptions and the anticipated impact of the differences between pre-tax earnings and taxable income.

The Company recognizes and measures its unrecognized tax benefits ("UTB") in accordance with Income Tax Accounting. The Company estimates the likelihood, based on their technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. The Company adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America's intercompany tax allocation agreement, any new or subsequent change in an unrecognized tax benefit related to Bank of America's state consolidated, combined or unitary return in which the Company is a member will generally not be reflected in the Company's Consolidated Balance Sheet. However, upon resolution of

the item, any significant impact determined to be attributable to the Company will be reflected in the Company's Consolidated Balance Sheet.

Under the intercompany tax allocation agreements, tax benefits associated with NOLs (or other tax attributes) of the Company are payable to the Company generally upon utilization in Bank of America's tax returns.

In addition, under these agreements, substantially all current and deferred income taxes (federal, combined and unitary state) are recorded as income tax receivable and payable due to affiliate, which are included on the Consolidated Balance Sheet within *Interest and other, including loans due from affiliates, Interest and other payables* and *Loans due to affiliates* and settled on at least a semi-annual basis. See Note 15 for further discussion of income taxes.

Goodwill and Intangible Assets

Goodwill is the purchase premium after adjusting for the fair value of net assets acquired. Goodwill is not amortized but is reviewed for impairment on an annual basis, or when events or circumstances indicate a potential impairment at the reporting unit level in accordance with ASC 350, *Intangibles-Goodwill and Other* ("Goodwill and Intangibles Assets Accounting").

In performing its goodwill impairment testing, the Company first assesses qualitative factors to determine whether it is more likely than not that its fair value is less than its carrying value. Qualitative factors include, among other things, macroeconomic conditions, industry and market considerations, financial performance and other relevant considerations affecting the Company.

If the Company concludes it is more likely than not that its fair value is less than its carrying value, a quantitative assessment is performed. If the fair value of the Company exceeds its carrying value, goodwill is considered not impaired; however, if the carrying value of the Company exceeds its fair value, an additional step must be performed to measure potential impairment.

This step involves calculating an implied fair value of goodwill, which is the excess of the fair value of the Company, as determined in the first step, over the aggregate fair values of the assets, liabilities and identifiable intangibles as if the Company was being acquired in a business combination. If the implied fair value of goodwill exceeds the book value of goodwill, there is no impairment. If the book value of goodwill assigned exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the book value of goodwill. An impairment loss establishes a new basis in the goodwill and subsequent reversals of goodwill impairment losses are not permitted under applicable accounting guidance.

The Company's intangible assets with definite lives have been fully amortized and, accordingly, had no net carrying value as of June 30, 2019.

Intangible assets with indefinite lives consist of the Company's proportion of the value assigned to the Merrill Lynch brand and are tested for impairment in accordance with Goodwill and Intangible Assets Accounting. Intangible assets with indefinite lives are not amortized.

The Company makes certain judgments with respect to its goodwill and intangible assets, including assumptions and estimates used to determine fair value and evaluate impairment. Refer to Note 8 for further information.

Consolidated Balance Sheet Captions

The following are descriptions related to specific consolidated balance sheet captions.

Cash and Cash Equivalents

The Company defines cash equivalents as short-term, highly liquid securities, and interest-earning deposits with maturities, when purchased, of 90 days or less, that are not used for trading purposes.

Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations

The Company maintains relationships with clients and therefore is obligated by rules mandated by its primary regulators, including the SEC in the U.S., to segregate or set aside cash and/or qualified securities to satisfy these regulations in order to protect customer assets. In addition, the Company is a member of various clearing organizations and exchanges at which

it maintains cash and/or securities required for the conduct of its day-to-day clearance activities. At June 30, 2019, the Company had $453 million of cash at clearing organizations. The amount recognized for *Cash and securities segregated for regulatory purposes or deposited with clearing organizations* in the Consolidated Balance Sheet approximates fair value. For purposes of the fair value hierarchy, segregated cash is classified as Level 1 and segregated securities are classified as Level 1 and Level 2. Refer to Note 5 for further information.

Securities Financing Transactions

Resale and repurchase agreements are treated as collateralized financing transactions. Generally, these transactions are recorded at their acquisition or sale price plus accrued interest.

Resale and repurchase agreements recorded at their contractual amounts plus accrued interest approximate fair value, as the fair value of these items is not materially sensitive to shifts in market interest rates because of the short-term nature of these instruments and/or variable interest rates or to credit risk because the resale and repurchase agreements are substantially collateralized. For purposes of the fair value hierarchy, these transactions are classified as Level 2.

The Company may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3. At June 30, 2019, approximately $8.5 billion of such securities had been segregated in special reserve accounts as required by Rule 15c3-3 under the Securities Exchange Act of 1934 ("Rule 15c3-3").

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received plus accrued interest. The carrying value of securities borrowed and loaned transactions approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or variable interest rates or to credit risk because securities borrowed and loaned transactions are substantially collateralized. For the purposes of the fair value hierarchy, these transactions are classified as Level 2.

For securities financing transactions, the Company's policy is to monitor the market value of the principal amount loaned and obtain collateral from or return collateral pledged to counterparties, where appropriate. Securities financing agreements do not create material credit risk due to these collateral provisions; therefore, an allowance for loan losses is unnecessary.

A significant majority of securities financing activities are transacted under legally enforceable master agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty.

Trading Assets and Liabilities

Trading assets and trading liabilities consist of cash instruments (e.g., securities) and derivative instruments. See Note 6 for additional information on derivative instruments.

Trading assets and liabilities are recorded on a trade date basis at fair value. Included in trading liabilities are securities that the Company has sold but did not own and will therefore be obligated to purchase at a future date ("short sales").

Derivatives

A derivative is an instrument whose value is derived from an underlying instrument or index, such as interest rates, equity security prices, currencies, commodity prices or credit spreads. Derivatives include futures, forwards, swaps, option contracts and other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies). All derivatives are accounted for at fair value. Refer to Note 6 for further information.

Other Receivables and Payables

Customers

Customer securities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts and over-the-counter cleared swaps transacted on behalf of the Company's customers. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheet.

Customer receivables include margin loan transactions where the Company will typically make a loan to a customer to finance the customer's purchase of securities. These transactions are conducted through margin accounts. In these transactions, the customer is required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. Collateral is valued daily and must be maintained over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for loan losses are rarely required.

Brokers and Dealers

Receivables from brokers and dealers primarily include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), margin deposits, and commissions. Payables to brokers and dealers primarily include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive"). Brokers and dealers receivables and payables additionally include the variation margin related to futures contracts cleared on domestic and international derivatives exchanges as well as net receivables or net payables arising from unsettled trades.

Compensation and Benefits

Compensation and benefits payables consists of salaries payable, financial advisor compensation, incentive and deferred compensation, payroll taxes, pension and other employee benefits.

Interest and Other

Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, and stock-borrowed transactions, income taxes, commissions and fees, and other receivables. Interest and other payables include interest payable for stock-loaned transactions, amounts payable for income taxes, dividends, other reserves, and other payables.

Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost. The cost of certain facilities shared with affiliates is allocated to the Company by Bank of America based on the relative amount of space occupied.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease.

Other Assets

Other assets consist primarily of prepaid expenses and deferred charges.

Loans Due to Affiliates

Loans due to affiliates consist of unsecured borrowings with Bank of America and NB Holdings. Refer to Note 3 for further information.

Subordinated Borrowings

The Company enters into subordinated borrowings with NB Holdings. Refer to Note 9 for further information.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at period-end rates of exchange.

New Accounting Pronouncements

Lease Accounting

Effective January 1, 2019, the Company adopted the new accounting standard that requires that require lessees to recognize operating leases on the Consolidated Balance Sheet as right-of-use assets and lease liabilities based on the value of the discounted future lease payments. Lessor accounting is largely unchanged. Expanded disclosures about the nature and terms of lease agreements are required prospectively and are included in Note 10. The Company elected to retain prior

determinations of whether an existing contract contains a lease and how the lease should be classified. The Company elected to recognize leases existing on January 1, 2019. Upon adoption, the Company recognized right-of-use assets and lease liabilities of approximately $1.2 billion.

The Company's lessee arrangements are comprised of operating leases. Under these arrangements, the Company records right-of-use assets and lease liabilities at lease commencement. All leases are recorded on the Consolidated Balance Sheet, except for leases with an initial term of less than 12 months for which the Company made the short-term lease election. 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 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.

Accounting for Financial Instruments - Credit Losses

The Financial Accounting Standards Board ("FASB") issued a new credit losses accounting standard that will be effective for the Company on January 1, 2020. The standard replaces the existing measurement that is based on management's best estimate of probable incurred credit losses with management's best estimate of lifetime expected credit losses. The Company expects that the impact of the provisions of this new accounting guidance will not be material to its Consolidated Balance Sheet, although the ultimate impact will be dependent on the characteristics of the Company's portfolios as well as the macroeconomic conditions and forecasts upon adoption, the ultimate validation of models and methodologies, and other management judgments.

3. Related Party Transactions

The Company enters into resale agreements and securities borrowed and loaned transactions with other companies affiliated by common ownership. The Company also provides certain securities services to affiliated companies, and contracts a variety of services from Bank of America and certain affiliated companies including accounting, legal, regulatory compliance, transaction processing, purchasing, building management and other services.

The following two tables summarize related party balances included in the respective financial statement captions.

Assets

(dollars in millions)	June 30, 2019
Cash and cash equivalents	$ 1,676
Receivables under resale agreements	13,653
Receivables under securities borrowed transactions	468
Trading assets, entirely comprised of derivative contracts [1]	1
Brokers and dealers receivables	3
Loans due from affiliates	49
Interest and other receivables	256
Total	$ 16,106

[1] Net of cash collateral netting

Liabilities

(dollars in millions)		June 30, 2019
Payables under securities loaned transactions	$	746
Brokers and dealers payables		36
Interest and other payables		1,063
Loans due to affiliates		2,214
Subordinated borrowings		1,520
Total	$	5,579

The Company has established unsecured borrowing agreements with Bank of America and NB Holdings in the normal course of business. Amounts outstanding under these arrangements are included within *Loans due to affiliates*. The arrangements are summarized below:

Agreements with Bank of America

- MLPF&S: A $2.5 billion uncommitted six month revolving senior unsecured line of credit. Interest on the line of credit is based on prevailing short-term market rates. The credit line will matures on February 1, 2020 and may automatically be extended semi-annually to the succeeding August 1st unless specific actions are taken 180 days prior to the maturity date. At June 30, 2019, approximately $53 million was outstanding on the line of credit.

Other subsidiaries of MLPF&S engage in lending and borrowing transactions with Bank of America in the normal course of business. As of June 30, 2019, the subsidiaries of MLPF&S had $1 million due to Bank of America included in *Loans due to* affiliates.

Agreements with NB Holdings

- MLPF&S: A $3 billion committed six month revolving senior unsecured line of credit. Interest on the line of credit is based on prevailing short-term market rates. The credit line will mature on February 1, 2020 and may automatically be extended semi-annually to the succeeding August 1st unless specific actions are taken 180 days prior to the maturity date. At June 30, 2019, approximately $0.5 billion was outstanding on the line of credit.

- MLPF&S: A $5 billion uncommitted six month revolving senior unsecured line of credit. Interest on the line of credit is based on prevailing short-term market rates. The credit line will mature on February 1, 2020 and may automatically be extended semi-annually to the succeeding August 1st unless specific actions are taken 180 days prior to the maturity date. At June 30, 2019, approximately $1.6 billion was outstanding on the line of credit.

Other subsidiaries of MLPF&S engage in lending and borrowing transactions with NB Holdings in the normal course of business. As of June 30, 2019, the subsidiaries of MLPF&S had $49 million due from NB Holdings included in *Loans due from affiliates*.

Refer to Note 9 for information on subordinated borrowings between the Company and Bank of America.

Certain of the Company's financial advisors are offered cash upfront in the form of an interest-bearing loan. Financial advisors who receive this loan also receive a monthly service incentive payment that equates to the principal and interest due on the loan for as long as they remain with the Company during the loan term. The outstanding loan balance becomes due if employment is terminated before the vesting period. As of June 30, 2019, the Company had loans outstanding from financial advisors of $856 million, which are not included in the table above but are included in *Interest and other receivables* on the Consolidated Balance Sheet.

4. Trading Activities

After the Broker-Dealer Separation was completed (see Note 1), the Company's trading activities are generally limited to transactions necessary to facilitate its investment advisory businesses.

Trading Risk Management

Trading activities subject the Company to market and credit risks. These risks are managed in accordance with Bank of America's established risk management policies and procedures. Bank of America's risk management structure as applicable to the Company is described below.

Global Risk Management is responsible for providing senior management with a clear and comprehensive understanding of the trading risks to which Bank of America is exposed. These responsibilities include ownership of market risk policy, developing and maintaining quantitative risk models, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading inventory, approving material risk exposures and fulfilling regulatory requirements.

Bank of America conducts its business operations through a substantial number of subsidiaries. The subsidiaries are established to fulfill a wide range of legal, regulatory, tax, licensing and other requirements. As such, to ensure a consistent application of minimum levels of controls and processes across its subsidiaries, Bank of America has in place a Subsidiary Governance Policy, to which the Company complies. This policy outlines the minimum required governance, controls, management reporting, financial and regulatory reporting, and risk management practices for Bank of America's subsidiaries.

Market Risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities.

Trading positions are subject to various changes in market-based risk factors. The majority of this risk is generated by the investment-related products and services the Company provides to its clients. The values of assets and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. The Company seeks to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments.

Market Liquidity Risk

Market liquidity risk represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease. This exposes the Company to the risk that the Company will not be able to transact business and execute trades in an orderly manner, which may impact results. The impact could be further exacerbated if expected hedging or pricing correlations are compromised by disproportionate demand or lack of demand for certain instruments.

Liquidity Risk

Liquidity Risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support the Company's business and customer needs, under a range of economic conditions. The Company's primary liquidity risk management objective is to meet all contractual and contingent financial obligations at all times, including during periods of stress. To achieve that objective, the Company analyzes and monitors its liquidity risk under expected and stressed conditions, maintains excess liquidity and access to diverse funding sources and seeks to align liquidity-related incentives and risks. Excess liquidity is defined as readily available assets, limited to cash and high-quality, liquid, unencumbered securities that the Company can use to meet contractual and contingent financial obligations as those obligations arise. In addition, the Company is supported through committed and uncommitted borrowing arrangements with Bank of America and NB Holdings.

Interest Rate Risk

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

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

Equity Market Risk
Equity market risk represents exposures to securities that represent an ownership interest in a corporation in the form of domestic and foreign common stock or other equity-linked instruments. Instruments that would lead to this exposure include, but are not limited to, common stock, equity options and swaps. Hedging instruments used to mitigate this risk include options, futures, swaps, convertible bonds, and cash positions.

Credit Spread Risk
Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Certain instruments are used by the Company to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, and the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the *Counterparty Credit Risk* section below.

Counterparty Credit Risk
The Company is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Company to default risk. Credit risk arising from changes in credit spreads is discussed above.

The Company has established policies and procedures for mitigating counterparty credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining qualifying collateral, purchasing credit protection, and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. In addition, the Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Derivatives Default Risk
The Company's trading derivatives consist of derivatives provided to customers and affiliates and derivatives entered into for risk management purposes. Default risk exposure varies by type of derivative. Default risk on derivatives can occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of loss is generally limited to a one-day net positive change in fair value. Generally such receivables and payables are recorded in customers' receivables and payables on the Consolidated Balance Sheet. Option contracts can be exchange-traded or OTC. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and typically do not subject the Company to default risk except under circumstances where the option premium is being financed or in cases where the Company is required to post collateral. Refer to Note 6 for further information on credit risk management related to derivatives.

Concentrations of Credit Risk

The Company's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

In the normal course of business, the Company may purchase and sell non-investment grade instruments. These activities expose the Company to a higher degree of credit risk than is associated with investment grade counterparties.

Concentration of Risk to the U.S. Government and its Agencies

At June 30, 2019, the Company had exposure to the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily includes trading asset positions in instruments issued or guaranteed by the U.S. Government and its agencies, amounted to $1 million at June 30, 2019. The Company's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. The Company's direct credit exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at June 30, 2019 totaled $14.0 billion, which was from affiliated companies.

Industry Concentration Risk

The Company's primary industry credit concentration is with financial institutions, including affiliates, which arises in the normal course of the Company's brokerage and financing activities. Financial institutions include other brokers and dealers, commercial banks, financing companies, insurance companies, and investment companies.

5. Fair Value Accounting

Fair Value Hierarchy

In accordance with Fair Value Accounting, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

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 assets and liabilities recorded on the Consolidated Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in non-active markets;
c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's view about the assumptions a market participant would use in pricing the asset or liability.

As required by Fair Value Accounting, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the

fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability or significance of valuation inputs may result in a reclassification for certain financial assets or liabilities. Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair values of the assets and liabilities became unobservable or observable in the current market place.

Valuation Techniques

The following sections outline the valuation methodologies for the Company's material categories of assets and liabilities.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During 2019, there were no changes to valuation approaches or techniques that had, or are expected to have, a material impact on the Company's Consolidated Balance Sheet.

U.S. Treasury and government agencies

U.S. Treasury securities: U.S. Treasury securities are valued using quoted market prices and are generally classified as Level 1 in the fair value hierarchy.

U.S. government agency securities: U.S. government agency securities are comprised of two main categories, consisting of agency issued debt and agency mortgage-backed securities. The fair value of agency issued debt securities is derived using market prices and recent trade activity gathered from independent dealer pricing services or brokers. Generally, the fair value of agency mortgage-backed securities is based on market prices of comparable securities. Agency issued debt securities and agency mortgage-backed securities are generally classified as Level 2 in the fair value hierarchy.

Municipal debt

Municipal bonds: The fair value of municipal bonds is calculated using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. The majority of these bonds are classified as Level 2 in the fair value hierarchy.

Corporate debt

Corporate bonds: Corporate bonds are valued based on either the most recent observable trade and/or external quotes, depending on availability. The most recent observable trade price is given highest priority as the valuation benchmark based on an evaluation of transaction date, size, frequency, and bid-offer. This price may be adjusted by bond or credit default swap ("CDS") spread movement. When credit default swap spreads are referenced, cash-to-synthetic basis magnitude and movement as well as maturity matching are incorporated into the value. When neither external quotes nor a recent trade is available, the bonds are valued using a discounted cash flow approach based on risk parameters of comparable securities. In such cases, the potential pricing difference in spread and/or price terms with the traded comparable is considered. The majority of corporate bonds are classified as Level 2 or 3 in the fair value hierarchy.

Equities

Exchange-traded equity securities: Exchange-traded equity securities are generally valued based on quoted prices from the exchange. These securities are classified as either Level 1 or Level 2 in the fair value hierarchy, primarily based on volume and bid-offer spread information.

Derivative contracts

Listed Derivative Contracts: Listed derivatives that are actively traded are generally valued based on quoted prices from the exchange and where appropriate may be classified as Level 1 in the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives; they are generally classified as Level 2 in the fair value hierarchy.

OTC Derivative Contracts: OTC derivative contracts include forwards, swaps and options related to interest rate, foreign currency, credit, equity or commodity underlyings.

The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that utilize multiple market inputs, including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors 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. When third-party pricing services are used, the methods and assumptions are reviewed by the Company. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available, or are unobservable, in which case, quantitative-based extrapolations of rate, price or index scenarios are used in determining fair values. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other instrument-specific factors, where appropriate. In addition, the Company incorporates within its fair value measurements of OTC derivatives a valuation adjustment to reflect the credit risk associated with the net position. Positions are netted by counterparty, and fair value for net long exposures is adjusted for counterparty credit risk while the fair value for net short exposures is adjusted for the Company's own credit risk. The Company also incorporates FVA within its fair value measurements to include funding costs on uncollateralized derivatives and derivatives where the Company is not permitted to use the collateral it receives. An estimate of severity of loss is also used in the determination of fair value, primarily based on market data. The majority of OTC derivative contracts are classified as Level 2 in the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

dollars in millions

	Fair Value Measurement on a Recurring Basis				
	Level 1	**Level 2**	**Level 3**	**Netting Adjustment (1)**	**Total**
Assets:					
Trading assets, excluding derivative contracts:					
U.S. Treasury and government agencies	$ —	$ 1	$ —	$ —	$ 1
Equities	5	—	—	—	5
Corporate debt	—	3	39	—	42
Total trading assets, excluding derivative contracts	5	4	39	—	48
Derivative contracts	—	25	—	(24)	1
Liabilities:					
Trading liabilities, excluding derivative contracts					
Equities	4	—	—	—	4
Corporate debt	—	3	—	—	3
Municipals, money markets and other	—	4	—	—	4
Total trading liabilities, excluding derivative contracts	4	7	—	—	11
Derivative contracts	—	25	—	—	25

(1) Represents cash collateral netting

Level 3 Significant Inputs

The Level 3 Trading Assets - Corporate Debt consist mainly of distressed corporate loans and are valued through a discounted cash flow methodology. The primary input used in the valuation is price. Such inputs had a range from $0 to $100 with a weighted average of $75.

Uncertainty of Fair Value Measurements from Unobservable Inputs
A significant increase in price would have resulted in a significantly higher fair value for the Trading Assets - Corporate Debt long positions.

6. Derivatives

Derivatives Accounting establishes accounting and reporting standards for derivative instruments. Derivatives Accounting requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The fair value of all derivatives and associated cash collateral is recorded on a net-by-counterparty basis on the Consolidated Balance Sheet where the Company believes a legal right of offset exists under an enforceable master netting agreement. All derivatives are reported on the Consolidated Balance Sheet as trading assets and liabilities. The Company enters into derivatives to facilitate client transactions and to manage risk exposures arising from trading assets and liabilities.

Derivative Balances by Primary Risk
Derivative instruments contain numerous market risks. In particular, most derivatives have interest rate risk, as they contain an element of financing risk that is affected by changes in interest rates. Additionally, derivatives expose the Company to counterparty credit risk, although this is generally mitigated by collateral margining and netting arrangements. For disclosure purposes below, the primary risk of a derivative is largely determined by the business that is engaging in the derivative activity. The equity derivative contracts in the table below will generally have equity price risk as its primary underlying market risk and is classified as such for the purposes of this disclosure, despite the fact that there may be other market risks that affect the value of the instrument.

The following table identifies the primary risk for derivative instruments at June 30, 2019. The primary risk balances are presented on a gross basis, prior to the application of cash collateral netting. Total derivative assets and liabilities have been reduced by the cash collateral received or paid.

(dollars in millions)

	Contract/ Notional [(1)]	Derivative Assets Total [(2)]	Derivative Liabilities Total [(2)]
Equity derivative contracts			
Futures and forwards	$ 135	$ 16	$ 16
Purchased options	54	9	—
Written options	54	—	9
Total gross derivative assets/liabilities	$ 243	$ 25	$ 25
Less: Cash collateral received/paid	—	(24)	—
Total derivative assets and liabilities	$ 243	$ 1	$ 25

[(1)] Represents the total contract/notional amount of derivative assets and liabilities outstanding.

[(2)] The amounts in the table above include both third party and affiliate trading derivatives. At June 30, 2019, the Company had gross derivative assets with affiliates of $25 million and cash collateral received from affiliates of $24 million. At June 30, 2019, affiliate gross notional was $121 million.

Offsetting of Derivatives
The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with substantially all of its derivative counterparties. Where legally enforceable, these master netting

agreements give the Company, in the event of default by the counterparty, the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty. For purposes of the Consolidated Balance Sheet, the Company offsets derivative assets and liabilities and cash collateral held with the same counterparty where it has such a legally enforceable master netting agreement.

The following table presents derivative instruments included in derivative trading assets and liabilities on the Company's Consolidated Balance Sheet. At June 30, 2019, all of the Company's derivatives were over-the-counter equity contracts. Over-the-counter derivatives include bilateral transactions between the Company and a particular counterparty.

Balances are presented on a gross basis, prior to the application of cash collateral netting. Total gross derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements, which includes reducing the balance for the cash collateral received or paid.

Other gross derivative assets and liabilities in the table represent derivatives entered into under master netting agreements where uncertainty exists as to the enforceability of these agreements under bankruptcy laws in some countries or industries and, accordingly, receivables and payables with counterparties in these countries or industries are reported on a gross basis.

For information on the offsetting of securities financing agreements, see Note 7.

Offsetting of Derivatives

(dollars in millions)

	June 30, 2019	
	Trading Assets - Derivative Contracts	**Trading Liabilities - Derivative Contracts**
Equity derivative contracts		
Over-the-counter	$ 25	$ 9
Gross derivative assets/liabilities, before netting		
Over-the-counter	$ 25	$ 9
Less: Cash collateral received/paid		
Over-the-counter	(24)	—
Derivative assets/liabilities, after netting	1	9
Other gross derivative assets/liabilities	—	16
Total net derivative assets/liabilities	$ 1	$ 25

Credit Risk Management of Derivatives

The Company defines counterparty credit risk as the potential for loss that can occur as a result of an individual, counterparty, or issuer being unable to honor its contractual obligations. The Company mitigates its credit risk to counterparties through a variety of techniques, including, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees, and the purchase of credit default protection.

The Company enters into ISDA master netting agreements or similar agreements with substantially all of its derivative counterparties. Netting agreements are generally negotiated bilaterally and can require complex terms. While the Company makes reasonable efforts to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject the Company to additional credit risk. The enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

The performance of certain of the Company's derivative transactions has been guaranteed by Bank of America.

Credit-related contingent features
Certain of the Company's derivative contracts contain credit risk related contingent features, primarily in the form of ISDA master netting agreements and credit support documentation that enhance the creditworthiness of these instruments compared to other obligations of the respective counterparty with whom the Company has transacted. These contingent features may be for the benefit of the Company as well as its counterparties with respect to changes in the Company's creditworthiness, and the exposure under the derivative transactions. In the normal course of business under derivative agreements, at June 30, 2019 the Company held cash collateral of $24 million that was received from affiliates.

7. Securities Financing Transactions

The Company enters into securities financing transactions to meet customers' needs and to obtain securities for settlement, to meet its regulatory reserve requirements under Rule 15c3-3, and to maintain liquidity.

Under these transactions, the Company either receives or provides collateral, including U.S. Treasury and government agency securities and equity securities. The Company receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under most agreements the Company is permitted to sell or repledge the securities received (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions). At June 30, 2019, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $14.5 billion, all of which was received from affiliated companies. The fair value of securities received as collateral that had been sold or repledged was $459 million, all of which had been sold or repledged to affiliated companies.

Offsetting of Securities Financing Agreements

A significant majority of resale activities are transacted under legally enforceable master repurchase agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company offsets resale transactions with the same counterparty on the Company's Consolidated Balance Sheet where it has such a legally enforceable master netting agreement and the transactions have the same maturity date. At June 30, 2019, the Company did not offset any of its resale transactions.

A significant majority of securities borrowing and lending activities are transacted under legally enforceable master securities lending agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held. In certain instances, the Company offsets securities borrowing and lending transactions with the same counterparty on the Company's Consolidated Balance Sheet where it has such a legally enforceable master netting agreement and the transactions have the same maturity date. At June 30, 2019, the Company did not offset any of its securities borrowing and lending transactions.

The tables below present securities financing agreements included on the Company's Consolidated Balance Sheet at June 30, 2019. Gross assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. For information on the offsetting of derivatives, see Note 6.

Gross assets and liabilities include activity where uncertainty exists as to the enforceability of certain master netting agreements under bankruptcy laws in some countries or industries and, accordingly, these are reported on a gross basis.

The column entitled "Financial Instruments" in the tables below includes securities collateral received or pledged under repurchase or securities lending agreements where there is a legally enforceable master netting agreement. These amounts are not offset in the Consolidated Balance Sheet but are shown as a reduction to the net balance sheet amount in the table to derive a net asset or liability. Securities collateral received or pledged where the legal enforceability of the master netting agreements is not certain is not included.

(dollars in millions)

	Assets				
	June 30, 2019				
	Gross Assets	Amounts Offset	Net Balance Sheet Amount	Financial Instruments	Net Asset
Receivables under resale agreements	$ 13,653	$ —	$ 13,653	$ 13,653	$ —
Receivables under securities borrowed transactions	478	—	478	478	—
Total	$ 14,131	$ —	$ 14,131	$ 14,131	$ —

	Liabilities				
	June 30, 2019				
	Gross Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Instruments	Net Liability
Payables under securities loaned transactions	$ 746	$ —	$ 746	$ 746	$ —
Total	$ 746	$ —	$ 746	$ 746	$ —

Payables under Securities Loaned Transactions Accounted for as Secured Borrowings

At June 30, 2019, the maturity of all of the Company's securities loaned transactions were either overnight or continuous (i.e., no stated term). At June 30, 2019, the Company pledged equity securities of $746 million as collateral for its securities loaned transactions.

For securities loaned transactions, the Company receives collateral in the form of cash. The collateral is generally valued daily based on the market value of the securities loaned and the Company may receive or return collateral pledged, when appropriate.

8. Goodwill and Intangible Assets

Refer to Note 2 for the Company's accounting policies for goodwill and intangible assets.

Goodwill

In connection with the Broker-Dealer Separation, the Company transferred approximately $2.9 billion of goodwill to BofAS. Such amount was determined by the relative fair values of the Company and BofAS as of May 11, 2019, the date the Broker-Dealer Separation was completed.

Based on the annual impairment analysis, the Company determined that there was no impairment of goodwill as of the June 30, 2019 test date.

The carrying amount of the Company's goodwill at June 30, 2019 was $878 million.

Intangible Assets

In connection with the Broker-Dealer Separation, it was determined that the Company's indefinite lived intangible asset, which represents the value of the Merrill Lynch brand name, should remain with the Company in its entirety. The Merrill Lynch brand name will continue to be primarily utilized by the Company's wealth management and investment advisory businesses.

Based on the annual impairment analysis, the Company determined that there was no impairment of the Merrill Lynch brand as of the June 30, 2019 test date.

The carrying amount of the Company's indefinite lived intangible asset as of June 30, 2019 was $935 million.

9. Subordinated Borrowings and Other Financing

At June 30, 2019, subordinated borrowings and credit committed under agreements with NB Holdings consisted of the following:

(dollars in millions)

	Maturity	Amount Outstanding	Total Credit Facility
MLPF&S with NB Holdings			
Revolving Subordinated Line of Credit	April 16, 2021	$ 1,520	$ 12,000
Total Subordinated Liabilities		$ 1,520	$ 12,000

These borrowings, which have been approved for regulatory capital purposes, are U.S. dollar-denominated obligations at variable interest rates based on three-month LIBOR plus a market-based spread. MLPF&S' revolving subordinated line of credit agreements contain a provision that automatically extends the loan's maturity by one year unless specified actions are taken 390 days prior to the maturity date.

During the six months ended June 30, 2019, MLPF&S repaid $10.6 billion of its subordinated borrowings.

The Company obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated $205 million at June 30, 2019.

10. Leases

The Company enters into lessee arrangements. For more information on lease accounting, see Note 2.

The Company's lessee arrangements predominantly consist of operating leases for premises and equipment. Right-of-use assets and the related lease liabilities for such arrangements were approximately $1.2 billion at June 30, 2019. The weighted-average discount rate used to calculate the present value of future minimum lease payments was 3.8%.

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 6.7 years at June 30, 2019.

Maturity Analysis

The maturities of lessee arrangements outstanding at June 30, 2019 are presented in the table below based on undiscounted cash flows.

(dollars in millions)

	Lessee Operating Leases June 30, 2019
Remainder of 2019	$ 131
2020	254
2021	228
2022	195
2023	161
Thereafter	407
Total undiscounted cash flows	$ 1,376
Less: Net present value adjustment	(170)
Total	$ 1,206

11. Stockholder's Equity

MLPF&S is authorized to issue 1,200 shares of $1.00 par value common stock. At June 30, 2019, there were 1,000 shares issued and outstanding.

MLPF&S is authorized to issue 1,000 shares of $1.00 par value preferred stock. At June 30, 2019, there were no preferred shares issued.

12. Commitments, Contingencies and Guarantees

Litigation and Regulatory Matters

In the ordinary course of business, the Company is occasionally a defendant in or a party to pending and threatened legal actions and proceedings. In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, particularly where the claimants seek unspecified or very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, the Company will establish an accrued liability. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

Commitments
At June 30, 2019, the Company's commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	Over 5 years
Purchasing commitments	$ 15	$ 4	$ 10	$ —	$ 1
Operating leases	1,376	258	452	323	343
Total	$ 1,391	$ 262	$ 462	$ 323	$ 344

Purchasing Commitments
The Company has entered into commitments to purchase service contracts with providers of market data, communications, and systems consulting services.

Operating Leases
The Company has entered into various non-cancelable long-term lease agreements for premises that expire through 2032. See Note 10 for further information.

Guarantees
The Company is a member of various securities and derivative exchanges and clearinghouses, both in the U.S. and in other countries. As a member, the Company may be required to pay a pro-rata share of the losses incurred by some of these organizations as a result of another member's default and under other loss scenarios. The Company's potential obligations may be limited to its membership interests in such exchanges and clearinghouses, to the amount (or multiple) of the Company's contribution to the guarantee fund or, in limited instances, to the full pro-rata share of the residual losses after applying the guarantee fund. The Company's maximum potential exposure under these membership agreements is difficult to estimate; however, the potential for the Company to be required to make these payments is remote.

The Company performs securities clearance and settlement services with other brokerage firms and clearinghouses on behalf of its clients. Under these arrangements, the Company stands ready to meet the obligations of its clients with respect to securities transactions. The Company's obligations in this respect are secured by the assets in the clients' accounts and the accounts of their customers as well as by any proceeds received from the transactions cleared and settled by the Company on behalf of clients or their customers. The Company's maximum potential exposure under these arrangements is difficult to estimate; however, the potential for the Company to incur material losses pursuant to these arrangements is remote.

13. Employee Benefit Plans

Bank of America provides pension and other postretirement benefits to its employees worldwide through sponsorship of defined contribution pension, defined benefit pension and other postretirement plans.

The Bank of America Corporation Corporate Benefits Committee has overall responsibility for the administration of these benefit plans.

Bank of America maintains certain qualified retirement and defined contribution plans covering the Company's full-time, salaried employees and certain part-time employees.

The defined benefit pension plans and postretirement benefit plans are accounted for in accordance with ASC 715-20-50, *Compensation - Retirement Benefits, Defined Benefit Plans-General* ("Defined Benefit Plan Accounting"). Postemployment benefits are accounted for in accordance with ASC 712, *Compensation-Nonretirement Postemployment Benefits*. Required disclosures are included in the December 31, 2018 Form 10-K of Bank of America.

Defined Contribution Pension Plans
The active U.S. defined contribution plan sponsored by Bank of America is the Bank of America 401 (k) Plan. Effective January 1, 2019, the Merrill Lynch 401 (k) Savings & Investment Plan ("SIP") was merged into the Bank of America 401 (k) Plan.

Defined Benefit Pension Plans
Certain of the Company's employees are covered by Bank of America's qualified pension plan.

Bank of America has an annuity contract that guarantees the payment of benefits vested under a terminated U.S. pension plan. Bank of America, under a supplemental agreement, may be responsible for, or benefit from, actual experience and investment performance of the annuity assets. Bank of America made no contribution under this agreement for the six months ended June 30, 2019. Contributions may be required in the future under this agreement.

Bank of America also maintains non-contributory, nonqualified pension plans (i.e., plans not subject to Title IV of ERISA) that are unfunded and provide supplemental defined benefit pension benefits for certain eligible U.S. employees.

Postretirement Benefits Other Than Pensions
Health insurance benefits are provided to eligible retired employees and dependents through Bank of America sponsored plans. The health care coverage is contributory, with certain retiree contributions adjusted periodically. The accounting for costs of health care benefits for most eligible employees anticipates future changes in cost-sharing provisions.

Postemployment Benefits
Bank of America provides certain postemployment benefits for employees on extended leave due to injury, illness, or death and for terminated employees. Eligible employees who are disabled due to non-work related illness or injury are entitled to disability income, medical coverage and life insurance. Severance benefits may be provided to eligible terminated employees under the terms of a severance pay plan. All full-time employees are eligible for severance benefits subject to the terms of the severance pay plan.

14. Employee Incentive Plans

Incentive plans are sponsored by Bank of America. Disclosures required by ASC 718, *Stock Compensation* ("Stock Compensation Accounting") are included in the December 31, 2018 Form 10-K of Bank of America.

The Company participates in a number of equity compensation plans sponsored by Bank of America, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ("KEEP"). Under the KEEP, Bank of America grants stock based awards, including restricted stock units ("RSUs"), to eligible employees. Grants in 2019, 2018 and 2017 from the KEEP include RSUs that were authorized to settle predominantly in shares of common stock of Bank of America. Certain RSUs will be settled in cash or contain settlement provisions that subject these awards to variable accounting.

These RSUs will generally vest in one-third increments on each of the first three anniversaries of the grant date, provided that the employee remains continuously employed with the Company during that time.

For stock-based compensation awards granted to retirement-eligible employees, awards are deemed authorized at the beginning of the year preceding the grant date when the incentive award plans are generally approved.

The Company also participates in other deferred compensation plans and award programs.

15. Income Taxes

The reconciliation of the beginning UTB balance to the ending balance is presented in the table below.

Reconciliation of the Change in UTBs

(dollars in millions)		
Balance at December 31, 2018	$	103
Decreases in positions taken during prior years [1]		(3)
Expiration of statute		(1)
Balance at June 30, 2019	$	99

(1) Includes approximately $2 million that was transferred to BofAS in connection with the Broker-Dealer Separation (See Note 1).

As of June 30, 2019, the balance of the Company's UTBs which would, if recognized, affect the Company's effective tax rate was $91 million. Included in the UTB balance are some items, the recognition of which would not affect the effective tax rate, such as the portion of gross state UTBs that would be offset by the tax benefit of the associated federal deduction, and the portion of gross non-U.S. UTBs that would be offset by tax reductions in other jurisdictions.

It is reasonably possible that the UTB balance may decrease by as much as $61 million during the next 12 months, since resolved items will be removed from the balance whether their resolution results in payment or recognition.

The Company files income tax returns in numerous state, local and non-U.S. jurisdictions each year. The Internal Revenue Service ("IRS") and other tax authorities in states, cities, and countries in which the Company has significant business operations, examine tax returns periodically (continuously in some jurisdictions). The table below summarizes the status of significant tax examinations, by jurisdiction, for the Company as of June 30, 2019.

Jurisdiction	Years Subject to Examination (1)	Status at June 30, 2019
U.S. Federal	2012 - 2013	Appeals
U.S. Federal	2014 - 2016	Field examination
California	2008 - 2011	Appeals
California	2012 - 2014	Field examination

[1] All tax years subsequent to the above years remain open to examination.

At June 30, 2019, the Company’s accrual for interest and penalties that related to income taxes, net of taxes and remittances, was $9 million.

Current and deferred income taxes are recorded as income tax receivable and payable due to affiliate, which are included on the Consolidated Balance Sheet within *Interest and other, including loans due from affiliates, Interest and other payables* and *Loans due to affiliates*. Significant components of the Company's deferred tax assets and liabilities as of June 30, 2019 are presented below.

(dollars in millions)		
Deferred tax assets		
Employee compensation	$	200
Loss carryforward		293
Accrued expenses		87
Other		51
Gross deferred tax assets		631
Valuation allowance		(44)
Total deferred tax assets, net of valuation allowance		587
Deferred tax liabilities		
Goodwill and intangibles		234
Gross deferred tax liabilities		234
Net deferred tax asset	$	353

The table below summarizes the deferred tax assets and the related valuation allowance recognized for the net operating loss and tax credit carryforwards at June 30, 2019.

(dollars in millions)	Deferred Tax Asset	Valuation Allowance	Net Deferred Tax Asset	First Year Expiring
Net operating losses - U.S.	$ 116	$ —	$ 116	After 2028
Net operating losses - U.S. states [(1)]	177	(44)	133	Various
Total Loss Carryforwards	$ 293	$ (44)	$ 249	
General business credits	20	—	20	After 2033
Total Tax Credit Carryforwards	$ 20	$ —	$ 20	

[(1)] Amounts above include capital losses. The losses and related valuation allowances for U.S. states before considering the benefit of federal deductions were $225 million and $(56) million, respectively.

Realization of the deferred tax assets above is dependent on the Company's or Bank of America's ability to generate sufficient taxable income prior to their expiration. Management concluded that no valuation allowance was necessary to reduce the U.S. federal NOL and general business credit carryforwards since estimated future taxable income will more-likely-than-not be sufficient to utilize these assets prior to expiration.

At June 30, 2019, the Company had a current income tax payable due to its affiliates of approximately $0.8 billion as a result of its inclusion in consolidated, combined, and unitary tax return filings with Bank of America as determined under the intercompany tax allocation agreements with Bank of America.

16. Regulatory Requirements

SEC Uniform Net Capital Rule

As a registered broker-dealer, MLPF&S is subject to the net capital requirements of the Securities Exchange Act of 1934 ("SEA Rule 15c3-1"). MLPF&S has elected to compute the minimum capital requirement in accordance with the "Alternative Standard" as permitted by SEA Rule 15c3-1.

At June 30, 2019, MLPF&S' regulatory net capital as defined by SEA Rule 15c3-1 was $3.9 billion and exceeded the minimum requirement of $110.9 million by $3.8 billion.

In accordance with the Alternative Standard, MLPF&S is required to maintain net capital in excess of $0.25 million or two percent of aggregate debit items computed in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers. As of June 30, 2019, MLPF&S had net capital in excess of the minimum requirement.

SEC Customer Protection Rule

MLPF&S is also subject to Rule 15c3-3, which requires, under certain circumstances, that cash or securities be deposited into a special reserve bank account for the exclusive benefit of customers. As of June 30, 2019, the Company had $8.5 billion of U.S. Government securities segregated in the special reserve bank account.

As a clearing broker and in accordance with Rule 15c3-3, MLPF&S computed a reserve requirement for the proprietary accounts of broker dealers ("PAB"). As of June 30, 2019, the Company had $5 million of cash segregated in a special reserve bank account for such requirement.

17. Subsequent Events

ASC 855, *Subsequent Events*, requires the Company to evaluate whether events, occurring after the Balance Sheet date but before the date the Consolidated Balance Sheet is available to be issued, require accounting as of the Balance Sheet date, or disclosure in the Consolidated Balance Sheet. The Company has evaluated such subsequent events through date of issuance.

In July 2019, MLPF&S repaid $450 million of its subordinated borrowings. In August 2019, MLPF&S repaid an additional $450 million of its subordinated borrowings (see Note 9).

In August 2019, the maturities of all of MLPF&S' existing revolving senior unsecured lines of credit with NB Holdings and Bank of America were extended to August 1, 2020 (see Note 3).

In August 2019, the credit facility limit on MLPF&S' committed six month revolving senior unsecured line of credit with NB Holdings was reduced from $3 billion to $1 billion, and the credit facility limit on MLPF&S' uncommitted six month revolving senior unsecured line of credit with NB Holdings increased from $5 billion to $7 billion (see Note 3).

In September 2019, three indirect subsidiaries of Bank of America (Financial Data Services, LLC.; FDS Financial Data Services Limited; and Managed Account Advisors LLC), which provide various services to the Company, were contributed to MLPF&S. In accordance with ASC 805, Business Combinations, the Company includes the results of the contributed subsidiaries as if the transactions had occurred on January 1, 2019. In addition, the transfer of these three subsidiaries was accounted for by MLPF&S as a capital contribution.

There were no other material subsequent events which affected the amounts or disclosures in the Consolidated Balance Sheet through September 3, 2019,which is the issuance date of the Consolidated Balance Sheet.