

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in this report. See Risk Factors that Could Affect Our Business. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Available Information

ML & Co. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Merrill Lynch) file electronically with the SEC. The SEC's internet site is www.sec.gov.

ML & Co.'s internet address is www.ml.com, and the investor relations section of our website can be accessed directly at www.ir.ml.com. ML & Co. makes available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are available through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Also posted on our website are corporate governance materials including Merrill Lynch's Guidelines for Business Conduct, Code of Ethics for Financial Professionals, Director Independence Standards, Corporate Governance Guidelines and charters for the committees of our Board of Directors. In addition, our website includes information on purchases and sales of our equity securities by our executive officers and directors, as well as disclosures relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

We will post on our website amendments to our Guidelines for Business Conduct and Code of Ethics and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange. The information on Merrill Lynch's website is not incorporated by reference into this Report. Shareholders may obtain printed copies of these documents, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 or by email at corporate_secretary@ml.com.

Overview

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, Merrill Lynch created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a global basis.

Merrill Lynch conducts business from various locations throughout the world. Merrill Lynch's world headquarters is located in the World Financial Center in New York City, and its other principal United States business and operational centers are located in New Jersey and Florida. Merrill Lynch has a presence in 35 countries and territories outside the United States, and its major geographic regions of operations include the United States; Europe, the Middle East and Africa ("EMEA"); the Pacific Rim; Canada; and Latin America.

Merrill Lynch's activities are conducted through three business segments:

- *Global Markets and Investment Banking Group ("GMI")*, Merrill Lynch's institutional business segment, provides equity, debt and commodities trading, capital market services, investment banking and advisory services to corporations, financial institutions, and



governments around the world. GMI's Global Markets division facilitates client transactions and is a market maker in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands, and in connection with proprietary trading activities. Global Markets also provides clients with financing, securities clearing, settlement, and custody services and also engages in principal investments and private equity investing. GMI's Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients, including underwriting and placement of public and private equity, debt and related securities, as well as lending and other financing activities for clients globally. These services also include advising clients on strategic issues, valuation, mergers, acquisitions and restructurings. In 2005, GMI generated 52% of Merrill Lynch's net revenues and 65% of Merrill Lynch's pre-tax earnings. GMI's growth strategy entails a program of significant investments in personnel and technology to gain further scale in certain asset classes and geographies.

- *Global Private Client ("GPC")*, Merrill Lynch's full-service retail wealth management segment, provides brokerage, investment advisory and financial planning services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. The largest portion of this business is offered through the Advisory Division, where services are delivered by Merrill Lynch Financial Advisors ("FAs") through a global network of branch offices. GPC's offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and credit cards; trust and generational planning; retirement services; and insurance products. In 2005, GPC generated 41% of Merrill Lynch's net revenues and 28% of Merrill Lynch's pre-tax earnings. GPC's growth priorities include the hiring of additional FAs, client segmentation, annuitization of revenues through fee-based products, diversification of revenues through adding products and services, investments in technology to enhance productivity and efficiency, and disciplined expansion into additional geographic areas globally.
- *Merrill Lynch Investment Managers ("MLIM")*, Merrill Lynch's asset management segment, offers a wide range of investment management capabilities to retail and institutional investors through proprietary and third-party distribution channels globally. Asset management capabilities include equity, fixed income, money market, index, enhanced index and alternative investments, which are offered through vehicles such as mutual funds, privately managed accounts, and retail and institutional separate accounts. In 2005, MLIM generated 7% of Merrill Lynch's net revenues and pre-tax earnings. MLIM's growth priorities include driving strong relative long-term investment performance and broadening the distribution of its products through multiple channels, while maintaining discipline on expenses. MLIM is committed to increasing sales in both the proprietary and non-proprietary channels in the United States, as well as non-U.S. regions. On February 15, 2006, Merrill Lynch entered into an agreement with BlackRock, Inc. ("BlackRock"), to combine the MLIM business with BlackRock. See Note 2 to the Consolidated Financial Statements for further information.

Merrill Lynch also provides a variety of research services on a global basis through its Global Securities Research and Economics Group. These services are at the core of the value proposition offered to institutional and individual client sales forces and their customers, and are an integral component of the product offering in GMI and GPC. This group distributes research focusing on four main disciplines globally: fundamental equity research, fixed income and equity-linked research, equity strategy and economic analyses, and wealth management strategy which leverages macroeconomic and other research views to produce investment ideas. Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 18 countries cover approximately 2,650 companies.

Merrill Lynch is a Consolidated Supervised Entity ("CSE") and is subject to group-wide supervision by the SEC. As such, Merrill Lynch computes allowable capital and allowances thereto; permits the SEC to examine the books and records of the holding company and any affiliate that does not have a principal regulator; and has adopted various additional SEC reporting, record-keeping, and notification requirements. Merrill Lynch is in compliance with applicable CSE standards. Being a CSE has imposed additional costs, although not material to date, and has introduced new requirements to monitor capital adequacy. In respect of the European Union ("EU") Financial Conglomerates ("or Financial Groups") Directive, the U.K. Financial Services Authority ("FSA") has determined that the SEC undertakes equivalent consolidated supervision for Merrill Lynch.

Risk Factors that Could Affect Our Business

In the course of conducting its business operations, Merrill Lynch could be exposed to a variety of risks that are inherent to the financial services business. A summary of some of the significant risks that could affect Merrill Lynch's financial condition and results of operations is included below. Some of these risks are managed in accordance with established risk management policies and procedures, most of which are described in the Risk Management section of the Management's Discussion and Analysis.

Market Risk

Merrill Lynch's various businesses may be adversely impacted by global market and economic conditions that may cause fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads.

The financial services industry and the global financial markets are influenced by numerous unpredictable factors including economic conditions, monetary and fiscal policies, the liquidity of global markets, availability and cost of capital, international and regional political events, acts of war or terrorism and investor sentiment. Changes in these factors may result in volatility in interest rates, exchange rates, equity and commodity prices, and credit spreads. Merrill Lynch has a large and increasing amount of trading and investment positions, which include proprietary trading positions in fixed income, currency, commodities and equity securities, as well as in real estate, private equity and other investments. Merrill Lynch may incur losses as a result of increased market volatility, as these fluctuations may adversely impact the valuation of its trading and investment positions. Conversely, a decline in volatility may adversely affect the results in Merrill Lynch's trading businesses, which depend on market volatility to create client and proprietary trading opportunities.

Credit Risk

Merrill Lynch may incur losses from its credit exposure related to trading, lending, and other business activities.

Merrill Lynch is exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. These credit exposures exist within lending relationships, commitments, letters of credit, derivatives, foreign exchange and other transactions. These exposures may arise, for example, from a decline in the financial condition of a counterparty, from a decrease in the value of securities of third parties held by Merrill Lynch as collateral, from entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to Merrill Lynch, and from extending credit to clients through loans or other arrangements. An increase in Merrill Lynch's credit exposure could have an adverse effect on its business and profitability if credit losses exceed credit provisions.

Operational Risk

Merrill Lynch may incur losses from inadequate or failed internal processes, people and systems or from external events.

Merrill Lynch may incur losses arising from its exposure to operational risk. Financial services firms, including Merrill Lynch, are exposed to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such operational risks may include, for example, exposure to natural or man-made disasters, mistakes made in the confirmation or settlement of transactions or from improper recording, evaluating or accounting for transactions. Merrill Lynch could suffer financial loss, disruption of its business, liability to clients, regulatory intervention or reputational damage, which would affect its business and financial condition.

Liquidity Risk

Merrill Lynch's business and financial condition may be adversely impacted by an inability to borrow funds or sell assets to meet maturing obligations.

Financial services firms, including Merrill Lynch, are exposed to liquidity risk, which is the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Merrill Lynch's liquidity may be impaired due to circumstances that it may be unable to control, such as general market disruptions or an operational problem that affects its trading clients, third parties or itself. Merrill Lynch's ability to sell assets may also be impaired if other market participants are seeking to sell similar assets at the same time. The inability of Merrill Lynch to borrow funds or sell assets to meet maturing obligations, a negative change in its credit ratings, which would have an adverse effect on its ability to borrow funds, or regulatory capital restrictions imposed on the free flows of funds between Merrill Lynch and its affiliates may have a negative effect on its business and financial condition.

Litigation Risk

Legal proceedings could adversely affect Merrill Lynch's operating results and financial condition for a particular period and impact its credit ratings.

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. Some of the legal actions against Merrill Lynch include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants are bankrupt or otherwise in financial distress. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.



Merrill Lynch may explore potential settlements before a case is taken through trial because of uncertainty and risks inherent in the litigation process. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, disclosed in Other Information (Unaudited) — Legal Proceedings, including almost all of the class action lawsuits, 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. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be, which may be material to its operating results or cash flows for any particular period and may impact its credit ratings.

Regulatory and Legislative Risks

Many of Merrill Lynch’s businesses are highly regulated and could be adversely impacted by regulatory and legislative initiatives around the world.

Merrill Lynch’s businesses may be adversely affected by regulatory and legislative initiatives imposed by various U.S. and non-U.S. regulatory and exchange authorities, such as federal and state securities regulators including the SEC, the FSA, self-regulatory organizations including The New York Stock Exchange, Inc. (“NYSE”) and the National Association of Securities Dealers, Inc. (“NASD”), and industry participants that continue to review and, in many cases, adopt changes to their established rules and policies. Such changes have occurred in areas such as corporate governance, anti-money laundering, privacy, research analyst conflicts of interest and qualifications, practices related to the issuance of securities, mutual fund trading, disclosure practices and auditor independence.

Competitive Environment

Competitive pressures in the financial services industry in which Merrill Lynch operates could adversely affect its business and results of operations.

Merrill Lynch competes globally for individual and institutional clients on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation. The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by the introduction of new technology platforms, consolidation through mergers, increased competition from new and established industry participants and diminishing margins in many mature products and services. Merrill Lynch competes with U.S. and non-U.S. commercial banks and other broker-dealers in brokerage, underwriting, trading, financing and advisory businesses. For example, the financial services industry in general, including Merrill Lynch, has experienced intense price competition in brokerage, as the ability to execute trades electronically, through the internet and through other alternative trading systems has pressured trading commissions and spreads. Merrill Lynch competes for investment funds with mutual fund management companies, insurance companies, finance and investment advisory companies, banks, trust companies and other institutions. Many of Merrill Lynch’s non-U.S. competitors may have competitive advantages in their home markets. In addition, Merrill Lynch’s business is substantially dependent on its continuing ability to compete effectively to attract and retain qualified employees, including successful Financial Advisors, investment bankers, trading professionals and other revenue-producing or support personnel.

For further information on Risks refer to Note 6 to the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding:

- Valuations of assets and liabilities requiring fair value estimates including:
 - Trading inventory and investment securities;
 - Private equity investments;
 - Loans and allowance for loan losses;
- The outcome of litigation;
- The realization of deferred tax assets and tax reserves;
- Assumptions and cash flow projections used in determining whether variable interest entities (“VIEs”) should be consolidated and the determination of the qualifying status of special purpose entities (“QSPEs”);
- The carrying amount of goodwill and other intangible assets;
- Valuation of employee stock options;

- Insurance reserves and recovery of insurance deferred acquisition costs; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

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 Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 to the Consolidated Financial Statements.

The following is a summary of Merrill Lynch's critical accounting policies and estimates.

Valuation of Financial Instruments

Proper valuation of financial instruments is a critical component of Merrill Lynch's financial statement preparation. Fair values for exchange-traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or Merrill Lynch's own credit ratings as appropriate.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the Consolidated Financial Statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. At the inception of the contract, unrealized gains for these instruments are not recognized unless significant inputs to the valuation model are observable in the market.

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., consent of the issuer or other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Accordingly, Merrill Lynch estimates the fair value of these securities based on management's best estimate, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar market transactions and/or review of underlying financial conditions and other market factors.

Valuation adjustments are an integral component of the mark-to-market process and may be taken where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires adjustment to the values derived by the pricing models.

Because valuation may involve significant estimation where readily observable prices are not available, a categorization of Merrill Lynch's financial instruments based on liquidity of the instrument and the amount of estimation required in determining its value as recorded in the Consolidated Financial Statements is provided below. In preparing the categorization, certain estimates have been made regarding the allocation of netting adjustments permitted under FASB Interpretation No. ("FIN") 39, *Offsetting of Amounts Related to Certain Contracts*, and other adjustments.

Assets and liabilities recorded on the Consolidated Balance Sheets can be broadly categorized as follows:

Category 1. Highly liquid cash and derivative instruments, primarily carried at fair value, for which quoted market prices are readily available (for example, exchange-traded equity securities, certain listed options, and U.S. Government securities).

Category 2. Liquid instruments, primarily carried at fair value, including:

- a) Cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);
- b) Derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and
- c) Instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain trading loans).



Category 3. Less liquid instruments that are valued using management's best estimate of fair value, and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management (for example, private equity investments, long-dated or complex derivatives such as certain foreign exchange options and credit default swaps, distressed debt and commodity derivatives, such as long-dated options on gas and power and weather derivatives).

At December 30, 2005 and December 31, 2004, certain assets and liabilities on the Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

(dollars in millions)

2005	Category 1	Category 2	Category 3	Total
Assets				
Trading assets, excluding contractual agreements	\$ 56,556	\$ 63,344	\$ 2,594	\$ 122,494
Contractual agreements	5,008	18,177	3,031	26,216
Investment securities	6,115	54,805	8,353	69,273
Liabilities				
Trading liabilities, excluding contractual agreements	\$ 48,688	\$ 11,248	\$ 242	\$ 60,178
Contractual agreements	4,623	17,490	6,642	28,755
2004				
Assets				
Trading assets, excluding contractual agreements	\$ 72,272	\$ 63,714	\$ 2,716	\$ 138,702
Contractual agreements	5,240	27,137	3,498	35,875
Investment securities	7,868	64,142	6,450	78,460
Liabilities				
Trading liabilities, excluding contractual agreements	\$ 51,763	\$ 10,827	\$ 1,269	\$ 63,859
Contractual agreements	5,090	26,387	4,257	35,734

In addition, other trading-related assets recorded in the Consolidated Balance Sheets at year-end 2005 and 2004 include \$255.5 billion and \$173.4 billion, respectively, of receivables under resale agreements and receivables under securities borrowed transactions. Trading-related liabilities recorded in the Consolidated Balance Sheets at year-end 2005 and 2004 include \$217.5 billion and \$176.1 billion, respectively, of payables under repurchase agreements and payables under securities loaned transactions. These securities financing transactions are recorded at their contractual amounts, which approximate fair value, and for which little or no estimation is required by management.

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. In accordance with SFAS No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including class action lawsuits, 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. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. See Note 12 to the Consolidated Financial Statements and Other Information (Unaudited) – Legal Proceedings for further information.

Variable Interest Entities

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and/or quantitative analysis of each new VIE at inception to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. Although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is generally not required subsequent to the initial assessment. If a VIE meets the conditions to be considered a QSPE, it is typically not required to be consolidated by Merrill Lynch. A QSPE's activities must be significantly limited. A servicer of the assets held by a QSPE may have discretion in restructuring or working out assets held by the QSPE as long as the discretion is significantly limited and the parameters of that discretion are fully described in the legal documents that established the QSPE. Determining whether the activities of a QSPE and its servicer meet these conditions requires the use of judgment by management.

Income Taxes

Merrill Lynch is under examination by the Internal Revenue Service (“IRS”) and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001-2003 is expected to be completed in 2006. There are carryback claims from these years of approximately \$250 million to \$300 million, which will undergo Joint Committee review. A tax benefit would be recorded to the extent that Merrill Lynch is successful in obtaining the tax benefit from these carryback claims. IRS audits have also commenced for the 2004 and 2005 tax years. In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998-2002. The assessment reflected the Japanese tax authority’s view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch is taking steps to file a request for reinvestigation of this assessment, including seeking clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation. Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than \$150 million. Merrill Lynch will adjust the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch’s effective tax rate in the period in which it occurs.

Business Environment⁽¹⁾

Global financial market conditions improved during 2005, despite rising U.S. short-term interest rates and energy prices. Non-U.S. stock markets outperformed those of the United States. The U.S. dollar strengthened against most major currencies, hitting two-year highs against the euro and the yen. Fixed income markets remained active, and the yield curve flattened throughout the year, at times becoming inverted. Long-term interest rates, as measured by the yield on the 10-year U.S. Treasury bond, began 2005 at 4.22% and moved as low as 3.89% by mid-year, only to rebound and end the year at 4.39%. The U.S. Federal Reserve System’s Federal Open Market Committee raised the federal funds rate eight times during the year from 2.25% to 4.25%.

In 2005, U.S. equity markets did not perform as well as the rest of the world. Major U.S. equity indices declined during the first half of the year but recovered this decline during the second half of 2005. The Dow Jones Industrial Average ended the year essentially unchanged from 2004. Both the Standard & Poor’s 500 Index and the Nasdaq Composite Index finished the year with modest gains of 3% and 1%, respectively.

Global equity indices rallied in the latter part of the year, primarily due to strong economic growth and rising corporate profits. The Dow Jones World Index, excluding the United States, rose 14% during the year. European stocks performed particularly well in 2005 as the Dow Jones Stoxx 50 index and the FTSE 100 index rose 21% and 17%, respectively. As a result of surging oil prices, the best performances in Western Europe were those of Norway and Austria, as Norway’s OSE All Share index and Austria’s ATX index grew 52% and 51%, respectively. In Eastern Europe, Russia’s benchmark index rose 63% also due to escalating oil and gas prices. Japan’s economic recovery led to a 40% rise in the Nikkei Stock Average, making it one of the top-performing markets. The Dow Jones Asia-Pacific index rose 22% led by South Korea, India and Japan. Emerging markets maintained their strong performances as Brazil’s Bovespa Index rose 28% and Mexico’s Bolsa Index rose 38% for the year.

U.S. Equity trading volumes for 2005 were generally higher than 2004. On the NYSE both the dollar volume of shares and the number of shares increased compared to the prior year. On the Nasdaq, the dollar volume of shares rose, while the number of shares declined compared to 2004. U.S. equity market volatility declined compared to prior year levels as measured by the VIX and QQQ volatility indices.

In 2005, global debt and equity underwriting volumes increased to \$6.5 trillion, up 13% for the year. Despite the rise in short-term interest rates during the year, debt issuances increased by 14% to \$6.0 trillion. Global debt underwriting fees were \$5.0 billion, down 23% from year-ago levels, while global equity underwriting fees declined by 7% to \$8.8 billion. The value of Global Initial Public Offerings (“IPOs”) increased by 18% as non-U.S. regions outperformed the United States.

Global merger and acquisition activity increased significantly with the total value of announced deals rising 39% to \$2.7 trillion, making 2005 the most active year since 2000. In the United States, the value of announced deals rose 33% to \$1.1 trillion for the year. The total value of global completed merger and acquisition activity was \$2.2 trillion, 35% higher than 2004. In the United States, the value of completed deals rose 14% to \$887 billion.



Merrill Lynch continually evaluates its businesses for profitability, performance, and client service to ensure alignment with its long-term strategic objectives under varying market and competitive conditions. The strategy of maintaining long-term client relationships, closely monitoring costs and risks, diversifying revenue sources, and growing fee-based and recurring revenues all continue as objectives to mitigate the effects of a volatile market environment on Merrill Lynch's business as a whole.

(1) Debt and equity underwriting and merger and acquisition statistics were obtained from Thomson Financial Securities Data.

Results of Operations

(dollars in millions, except per share amounts)	2005	2004	2003
Net revenues			
Asset management and portfolio service fees	\$ 6,031	\$ 5,440	\$ 4,698
Commissions	5,371	4,874	4,299
Investment banking	3,594	3,268	2,643
Principal transactions	3,583	2,248	3,065
Revenues from consolidated investments	438	346	70
Other	2,195	1,454	1,492
Subtotal	21,212	17,630	16,267
Interest and dividend revenues	26,571	14,989	11,657
Less interest expense	21,774	10,560	8,024
Net interest profit	4,797	4,429	3,633
Total net revenues	26,009	22,059	19,900
Non-interest expenses			
Compensation and benefits	12,441	10,663	9,886
Communications and technology	1,608	1,461	1,457
Occupancy and related depreciation	938	893	889
Brokerage, clearing, and exchange fees	842	773	676
Professional fees	727	715	598
Advertising and market development	599	533	429
Expenses of consolidated investments	258	231	68
Office supplies and postage	210	203	197
Other	1,155	751	627
Net recoveries related to September 11	-	-	(147)
Total non-interest expenses	18,778	16,223	14,680
Earnings before income taxes	\$ 7,231	\$ 5,836	\$ 5,220
Net earnings	\$ 5,116	\$ 4,436	\$ 3,836
Earnings per common share			
Basic	\$ 5.66	\$ 4.81	\$ 4.22
Diluted	5.16	4.38	3.87
Return on average common stockholders' equity	16.0%	14.9%	14.8%
Pre-tax profit margin	27.8%	26.5%	26.2%
Compensation and benefits as a percentage of net revenues	47.8%	48.3%	49.7%
Non-compensation expenses as a percentage of net revenues	24.4%	25.2%	24.1%
Book value per share	\$ 35.82	\$ 32.99	\$ 29.96

Consolidated Results of Operations

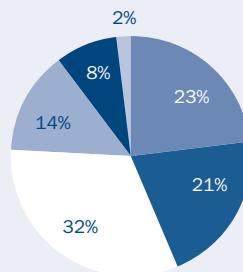
Merrill Lynch's net earnings per diluted share were a record \$5.16 in 2005 compared to \$4.38 in 2004. Net earnings were a record \$5.1 billion in 2005, up 15% from 2004 on net revenues of \$26.0 billion, which increased 18% from 2004. Net earnings in 2004 were \$4.4 billion, up 16% from \$3.8 billion in 2003. Net earnings in 2003 included \$91 million of after-tax September 11-related net insurance recoveries (\$147 million pre-tax) and after-tax net benefits from restructuring and other charges of \$3 million (\$20 million of pre-tax expense). The 2005 results reflect the impact of a litigation-related subsequent event as described in Note 2 to the Consolidated Financial Statements.

In 2005, the return on average common stockholders' equity was 16.0%, and the pre-tax profit margin was a record 27.8%. In 2004, the return on average common stockholders' equity was 14.9%, and the pre-tax profit margin was 26.5%. In 2003, the return on average common stockholders' equity was 14.8%, and the pre-tax profit margin was 26.2%.

The following chart illustrates the composition of net revenues by category in 2005:

2005 Net Revenues by Category

- Asset Management/Portfolio Service fees
- Commissions
- Principal Transactions and Net Interest Profit
- Investment Banking
- Other
- Consolidated Investments



Asset management and portfolio service fees primarily consist of (i) fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets, (ii) performance fees earned on certain separately managed accounts and institutional money management arrangements, (iii) servicing fees related to these accounts and (iv) annual account fees and certain other account-related fees. Asset management and portfolio service fees were \$6.0 billion, up 11% from 2004. The increase in portfolio service fees reflects the impact of net inflows into asset-priced accounts, and the increase in asset management fees reflects the impact of net inflows of higher-yielding assets as well as higher equity market values.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities, insurance products and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds ("12b-1 fees"), as well as contingent deferred sales charges earned when a shareholder redeems shares prior to the required holding period. Commissions revenues were \$5.4 billion, up 10% from 2004, due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds.

Principal transactions revenues include realized gains and losses from the purchase and sale of securities, such as equity securities, fixed income securities, including government bonds and municipal securities, in which Merrill Lynch acts as principal, as well as unrealized gains and losses on trading assets and liabilities, including commodities, derivatives, and loans. Principal transactions revenues were \$3.6 billion, 59% higher than a year ago, due primarily to increased revenues from trading of debt and equity products, as well as the addition of the commodities business, which was acquired in November 2004.

Net interest profit is a function of (i) the level and mix of total assets and liabilities, including trading assets owned, deposits, financing and lending transactions and trading strategies associated with the institutional securities business, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit is an integral component of trading activity. Net interest profit was \$4.8 billion, up 8% from 2004, due primarily to the impact of rising short-term interest rates on deposit spreads earned.

Investment banking revenues include (i) origination revenues representing fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication and commitment fees and (ii) strategic advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were \$3.6 billion, up 10% from 2004, driven primarily by increased merger and acquisition advisory revenues as well as higher debt origination fees.

Revenues from consolidated investments include revenues from consolidated investments which are less than 100% owned. Revenues from consolidated investments were \$438 million, up from \$346 million in 2004, reflecting higher investment gains.

Other revenues include realized investment gains and losses, equity income from unconsolidated subsidiaries, distributions on cost method investments, fair value adjustments on private equity investments made by non-broker-dealer subsidiaries that are held for capital appreciation and/or current income, gains related to the sale of mortgages, write-downs of certain available-for-sale securities, and translation gains and losses on foreign denominated assets and liabilities. Other revenues were \$2.2 billion in 2005, up from \$1.5 billion in 2004 due primarily to revenues of \$541 million in the principal investing and private equity businesses. This amount excludes revenues from consolidated investments. These revenues included fair value adjustments resulting from the recapitalization of equity investments and the sale through an IPO of an equity investment. These revenues were partially offset by lower gains on the sales of mortgages as compared to a year ago.



Net revenues in 2004 were \$22.1 billion, 11% higher than in 2003. Asset management and portfolio service fees in 2004 were \$5.4 billion, up 16%, due primarily to higher portfolio service fees arising from higher average equity market values in 2004, increased investment and fund management fees and an increased proportion of higher yielding assets. Commission revenues in 2004 were \$4.9 billion, up 13% due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2004 decreased 27%, to \$2.2 billion, due to significantly lower debt and debt derivatives trading revenues as compared to 2003, which benefited from a more favorable interest rate and credit environment. Net interest profit in 2004 was \$4.4 billion, up 22% due primarily to increased secured lending activity and increases in short-term interest rates, partially offset by increased credit provisions related to small- and middle-market lending in GPC. Investment banking revenues of \$3.3 billion in 2004 increased 24% from 2003 due to increased transaction volumes as market conditions improved. Revenues from consolidated investments were \$346 million, up from \$70 million in 2003 reflecting the full-year impact of entities consolidated in late 2003, as well as the impact of entities consolidated in 2004.

Compensation and benefits expenses were \$12.4 billion in 2005, up 17% from a year-ago, reflecting higher incentive compensation accruals associated with increased net revenues, as well as higher staffing levels. Compensation and benefits expenses were 47.8% of net revenues for 2005, as compared to 48.3% a year ago. The compensation ratio depends on the absolute level of net revenues, the business mix underlying those revenues and industry compensation trends.

Non-compensation expenses were \$6.3 billion in 2005, up 14% from 2004. Communications and technology costs were \$1.6 billion, up 10%, due primarily to higher system consulting costs related to investments for growth, including acquisitions, and higher market information and communications costs. Advertising and market development expenses were \$599 million, up 12% from 2004, due primarily to higher travel expenses associated with increased activity levels and increased sales promotion and advertising costs. Other expenses were \$1,155 million, up from \$751 million in 2004, primarily reflecting higher litigation provisions.

Compensation and benefits expenses were \$10.7 billion in 2004, an increase of 8% from 2003. The increase was due primarily to higher incentive compensation expenses resulting from increased net revenues and increased staffing levels. Compensation and benefits expenses were 48.3% of net revenues in 2004, compared to 49.7% of net revenues in 2003.

Non-compensation expenses were \$5.6 billion in 2004, 16% higher than 2003. Brokerage, clearing and exchange fees were \$773 million in 2004, up 14% from 2003 due in part to the acquisition of a clearing business. Professional fees were \$715 million in 2004, up 20% from 2003, due principally to higher legal, consulting and recruiting fees. Advertising and market development expenses were \$533 million, up 24% from 2003, due primarily to increased travel expenses, sales promotion costs and deal-related expenses. Expenses of consolidated investments were \$231 million, up from \$68 million in 2003, reflecting the full-year impact of entities consolidated in late 2003 and entities consolidated in 2004. Other expenses were \$751 million in 2004, up 20% from 2003, principally due to higher litigation provisions.

Income Taxes

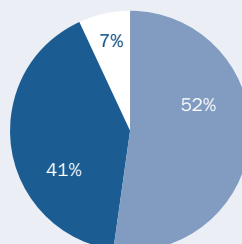
Merrill Lynch's 2005 income tax provision was \$2.1 billion, representing a 29.2% effective tax rate compared with 24.0% in 2004. The 2005 effective tax rate increased from the prior year reflecting the net impact of the business mix, tax settlements, and the \$97 million of tax expense (\$113 million of tax expense recorded in the fourth quarter, less a \$16 million tax benefit recorded in the second quarter) associated with the foreign earnings repatriation of \$1.8 billion. The 2004 effective tax rate decreased from the 2003 rate of 26.5% and reflected the mix of U.S. and foreign-sourced income, and utilization and the reversal of the \$281 million Japanese valuation allowance, primarily related to the Japan private client business that was restructured in 2001. Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements. Merrill Lynch assesses its ability to realize deferred tax assets within each jurisdiction, primarily based on a strong earnings history and other factors as discussed in SFAS No. 109, *Accounting for Income Taxes*. During the last 10 years, average annual pre-tax earnings were \$3.7 billion. Accordingly, management believes that it is more likely than not that remaining deferred tax assets, net of the remaining related valuation allowance, will be realized. See Note 15 to the Consolidated Financial Statements for further information.

Business Segments

The following discussion provides details of the operating performance for each of Merrill Lynch's three business segments, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Certain prior year amounts have been reclassified to conform to the current year presentation.

Merrill Lynch reports its results in three business segments: GMI, GPC, and MLIM. GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients.

2005 Net Revenues by Segment⁽⁴⁾



⁽⁴⁾ Excludes Corporate segment.

Certain MLIM and GMI products are distributed through GPC distribution channels, and, to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these inter-segment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for joint activities between segments are in place, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported in the Corporate segment. Business segment results are reclassified to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and organizational structure. See Note 3 to the Consolidated Financial Statements for further information.

Global Markets and Investment Banking

GMI provides equity, debt and commodities trading, capital markets services, investment banking and advisory services to issuer and investor clients around the world. The Global Markets division combines the debt, equity and commodities sales and trading activities for investor clients, while the Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients. Global Markets makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demands, and in connection with proprietary trading activities. Global Markets is a leader in the global distribution of fixed income, currency and energy commodity products and derivatives. Global Markets has one of the largest equity trading operations in the world and is a leader in the origination and distribution of equity and related products. Further, Global Markets provides clients with financing, securities clearing, settlement, and custody services and also engages in principal investments and private equity investing. Investment Banking raises capital for its clients through underwritings and private placements of equity, debt and related securities, and loan syndications. Investment Banking also offers advisory services to clients on strategic issues, valuation, mergers, acquisitions and restructurings.

Global Markets

Global Markets revenues are reported in two major categories, Debt Markets and Equity Markets, based on asset class. Global Markets' business lines include the following:

Debt Markets

- *Global Credit, Real Estate and Structured Products Group* — responsible on a global basis for asset-based lending, securitization and secured commercial real estate lending, collateralized mortgage obligations and asset-backed securities trading, and securitizations related to these transactions, as well as equity investments in real estate and other secured assets; and credit trading of money market instruments, investment grade debt, credit derivatives, structured credit products, syndicated loans, high-yield debt, distressed debt, and emerging markets debt;
- *Global Rates and Foreign Exchange Group* — responsible on a global basis for sales and trading activities for interest rate derivatives, currency, complex options, United States government and other Federal agency securities, obligations of other sovereigns, municipal securities, pass-through mortgage obligations trading, and debt financial futures and options;
- *Global Commodities Group* — responsible for energy and weather risk management, as well as marketing and trading of natural gas, power, oil, coal and other energy related products on a global basis; and
- *Debt Markets Strategic Risk Trading and Global Hybrid Exotics* — responsible for strategic risk trading in Global Debt Markets, with a primary focus on interest rate and foreign exchange trading. This group is also focused on hybrid exotic capabilities, including structured product trading across all asset classes.



Equity Markets

- *Global Equity Trading Group* — responsible for cash equity trading and trading activities in equity-linked derivatives, exchange-traded options, convertibles and financial futures on a global basis; also includes equity financing and services, including prime brokerage, stock loan, money manager services and clearing, settlement and custody functions; and
- *Global Private Equity* — manages assets primarily for its own account and for that of certain investment partnerships of Merrill Lynch employees.

Investment Banking

GMI's Global Investment Banking structure includes the following businesses:

- *Country/Sector Coverage* — responsible for all origination and advisory activities, across countries and sectors, on behalf of issuer clients;
- *Corporate Finance* — responsible for structured product capabilities, financial product development and commodities origination;
- *Equity Capital Markets* — responsible for all capital related activities for issuer clients generated in the equity markets, including convertibles and equity derivative products;
- *Debt Capital Markets* — responsible for all capital related activities for issuer clients generated in the high grade debt markets including derivative products, liability management, private placements, money markets, and structured transactions;
- *Leveraged Finance* — responsible for all financing activities for non-investment grade issuer clients, including high yield bond and syndicated loans;
- *Mergers and Acquisitions* — responsible for advising corporate clients regarding strategic alternatives, divestitures, mergers and acquisition activities; and
- *Executive Client Coverage Group* — senior client relationship managers who focus exclusively on strengthening relationships and maximizing opportunities with key clients.

2005 Developments

GMI's 2005 results included increased contributions from key areas of investment such as commodities, equity derivatives, principal investing, private equity, prime brokerage and investment banking coverage.

During 2005, GMI made key hires and substantial investments in technology to expand its trading capabilities and capitalize on opportunities and add to client revenue streams. GMI experienced solid revenue growth from these activities in 2005 and expects additional growth in 2006. Significant investments have also been made in the principal investing and private equity businesses, pursuant to which GMI both advises and invests alongside its clients. Investments have also been made to expand the technology infrastructure in prime brokerage and portfolio trading, which led to a greater share of the NYSE program trading volume in 2005. During the year, the commodity business expanded its scope by beginning to trade oil and coal, and commenced trading in Asia. In 2006, GMI will continue to execute to realize the potential on the investments made. In 2006, GMI plans to continue to broaden the scope of the commodities business in terms of product, geography, and linkage to the broader client franchise. In 2006, GMI also plans to focus on expanding its structured product capabilities to meet the needs of investors and for distribution through both proprietary and third-party retail channels globally. Additionally, GMI will continue to invest in mortgage finance and trading, municipals, prime brokerage and portfolio trading. GMI also will continue to focus on building its presence outside of the United States, especially in emerging markets where there is strong potential for future growth.

GMI completed the acquisition of the Chicago-based options, stock and futures clearing firm, Pax Clearing Corporation ("Pax Clearing") in 2005. This transaction augmented the equity financing and services business and enhanced the quality of service provided to clients. GMI also fully integrated the 2004 purchase of an energy trading business. As a result, Merrill Lynch is now ranked as one of the top firms for trading and marketing natural gas and electric power. These investments have resulted in growth in the number of GMI employees in 2005, bringing in new expertise and adding scale in the asset classes and geographies targeted for growth.

In the fourth quarter of 2005, Merrill Lynch announced that it is increasing its stake in the joint venture, DSP Merrill Lynch, India's leading investment bank, to further expand the capabilities of that platform and capitalize on the opportunities in that market. In addition, Merrill Lynch has taken steps towards establishing a joint venture with a domestic securities firm in China that will allow Merrill Lynch to participate in the ongoing development of the Chinese capital markets.

GMI's Results of Operations

(dollars in millions)	2005	2004	2003
Global Markets			
Debt	\$ 6,324	\$ 5,213	\$ 5,051
Equity	4,381	3,036	2,845
Total Global Markets net revenues	10,705	8,249	7,896
Investment banking			
Origination			
Debt	1,330	1,135	846
Equity	952	1,001	715
Strategic Advisory Services	882	678	560
Total Investment Banking net revenues	3,164	2,814	2,121
Total net revenues	13,869	11,063	10,017
Non-interest expenses	8,841	7,194	6,246
Pre-tax earnings	\$ 5,028	\$ 3,869	\$ 3,771
Pre-tax profit margin	36.3%	35.0%	37.6%
Total full-time employees	13,400	12,000	10,300

GMI's 2005 net revenues were \$13.9 billion, up 25% from the prior year, and pre-tax earnings increased 30% from 2004 to \$5.0 billion. GMI's pre-tax profit margin was 36.3%, up from 35.0% in the prior year. GMI's growth in net revenues and pre-tax earnings were a result of increased revenues in all three of GMI's major business lines — Debt Markets, Equity Markets and Investment Banking. Geographically, Europe contributed the most to the increases in net revenues and pre-tax earnings.

In 2004, GMI's pre-tax earnings were \$3.9 billion, 3% higher than in 2003, on net revenues that increased 10%, to \$11.1 billion. During 2003, GMI recognized \$155 million in September 11-related business interruption insurance recoveries for forgone pre-tax profits. These insurance reimbursements were recorded as reductions of non-interest expenses. GMI's increased net revenues and pre-tax earnings in 2004 were due principally to strong revenue growth in investment banking, improved cash equity trading results, and growth in the global principal investments and secured financing business. Geographically, the United States and the Pacific Rim contributed to the increases in net revenues and pre-tax earnings.

A detailed discussion of GMI's net revenues follows:

Debt Markets

Debt Markets net revenues include principal transactions and net interest profit (which should be viewed in aggregate to assess trading results), commissions, revenues from principal investments, fair value adjustments on private equity investments made by non-broker dealer subsidiaries that are held for capital appreciation and/or current income, and other revenues. In 2005, Debt Markets net revenues of \$6.3 billion increased 21% from 2004, as net revenues increased for all major products. The largest increase in net revenues was recorded by the global principal investing and secured finance business (which primarily includes principal investing in and financing of distressed assets and real estate, as well as mortgage and asset-backed securitization and trading activities), followed by the commodities business, which was acquired in 2004, and the trading of credit products. Debt Markets net revenues in 2005 included principal investing gains, including a single gain of approximately \$152 million, which was recorded in other revenues on the Consolidated Statements of Earnings, primarily associated with the change in the fair value of an equity principal investment upon its recapitalization. Given the event-driven nature of many principal investments, revenue realization and trends in the principal investing business may be uneven. In addition, revenues from equity method investments were \$104 million in 2005 compared to \$220 million for 2004. This year-over-year reduction was due to the change in accounting treatment for an investment from the equity method to the cost method following the adoption of Emerging Issues Task Force ("EITF") Issue No. 02-14, *Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence Through Other Means*. Net revenues related to equity method investments are included in other revenues on the Consolidated Statements of Earnings.

In 2004, Debt Markets net revenues were \$5.2 billion, 3% higher than 2003, driven primarily by increased revenues from the global principal investments and secured financing business, and the addition of the commodities trading business in late 2004. These increases were partially offset by lower revenues from credit products and interest rate trading compared to the strong 2003 results.



Equity Markets

Equity Markets net revenues include commissions, principal transactions and net interest profit, (which should be viewed in aggregate to assess trading results), revenues from equity method investments, fair value adjustments on private equity investments made by non-broker-dealer subsidiaries that are held for capital appreciation and/or current income, and other revenues. Equity Markets net revenues of \$4.4 billion increased 44% from 2004 driven by increased revenues from private equity, cash and equity-linked trading, and the equity financing and services business, which includes prime brokerage and clearing, and reflects the acquisition of Pax Clearing. During 2005, Merrill Lynch recognized approximately \$443 million of revenues related to fair value adjustments on private equity investments, including adjustments resulting from the recapitalization of private equity investments and the sale through an IPO of a private equity investment. In addition, Equity Markets net revenues in 2005 included \$321 million of revenues from equity method investments compared to \$182 million during 2004.

In 2004, Equity Markets net revenues increased 7% from 2003 to \$3.0 billion. This increase was due principally to higher revenues from the cash equity trading business, as trading volumes increased in 2004.

Investment Banking

Investment Banking net revenues increased 12% in 2005 to \$3.2 billion as increased strategic advisory services and debt origination revenues were partially offset by lower equity origination revenues. Investment Banking net revenues increased 33% in 2004 to \$2.8 billion, reflecting a more favorable environment and investments made to better position the origination effort in key industry sectors and regions.

Origination

Origination revenues represent fees earned from the underwriting of debt, equity and equity-linked securities as well as loan syndication fees.

Origination revenues in 2005 were \$2.3 billion, up 7% from 2004, driven by higher debt underwriting revenues, which increased 17% from 2004, partially offset by equity underwriting revenues which declined 5% from 2004. The increase in debt origination revenues reflects higher revenues from syndicated lending activities as well as increased overall debt origination activity during the year. Total origination revenues were \$2.1 billion in 2004, up 37% from 2003, reflecting increased debt and equity underwriting revenues. Debt origination revenues increased 34% from 2003, reflecting higher margin transactions and a favorable market environment for debt origination with narrowing credit spreads and low interest rates. Equity origination revenues increased 40% from 2003 due primarily to an increased volume of IPOs and a significant improvement in the market environment for equity origination.

Strategic Advisory Services

Strategic advisory services revenues, which include merger and acquisition and other advisory fees, were \$882 million in 2005, up 30% due to an increase in transaction volumes. In 2004, strategic advisory services revenues increased 21% to \$678 million, as global completed mergers and acquisitions volume increased substantially and Merrill Lynch's market share of completed transactions increased.

Global Private Client

GPC provides a full range of advice-based wealth management products and services to assist clients in managing all aspects of their financial profile through the Total MerrillSM platform. GPC's offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and credit cards; trust and generational planning; retirement services; and insurance products. GPC serves individual investors and small- and middle-market corporations and institutions through approximately 15,160 FAs in over 700 offices around the world as of year-end 2005.

Advisory Division

Brokerage and advisory financial services are provided in the United States to GPC clients principally through the Financial Advisor network. Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products through a network of offices located in 26 countries. Banking and trust services, as well as asset management services, are also offered to private clients in many countries.

To be more responsive to client needs and enhance the quality of its clients' experience, Merrill Lynch offers a multi-channel service model that more closely aligns its FAs with clients based on levels of investable assets. The Advisory Division's FAs are focused primarily on clients with more than \$100,000, but less than \$10 million of investable assets. Private Wealth Advisors who have completed a rigorous accreditation program focus primarily on clients with more than \$10 million of investable assets. GPC's Financial Advisory Center, a team-based service platform with access by telephone and internet, is focused primarily on U.S. clients with less than \$100,000 of investable assets. GPC also uses International Financial Advisory Centers to more effectively serve non-U.S. clients with lower levels of investable assets.

Merrill Lynch provides electronic brokerage services through Merrill Lynch Direct®, an internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct® offers online equity and fixed income trading, mutual funds, access to Merrill Lynch and other research and a variety of online investing tools.

Individual clients access the full range of GPC brokerage and advisory services through the CMA® account. At the end of 2005, there were approximately 2.3 million CMA® accounts with aggregate assets of approximately \$674 billion. Small- and medium-sized businesses obtain a wide range of securities account and cash management services through the Working Capital Management Account® (“WCMA account”) and related services. The WCMA account combines business checking, investment and electronic funds transfer services into one account for participating business clients. At the end of 2005, there were almost 111,000 WCMA accounts with aggregate assets of more than \$116 billion.

To help align products and services to each client’s specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced brokerage and investment advisory services and self-directed online accounts. Assets in GPC accounts totaled \$1.5 trillion at December 30, 2005, an 8% increase from December 31, 2004, due primarily to market appreciation and, to a lesser extent, net new money.

Banking, Trust and Insurance Services

Through the *Beyond Banking*® account, a Merrill Lynch client in the United States has access to a special securities account product designed for everyday transactions, savings and cash management that combines Visa, check writing and ATM access with available advice and guidance. GPC also makes mortgage and small business loans to clients through Merrill Lynch’s banks.

GPC securities brokerage clients provide deposits to Merrill Lynch’s banking entities which are used by these entities for lending and investment activities. GPC also recognizes revenue from a number of different business lines including residential mortgage financing, small and mid-size business lending and securities based lending. GPC also sells life insurance and annuity products and provides personal trust, employee benefit trust and custodial services for its clients. These activities are conducted through various Merrill Lynch bank, trust and insurance subsidiaries and are more fully described in the Activities of Principal Subsidiaries section.

Retirement Services

The Merrill Lynch Retirement Group is responsible for approximately \$363 billion in retirement assets for approximately 6.2 million individuals. This group provides a wide variety of investment and custodial services to individuals in the United States through Individual Retirement Accounts (“IRAs”) or through one of approximately 31,000 workplace-based retirement programs covered by the group. Merrill Lynch also provides investment, administration, communications and consulting services to corporations and their employees for their retirement programs. These programs include equity award and executive services, 401(k), pension, profit-sharing and non-qualified deferred compensation plans, as well as other retirement benefit plans. In addition, Merrill Lynch offers *Merrill Lynch Advice Access*®, an investment advisory service for individuals in retirement plans that provides plan participants with the option of obtaining advice through their local FA, an advisor at the Financial Advisory Center or through Merrill Lynch’s Benefits Online® website.

2005 Developments

GPC continued to focus on organic and inorganic growth initiatives during 2005, continuing to drive operating leverage through a strategy of revenue and product diversification, annuitization, client segmentation, growth in FA headcount, and investments to improve productivity. Over 1,000 FAs were added during 2005, and productivity per FA increased over 2004. The growth in FAs came through GPC’s recruiting efforts, its acquisition of The Advest Group, Inc., (“Advest”) and the continued low rate of turnover among GPC’s most productive FAs. GPC continues to make investments to carefully expand both within and outside the United States, where substantial opportunity for growth exists in a number of markets.

GPC continued to make progress in diversifying revenues by increasing fee-based and recurring revenue sources. Fee-based revenue and net interest profit and related hedges as a percentage of GPC’s total net revenues rose to 66% despite a year-over-year increase in transactional and origination revenues. GPC fee-based revenues from asset-priced and managed account products, including Merrill Lynch Consults® and Unlimited AdvantageSM, rose 11% in 2005.

The rollout of the Wealth Management Technology Platform (“WMTP”) to more than 23,000 U.S. users, including FAs, Client Associates, and the Financial Advisory Center’s Investor Services Advisors, commenced in 2004 and was substantially completed in 2005. WMTP is a fully integrated workstation that incorporates a comprehensive suite of market data and financial planning tools. This deployment resulted in higher infrastructure expense in 2005 and is expected to similarly impact future periods.



In 2005, Merrill Lynch completed its acquisition of the U.S. retirement business of AMVESCAP Plc; entered into a definitive agreement to establish a private banking and wealth management joint venture in Japan with Mitsubishi UFJ Financial Group; and completed its acquisition of Advest for approximately \$400 million.

GPC's Results of Operations

(dollars in millions)	2005	2004	2003
Fee-based revenues	\$ 5,340	\$ 4,801	\$ 4,068
Transactional and origination revenues	3,311	3,293	3,042
Net interest profit and related hedges ⁽¹⁾	1,801	1,293	1,301
Other revenues	312	440	487
Total net revenues	10,764	9,827	8,898
Non-interest expenses	8,587	7,954	7,369
Pre-tax earnings	\$ 2,177	\$ 1,873	\$ 1,529
Pre-tax profit margin	20.2%	19.1%	17.2%
Total full-time employees	33,000	31,000	30,200
Total Financial Advisors	15,160	14,140	13,530

(1) Includes interest component of non-qualifying derivatives which are included in other revenues on the Consolidated Statements of Earnings.

GPC generated \$2.2 billion of pre-tax earnings in 2005, up 16% from 2004 on net revenues that increased 10% to \$10.8 billion. Compared with 2004, higher asset values and strong annuitized net asset inflows led to increased fee-based revenues, which were supplemented by higher net interest profit and partially offset by lower mortgage-related revenues. The pre-tax margin was 20.2% compared to 19.1% in 2004. Non-interest expenses were 8% higher, principally reflecting increased compensation costs associated with higher revenues and growth in FA headcount.

GPC's 2004 pre-tax earnings were \$1.9 billion, up 22% compared to 2003, on net revenues that increased 10% to \$9.8 billion. GPC's 2004 pre-tax profit margin of 19.1% increased from 17.2% in 2003 and was driven by increased net revenues and expense discipline. Higher asset values and annuitized asset flows drove an 18% increase in fee-based revenues, and a more active market environment led to growth in GPC's transactional and origination revenues.

Total assets in GPC accounts increased 8% from 2004, to \$1.5 trillion. Net inflows into annuitized products rose 25% from 2004 to \$44.6 billion, and total net new money was \$46.2 billion in 2005, up 94% from 2004.

Fee-based Revenues

Fee-based revenues are comprised of portfolio service fees which are primarily derived from accounts that charge an annual fee based on net asset value, such as Merrill Lynch Consults[®], a separate account product, and Unlimited AdvantageSM, as well as fees from insurance products, taxable and tax-exempt money market funds, and alternative investment products. Also included in fee-based revenues are fixed annual account fees and other account-related fees, and commissions related to distribution fees on mutual funds.

GPC generated \$5.3 billion of fee-based revenues in 2005, up 11% from 2004. This increase reflected growth in client assets due to higher market valuations and annuitized net asset inflows. This asset growth resulted in higher portfolio service fees and increased distribution fees related to mutual fund sales. In 2004, fee-based revenues totaled \$4.8 billion, up 18% from 2003, reflecting market-driven increases in asset levels, higher portfolio service fees, and increased distribution fees related to mutual fund sales.

The value of assets in GPC accounts and assets in asset-priced accounts at year-end 2005, 2004, and 2003 follows. Assets in asset-priced accounts are those assets in clients' brokerage accounts for which fees are determined based on the value of assets in the account.

(dollars in billions)	2005	2004	2003
Assets in GPC accounts			
U.S.	\$ 1,356	\$ 1,244	\$ 1,164
Non-U.S.	117	115	103
Total	\$ 1,473	\$ 1,359	\$ 1,267
Assets in asset-priced accounts	\$ 284	\$ 257	\$ 226
As a percentage of total assets in GPC accounts	19.3%	18.9%	17.8%

Transactional and Origination Revenues

Transactional and origination revenues include certain commission revenues, such as those that arise from agency transactions in listed and OTC equity securities, insurance products, and mutual funds. Also included are principal transactions revenues which primarily represent bid-offer revenues on government bonds and municipal securities, as well as new issue revenues which include selling concessions on newly issued debt and equity securities, including shares of closed-end funds.

Transactional and origination revenues were \$3.3 billion in 2005, essentially unchanged from 2004 as a marginal increase in transaction-related revenues was offset by lower origination revenues. In 2004, transactional and origination revenues totaled \$3.3 billion, up 8% from 2003, primarily reflecting increased transactions resulting from more active markets. Increased commissions revenues on equity securities and insurance products and higher equity new issue revenues were the largest contributors.

Net Interest Profit and Related Hedges

Net interest profit (interest revenues less interest expenses) and related hedges includes GPC's allocation of the interest spread earned in Merrill Lynch's banks for deposits, as well as interest earned on margin, small- and middle-market business and other loans, corporate funding allocations, and the interest component of non-qualifying derivatives.

GPC's net interest profit and related hedges were \$1.8 billion in 2005, up 39% from 2004. This increase primarily reflects higher margins on deposits resulting from rising short-term interest rates and lower provisions associated with the small- and middle-market business loan portfolio. GPC's net interest profit and related hedges were \$1.3 billion in 2004, down 1% from 2003. Higher net interest revenues resulting from increases in short-term interest rates were more than offset by increased credit provisions associated with secured business loans extended to small- and middle-market businesses.

Other Revenues

GPC's other revenues were \$312 million in 2005, down from \$440 million in 2004 on lower mortgage-related revenues which were driven in part by lower variable rate mortgage originations. Other revenues in 2004 were down 10% from 2003, also reflecting lower mortgage lending-related revenue.

Merrill Lynch Investment Managers

MLIM and its affiliates are among the world's largest asset managers with approximately \$539 billion of assets under management at the end of 2005. Firmwide assets under management, including \$5 billion of assets managed by GPC, totaled approximately \$544 billion.

With portfolio managers located in the United States, the United Kingdom, Japan and Australia, MLIM manages a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts for a diverse global clientele, as well as a wide assortment of index-based equity and alternative investment products.

MLIM's clients include institutions, pension funds, high-net-worth individuals and retail investors. MLIM's product distribution is managed through five channels: proprietary retail (GPC); Americas non-proprietary retail; Americas institutional; EMEA Pacific third-party retail; and EMEA Pacific institutional. MLIM also distributes certain of its products through GMI. MLIM maintains a significant sales and marketing presence both inside and outside the United States that is focused on acquiring and maintaining institutional investment management relationships by marketing its services to institutional investors both directly and through pension consultants, and establishing third-party distribution relationships.

At the end of 2005, MLIM provided global advisory services for mutual funds, unit investment trusts and other non-U.S. equivalent products totaling approximately \$245 billion. MLIM's non-U.S. mutual fund ranges are based in a number of domiciles and cover a range of asset classes, including cash, fixed income and equities. In the United States, the primary retail offering is the Merrill Lynch family of funds. The primary retail fund range offered outside the United States is Merrill Lynch International Investment Funds ("MLIIF"), which is authorized for distribution in more than 30 jurisdictions worldwide.

MLIM manages separate accounts for high-net-worth retail investors as well as assets for governments, pension funds, endowments and other institutional investors in a wide variety of active and passive strategies covering both equity and fixed income assets. At the end of 2005, MLIM managed a total of approximately \$44 billion in separate accounts and \$250 billion in institutional accounts.

MLIM also offers a wide assortment of alternative investment products such as structured products, real estate funds, hedge funds, hedge funds of funds, private equity funds of funds, managed futures funds and exchange traded funds. These products are sold to both U.S. and non-U.S. high-net-worth retail and institutional investors. At the end of 2005, assets under management included approximately \$13.8 billion of client capital committed to, and approximately \$10.6 billion invested in, alternative investment products.



2005 Developments

During 2005, MLIM continued with its strategy of maintaining strong investment performance to drive sales globally. MLIM is committed to increasing sales in both its proprietary and non-proprietary channels in the United States. On February 15, 2006, Merrill Lynch announced that it had reached an agreement to combine MLIM with BlackRock in exchange for an economic interest in the combined investment management firm of 49.8%. Refer to Note 2 to the Consolidated Financial Statements for further information.

MLIM continued to focus on driving strong relative long-term investment performance and broadening the distribution of its products through multiple channels, while maintaining discipline on expenses. Current industry standards typically measure investment results for institutional accounts against a benchmark (such as the S&P 500 Index) and investment results for retail mutual funds against competitor results ranked by quartile within investment category as reported by third-party organizations, such as Lipper or Standard & Poor's. More than 70% of MLIM's global assets under management were above benchmark or category median for the 3- and 5-year periods ending December 2005.

In September 2005, MLIM acquired the pension business of Royal Philips Electronics ("Philips"), adding approximately \$18 billion to its assets under management.

MLIM's Results of Operations

(dollars in millions)

	2005	2004	2003
Asset management fees	\$ 1,573	\$ 1,413	\$ 1,233
Commissions	105	116	132
Other revenues	129	51	(3)
Total net revenues	1,807	1,580	1,362
Non-interest expenses	1,221	1,120	1,101
Pre-tax earnings	\$ 586	\$ 460	\$ 261
Pre-tax profit margin	32.4%	29.1%	19.2%
Total full-time employees	2,600	2,500	2,600

MLIM's 2005 net revenues were \$1.8 billion, up 14% from 2004, due primarily to higher average long-term asset values as well as increases in performance fees and an improvement in the fee profile of assets under management. Pre-tax earnings were \$586 million, up 27% from 2004, driven principally by higher net revenues and continued expense discipline as non-compensation expenses were essentially unchanged from 2004. MLIM's pre-tax profit margin was 32.4% in 2005, up from 29.1% in 2004.

Pre-tax earnings for MLIM were \$460 million in 2004, up 76% from 2003. Net revenues grew 16%, to \$1.6 billion, due primarily to increased asset values related to market appreciation, as well as the positive impact of currency translation. As short-term interest rates increased, investors moved assets out of retail money market funds to higher-yielding products. MLIM's pre-tax profit margin was 29.1% in 2004, up from 19.2% in 2003, reflecting continued expense discipline, as non-interest expenses increased only 2% from 2003.

Asset Management Fees

Asset management fees primarily consist of fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets. Asset management fees also include performance fees, which are generated in some cases by separately managed accounts and institutional money management arrangements.

Asset management fees were \$1.6 billion, up 11% from 2004 due to higher average equity market values and an improvement in the fee profile of assets under management. In 2004, asset management fees were \$1.4 billion, up 15% from 2003 as average asset values increased and the fee profile of assets under management improved.

Firmwide assets under management for each of the last three years were comprised of the following:

(dollars in billions)

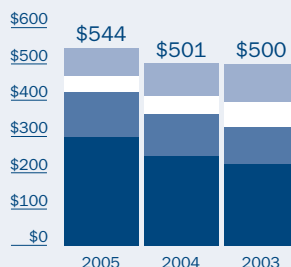
	2005	2004	2003
Assets Under Management			
Institutional	\$ 250	\$ 240	\$ 253
Retail	245	218	207
Separate Accounts ⁽¹⁾	49	43	40
Total	\$ 544	\$ 501	\$ 500

(1) Represents segregated portfolios for individuals, small corporations, and institutions and includes \$5 billion of accounts managed by GPC in 2005 and 2004.

2005 Firmwide Assets Under Management by Type

(dollars in billions)

- Equity
- Fixed Income
- Retail Money Market
- Institutional Liquidity Funds



At the end of 2005, firmwide assets under management totaled \$544 billion, with \$539 billion managed by MLIM and its affiliates and \$5 billion managed by GPC. Compared with 2004, firmwide assets under management increased 9%, due principally to positive market movement, the addition of \$18 billion of assets from the acquisition of Philips' pension business, and net new money inflows of \$5 billion.

An analysis of changes in firmwide assets under management from year-end 2004 to 2005 is as follows:

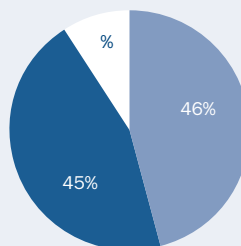
(dollars in billions)	Year-end 2004 ⁽¹⁾	Net Changes Due To			Year-end 2005 ⁽¹⁾
		New Money	Asset Appreciation	Other ⁽²⁾	
Assets Under Management	\$ 501	\$ 5	\$ 33	\$ 5	\$ 544

(1) Includes \$5 billion of assets managed by GPC.

(2) Includes \$18 billion of new assets from the acquisition of Philips' pension business, the impact of foreign exchange movement, reinvested dividends and other changes.

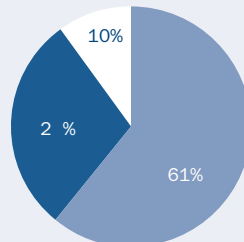
2005 Firmwide Assets Under Management by Client Type

- Institutional
- Retail
- Separate Accounts



2005 Firmwide Assets Under Management by Client Location

- U.S.
- Europe
- Other Non-U.S.



Commissions

Commissions for MLIM principally consist of distribution fees and contingent deferred sales charges ("CDSC") related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds, and the CDSC represents fees earned when a shareholder redeems shares prior to the required holding period. Commission revenues were \$105 million in 2005, down 9% from 2004. Commission revenues declined to \$116 million in 2004, down 12% from 2003. These reductions reflect the decline over time in sales of rear-load shares.



Other Revenues

Other revenues primarily include net interest profit, investment gains and losses and revenues from consolidated investments. Other revenues totaled \$129 million in 2005, up from \$51 million in 2004 reflecting increased investment gains. Other revenues in 2003 were \$(3) million and included investment losses.

Consolidated Balance Sheets

Overview

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheets. The following table summarizes the year-end and average balance sheets for 2005 and 2004:

(dollars in billions)	Dec. 30, 2005	2005 Average ⁽¹⁾	Dec. 31, 2004	2004 Average ⁽¹⁾
Assets				
Trading-Related				
Securities financing assets	\$ 272.3	\$ 268.3	\$ 185.3	\$ 181.5
Trading assets	148.7	182.9	174.6	157.0
Other trading-related receivables	54.3	60.9	51.8	46.4
	<u>475.3</u>	<u>512.1</u>	<u>411.7</u>	<u>384.9</u>
Non-Trading-Related				
Cash	26.5	38.7	38.6	24.5
Investment securities	69.3	71.2	78.5	82.6
Loans, notes, and mortgages, net	66.0	60.6	53.3	54.8
Other non-trading assets	43.9	47.8	46.0	42.9
	<u>205.7</u>	<u>218.3</u>	<u>216.4</u>	<u>204.8</u>
Total assets	<u>\$ 681.0</u>	<u>\$ 730.4</u>	<u>\$ 628.1</u>	<u>\$ 589.7</u>
Liabilities				
Trading-Related				
Securities financing liabilities	\$ 234.3	\$ 272.7	\$ 188.0	\$ 186.8
Trading liabilities	88.9	105.7	99.6	93.2
Other trading-related payables	56.9	63.8	56.0	51.2
	<u>380.1</u>	<u>442.2</u>	<u>343.6</u>	<u>331.2</u>
Non-Trading-Related				
Commercial paper and other short-term borrowings	3.9	6.5	4.0	5.8
Deposits	80.0	79.2	79.7	77.8
Long-term borrowings	132.4	122.4	119.5	100.3
Long-term debt issued to TOPrS SM partnerships	3.1	3.1	3.1	3.1
Other non-trading liabilities	45.9	43.8	46.8	41.8
	<u>265.3</u>	<u>255.0</u>	<u>253.1</u>	<u>228.8</u>
Total liabilities	<u>645.4</u>	<u>697.2</u>	<u>596.7</u>	<u>560.0</u>
Total stockholders' equity	<u>35.6</u>	<u>33.2</u>	<u>31.4</u>	<u>29.7</u>
Total liabilities and stockholders' equity	<u>\$ 681.0</u>	<u>\$ 730.4</u>	<u>\$ 628.1</u>	<u>\$ 589.7</u>

(1) Averages represent management's daily balance sheet estimates, which may not fully reflect netting and other adjustments included in period-end balances. Balances for certain assets and liabilities are not revised on a daily basis.

The discussion that follows analyzes the changes in year-end financial statement balances and yearly average balances of the major asset and liability categories.

Trading-Related Assets and Liabilities

Trading-related balances primarily consist of securities financing transactions, trading assets and liabilities, and certain interest receivable/payable balances that result from trading activities. At December 30, 2005, total trading-related assets and liabilities were \$475.3 billion and \$380.1 billion, respectively. Average trading-related assets and liabilities for 2005 were \$512.1 billion and \$442.2 billion, respectively.

The increases in trading-related assets and liabilities in 2005 primarily reflect higher levels of securities financing activity, which includes increased client matched-book transactions. Merrill Lynch continued to expand its prime brokerage businesses during the year, which resulted in increases in securities financing transactions and other trading-related receivables.

Although trading-related balances comprise a significant portion of the Consolidated Balance Sheets, the magnitude of these balances does not necessarily result in an increase in risk. The market and credit risks associated with trading-related balances are

mitigated through various hedging strategies, as discussed in the following section. See Note 6 to the Consolidated Financial Statements for descriptions of market and credit risks.

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related assets by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies. Conversely, Merrill Lynch may be required to post cash or securities to counterparties in accordance with similar policies.

Securities Financing Transactions

Securities financing transactions include resale and repurchase agreements, securities borrowed and loaned transactions, securities received as collateral, and obligations to return securities received as collateral. Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. These transactions are typically short-term in nature, with a significant portion entered into on an overnight or open basis.

Merrill Lynch also enters into these transactions to meet clients' needs, which are known as matched-book transactions. These matched-book repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different clients using the same underlying securities, generating a spread between the interest revenue on the resale agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Exposures on these transactions are limited by collateral maintenance policies and the typically short-term nature of the transactions.

Securities financing assets at 2005 year-end were \$272.3 billion, up 47% from 2004 year-end, and securities financing liabilities were \$234.3 billion at 2005 year-end, up 25% from year-end 2004. Average securities financing assets in 2005 were \$268.3 billion, up 48% from the 2004 average. Average securities financing liabilities in 2005 were \$272.7 billion, up 46% from the 2004 average.

Trading Assets and Liabilities

Trading inventory principally represents securities purchased ("long positions"), securities sold but not yet purchased ("short positions"), the fair value of derivative contracts, and commodities and related contracts. See Note 1 to the Consolidated Financial Statements for related accounting policies. These positions primarily arise from market-making, hedging, and proprietary activities.

Merrill Lynch acts as a market maker in a wide range of securities, resulting in a significant amount of trading inventory that is required to facilitate client transaction flow. Merrill Lynch also maintains proprietary trading inventory in seeking to profit from existing or projected market opportunities.

Merrill Lynch uses both "cash instruments" (e.g., securities) and derivatives to manage trading inventory market risks. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions. Long positions in U.S. Government securities, for example, may be used to hedge short positions in interest rate futures contracts. These hedging techniques, which are generally initiated at the trading unit level, are supplemented by corporate risk management policies and procedures (see the Risk Management section for a description of risk management policies and procedures).

Trading assets at year-end 2005 were \$148.7 billion, down 15% from 2004, and trading liabilities at year-end 2005 were \$88.9 billion, down 11% from 2004. Average trading assets in 2005 were \$182.9 billion, up 16% from the 2004 average. Average trading liabilities in 2005 were \$105.7 billion, up 13% from the 2004 average.

Other Trading-Related Receivables and Payables

Securities trading may lead to various customer or broker-dealer receivable and payable balances. Broker-dealer receivable and payable balances may also result from recording trading inventory on a trade date basis. Certain receivable and payable balances also arise when customers or broker-dealers fail to pay for securities purchased or fail to deliver securities sold, respectively. These receivables are generally collateralized by the securities that the customer or broker-dealer purchased but did not receive. Customer receivables also include certain commodities transactions, margin loans and similar loan arrangements collateralized by customer-owned securities held by Merrill Lynch. Collateral policies significantly limit Merrill Lynch's credit exposure to customers and broker-dealers. Merrill Lynch, in accordance with regulatory requirements, will sell securities that have not been paid for, or purchase securities sold but not delivered, after a relatively short period of time, or will require additional margin collateral, as necessary. These measures reduce market risk exposure related to these balances.

Interest receivable and payable balances related to trading inventory are principally short-term in nature. Interest balances for resale and repurchase agreements and securities borrowed and loaned transactions are considered when determining the collateral requirements related to these transactions.



Other trading-related receivables at year-end 2005 were \$54.3 billion, up 5% from 2004, and other trading-related payables were \$56.9 billion at year-end 2005, up 2% from 2004. Average other trading-related receivables in 2005 were \$60.9 billion, up 31% from the 2004 average. Average other trading-related payables were \$63.8 billion in 2005, up 25% from the 2004 average.

Non-Trading-Related Assets and Liabilities

Non-trading-related balances primarily consist of cash; investment securities; loans, notes, and mortgages; short- and long-term borrowings; and other non-trading assets and liabilities. At December 30, 2005, total non-trading-related assets and liabilities were \$205.7 billion and \$265.3 billion, respectively. Average non-trading-related assets for 2005 were \$218.3 billion, and average non-trading-related liabilities were \$255.0 billion.

Cash

Cash includes cash, cash equivalents and securities segregated for regulatory purposes or deposited with clearing organizations. Cash at year-end 2005 was \$26.5 billion, down 31% from 2004. Average cash in 2005 was \$38.7 billion, up 58% from the 2004 average.

Investment Securities

Investment securities principally consist of debt securities, including those that are held for investment and liquidity and collateral management purposes; equity securities; private equity investments, including investments in partnerships and joint ventures; and other investments.

Investment securities were \$69.3 billion at year-end 2005, down 12% from 2004. Average investment securities were \$71.2 billion in 2005, down 14% from the 2004 average. See Note 5 to the Consolidated Financial Statements for further information.

Loans, Notes, and Mortgages, net

Merrill Lynch's portfolio of loans, notes, and mortgages includes corporate and institutional loans, residential and commercial mortgages, asset-based loans and other loans to individuals and other businesses. Merrill Lynch maintains collateral to mitigate risk of loss in the event of default on some of these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower or other loan parties, and guarantees. Merrill Lynch also economically hedges certain portions of commercial loans by purchasing credit default swaps. Loans, notes, and mortgages were \$66.0 billion at year-end 2005, up 24% from 2004 as a result of strong market demand driven by favorable borrower fundamentals and business growth. Average loans, notes, and mortgages in 2005 were \$60.6 billion, up 11% from the 2004 average. These amounts do not include loans held for trading purposes, which are included in trading assets. See Note 8 to the Consolidated Financial Statements for additional information.

Short- and Long-Term Borrowings

Portions of trading and non-trading assets are funded through deposits, long-term borrowings, and commercial paper (see the Capital and Funding section for further information on funding sources).

Commercial paper and other short-term borrowings were \$3.9 billion at 2005 year-end, down 2% from 2004 year-end. The average commercial paper and other short-term borrowings balance in 2005 was \$6.5 billion, up 12% from the 2004 average. Deposits were \$80.0 billion at 2005 year-end, essentially unchanged from 2004 year-end. Average deposits in 2005 were \$79.2 billion, up 2% from the 2004 average. Long-term borrowings, including long-term debt issued to Trust Originated Preferred SecuritiesSM ("TOPrSSM") partnerships, were \$135.5 billion at year-end 2005, up 11% from 2004 year-end. Average long-term borrowings, including long-term debt issued to TOPrSSM partnerships, in 2005 were \$125.5 billion, up 21% from the 2004 average. For capital management purposes, Merrill Lynch views TOPrSSM as a component of equity capital although the long-term debt issued to TOPrSSM partnerships is recorded as a liability for accounting purposes.

Major components of the changes in long-term borrowings, including long-term debt issued to TOPrSSM partnerships, for 2005 and 2004 are as follows:

(dollars in billions)	2005	2004
Beginning of year	\$ 122.6	\$ 88.4
Issuance and resale	49.7	50.5
Settlement and repurchase	(31.2)	(23.2)
Other ⁽¹⁾	(5.6)	6.9
End of year ⁽²⁾	\$ 135.5	\$ 122.6

(1) Primarily foreign exchange movements.

(2) See Note 9 to the Consolidated Financial Statements for the long-term borrowings maturity schedule.

Merrill Lynch provides guarantees to Special Purpose Entities (“SPEs”) in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities. The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs and the Conduit. To protect against declines in value of the assets held by the SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch generally economically hedges its exposure through derivative positions that principally offset the risk of loss of these guarantees. The residual value guarantees are related to leasing SPEs where either Merrill Lynch or a third-party is the lessee and reimbursement agreements issued in conjunction with sales of loans originated under its Mortgage 100SM program. Merrill Lynch also makes guarantees to counterparties in the form of standby letters of credit and, at December 30, 2005, held \$487 million of marketable securities as collateral to secure these guarantees. In conjunction with certain principal-protected mutual funds and managed mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions is \$164 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

The amounts in the preceding table do not necessarily represent expected future cash flow requirements. Refer to Note 7 and Note 12 to the Consolidated Financial Statements for a further discussion of these arrangements.

Contractual Obligations and Commitments

Contractual Obligations

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch’s contractual obligations by remaining maturity at December 30, 2005. Excluded from this table are obligations recorded on the Consolidated Balance Sheets that are: (i) generally short-term in nature, including securities financing transactions, trading liabilities, including contractual agreements, commercial paper and other short-term borrowings and other payables; (ii) deposits; (iii) obligations that are related to Merrill Lynch’s insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability; and (iv) separate accounts liabilities, which fund separate accounts assets.

(dollars in millions)	Total	Less than 1 Year	Expiration		
			1–3 Years	3+–5 Years	Over 5 Years
Long-term borrowings ⁽¹⁾	\$ 135,501	\$ 22,771	\$ 40,560	\$ 37,669	\$ 34,501
Operating lease commitments	3,348	569	1,036	814	929
Purchasing and other commitments	5,777	4,100	820	298	559

(1) Includes long-term debt issued to TOPRSSM partnerships.

Merrill Lynch issues U.S. and non-U.S. dollar-denominated long-term borrowings with both variable and fixed interest rates, as part of its overall funding strategy. For further information on funding and long-term borrowings, see the Capital and Funding section and Note 9 to the Consolidated Financial Statements. In the normal course of business, Merrill Lynch enters into various noncancellable long-term operating lease agreements, various purchasing commitments, commitments to extend credit and other commitments. For detailed information regarding these commitments, see Note 12 to the Consolidated Financial Statements.

Commitments

At December 30, 2005, Merrill Lynch commitments had the following expirations:

(dollars in millions)	Total	Less than 1 Year	Expiration		
			1–3 Years	3+–5 Years	Over 5 Years
Commitments to extend credit	\$ 67,137	\$ 33,885	\$ 9,754	\$ 17,134	\$ 6,364
Commitments to enter into resale agreements	3,478	3,459	19	–	–

Capital and Funding

The primary objectives of Merrill Lynch's capital structure and funding policies are to support the successful execution of Merrill Lynch's business strategies while ensuring:

- sufficient equity capital to support existing businesses and future growth plans and
- liquidity across market cycles and through periods of financial stress.

Capital

At December 30, 2005, equity capital, as defined by Merrill Lynch, was comprised of \$32.9 billion of common equity, \$2.7 billion of preferred stock, and \$2.5 billion of long-term debt issued to TOPrSSM partnerships (net of related investments). Equity capital is Merrill Lynch's view of capital available to support its businesses and differs from stockholders' equity as defined by U.S. generally accepted accounting principles, which does not include long-term debt issued to TOPrSSM partnerships, net of related investments.

Merrill Lynch regularly reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, the regulatory and legal capital requirements of its subsidiaries, and standards pursuant to the CSE rules. Merrill Lynch determines the appropriateness of its equity capital composition, taking into account that its preferred stock and TOPrSSM are perpetual. In the event that capital is generated beyond estimated needs, Merrill Lynch returns capital to shareholders through share repurchases and dividends.

To determine equity capital needs to cover potential losses arising from market and credit risks, Merrill Lynch uses statistically based risk models, developed in conjunction with its risk management practices. Models and other tools used to estimate risks are continually modified as risk analytics are refined. The assumptions used in analytical models are reviewed regularly to ensure that they provide a reasonable and conservative assessment of risks to Merrill Lynch across a stress market cycle.

Merrill Lynch also assesses the need for equity capital to support business risks that may not be adequately measured through these risk models, such as legal and other operational risks. When deemed prudent or when required by regulations, Merrill Lynch purchases insurance to protect against some risks. Merrill Lynch also considers equity capital that may be required to support normal business growth and strategic initiatives.

Merrill Lynch's capital adequacy planning also takes into account the regulatory environment in which Merrill Lynch operates. Many regulated businesses require various minimum levels of capital. See Note 16 to the Consolidated Financial Statements for further information. Merrill Lynch's broker-dealer, banking, and insurance activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval may be required for paying dividends in excess of certain established levels and making affiliated investments.

Merrill Lynch continued to grow its equity capital base in 2005 primarily through net earnings, additional preferred stock issuances and the net effect of employee stock transactions, partially offset by common stock repurchases and dividends. Equity capital of \$38.1 billion at December 30, 2005 was 12% higher than at December 31, 2004.

During 2005, Merrill Lynch issued \$2.1 billion, net of underwriting fees, of floating and fixed rate, non-cumulative, perpetual preferred stock and at December 30, 2005, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") held approximately \$100 million of Merrill Lynch preferred stock as a result of market-making activities. Refer to Note 11 to the Consolidated Financial Statements for additional information.

On April 18, 2005, the Board of Directors declared a 25% increase in the regular quarterly dividend to 20 cents per common share, from 16 cents per common share. On January 18, 2006, the Board of Directors declared an additional 25% increase in the regular quarterly dividend to 25 cents per common share.

In 2004 and 2005, Merrill Lynch authorized three share repurchase programs to provide greater flexibility to return capital to shareholders. For the year ended December 31, 2004, Merrill Lynch repurchased a cumulative total of 54.0 million shares of common stock at a cost of \$3.0 billion, completing the \$2.0 billion repurchase program authorized in February 2004 and utilizing \$968 million of the additional \$2.0 billion repurchase program authorized in July 2004. For the year ended December 30, 2005, Merrill Lynch repurchased a cumulative total of 63.1 million shares of common stock at a cost of \$3.7 billion, completing the \$2.0 billion repurchase program authorized in July 2004 and utilizing \$2.7 billion of the additional \$4.0 billion repurchase program authorized in April 2005.

On February 26, 2006, the Finance Committee of the Board of Directors authorized an additional \$6.0 billion repurchase program.



The table below sets forth the information with respect to purchases made by or on behalf of Merrill Lynch or any “affiliated purchaser” of Merrill Lynch’s common stock during the year ended December 30, 2005.

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
First Quarter 2005 (Jan. 1 – Apr. 1)				
Capital Management Program	17,331,900	\$ 59.52	17,331,900	\$ –
Employee Transactions ⁽²⁾	4,531,473	59.48	N/A	N/A
Second Quarter 2005 (Apr. 2 – Jul. 1)				
Capital Management Program	20,175,400	\$ 54.48	20,175,400	\$ 2,901
Employee Transactions ⁽²⁾	960,678	54.62	N/A	N/A
Third Quarter 2005 (Jul. 2 – Sep. 30)				
Capital Management Program	14,680,900	\$ 58.26	14,680,900	\$ 2,046
Employee Transactions ⁽²⁾	648,178	58.61	N/A	N/A
Month #10 (Oct. 1 – Nov. 4)				
Capital Management Program	4,130,000	\$ 61.95	4,130,000	\$ 1,790
Employee Transactions ⁽²⁾	392,260	62.57	N/A	N/A
Month #11 (Nov. 5 – Dec. 2)				
Capital Management Program	2,475,000	\$ 67.32	2,475,000	\$ 1,623
Employee Transactions ⁽²⁾	144,814	66.69	N/A	N/A
Month #12 (Dec. 3 – Dec. 30)				
Capital Management Program	4,275,000	\$ 68.19	4,275,000	\$ 1,332
Employee Transactions ⁽²⁾	104,191	68.18	N/A	N/A
Fourth Quarter 2005 (Oct. 1 – Dec. 30)				
Capital Management Program	10,880,000	\$ 65.62	10,880,000	\$ 1,332
Employee Transactions ⁽²⁾	641,265	64.41	N/A	N/A
Full Year 2005 (Jan. 1 – Dec. 30)				
Capital Management Program	63,068,200	\$ 58.67	63,068,200	\$ 1,332
Employee Transactions ⁽²⁾	6,781,594	59.17	N/A	N/A

(1) Share repurchases under the program were made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions as market conditions warranted and at prices Merrill Lynch deemed appropriate.

(2) Included in the total number of shares purchased are: (1) shares purchased during the period by participants in the Merrill Lynch 401(k) Savings and Investment Plan (“401(k)”) and the Merrill Lynch Retirement Accumulation Plan (“RAP”), (2) shares delivered or attested to in satisfaction of the exercise price by holders of ML & Co. employee stock options (granted under employee stock compensation plans) and (3) Restricted Shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of Restricted Shares. ML & Co.’s employee stock compensation plans provide that the value of the shares delivered or attested, or withheld, shall be the average of the high and low price of ML & Co.’s common stock (Fair Market Value) on the date the relevant transaction occurs. See Notes 13 and 14 to the Consolidated Financial Statements for additional information on these plans.

Major components of the changes in equity capital for 2005 and 2004 are as follows:

(dollars in millions)	2005	2004
Beginning of year	\$ 33,914	\$ 31,523
Net earnings	5,116	4,436
Issuance of preferred stock, net of redemptions and repurchases	2,043	205
Common and preferred stock dividends	(777)	(643)
Common stock repurchases	(3,700)	(2,968)
Net effect of employee stock transactions and other ⁽¹⁾	1,548	1,361
End of year	\$ 38,144	\$ 33,914

(1) Includes effect of accumulated other comprehensive loss and other items.

Balance Sheet Leverage

Asset-to-equity leverage ratios are commonly used to assess a company's capital adequacy. When assessing its capital adequacy, Merrill Lynch considers the risk profiles of the assets, the impact of hedging, off-balance sheet exposures, operational risk and other considerations. As leverage ratios are not risk sensitive, Merrill Lynch does not rely on them as a measure of capital adequacy.

Merrill Lynch believes that a leverage ratio adjusted to exclude certain assets considered to have low risk profiles and assets in customer accounts financed primarily by customer liabilities provides a more meaningful measure of balance sheet leverage in the securities industry than an unadjusted ratio. Adjusted assets are calculated by reducing total assets by (1) securities financing transactions and securities received as collateral less trading liabilities net of contractual agreements and (2) segregated cash and securities and separate account assets.

The following table provides calculations of Merrill Lynch's leverage ratios at December 30, 2005 and December 31, 2004:

(dollars in millions)	2005	2004
Total assets	\$ 681,015	\$ 628,098
Less: Receivables under resale agreements	163,021	78,853
Receivables under securities borrowed transactions	92,484	94,498
Securities received as collateral	16,808	11,903
Add: Trading liabilities, at fair value, excluding contractual agreements	60,178	63,859
Sub-total	468,880	506,703
Less: Segregated cash and securities balances	11,949	17,784
Separate account assets	16,185	18,641
Adjusted assets	440,746	470,278
Less: Goodwill and other intangible assets	6,035	6,162
Tangible adjusted assets	\$ 434,711	\$ 464,116
Stockholders' equity	\$ 35,600	\$ 31,370
Long-term debt issued to TOPrS SM partnerships, net of related investments ⁽¹⁾	2,544	2,544
Equity capital	\$ 38,144	\$ 33,914
Tangible equity capital ⁽²⁾	\$ 32,109	\$ 27,752
Leverage ratio ⁽³⁾	17.9x	18.5x
Adjusted leverage ratio ⁽⁴⁾	11.6x	13.9x
Tangible adjusted leverage ratio ⁽⁵⁾	13.5x	16.7x

(1) Due to the perpetual nature of TOPrSSM and other considerations, Merrill Lynch views the long-term debt issued to TOPrSSM partnerships (net of related investments) as a component of equity capital. However, the Long-term debt issued to TOPrSSM partnerships is reported as a liability for accounting purposes. TOPrSSM related investments were \$548 million at December 30, 2005 and December 31, 2004.

(2) Equity capital less goodwill and other intangible assets.

(3) Total assets divided by equity capital.

(4) Adjusted assets divided by equity capital.

(5) Tangible adjusted assets divided by tangible equity capital.

Funding

Liquidity Risk Management

Merrill Lynch seeks to assure liquidity across market cycles and through periods of financial stress. Merrill Lynch's primary liquidity objective is to ensure that all unsecured debt obligations maturing within one year can be repaid without issuing new unsecured debt or requiring liquidation of business assets. Toward this goal, Merrill Lynch has established a set of liquidity practices that are outlined below. In addition, Merrill Lynch maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

Maintain sufficient long-term capital: Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital sources to meet long-term capital requirements. Merrill Lynch's long-term capital sources include equity capital, long-term debt obligations and certain deposit liabilities in banking subsidiaries which are considered by management to be long-term or stable in nature.



At December 30, 2005 and December 31, 2004, Merrill Lynch's long-term capital was comprised of the following:

(dollars in billions)	December 30, 2005	December 31, 2004
Equity capital	\$ 38.1	\$ 33.9
Long-term debt obligations ⁽¹⁾	99.3	89.2
Deposit liabilities ⁽²⁾	69.9	73.7
Total long-term capital	\$ 207.3	\$ 196.8

(1) Total long-term borrowings less (1) the current portion and (2) other subsidiary financing — non-recourse. Borrowings that mature in more than one year, but contain provisions whereby the holder has the option to redeem the obligations within one year, are reflected as current portion of long-term borrowings and are not included in long-term capital. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

(2) Includes \$60.2 billion and \$9.7 billion of deposits in U.S. and non-U.S. banking subsidiaries, respectively, in 2005, and \$65.4 billion and \$8.3 billion of deposits, respectively, in 2004 that are considered by management to be long-term.

The following items are generally financed with long-term capital:

- The portion of assets that cannot be self-funded in the secured financing markets, considering stressed market conditions, including long-term, illiquid assets such as certain loans, goodwill and other intangible assets and fixed assets;
- Subsidiaries' regulatory capital;
- Collateral on derivative contracts that may be required in the event of changes in Merrill Lynch's ratings or movements in underlying instruments; and
- Portions of commitments to extend credit based on management's estimate of the probability of drawdown.

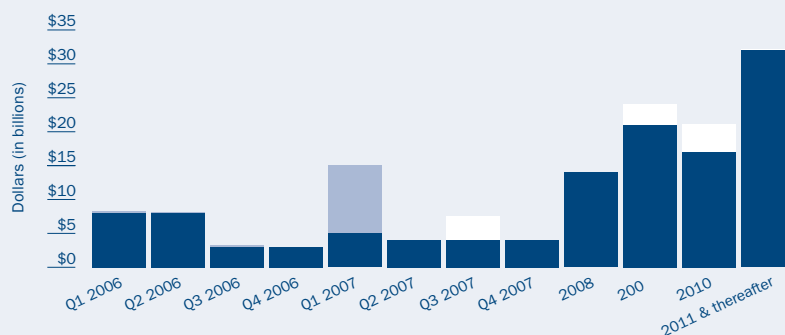
At December 30, 2005, Merrill Lynch's long-term capital sources of \$207.3 billion exceeded Merrill Lynch's estimated long-term capital requirements.

In assessing the appropriateness of its long-term capital, Merrill Lynch seeks to: (1) ensure sufficient matching of its assets based on factors such as holding period, contractual maturity and regulatory restrictions and (2) limit the amount of liabilities maturing in any particular period. Merrill Lynch also considers circumstances that might cause contingent funding obligations, including early repayment of debt.

The following chart presents Merrill Lynch's long-term borrowings maturity profile as of December 30, 2005 (quarterly for two years and annually thereafter):

Long-Term Debt Maturity Profile

- Extendibles⁽¹⁾ – To Latest Maturity Date
- Extendibles⁽¹⁾ – To Earliest Maturity Date
- Not Extendible



(1) Extendibles are debt instruments with an extendible maturity date. Unless debt holders instruct Merrill Lynch to redeem their debt with at least a one-year notification period, the maturity date of these instruments is automatically extended. Extendibles are included in long-term borrowings if the earliest maturity date is at least one year away. Based on past experience, the majority of Merrill Lynch's extendibles are expected to remain outstanding beyond their earliest maturity date.

At December 30, 2005, senior debt issued by ML & Co. or by subsidiaries and guaranteed by ML & Co. totaled \$124.6 billion. Except for the \$2.3 billion of zero-coupon contingent convertible debt (Liquid Yield Option™ notes or "LYONS®") that were outstanding at December 30, 2005, senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. Refer to Note 9 to the Consolidated Financial Statements for additional information.

Included in its debt obligations are structured notes issued by Merrill Lynch with returns linked to other debt or equity securities, indices, or currencies. Merrill Lynch could be required to immediately settle certain structured note obligations for cash or other securities

under certain circumstances, which is taken into account for liquidity planning purposes. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying instruments.

Merrill Lynch's bank subsidiaries that take deposits have liquidity policies as well as guidelines and practices in place aimed at ensuring sufficient liquidity is available at each bank to meet deposit obligations under stressed market conditions.

Maintain sufficient funding to repay short-term obligations: The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, other secured borrowings, which require pledging unencumbered securities held for trading or investment purposes, or collateral and proceeds from maturing loans and other assets. Nonetheless, a key funding assumption is accessibility to a repurchase market for highly rated government, agency and certain other securities.

Merrill Lynch maintains a liquidity portfolio of U.S. Government and agency obligations and other instruments of high credit quality that is funded with debt with a maturity greater than one year. The carrying value of this portfolio, net of related hedges, was \$18.0 billion and \$14.9 billion at December 30, 2005 and December 31, 2004, respectively. ML & Co. also maintained cash and cash equivalents, investments in short-term money market mutual funds, and certain highly liquid unencumbered securities of \$7.4 billion and \$6.9 billion at December 30, 2005 and December 31, 2004, respectively.

In addition to its liquidity portfolio and cash balances, Merrill Lynch monitors the extent to which other unencumbered assets are available to ML & Co. as a source of funds, considering that some subsidiaries are restricted in their ability to upstream unencumbered assets to ML & Co. At December 30, 2005, unencumbered assets, including amounts that may be restricted, were in excess of \$136 billion, including the carrying value of the liquidity portfolio and cash balances.

For liquidity planning purposes, Merrill Lynch considers as short-term debt obligations: (i) commercial paper and other short-term borrowings and (ii) the current portion of long-term borrowings. At December 30, 2005 and December 31, 2004, these short-term obligations are as follows.

(dollars in billions)	December 30, 2005	December 31, 2004
Commercial paper and other short-term borrowings	\$ 3.9	\$ 4.0
Current portion of long-term borrowings	<u>22.8</u>	<u>21.1</u>
Total short-term obligations	\$ 26.7	\$ 25.1

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Maturities of such borrowings are reported based on their put dates, rather than their contractual maturities. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

At December 30, 2005, Merrill Lynch's liquidity portfolio, cash balances, maturing short-term assets and other unencumbered assets, some of which may be held in regulated entities but which management believes may be reasonably upstreamed to ML & Co., were more than the amount that would be required to repay Merrill Lynch's short-term obligations and other contingent cash outflows.

In addition to the aforementioned sources of funding available to meet short-term obligations, Merrill Lynch maintains credit facilities that are available to cover immediate funding needs. Merrill Lynch replaced the unsecured bank facility that totaled \$3.0 billion at December 31, 2004 with a new committed, multi-currency, unsecured bank credit facility that totaled \$4.0 billion at December 30, 2005. This 364-day facility permits borrowings by ML & Co. and select subsidiaries and expires in June 2006. The facility includes a one year term-out feature that allows ML & Co., at its option, to extend borrowings under the facility for a further year beyond the expiration date in June 2006. At December 30, 2005 there were no borrowings outstanding under this credit facility, although Merrill Lynch borrows regularly from this facility.

In 2005, Merrill Lynch added two committed, secured credit facilities which totaled \$5.5 billion at December 30, 2005. The facilities expire in May 2006 and December 2006 respectively. Both facilities include a one year term-out option that allows ML & Co. to extend borrowings under the facilities for a further year beyond their respective expiration dates. The secured facilities permit borrowings by ML & Co. and select subsidiaries, secured by a broad range of collateral. At December 30, 2005 there were no borrowings outstanding under either facility.

In addition, Merrill Lynch maintains a committed, secured credit facility with a financial institution that totaled \$6.25 billion at December 30, 2005 and December 31, 2004. The secured facility may be collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At December 30, 2005 and December 31, 2004, there were no borrowings outstanding under this facility.



Concentrate unsecured financing at ML & Co.: ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

While Merrill Lynch concentrates excess funds at ML & Co., Merrill Lynch recognizes that regulatory restrictions may limit the free flow of funds from subsidiaries where assets are held to ML & Co. and also between subsidiaries. For example, a portion of deposits held by Merrill Lynch bank subsidiaries funds securities that can be sold or pledged to provide immediate liquidity for the banks. In addition, a portion of deposits are utilized to fund the long-term capital requirements of the banks. However, there are regulatory restrictions on the use of this liquidity for ML & Co. and non-bank affiliates of Merrill Lynch. Merrill Lynch takes these and other restrictions into consideration when evaluating the liquidity of individual legal entities and ML & Co. See Note 9 to the Consolidated Financial Statements for more information on borrowings.

Diversify unsecured funding sources: Merrill Lynch strives to continually expand and globally diversify its funding programs, its markets, and its investor and creditor base to minimize reliance on any one investor base or region. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor. Merrill Lynch benefits by distributing a significant portion of its debt issuances through its own sales force to a large, diversified global client base. Merrill Lynch also makes markets buying and selling its debt instruments.

Adhere to prudent governance processes: In order to ensure that both daily and strategic funding activities are appropriate and subject to senior management review and control, liquidity management is reviewed in Asset/Liability Committee meetings with Treasury management and is presented to Merrill Lynch's Risk Oversight Committee ("ROC"), ML & Co. executive management and the Finance Committee of the Board of Directors. Merrill Lynch also manages the growth and composition of its assets and sets limits on the level of unsecured funding at any time.

Asset and Liability Management

Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve low cost financing and an appropriate liability maturity profile. The cost and availability of unsecured funding may be impacted by general market conditions or by matters specific to the financial services industry or Merrill Lynch.

Merrill Lynch uses derivative transactions to more closely match the duration of borrowings to the duration of the assets being funded, thereby enabling interest rate risk to be managed within limits set by the Global Liquidity and Risk Management Group ("GLRM"). Interest rate swaps also serve to adjust Merrill Lynch's interest expense and effective borrowing rate principally to floating rate. Merrill Lynch also enters into currency swaps to hedge assets that are not financed through debt issuance in the same currency. Investments in subsidiaries in non-U.S. dollar currencies are also hedged in whole or in part to mitigate translation adjustments in the accumulated other comprehensive loss. See Notes 1 and 6 to the Consolidated Financial Statements for further information.

Credit Ratings

The cost and availability of unsecured funding are also impacted by credit ratings. In addition, credit ratings are important when competing in certain markets and when seeking to engage in long-term transactions including OTC derivatives. Factors that influence Merrill Lynch's credit ratings include the credit rating agencies' assessment of the general operating environment, relative positions in the markets in which Merrill Lynch competes, reputation, level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries on February 27, 2006 are as follows. Rating agencies express outlooks from time to time on these ratings. Each of these ratings agencies describes its current outlook as stable, except for Standard & Poor's whose outlook on ML & Co. was raised to positive from stable on January 23, 2006.

Rating Agency	Senior Debt Ratings	Preferred Stock Ratings
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated
Fitch Ratings	AA-	A+
Moody's Investors Service, Inc.	Aa3	A2
Rating & Investment Information, Inc. (Japan)	AA	A+
Standard & Poor's Ratings Services	A+	A-

In connection with certain OTC derivatives transactions and other trading agreements, Merrill Lynch could be required to provide additional collateral to certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. At December 30, 2005, the amount of additional collateral that would be required for such derivatives transactions and trading agreements was approximately \$360 million in the event of a one-notch downgrade and approximately \$860 million in the event of a two-notch downgrade of ML & Co.'s long term senior debt credit rating. Merrill Lynch considers additional collateral on derivative contracts that may be required in the event of changes in ML & Co.'s ratings as part of its liquidity management practices.

Risk Management

Risk Management Philosophy

Risk-taking is integral to many of the core businesses in which Merrill Lynch operates. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. Senior managers of Merrill Lynch's core businesses are responsible and accountable for management of the risks associated with their business activities. In addition, GLRM includes the independent control groups which manage market risk, credit risk, liquidity risk and operational risk, among other functions. GLRM falls under the management responsibility of the Deputy Chief Financial Officer and ultimately the Chief Financial Officer. Along with other control units these disciplines work to ensure risks are properly identified, measured, monitored, and managed throughout Merrill Lynch. To accomplish this, Merrill Lynch has established a risk management process, which includes:

- A formal risk governance organization that defines the oversight process and its components;
- A regular review of the risk management process by the Audit Committee of the Board of Directors ("the Audit Committee");
- Clearly defined risk management policies and procedures supported by a rigorous analytical framework;
- Communication and coordination among the business, executive management, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight; and
- Clearly articulated risk tolerance levels as defined by the ROC, which are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management and control process ensures that Merrill Lynch's risk tolerance is well-defined and understood by the firm's businesses as well as by its executive management. Other groups, including Corporate Audit, Finance, and the Office of General Counsel, interact with GLRM to establish and maintain this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of these control groups is to make certain that risk-related losses occur within acceptable, predefined levels.

Risk Governance Structure

Merrill Lynch's risk governance structure is comprised of the Audit Committee and the Finance Committee of the Board of Directors, the Executive Committee (a group composed of Merrill Lynch executive management), the ROC, the business units, GLRM, and various corporate governance committees.

The Audit Committee, which is comprised entirely of independent directors, approves the ROC charter and has authorized the ROC to establish Merrill Lynch's risk management policies. The ROC reports to the Executive Committee and has provided the Audit Committee with regular market and credit risk updates during 2005. The Finance Committee, which is also comprised entirely of independent directors, is responsible for reviewing Merrill Lynch's policies and procedures for managing exposure to market, credit and liquidity risk, including framework limits for both market and credit risk, Value at Risk ("VaR"), liquidity and funding analyses, and/or other relevant models.

The ROC establishes risk tolerance levels for the firm and authorizes material changes in Merrill Lynch's risk profile and also ensures that the risks assumed by Merrill Lynch are managed within these tolerance levels and verifies that Merrill Lynch has implemented appropriate policies for the effective management of risks. The Executive Committee must approve risk levels and all substantive changes to risk policies proposed by the ROC. The Executive Committee pays particular attention to risk concentrations and liquidity concerns.

The ROC is comprised of the heads of the key business segments and senior business and control managers and is chaired by the Chief Financial Officer. It oversees Merrill Lynch's risk-taking and ensures that the business units create and implement processes to identify, measure, and monitor their risks. Additionally, the ROC assists the Executive Committee in determining risk tolerance levels for the firm's business units and monitors the activities of Merrill Lynch's corporate governance committees, reporting significant issues and transactions to the Executive Committee and the Audit Committee.



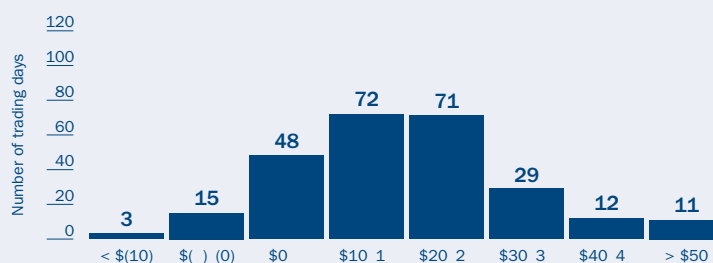
The ROC also reports substantive Market and Credit Risk Framework Limits changes to the Audit Committee. These Framework Limits are reviewed and approved annually by the Executive Committee, which must also approve certain intra-year changes. During 2005, the risk parameters that define these Frameworks were reviewed by the Audit Committee; currently, they are reviewed by the Finance Committee in the context of its evaluation of Market and Credit Risk exposures. Risk Framework exceptions and violations are reported and investigated at pre-defined and appropriate levels of management.

Various other governance committees exist to create policy, review activity, and ensure that new and existing business initiatives remain within established risk tolerance levels. Representatives of the principal independent control functions participate as voting members of these committees.

The overall effectiveness of Merrill Lynch's risk processes and policies can be seen on a broader level when analyzing daily net trading revenues over time. Merrill Lynch's policies and procedures of monitoring and controlling risk, combined with the businesses' focus on customer order-flow-driven revenues and selective proprietary positioning have helped Merrill Lynch to reduce earnings volatility within its trading portfolios. While no guarantee can be given regarding future earnings volatility, Merrill Lynch will continue to pursue policies and procedures that assist the firm in measuring and monitoring its risks. The histogram below shows the distribution of daily net revenues from Merrill Lynch's trading businesses (principal transactions and net interest profit) for 2005.

2005 Distribution of Daily Net-Trading Revenues

(dollars in millions)



Market Risk

Market risk is defined as the potential change in value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spread, and/or other risks. The Market Risk Framework defines and communicates Merrill Lynch's market risk tolerance and broad overall limits across the firm by defining and constraining exposure to specific asset classes, market risk factors and VaR. VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors.

The Market Risk Management Group is responsible for approving the products and markets in which Merrill Lynch's major business units and functions will transact and take risk. Moreover, it is responsible for identifying the risks to which these business units will be exposed in these approved products and markets. Market Risk Management uses a variety of quantitative methods to assess the risk of Merrill Lynch's positions and portfolios. In particular, Market Risk Management quantifies the sensitivities of Merrill Lynch's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's current portfolios would have incurred throughout the historical period. From these distributions, Market Risk Management derives a number of useful risk statistics, including VaR.

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

To complement VaR and in recognition of its inherent limitations, Merrill Lynch uses a number of additional risk measurement methods and tools as part of its overall market risk management process. These include stress testing and event risk analysis, which examine portfolio behavior under significant adverse market conditions, including scenarios that would result in material losses for the firm.

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

The table that follows presents Merrill Lynch's average and year-end VaR for trading instruments for 2005 and 2004. Additionally, high and low VaR for 2005 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

(dollars in millions)	Year-end 2005	Daily Average 2005	High 2005	Low 2005	Year-end 2004	Daily Average 2004
Trading Value-at-Risk ⁽¹⁾						
Interest rate and credit spread	\$ 41	\$ 40	\$ 56	\$ 26	\$ 39	\$ 31
Equity	16	12	29	3	5	9
Commodity	6	8	15	4	8	2
Currency	2	3	6	-	2	3
	65	63			54	45
Diversification benefit	(25)	(25)			(20)	(17)
Overall ⁽²⁾	\$ 40	\$ 38	\$ 61	\$ 21	\$ 34	\$ 28

(1) Based on a 95% confidence level and a one-day holding period.

(2) Overall trading VaR using a 95% confidence level and a one-week holding period was \$77 million and \$62 million at year-end 2005 and 2004, respectively.

Trading VaR increased during 2005 due to increased interest rate and credit spread and equity exposures. If market conditions are favorable, Merrill Lynch may increase its risk taking in a number of its businesses, including certain proprietary trading activities and principal investments. These activities provide revenue opportunities while also increasing the loss potential under certain market conditions. GLRM monitors these risk levels on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

Non-Trading Market Risk

Non-trading market risk includes the risks associated with certain non-trading activities, including investment securities, securities financing transactions and equity investments. Also included are the risks related to treasury funding activities. Risks related to lending activities are covered in the Credit Risk section that follows.

The primary market risk of non-trading investment securities, and non-trading repurchase and reverse repurchase agreements is expressed as sensitivity to changes in the general level of credit spreads which are defined as the differences in the yields on debt instruments from relevant LIBOR/Swap rates. Non-trading investment securities include securities available-for-sale and held-to-maturity as well as investments of insurance subsidiaries. At year-end 2005, the total credit spread sensitivity of these instruments is a pre-tax loss of \$19 million in fair market value for an increase of one basis point, which is one one-hundredth of a percent, in credit spreads, compared to a pre-tax loss of \$20 million at year-end 2004. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

The interest rate risk associated with the foregoing non-trading positions, together with treasury funding activities is expressed as sensitivity to changes in the general level of interest rates. Treasury funding activities include LYONs[®] and TOPrSSM and other long-term debt together with interest rate hedges. At year-end 2005, the net interest rate sensitivity of these positions is a pre-tax loss in fair market value of \$1 million for a parallel one basis point increase in interest rates across all yield curves, compared to negligible profit or loss for a parallel one basis point increase at year-end 2004. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

Other non-trading equity investments include direct private equity interests, private equity fund investments, hedge fund interests, and certain direct and indirect real estate investments. These investments are broadly sensitive to general price levels in the equity or commercial real estate markets as well as to specific business, financial and credit factors which influence the performance and valuation of each investment uniquely. Refer to Note 5 to the Consolidated Financial Statements for additional information on these investments.



Credit Risk

Credit risk is defined as the potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations to Merrill Lynch. The Credit Risk Framework is the primary tool used to communicate firmwide limits and monitor exposure by constraining the magnitude and tenor of exposure to counterparty and issuer families. Additionally, country risk limits ensure that total aggregate exposure across all counterparties and issuers (including sovereign entities) for a given country do not exceed predefined tolerance levels.

The Global Credit and Commitments Group assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firmwide credit risk levels within the Credit Risk Framework among other tools. The group reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. The group is also responsible for ongoing monitoring of credit quality and limit compliance and actively works with all the business units of Merrill Lynch to manage and mitigate credit risk.

The Global Credit and Commitments Group uses a variety of methodologies to set limits on exposure resulting from an individual, counterparty or issuer failing to fulfill its contractual obligations. The group performs analysis in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, product type, and maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should 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. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates potential transaction risks with a view toward early problem identification and protection against unacceptable credit-related losses. In 2005, the Global Credit and Commitments Group continued investing additional resources to enhance its methods and policies in order to assist in the management of Merrill Lynch's credit risk.

Senior members of the Global Credit and Commitments Group chair various commitment committees with membership across business and support units. These committees review and approve commitments, underwritings and syndication strategies related to debt, syndicated loans, equity, real estate and asset based finance among other products and activities.

Commercial Lending

Commercial lending conducted by Merrill Lynch consists primarily of corporate and institutional lending, asset-based finance, commercial finance, and commercial real estate related activities. In evaluating certain potential commercial lending transactions, Merrill Lynch utilizes a risk adjusted return on capital model in addition to other methodologies. Corporate and institutional lending facilities are commonly used by clients for general corporate purposes, backup liquidity lines, bridge financings, and acquisition related activities. Corporate and institutional loans are often syndicated down from original levels through assignments and participations to unaffiliated third parties. While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, repayment is generally expected through other sources including cash flow and/or recapitalization. The Global Credit and Commitments Group's Loan Execution and Management Division selectively hedges exposure in the corporate and institutional lending portfolio by purchasing single name and basket credit default swaps as well as evaluating and selectively executing loan sales in the secondary markets.

Asset-based finance facilities are typically secured by financial assets such as mortgages, auto loans, leases, credit card and other receivables. Clients often use these facilities for the origination and purchase of assets during a warehousing period leading up to securitization. Credit assessment for these facilities relies primarily on the amount, asset type, quality, and liquidity of the supporting collateral.

Commercial finance activities consist of corporate finance, healthcare finance, equipment finance and commercial real estate lending to qualifying business clients. These facilities are substantially secured by liens on property, plant, and equipment, third party guarantees or other similar arrangements. Other commercial real estate related activities consist of commercial mortgage originations and other extensions of credit connected to the financing of commercial properties or portfolios of properties. These exposures may be reduced or eliminated through third-party syndications or securitizations. Assessment of creditworthiness and credit approval is highly dependent upon the anticipated performance of the underlying property and/or associated cash flows.

The following table presents a distribution of commercial loans and closed commitments for year-end 2005, gross of allowances for loan losses and reserves, without considering the impact of purchased credit protection. Closed commitments represent the unfunded portion of existing commitments available for draw down and do not include contingent commitments extended but not yet closed. As of December 30, 2005, Merrill Lynch's largest commercial lending industry concentration was to financial institutions including banks, insurance companies, finance companies, investment managers and other diversified financial institutions. Commercial borrowers

were predominantly domiciled in the United States or had principal operations tied to the United States or its economy. The majority of all outstanding commercial loan balances had a remaining maturity of less than three years. Additional detail on Merrill Lynch's commercial lending related activities can be found in Note 8 to the Consolidated Financial Statements. The following table depicts Merrill Lynch's commercial lending balances by credit quality, industry and country at December 30, 2005.

(dollars in millions)

By Credit Quality ⁽¹⁾	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
Investment grade	\$ 19,993	\$ 3,283	\$ 11,170	\$ 22,061
Non-investment grade	16,578	869	8,083	980
Total	\$ 36,571	\$ 4,152	\$ 19,253	\$ 23,041

(1) Based on credit rating agency equivalent of internal credit ratings.

By Industry	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
Financial Institutions	44%	15%	49%	31%
Consumer Goods and Services	16	44	17	21
Real Estate	10	17	6	3
Energy/Utilities	1	5	2	17
Technology/Media/Telecommunications	2	11	3	12
Industrial/Manufacturing Goods and Services	3	3	7	9
All Other	24	5	16	7
Total	100%	100%	100%	100%

By Country	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
United States	69%	73%	83%	75%
United Kingdom	14	5	6	6
Germany	3	-	-	8
France	2	-	2	1
Canada	-	2	2	3
All Other	12	20	7	7
Total	100%	100%	100%	100%

Residential Mortgage Lending

Merrill Lynch originates and purchases residential mortgage loans, certain of which include features that may result in additional credit risk when compared to more traditional types of mortgages. The potential additional credit risk arising from these mortgages is addressed through adherence to underwriting guidelines as described below. Credit risk is closely monitored in order to ensure that reserves are sufficient and valuations are appropriate. These loans are predominantly extended to high credit quality borrowers and include:

- Loans where the borrower is subject to payment increases over the life of the loan including:
 - Interest-only loans where the borrower makes no principal payments on the loan during an initial period and is required to make both interest and principal payments either during the later stages of the loan or in one lump sum at maturity. These loans therefore may require the borrower to make larger payments later in the life of the loans if the loans are not otherwise repaid through a refinancing or sale of the property. These loans are underwritten based on a variety of factors including, for example, the borrower's credit history, the debt to income ratio, employment, the loan-to-value ("LTV") ratio on the property, and the borrower's disposable income and cash reserves; typically using a qualifying formula that assesses the borrower's ability to make interest payments at a minimum of 2% above the initial rate. In instances where the borrower is of lower credit standing, the loans are typically underwritten to have a lower LTV ratio and/or other mitigating factors. Interest-only loans are the significant majority of the loans held by Merrill Lynch where the borrower may be subject to payment increases.
 - Loans with low rates early in the loan term. These loans are offered by Merrill Lynch primarily in the United Kingdom. The loans are underwritten based on the borrower's ability to make the principal and interest payments, and borrowers of a lower credit standing are typically underwritten to a lower LTV ratio.
- High LTV ratio loans where the principal amount of the loan is greater than 80% of the value of the mortgaged property and the borrower is not required to obtain private mortgage insurance ("PMI"), and/or loans where a mortgage and home equity loan are simultaneously established for the same property. Under Merrill Lynch's policy, the maximum LTV ratio for originated residential mortgages with no PMI or other security is 95%. High LTV ratio loans also include Merrill Lynch's Mortgage100SM product. The Mortgage100SM product permits



borrowers to pledge securities in lieu of a cash down payment. The securities are subject to daily monitoring and additional collateral is required if the value of the pledged securities declines below certain levels. The LTV on real estate collateral in the Mortgage 100SM program typically does not exceed 70%.

As suggested in recent SEC guidance, the following table shows the percentages of these types of loans compared to the overall residential mortgage portfolio held in loans, notes, and mortgages:

	Loan and Unfunded Commitment Balance as a % of all Residential Mortgages and Unfunded Residential Commitments at December 30, 2005 ⁽²⁾	Originated/Purchased loans as a % of all Residential Mortgages Originated/Purchased during 2005
Loans where borrowers may be subject to payment increases ⁽¹⁾	61%	69%
Loans with high LTV ratios	6%	5%
Loans with both high LTV ratios and loans where borrowers may be subject to payment increases	14%	13%
Total	81%	87%

(1) Includes interest-only loans and loans with low initial rates.

(2) Total residential mortgages were \$18.2 billion and unfunded commitments were \$6.4 billion as of December 30, 2005.

Approximately half of the high LTV ratio loans were made to borrowers in the United Kingdom; the majority of the remaining loans were made to borrowers in the United States. Approximately 5% of the loans where the borrower is subject to payment increases were made to borrowers in the United Kingdom; the majority of the remaining loans were made to borrowers in the United States. The majority of these loans are with high credit quality borrowers.

Merrill Lynch does not currently originate or purchase residential mortgage loans that allow for minimum monthly payments less than the interest accrued on the loan (i.e., negative amortizing loans) or option adjustable rate mortgages.

Derivatives

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent (“master netting agreements”) with substantially all of its derivative counterparties as soon as possible. Agreements are negotiated bilaterally and can require complex terms. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. However, 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.

In addition, to reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates risk exposures net of related collateral. During 2005, Merrill Lynch began netting cash collateral received against the derivatives inventory on the Consolidated Balance Sheets. See Note 1 to the Consolidated Financial Statements for additional information. The following is a summary of counterparty credit ratings for the replacement cost (net of \$12.3 billion of collateral, of which \$7.9 billion represented cash collateral) of OTC trading derivatives in a gain position by maturity at December 30, 2005.

(dollars in millions)

Credit Rating ⁽¹⁾	Years to Maturity				Cross- Maturity Netting ⁽²⁾	Total
	0-3	3+-5	5+-7	Over 7		
AAA	\$ 1,645	\$ 228	\$ 248	\$ 2,387	\$ (1,036)	\$ 3,472
AA	2,891	628	774	2,487	(1,808)	4,972
A	2,706	1,100	700	2,282	(1,747)	5,041
BBB	1,607	394	587	1,044	(911)	2,721
Other	2,414	522	397	559	(265)	3,627
Grand Total	\$ 11,263	\$ 2,872	\$ 2,706	\$ 8,759	\$ (5,767)	\$ 19,833

(1) Represents credit rating agency equivalent of internal credit ratings.

(2) Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

In addition to obtaining collateral, Merrill Lynch attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of its derivative contracts.

Operational Risk

Merrill Lynch defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is consistent with the definitions used by regulators, and as specified in the Basel II accord.

The primary responsibility for managing operational risk on a day-to-day basis lies with Merrill Lynch's businesses and support groups. Each business and support group has processes and systems in place to address operational risks within their unit. These include the use of technology to automate processes and key controls, the provision of business continuity plans to protect against major disruptions, and the establishment of control committees to ensure the ongoing effectiveness of controls.

Merrill Lynch also employs independent control groups and governance committees to ensure effective management of operational risk. The Operational Risk Management Group is part of GLRM and is responsible for the monitoring and reporting of operational risk loss events, as well as putting in place the tools and techniques for the reporting and mitigation of operational risk exposure. In addition, this group is responsible for updating the ROC on the status of the Operational Risk program.

Corporate Audit and Compliance are key partners in the management of operational risk through independent reviews of the controls of the firm, and ensuring compliance with applicable rules and regulations.

Liquidity Risk

Liquidity risk relates to the ability of a company to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Liquidity risk is particularly important for financial services firms and includes both the potential inability to raise funding with appropriate maturity and interest rate characteristics as well as the inability to liquidate an asset in a timely manner at a reasonable price. For more information on how Merrill Lynch manages liquidity risk, see the Capital and Funding section.

Other Risks

Merrill Lynch encounters a variety of other risks, which could have the ability to impact the viability, profitability, and cost-effectiveness of present or future transactions. Such risks include political, tax, and regulatory risks that may arise due to changes in local laws, regulations, accounting standards, or tax statutes. To assist in the mitigation of such risks, Merrill Lynch rigorously reviews new and pending legislation and regulations. Additionally, Merrill Lynch employs professionals in jurisdictions in which Merrill Lynch operates to actively follow issues of potential concern or impact to the firm and to participate in related interest groups.

Non-Investment Grade Holdings and Highly Leveraged Transactions

Non-investment grade holdings and highly leveraged transactions involve risks related to the creditworthiness of the issuers or counterparties and the liquidity of the market for such investments. Merrill Lynch recognizes these risks and, whenever possible, employs strategies to mitigate exposures. The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment.

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring activities. Non-investment grade holdings are defined as debt and preferred equity securities rated lower than BBB or equivalent ratings by recognized credit rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either replicate ownership of the underlying security (e.g., long total return swaps) or potentially force ownership of the underlying security (e.g., short put options). Derivatives may also subject Merrill Lynch to credit spread or issuer default risk, in that changes in credit spreads or in the credit quality of the underlying securities may adversely affect the derivatives' fair values. Merrill Lynch seeks to manage these risks by engaging in various hedging strategies to reduce its exposure associated with non-investment grade positions, such as purchasing an option to sell the related security or entering into other offsetting derivative contracts.

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. On a selected basis, Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing. In addition, Merrill Lynch syndicates loans for non-investment grade companies or in connection with highly leveraged transactions and may retain a portion of these loans.



Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will continue to be made on a selective basis.

Trading Exposures

The following table summarizes trading exposures to non-investment grade or highly leveraged corporate issuers or counterparties at year-end 2005 and 2004:

(dollars in millions)	2005	2004
Trading assets:		
Cash instruments	\$ 15,578	\$ 11,929
Derivatives	6,750	4,884
Trading liabilities — cash instruments	(3,400)	(2,721)
Collateral on derivative assets	(3,123)	(2,641)
Net trading asset exposure	<u>\$ 15,805</u>	<u>\$ 11,451</u>

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 30, 2005, the carrying value of such debt and equity securities totaled \$900 million, of which 61% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$539 million at December 31, 2004, of which 45% related to market-making activities. Also included are distressed bank loans totaling \$290 million and \$176 million at year-end 2005 and 2004, respectively.

Non-Trading Exposures

The following table summarizes Merrill Lynch's non-trading exposures to non-investment grade or highly leveraged corporate issuers or counterparties at year-end 2005 and 2004. This table excludes lending-related exposures which are included in the Credit Risk section of Risk Management.

(dollars in millions)	2005	2004
Investment securities	\$ 515	\$ 455
Other investments ⁽¹⁾ :		
Partnership interests	2,186	1,534
Other equity Investments ⁽²⁾	2,069	691
Other assets	76	—

(1) Includes a total of \$556 million and \$491 million in investments held by employee partnerships at year-end 2005 and 2004, respectively, for which a portion of the market risk of the investments rests with the participating employees.

(2) Includes investments in 171 and 192 enterprises at year-end 2005 and 2004, respectively.

In addition, Merrill Lynch had commitments to non-investment grade or highly leveraged corporate issuers or counterparties of \$1.2 billion and \$1.3 billion at year-end 2005 and 2004, respectively, which primarily relate to commitments to invest in partnerships.

At December 30, 2005, Merrill Lynch's single largest non-investment grade industry exposure was to the Industrial/Manufacturing Goods and Services sector, principally consisting of chemicals.

Recent Developments

New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. This Statement will be effective for Merrill Lynch beginning in the first quarter of 2007. Earlier adoption is permitted. The statement permits interests in hybrid financial assets that contain an embedded derivative that would require bifurcation to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Merrill Lynch is currently assessing the impact and timing of adoption of the proposed guidance.

In December 2005, the FASB issued FASB Staff Position (“FSP”) SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*. The guidance requires the disclosure of concentrations of loans with certain features that may increase the creditor’s exposure to risk of nonpayment or realization. These loans are often referred to as “non-traditional” loans and include features such as high LTV ratios, terms that permit payments smaller than the interest accruals and loans where the borrower is subject to significant payment increases over the life of the loan. Merrill Lynch adopted the provisions of this guidance in the fourth quarter of 2005. See Note 8 to the Consolidated Financial Statements for this disclosure.

In November 2005, the FASB issued FSP 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which in conjunction with EITF 03-1 resulted in additional disclosures for securities in an unrealized loss position effective for year-end 2003. Merrill Lynch previously implemented the disclosure requirements of EITF 03-1 in its December 26, 2003 Consolidated Financial Statements. See Note 5 to the Consolidated Financial Statements for additional information.

In June 2005, the FASB ratified the consensus reached by the EITF on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (“EITF 04-5”). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 was effective immediately for all new limited partnership agreements and any limited partnership agreements that are modified. The guidance is effective for existing partnership agreements for financial reporting periods beginning after December 15, 2005 and may be reported as either a cumulative effect of a change in accounting principle or via retroactive restatement. The adoption of the guidance is not expected to have a material impact on the Consolidated Financial Statements.

On December 21, 2004, the FASB issued FSP 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. The FSP provides guidance on the impact of the new tax law’s one-time deduction for qualifying repatriations of foreign earnings made in 2005. The deduction can result in a lower tax rate on repatriation of certain foreign earnings, where deferred taxes were previously established. To the extent that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently reinvested, no deferred U.S. federal income taxes have been provided. Accordingly, net earnings in 2005 included tax expense of \$97 million (\$113 million of tax expense recorded in the fourth quarter, less a \$16 million tax benefit recorded in the second quarter) associated with the foreign earnings repatriation of \$1.8 billion.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS No. 123R”). In April 2005, the SEC delayed the effective date for SFAS No. 123R until the first fiscal year beginning after June 15, 2005. As a result of the SEC ruling, Merrill Lynch expects to adopt the provisions of SFAS No. 123R in the first quarter of 2006. Merrill Lynch adopted the provisions of SFAS No. 123 in the first quarter of 2004. Under the provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the fair value of the award. Merrill Lynch recognizes expense over the vesting period stipulated in the grant for all employees. Such employees include those that have satisfied retirement eligibility criteria but are subject to a non-compete agreement that applies from the date of retirement through each applicable vesting period. Should a retirement-eligible employee actually leave Merrill Lynch, all previously unvested awards are immediately charged to expense. SFAS No. 123R clarifies and amends the guidance of SFAS No. 123 in several areas, including measuring fair value, classifying an award as equity or as a liability, attributing compensation cost to service periods and accounting for forfeitures of awards. Merrill Lynch currently expects that the impact of adopting SFAS No. 123R will reduce after-tax net income by approximately \$350 million in the first quarter of 2006. See Note 14 to the Consolidated Financial Statements for further information on share-based compensation arrangements.



Activities of Principal Subsidiaries

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”) in the United States, acts as a broker (i.e., agent) for corporate, institutional, government, and private clients and as a dealer (i.e., principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the OTC markets. MLPF&S also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high yield bonds, municipal securities, financial futures contracts and options. The futures business and foreign exchange activities are conducted through MLPF&S and other subsidiaries. MLPF&S holds memberships and/or has third-party clearing relationships with all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States through affiliates and/or third-party clearing brokers. As a leading investment banking firm, MLPF&S provides corporate, institutional, and government clients with a wide variety of financial services including underwriting the sale of securities to the public, structured and derivative financing, private placements, mortgage and lease financing and financial advisory services, including advice on mergers and acquisitions.

MLPF&S also provides securities clearing services for its own account and for unaffiliated broker-dealers through its *Broadcort Correspondent Clearing Division* and through its subsidiary Merrill Lynch Professional Clearing Corp. (“ML Pro”). ML Pro is involved in Merrill Lynch’s prime brokerage business and also makes a market in listed option contracts on various options exchanges.

MLPF&S also provides discretionary and non-discretionary investment advisory services. These advisory services include Merrill Lynch Consults® Service, the Personal Investment Advisory Program, the Merrill Lynch Mutual Fund Advisor® program, the Merrill Lynch Mutual Fund Advisor Selects® program, and Merrill Lynch Global Selects. MLPF&S also offers fee-based financial planning services, including the Financial Foundation® report. MLPF&S provides financing to clients, including margin lending and other extensions of credit. Through the *Beyond Banking®* account, a Merrill Lynch customer has access to a special securities account product designed for everyday transactions, savings and cash management that combines Visa, check writing and ATM access with available advice and guidance. Merrill Lynch also offers Merrill Lynch branded credit cards in partnership with MBNA America Bank, N.A.

Through its retirement group, MLPF&S provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts and small business retirement programs. MLPF&S also provides investment, administration, communications, and consulting services to corporations and their employees for their retirement programs, including 401(k), pension, profit-sharing and non-qualified deferred compensation plans.

Merrill Lynch International (“MLI”) is a United Kingdom-based dealer in equity and fixed income securities of a significant number of global issuers, sovereign government obligations and asset-backed securities, and in loans and related financial instruments. Outside the United States, MLI is a registered market maker and regularly makes a market in the equity securities of the more actively traded non-U.S. corporations. MLI is also Merrill Lynch’s primary non-U.S. credit and equity derivatives and futures product dealer.

Merrill Lynch Government Securities, Inc. (“MLGSI”) is a primary dealer in obligations issued or guaranteed by the U.S. Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, such as, among others, Government National Mortgage Association, Fannie Mae and Freddie Mac. MLGSI deals in mortgage-backed pass-through instruments issued by certain of these entities and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers’ transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York (“FRBNY”) in the conduct of open market operations and regularly reports positions and activities to the FRBNY. An integral part of MLGSI’s business involves entering into repurchase agreements and securities lending transactions.

Merrill Lynch Capital Services, Inc. (“MLCS”) and **Merrill Lynch Derivative Products AG (“MLDP”)** are Merrill Lynch’s primary interest rate and currency derivative product dealers. MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate and currency swaps, caps and floors and options. MLCS maintains positions in interest-bearing securities, financial futures and forward contracts to hedge its interest rate and currency risk related to derivative exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies. MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address certain swap customers’ preference to limit their trading to those dealers having the highest credit quality. MLDP has been assigned the Aaa, AAA and AAA counterparty rating by the rating agencies Moody’s Investors Service, Standard & Poor’s Ratings Services and Fitch Ratings, respectively. Customers meeting certain credit criteria enter into swaps with MLDP and, in turn, MLDP enters into offsetting mirror swaps with MLCS. However, MLCS is required to provide MLDP with collateral to mitigate certain exposures MLDP may have to MLCS. In addition, MLCS’s subsidiaries, Merrill Lynch Commodities, Inc., Merrill Lynch Commodities (Europe) Trading Limited and other Merrill Lynch subsidiaries trade as principal in physically and financially settled contracts in energy, weather and a broad range of other commodities. These subsidiaries also provide asset optimization and other energy management and risk management services for third parties.

Merrill Lynch Investment Managers, L.P., Fund Asset Management, L.P., and Merrill Lynch Investment Managers Limited are the principal subsidiaries engaged in asset management activities conducted through the MLIM brand name. MLIM is an asset manager with portfolio managers located in the United States, the United Kingdom, Japan and Australia. MLIM manages a variety of investment products and offers a wide array of taxable and tax-exempt fixed income, equity and balanced mutual funds and segregated accounts to a diverse global clientele. MLIM offers a wide assortment of index-based equity and alternative investment products. MLIM’s clients include institutions, high-net-worth individuals, retail investors, mutual funds and other investment vehicles.

Merrill Lynch Bank USA (“MLBUSA”) and **Merrill Lynch Bank & Trust Co. (“MLB&T”)** are part of the Merrill Lynch Global Bank Group, which provides the management platform for Merrill Lynch’s banking products and services. Merrill Lynch, primarily through MLBUSA, provides syndicated and bridge financing, asset-based lending, commercial real estate lending, equipment financing, and standby or “backstop” credit in various forms for large institutional clients generally in connection with their commercial paper programs. MLBUSA also offers securities-based loans primarily to individual clients. MLBUSA and MLB&T are state-chartered depository institutions insured by the Federal Deposit Insurance Corporation (“FDIC”), and both are wholesale banks for Community Reinvestment Act purposes. MLBUSA and MLB&T offer certificates of deposit, transaction accounts and money market deposit accounts and issue VISA debit cards.

MLBUSA, through its subsidiary Merrill Lynch Credit Corporation, offers residential mortgage financing throughout the United States enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. In addition, Merrill Lynch Business Financial Services Inc. (“MLBFS”), a subsidiary of MLBUSA, originates commercial financing for qualifying small- and mid-size businesses, including lines of credit and reducing revolver loans through the WCMA Commercial Line of Credit and the WCMA Reducing RevolverSM Loan, respectively. MLBFS also assists its qualifying business clients with equipment financing, owner-occupied commercial real estate and other specialized financing needs.

Financial Data Services Inc., a wholly-owned subsidiary of MLB&T, is a registered transfer agent and provides support and services for both Merrill Lynch and non-Merrill Lynch mutual fund products.

Merrill Lynch has submitted regulatory applications to the Office of Thrift Supervision, the FDIC and the Utah Department of Financial Institutions for purposes of internally reorganizing certain bank businesses, including the merger of MLB&T into Merrill Lynch Trust Company, FSB, with the latter expected to be the surviving entity.



Merrill Lynch International Bank Limited (“MLIB”), an authorized credit institution under the U.K. Financial Services and Markets Act 2000, provides collateralized (including mortgage) lending, letters of credit, guarantee and foreign exchange services to, and accepts deposits from, international clients. In addition, it has a number of branch offices in which FAs are located. MLIB, through its subsidiary, Mortgages plc, provides mortgage lending, administration and servicing in the U.K. nonconforming residential mortgage market.

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

Merrill Lynch Capital Markets Bank Limited (“MLCMBL”), an Ireland-based bank with branch offices in London, Frankfurt and Milan, acts primarily as a credit intermediary for swaps, options and other derivative transactions, and secondarily as a principal for debt derivative transactions. MLCMBL also engages in advisory, lending, loan trading, and institutional sales activities.

Merrill Lynch Mortgage Capital Inc. (“MLMCI”) is a dealer in syndicated commercial loans. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI’s inventory and serve as short-term investments for MLMCI’s customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing the customers with temporary liquidity. MLMCI, through its subsidiary Merrill Lynch Mortgage Lending, Inc. (“MLML”), is a dealer in whole loan mortgages, mortgage loan participations, mortgage loan servicing and a commercial mortgage conduit that makes, and purchases from lenders, both commercial and multi-family mortgage loans and then securitizes these loans for sale to investors. MLML purchases prime, subprime, nonperforming and subperforming residential mortgage loans from originators of these loans and aggregates these loans for sale in the securitization market. Wilshire Credit Corporation, a subsidiary of MLMCI, services subprime, nonperforming and reperforming residential mortgages.

Merrill Lynch Japan Securities Co., Ltd. (“MLJS”) is a Japan-based broker-dealer that provides institutional and private clients with a variety of financial services, including the purchase and sale of equity and fixed income securities, futures and options. MLJS also acts as an underwriter and seller of securities in both publicly registered transactions and private placements.

Merrill Lynch Life Insurance Company and **ML Life Insurance Company of New York** issue annuity products. The sale of non-proprietary insurance products and proprietary and non-proprietary annuity products are made through Merrill Lynch Life Agency Inc. and other affiliated insurance agencies operating in the United States.

ML IBK Positions, Inc. is a U.S.-based entity involved in private equity and principal investing that makes proprietary investments in all levels of the capital structure of U.S. and non-U.S. companies, and in special purpose companies owning real estate, mortgage loans, consumer receivables and other assets, and may make direct equity investments in real estate assets, mortgage loans and other assets. In addition, through its subsidiary, Merrill Lynch Capital Corporation, it provides senior and subordinated financing to certain companies.