UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

_ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-7182

MERRILL LYNCH & CO., INC.
(Exact name of Registrant as specified in its charter)

Delaware	**13-2740599**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Bank of America Corporate Center **100 N. Tryon Street** **Charlotte, North Carolina**	**28255**
(Address of principal executive offices)	(Zip Code)

(704) 386-5681
Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X YES _ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

X YES _ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X	Accelerated filer _	Non-accelerated filer _ (Do not check if a smaller reporting company)	Smaller reporting company _

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

_ YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of the close of business on November 6, 2009, there were 1,000 shares of Common Stock outstanding, all of which were held by Bank of America Corporation.

The registrant is a wholly owned subsidiary of Bank of America Corporation and meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with a reduced disclosure format as permitted by Instruction H(2).

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009
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Item 1. Financial Statements

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings/(Loss) (Unaudited)

(dollars in millions, except per share amounts)	Successor Company Three Months Ended September 30, 2009	Predecessor Company Three Months Ended September 26, 2008
Revenues		
Principal transactions	$ 214	$ (6,573)
Commissions	1,316	1,745
Managed accounts and other fee-based revenues	997	1,395
Investment banking	732	845
Earnings from equity method investments	213	4,401
Other income (loss)	1,657	(2,986)
Other-than-temporary impairment losses on AFS debt securities:		
Total other-than-temporary impairment losses on AFS debt securities	(306)	-
Portion of other-than-temporary impairment losses recognized in OCI on AFS debt securities	1	-
Subtotal	4,824	(1,173)
Interest and dividend revenues	2,685	9,019
Less interest expense	2,407	7,830
Net interest profit	278	1,189
Revenues, net of interest expense	5,102	16
Non-interest expenses		
Compensation and benefits	2,768	3,483
Communications and technology	501	546
Occupancy and related depreciation	314	314
Brokerage, clearing, and exchange fees	240	348
Advertising and market development	89	159
Professional fees	148	242
Office supplies and postage	38	48
Other	495	588
Payment related to price reset on common stock offering	-	2,500
Restructuring charge	-	39
Total non-interest expenses	4,593	8,267
Pre-tax earnings/(loss) from continuing operations	509	(8,251)
Income tax benefit	(181)	(3,131)
Net earnings/(loss) from continuing operations	690	(5,120)
Discontinued operations:		
Pre-tax loss from discontinued operations	-	(53)
Income tax benefit	-	(21)
Net loss from discontinued operations	-	(32)
Net earnings/(loss)	$ 690	$ (5,152)
Preferred stock dividends	38	2,319
Net earnings/(loss) applicable to common stockholders	$ 652	$ (7,471)
Basic loss per common share from continuing operations	N/A	$ (5.56)
Basic loss per common share from discontinued operations	N/A	(0.02)
Basic loss per common share	N/A	$ (5.58)
Diluted loss per common share from continuing operations	N/A	$ (5.56)
Diluted loss per common share from discontinued operations	N/A	(0.02)
Diluted loss per common share	N/A	$ (5.58)
Dividend paid per common share	$ -	$ 0.35
Average shares used in computing losses per common share		
Basic	N/A	1,339.0
Diluted	N/A	1,339.0

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings/(Loss) (Unaudited)

	Successor Company	Predecessor Company	
(dollars in millions, except per share amounts)	Nine Months Ended September 30, 2009	For the Period from December 27, 2008 to December 31, 2008	Nine Months Ended September 26, 2008
Revenues			
Principal transactions	$ 4,047	$ (280)	$ (13,074)
Commissions	4,049	22	5,445
Managed accounts and other fee-based revenues	3,118	22	4,249
Investment banking	2,200	12	2,920
Earnings from equity method investments	306	-	4,943
Other income (loss)	2,994	19	(6,310)
Other-than-temporary impairment losses on AFS debt securities:			
Total other-than-temporary impairment losses on AFS debt securities	(603)	-	-
Portion of other-than-temporary impairment losses recognized in OCI on AFS debt securities	4	-	-
Subtotal	16,115	(205)	(1,827)
Interest and dividend revenues	9,505	34	28,415
Less interest expense	8,831	-	25,754
Net interest profit	674	34	2,661
Revenues, net of interest expense	16,789	(171)	834
Non-interest expenses			
Compensation and benefits	9,203	64	11,170
Communications and technology	1,395	-	1,667
Occupancy and related depreciation	867	-	951
Brokerage, clearing, and exchange fees	732	10	1,105
Advertising and market development	248	-	501
Professional fees	396	-	747
Office supplies and postage	115	-	160
Other	1,398	-	1,212
Payment related to price reset on common stock offering	-	-	2,500
Restructuring charge	-	-	484
Total non-interest expenses	14,354	74	20,497
Pre-tax earnings/(loss) from continuing operations	2,435	(245)	(19,663)
Income tax expense/(benefit)	241	(92)	(7,940)
Net earnings/(loss) from continuing operations	2,194	(153)	(11,723)
Discontinued operations:			
Pre-tax (loss) from discontinued operations	-	-	(110)
Income tax benefit	-	-	(65)
Net loss from discontinued operations	-	-	(45)
Net earnings/(loss)	$ 2,194	$ (153)	$ (11,768)
Preferred stock dividends	91	-	2,730
Net earnings/(loss) applicable to common stockholders	$ 2,103	$ (153)	$ (14,498)
Basic loss per common share from continuing operations	N/A	$ (0.10)	$ (13.16)
Basic loss per common share from discontinued operations	N/A	-	(0.04)
Basic loss per common share	N/A	$ (0.10)	$ (13.20)
Diluted loss per common share from continuing operations	N/A	$ (0.10)	$ (13.16)
Diluted loss per common share from discontinued operations	N/A	-	(0.04)
Diluted loss per common share	N/A	$ (0.10)	$ (13.20)
Dividend paid per common share	$ -	$ -	$ 1.05
Average shares used in computing losses per common share			
Basic	N/A	1,600.3	1,098.6
Diluted	N/A	1,600.3	1,098.6

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

(dollars in millions, except per share amounts)	Successor Company September 30, 2009	Predecessor Company December 26, 2008
ASSETS		
Cash and cash equivalents	$ 18,697	$ 68,403
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	23,796	32,923
Securities financing transactions		
Receivables under resale agreements (includes $52,436 in 2009 and $62,146 in 2008 measured at fair value in accordance with the fair value option election)	69,948	93,247
Receivables under securities borrowed transactions (includes $993 in 2009 and $853 in 2008 measured at fair value in accordance with the fair value option election)	53,062	35,077
	123,010	128,324
Trading assets, at fair value (includes securities pledged as collateral that can be sold or repledged of $22,775 in 2009 and $18,663 in 2008):		
Derivative contracts	58,190	89,477
Corporate debt and preferred stock	22,822	30,829
Equities and convertible debentures	28,018	26,160
Non-U.S. governments and agencies	21,538	6,107
Mortgages, mortgage-backed, and asset-backed	7,015	13,786
U.S. Government and agencies	3,632	5,253
Municipals, money markets and physical commodities	6,838	3,993
	148,053	175,605
Investment securities (includes $272 in 2009 and $2,770 in 2008 measured at fair value in accordance with the fair value option election) (includes securities pledged as collateral that can be sold or repledged of $0 in 2009 and $2,557 in 2008)	33,916	57,007
Securities received as collateral, at fair value	15,224	11,658
Receivables from Bank of America	21,446	-
Other receivables		
Customers (net of allowance for doubtful accounts of $0 in 2009 and $143 in 2008)	27,136	51,131
Brokers and dealers	10,411	12,410
Interest and other	14,750	26,331
	52,297	89,872
Loans, notes, and mortgages (net of allowances for loan losses of $114 in 2009 and $2,072 in 2008) (includes $4,765 in 2009 and $979 in 2008 measured at fair value in accordance with the fair value option election)	67,729	69,190
Equipment and facilities (net of accumulated depreciation and amortization of $571 in 2009 and $5,856 in 2008)	2,444	2,928
Goodwill and other intangible assets	9,326	2,616
Other assets	20,119	29,017
Total Assets	$ 536,057	$ 667,543

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

(dollars in millions, except per share amounts)	Successor Company September 30, 2009	Predecessor Company December 26, 2008
LIABILITIES		
Securities financing transactions		
Payables under repurchase agreements (includes $49,501 in 2009 and $32,910 in 2008 measured at fair value in accordance with the fair value option election)	$ 65,966	$ 92,654
Payables under securities loaned transactions	21,369	24,426
	87,335	117,080
Short-term borrowings (includes $568 in 2009 and $3,387 in 2008 measured at fair value in accordance with the fair value option election)	686	37,895
Deposits	47,819	96,107
Trading liabilities, at fair value		
Derivative contracts	41,440	71,363
Equities and convertible debentures	12,715	7,871
Non-U.S. governments and agencies	19,906	4,345
Corporate debt and preferred stock	1,622	1,318
U.S. Government and agencies	1,564	3,463
Municipals, money markets and other	967	1,111
	78,214	89,471
Obligation to return securities received as collateral, at fair value	15,224	11,658
Payables to Bank of America	26,864	-
Other payables		
Customers	38,547	44,924
Brokers and dealers	16,444	12,553
Interest and other (includes $287 in 2009 measured at fair value in accordance with the fair value option election)	21,359	32,918
	76,350	90,395
Long-term borrowings (includes $48,847 in 2009 and $49,521 in 2008 measured at fair value in accordance with the fair value option election)	161,444	199,678
Junior subordinated notes (related to trust preferred securities)	3,546	5,256
Total Liabilities	497,482	647,540
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity; authorized 25,000,000 shares; (liquidation preference of $30,000 per share; issued: 2008 — 244,100 shares; liquidation preference of $1,000 per share; issued: 2008 — 115,000 shares; liquidation preference of $100,000 per share; issued: 2009 — 17,000 shares; issued: 2008 — 17,000 shares)	1,541	8,605
Common Stockholders' Equity		
Common stock (par value $1.33 $^1/_3$ per share; authorized: 3,000,000,000 shares; issued: 2009 — 1,000 shares; issued: 2008 — 2,031,995,436 shares)	-	2,709
Paid-in capital	34,969	47,232
Accumulated other comprehensive (loss) (net of tax)	(38)	(6,318)
Retained earnings/ (Accumulated deficit)	2,103	(8,603)
	37,034	35,020
Less: Treasury stock, at cost (2009 — None; 2008 — 431,742,565 shares)	-	23,622
Total Common Stockholders' Equity	37,034	11,398
Total Stockholders' Equity	38,575	20,003
Total Liabilities and Stockholders' Equity	$ 536,057	$ 667,543

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

(dollars in millions)	Successor Company Nine Months Ended September 30, 2009	Predecessor Company Nine Months Ended September 26, 2008
Cash flows from operating activities:		
Net earnings/(loss)	$ 2,194	$ (11,768)
Adjustments to reconcile net earnings/(loss) to cash provided by operating activities		
Depreciation and amortization	896	671
Share-based compensation expense	579	1,787
Payment related to price reset on common stock offering	-	2,500
Deferred taxes	613	(5,571)
Gain on sale of Bloomberg L.P.	-	(4,296)
Earnings/(loss) from equity method investments	(306)	(146)
Other	(729)	6,140
Changes in operating assets and liabilities:		
Trading assets	21,400	45,311
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	6,018	658
Receivables from Bank of America	(51,279)	-
Receivables under resale agreements	33,799	57,151
Receivables under securities borrowed transactions	(17,421)	33,544
Customer receivables	6,678	(13,359)
Brokers and dealers receivables	2,000	(10,905)
Proceeds from loans, notes, and mortgages held for sale	7,923	18,550
Other changes in loans, notes, and mortgages held for sale	(6,100)	(1,264)
Trading liabilities	(11,437)	(37,082)
Payables under repurchase agreements	(21,188)	(63,702)
Payables under securities loaned transactions	(3,057)	(10,686)
Payables to Bank of America	26,864	-
Customer payables	(6,385)	5,805
Brokers and dealers payables	3,891	3,398
Trading investment securities	209	942
Other, net	11,264	(14,708)
Cash provided by operating activities	6,426	2,970
Cash flows from investing activities:		
Proceeds from (payments for):		
Maturities of available-for-sale securities	5,692	5,978
Sales of available-for-sale securities	9,613	27,218
Purchases of available-for-sale securities	(556)	(29,121)
Proceeds from the sale of discontinued operations	-	12,576
Equipment and facilities, net	(100)	(593)
Loans, notes, and mortgages held for investment	3,559	(11,240)
Other investments	3,354	1,909
Cash provided by investing activities	21,562	6,727
Cash flows from financing activities:		
Proceeds from (payments for):		
Commercial paper and short-term borrowings	(36,798)	779
Issuance and resale of long-term borrowings	7,102	64,851
Settlement and repurchases of long-term borrowings	(46,489)	(83,353)
Capital contributions from Bank of America	6,850	-
Deposits	7,514	(13,986)
Derivative financing transactions	18	554
Issuance of common stock	-	9,885
Issuance of preferred stock, net	-	9,281
Other common stock transactions	-	(822)
Excess tax benefits related to share-based compensation	-	39
Dividends	(91)	(1,865)
Cash (used for) financing activities	(61,894)	(14,637)
(Decrease) in cash and cash equivalents	(33,906)	(4,940)
Cash and cash equivalents, beginning of period(1)	52,603	41,346
Cash and cash equivalents, end of period	$ 18,697	$ 36,406
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid (net of refunds)	$ 269	$ 422
Interest paid	9,739	26,529

Non-cash investing and financing activities:

In connection with the acquisition of Merrill Lynch by Bank of America, Merrill Lynch recorded purchase accounting adjustments in the nine months ended September 30, 2009, which were recorded as non-cash capital contributions. See Note 2.

In connection with the sale of Merrill Lynch Bank USA to a subsidiary of Bank of America, Merrill Lynch received a note receivable as consideration for the net book value of assets and liabilities transferred to Bank of America. See Note 21.

(1) Amount for Successor Company is as of January 1, 2009.

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income/(Loss) (Unaudited)

	Successor Company		Predecessor Company	
(dollars in millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Three Months Ended September 26, 2008	Nine Months Ended September 26, 2008
Net earnings/(loss)	$ 690	$ 2,194	$ (5,152)	$ (11,768)
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustment	193	74	(141)	(189)
Net unrealized (loss) on investment securities available-for-sale	(680)	(146)	(544)	(2,358)
Net deferred gain/(loss) on cash flow hedges	28	34	37	(3)
Defined benefit pension and postretirement plans	-	-	(1)	5
Total other comprehensive (loss), net of tax	(459)	(38)	(649)	(2,545)
Comprehensive income/(loss)	$ 231	$ 2,156	$ (5,801)	$ (14,313)

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2009

Note 1. Summary of Significant Accounting Policies

Description of Business

Merrill Lynch & Co. Inc. ("ML & Co.") and together with its subsidiaries ("Merrill Lynch"), provide investment, financing, insurance, and related services to individuals and institutions on a global basis through its broker, dealer, banking and other financial services subsidiaries. For a complete discussion of significant accounting policies, refer to the Audited Consolidated Financial Statements included in Merrill Lynch's Annual Report on Form 10-K for the year-ended December 26, 2008 (the "2008 Annual Report").

Bank of America Acquisition

On January 1, 2009, Merrill Lynch (the "Predecessor Company") was acquired by Bank of America Corporation ("Bank of America") through the merger of a wholly-owned subsidiary of Bank of America with and into ML & Co. with ML & Co. (the "Successor Company") continuing as the surviving corporation and a wholly-owned subsidiary of Bank of America. Upon completion of the acquisition, each outstanding share of ML & Co. common stock was converted into 0.8595 shares of Bank of America common stock. As of the completion of the acquisition, ML & Co. Series 1 through Series 8 preferred stock were converted into Bank of America preferred stock with substantially identical terms to the corresponding series of Merrill Lynch preferred stock (except for additional voting rights provided to the Bank of America securities). The Merrill Lynch 9.00% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 2, and 9.00% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 3 that were outstanding immediately prior to the completion of the acquisition remained issued and outstanding subsequent to the acquisition, but are now convertible into Bank of America common stock.

Bank of America's cost of acquiring Merrill Lynch has been pushed down to form a new accounting basis for Merrill Lynch. Accordingly, the accompanying Condensed Consolidated Financial Statements are presented for two periods, Predecessor and Successor, which respectively correspond to the periods preceding and succeeding the date of acquisition. The Predecessor and Successor periods have been separated by a vertical line on the face of the Condensed Consolidated Financial Statements to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting. The components of the Predecessor Company's shareholders' equity (with the exception of $1.5 billion of convertible preferred stock discussed above) were reclassified to paid-in-capital on January 1, 2009.

Effective January 1, 2009, Merrill Lynch adopted calendar quarter-end and year-end reporting periods to coincide with those of Bank of America. The intervening period between Merrill Lynch's previous fiscal year end (December 26, 2008) and the beginning of the current year (January 1, 2009) (the "stub period") is presented separately on the accompanying Condensed Consolidated Statements of Earnings/(Loss) for the nine months ended September 30, 2009.

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Merrill Lynch. The Condensed Consolidated Financial Statements are presented in accordance with U.S. Generally

Accepted Accounting Principles. Intercompany transactions and balances within Merrill Lynch have been eliminated. Transactions and balances with Bank of America have not been eliminated. The interim Condensed Consolidated Financial Statements for the three and nine month periods and the stub period are unaudited; however, all adjustments necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included.

During the third quarter of 2009, Merrill Lynch adjusted previously reported prior period 2009 amounts related to the valuation of certain long-term borrowings, primarily structured notes. The impact of these adjustments reduced principal transactions revenues by $252 million and $178 million and net earnings by $176 million and $160 million for the first and second quarters of 2009, respectively. The results for the three and nine months ended September 30, 2009 are appropriately stated. Historical quarterly results presented in future filings will include the impact of these revisions.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the 2008 Annual Report, while recognizing that two different bases of accounting are presented. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. Merrill Lynch evaluates subsequent events through the date of filing with the Securities and Exchange Commission. Certain prior period amounts have been reclassified to conform to the current period presentation. In addition, certain changes have been made to classifications in the financial statements as of and for the three and nine months ended September 30, 2009 to conform to Bank of America's presentation of similar transactions. These changes include:

- The reclassification of bifurcated embedded derivatives from the balance sheet classification of the host instrument (e.g., long-term borrowings for structured notes) to derivative contracts within trading assets and liabilities;
- The reclassification of derivatives that had been used for asset and liability management hedging from other assets and other payables-interest and other to derivative contracts within trading assets and trading liabilities;
- The reclassification of certain loans designated as held for trading, held for sale or held for investment to either held for sale or held for investment; and
- The reclassification of the financing provided to Bloomberg, Inc. in connection with the sale of Merrill Lynch's interest in Bloomberg, L.P. from investment securities to loans, notes and mortgages.

Merrill Lynch did not make any significant changes to its Predecessor Company accounting policies in order to conform with the accounting policies utilized by Bank of America.

In July 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 105, *Generally Accepted Accounting Principles,* (ASC 105), which approved the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative nongovernmental GAAP. The Codification is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The adoption of ASC 105 did not impact Merrill Lynch's financial condition or results of operations. All accounting references within this report are in accordance with the new Codification.

Consolidation Accounting Policies

The Condensed Consolidated Financial Statements include the accounts of Merrill Lynch, whose subsidiaries are generally controlled through a majority voting interest. In certain cases, Merrill Lynch subsidiaries may also be consolidated based on a risks and rewards approach. Merrill Lynch does not consolidate those special purpose entities that meet the criteria of a qualified special purpose entity ("QSPE").

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

VREs — VREs are defined to include entities that have both equity at risk that is sufficient to fund future operations and have equity investors with decision making ability that absorb the majority of the expected losses and expected returns of the entity. In accordance with ASC 810, *Consolidation*, ("Consolidation Accounting"), Merrill Lynch generally consolidates those VREs where it holds a controlling financial interest. For investments in limited partnerships and certain limited liability corporations that Merrill Lynch does not control, Merrill Lynch applies ASC 323, *Investments — Equity Method and Joint Ventures* ("Equity Method Accounting"), which requires use of the equity method of accounting for investors that have more than a minor influence, which is typically defined as an investment of greater than 3% of the outstanding equity in the entity. For more traditional corporate structures, in accordance with Equity Method Accounting, Merrill Lynch applies the equity method of accounting where it has significant influence over the investee. Significant influence can be evidenced by a significant ownership interest (which is generally defined as a voting interest of 20% to 50%), significant board of director representation, or other contracts and arrangements.

VIEs — Those entities that do not meet the VRE criteria are generally analyzed for consolidation as either VIEs or QSPEs. Merrill Lynch consolidates those VIEs in which it absorbs the majority of the variability in expected losses and/or the variability in expected returns of the entity as required by Consolidation Accounting. Merrill Lynch relies on a qualitative and/or quantitative analysis, including an analysis of the design of the entity, to determine if it is the primary beneficiary of the VIE and therefore must consolidate the VIE. Merrill Lynch reassesses whether it is the primary beneficiary of a VIE upon the occurrence of a reconsideration event.

QSPEs — QSPEs are passive entities with significantly limited permitted activities. QSPEs are generally used as securitization vehicles and are limited in the type of assets that they may hold, the derivatives into which they can enter and the level of discretion that they may exercise through servicing activities. In accordance with ASC 860, *Transfers and Servicing*, ("Financial Transfers and Servicing Accounting"), and Consolidation Accounting, Merrill Lynch does not consolidate QSPEs.

Securitization Activities

In the normal course of business, Merrill Lynch securitizes commercial and residential mortgage loans; municipal, government, and corporate bonds; and other types of financial assets. Merrill Lynch may retain interests in the securitized financial assets through holding tranches of the securitization. In accordance with Financial Transfers and Servicing Accounting, Merrill Lynch recognizes transfers of financial assets where it relinquishes control as sales to the extent of cash and any proceeds received. Control is considered to be relinquished when all of the following conditions have been met:

- The transferred assets have been legally isolated from the transferor even in bankruptcy or other receivership;

- The transferee has the right to pledge or exchange the assets it received, or if the entity is a QSPE the beneficial interest holders have the right to pledge or exchange their beneficial interests; and
- The transferor does not maintain effective control over the transferred assets (e.g., the ability to unilaterally cause the holder to return specific transferred assets).

Revenue Recognition

Principal transactions revenues include both realized and unrealized gains and losses on trading assets and trading liabilities, investment securities classified as trading investments and fair value changes associated with structured debt. These instruments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Gains and losses on sales are recognized on a trade date basis.

Commissions revenues include commissions, mutual fund distribution fees and contingent deferred sales charge revenue, which are all accrued as earned. Commissions revenues also include mutual fund redemption fees, which are recognized at the time of redemption. Commissions revenues earned from certain customer equity transactions are recorded net of related brokerage, clearing and exchange fees.

Managed accounts and other fee-based revenues primarily consist of asset-priced portfolio service fees earned from the administration of separately managed accounts and other investment accounts for retail investors, annual account fees, and certain other account-related fees.

Investment banking revenues include underwriting revenues and fees for merger and acquisition advisory services, which are accrued when services for the transactions are substantially completed. Underwriting revenues are presented net of transaction-related expenses. Transaction-related expenses, primarily legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related revenue from the investment banking transaction to match revenue recognition.

Earnings from equity method investments include Merrill Lynch's pro rata share of income and losses associated with investments accounted for under the equity method.

Other revenues include gains/(losses) on investment securities, including sales and other-than-temporary-impairment losses associated with certain available-for-sale securities, gains/(losses) on private equity investments and gains/(losses) on loans and other miscellaneous items.

Contractual interest and dividends received and paid on trading assets and trading liabilities, excluding derivatives, are recognized on an accrual basis as a component of interest and dividend revenues and interest expense. Interest and dividends on investment securities are recognized on an accrual basis as a component of interest and dividend revenues. Interest related to loans, notes, and mortgages, securities financing activities and certain short- and long-term borrowings are recorded on an accrual basis with related interest recorded as interest revenue or interest expense, as applicable. Contractual interest, if any, on structured notes is recorded as a component of interest expense.

Use of Estimates

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

- Valuations of assets and liabilities requiring fair value estimates;
- The allowance for credit losses;

- Determination of other-than-temporary impairments for available-for-sale investment securities;
- The outcome of litigation;
- Assumptions and cash flow projections used in determining whether VIEs should be consolidated and the determination of the qualifying status of QSPEs;
- The realization of deferred taxes and the recognition and measurement of uncertain tax positions;
- The carrying amount of goodwill and intangible assets;
- The amortization period of intangible assets with definite lives;
- Incentive-based compensation accruals and valuation of share-based payment compensation arrangements; and
- Other matters that affect the reported amounts and disclosure of contingencies in the 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 Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term.

Fair Value Measurement

Merrill Lynch accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. Merrill Lynch accounts for certain financial assets and liabilities at fair value under various accounting literature, including ASC 320, *Investments — Debt and Equity Securities*, ("Investment Accounting"), ASC 815, *Derivatives and Hedging*, ("Derivatives Accounting"), and the fair value option election in accordance with ASC 825-10-25, *Financial Instruments — Recognition,* ("fair value option election"). Merrill Lynch also accounts for certain assets at fair value under applicable industry guidance, namely ASC 940 *Financial Services — Brokers and Dealers* ("Broker-Dealer Guide") and ASC 946, *Financial Services — Investment Companies* ("Investment Company Guide").

ASC 820, *Fair Value Measurements and Disclosures*, ("Fair Value Accounting") defined fair value, established a framework for measuring fair value, established a fair value hierarchy based on the quality of inputs used to measure fair value and enhanced disclosure requirements for fair value measurements.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a marketplace participant in settlement of these instruments (i.e., the amount Merrill Lynch would expect to receive in a derivative asset assignment or would expect to pay to have a derivative liability assumed). 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 creditworthiness, or Merrill Lynch's own creditworthiness, as appropriate. Determining the fair value for OTC derivative contracts can require a significant level of estimation and management judgment.

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 that market participants would use in pricing the instrument, which may impact the results of operations reported in the Condensed Consolidated Financial Statements. For instance, on 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 fair value all positions consistently when only a subset of prices are 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 to correlate more closely to the market price of these instruments. The recognition of significant inception gains and losses that incorporate unobservable inputs is reviewed by management to ensure such gains and losses are derived from observable inputs and/or incorporate reasonable assumptions about the unobservable component, such as implied bid-offer adjustments.

Certain financial instruments recorded at fair value are initially measured using mid-market prices which results in gross long and short positions marked-to-market at the same pricing level prior to the application of position netting. The resulting net positions are then adjusted to fair value representing the exit price as defined in Fair Value Accounting. The significant adjustments include liquidity and counterparty credit risk.

Liquidity

Merrill Lynch makes adjustments to bring a position from a mid-market to a bid or offer price, depending upon the net open position. Merrill Lynch values net long positions at bid prices and net short positions at offer prices. These adjustments are based upon either observable or implied bid-offer prices.

Counterparty Credit Risk

In determining fair value, Merrill Lynch considers both the credit risk of its counterparties, as well as its own creditworthiness. Merrill Lynch attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. Merrill Lynch generally calculates the credit risk adjustment for derivatives on observable market credit spreads.

Fair Value Accounting also requires that Merrill Lynch consider its own creditworthiness when determining the fair value of certain instruments, including OTC derivative instruments. The approach to measuring the impact of Merrill Lynch's credit risk on an instrument is done in the same manner as for third party credit risk. The impact of Merrill Lynch's credit risk is incorporated into the fair value, even when credit risk is not readily observable, of instruments such as OTC derivatives contracts. OTC derivative liabilities are valued based on the net counterparty exposure as described above.

Legal Reserves

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

Income Taxes

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

Merrill Lynch recognizes and measures its unrecognized tax benefits in accordance with Income Tax Accounting. Merrill Lynch estimates the likelihood, based on their technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. Merrill Lynch adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America's policy, any new or subsequent change in an unrecognized tax benefit related to a Bank of America state consolidated, combined or unitary return in which Merrill Lynch is a member will not be reflected in Merrill Lynch's balance sheet. However, upon Bank of America's resolution of the item, any material impact determined to be attributable to Merrill Lynch will be reflected in Merrill Lynch's balance sheet. Merrill Lynch accrues income-tax-related interest and penalties, if applicable, within income tax expense.

Beginning with the 2009 tax year, Merrill Lynch's results of operations are included in the U.S. federal income tax return and certain state income tax returns of Bank of America. The method of allocating income tax expense is determined under the intercompany tax allocation policy of Bank of America. This policy specifies that income tax expense will be computed for all Bank of America subsidiaries generally on a separate company method, taking into account the tax position of the consolidated group and the pro forma Merrill Lynch group. Under this policy, tax benefits associated with net operating losses (or other tax attributes) of Merrill Lynch are payable to Merrill Lynch upon the earlier of the utilization in the filing of Bank of America's returns or the utilization in Merrill Lynch's pro forma returns. See Note 16 for further discussion of income taxes.

Securities Financing Transactions

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers and earn interest rate spreads (also referred to as "matched-book transactions"), obtain securities for settlement and finance inventory positions.

Resale and repurchase agreements are accounted for as collateralized financing transactions and may be recorded at their contractual amounts plus accrued interest or at fair value under the fair value option election. Resale and repurchase agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency.

Where the fair value option election has been made, changes in the fair value of resale and repurchase agreements are reflected in principal transactions revenues and the contractual interest coupon is recorded as interest revenue or interest expense, respectively. For further information refer to Note 4.

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

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

Substantially all repurchase and resale activities are transacted under master repurchase agreements that give Merrill Lynch the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Merrill Lynch offsets certain repurchase and resale agreement balances with the same counterparty on the Condensed Consolidated Balance Sheets.

Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the Securities Exchange Act of 1934.

Securities borrowed and loaned transactions may be recorded at the amount of cash collateral advanced or received plus accrued interest or at fair value under the fair value option election. Securities borrowed transactions require Merrill Lynch to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. Merrill Lynch receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fees received or paid by Merrill Lynch are recorded as interest revenue or expense. On a daily basis, Merrill Lynch monitors the market value of securities borrowed or loaned against the collateral value, and Merrill Lynch may require counterparties to deposit additional collateral or may return collateral pledged, when appropriate. The carrying value of these instruments approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or their variable interest rates.

All firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are disclosed parenthetically in trading assets or, if applicable, in investment securities on the Condensed Consolidated Balance Sheets.

In transactions where Merrill Lynch acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the Condensed Consolidated Balance Sheets carried at fair value, representing the securities received (securities received as collateral), and a liability for the same amount, representing the obligation to return those securities (obligation to return securities received as collateral). The amounts on the Condensed Consolidated Balance Sheets result from non-cash transactions.

Trading Assets and Liabilities

Merrill Lynch's trading activities consist primarily of securities brokerage and trading; derivatives dealing and brokerage; commodities trading and futures brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (e.g., securities and loans) and derivative instruments. Trading assets and trading liabilities also include commodities inventory. See Note 6 for additional information on derivative instruments.

Trading assets and liabilities are generally recorded on a trade date basis at fair value. Included in trading liabilities are securities that Merrill Lynch has sold but did not own and will therefore be obligated to purchase at a future date ("short sales"). Commodities inventory is recorded at the lower of cost or market value. Changes in fair value of trading assets and liabilities (i.e., unrealized gains and losses) are recognized as principal transactions revenues in the current period. Realized gains and losses and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, depending on the nature of the instrument.

Investment Securities

Investment securities consist of marketable investment securities and non-qualifying investments. Refer to Note 8.

Marketable Investments

ML & Co. and certain of its non-broker-dealer subsidiaries, including Merrill Lynch banks, follow the guidance within Investment Accounting for investments in debt and publicly traded equity securities. Merrill Lynch classifies those debt securities that it does not intend to sell as held-to-maturity securities. Held-to-maturity securities are carried at cost unless a decline in value is deemed other-than-temporary, in which case the carrying value is reduced. For Merrill Lynch, the trading classification under Investment Accounting generally includes those securities that are bought and held principally for the purpose of selling them in the near term, securities that are economically hedged, or securities that may contain a bifurcatable embedded derivative as defined in Derivatives Accounting. Securities classified as trading are marked to fair value through earnings. All other qualifying securities are classified as available-for-sale and held at fair value with unrealized gains and losses reported in accumulated other comprehensive income/(loss) ("OCI").

Realized gains and losses on investment securities are included in current period earnings. For purposes of computing realized gains and losses, the cost basis of each investment sold is based on the specific identification method.

Merrill Lynch regularly (at least quarterly) evaluates each held-to-maturity and available-for-sale security whose value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. A decline in a debt security's fair value is considered to be other-than-temporary if it is probable that all amounts contractually due will not be collected or Merrill Lynch either plans to sell the security or it is more likely than not that it will be required to sell the security before recovery of its amortized cost. Beginning in 2009, for unrealized losses on debt securities that are deemed other-than-temporary, the credit component of an other-than-temporary impairment is recognized in earnings and the noncredit component is recognized in OCI when Merrill Lynch does not intend to sell the security and it is more likely than not that Merrill Lynch will not be required to sell the security prior to recovery. Prior to January 1, 2009, unrealized losses (both the credit and non-credit components) on available-for-sale debt securities that were deemed other-than-temporary were included in current period earnings.

Merrill Lynch's impairment review generally includes:

- Identifying securities with indicators of possible impairment;
- Analyzing individual securities with fair value less than amortized cost for specific factors including:
  - The estimated length of time to recover from fair value to amortized cost;
  - The severity and duration of the fair value decline from amortized cost;
  - Deterioration in the financial condition of the issuer;
- Discussing evidential matter, including an evaluation of the factors that could cause individual securities to have an other-than-temporary impairment;
- Determining whether Merrill Lynch intends to sell the security or if it is more likely than not that Merrill Lynch will be required to sell the security before recovery of its amortized cost; and
- Documenting the analysis and conclusions.

Non-Qualifying Investments

Non-qualifying investments are those investments that are not within the scope of Investment Accounting and primarily include private equity investments accounted for at fair value and securities carried at cost or under the equity method of accounting.

Private equity investments that are held for capital appreciation and/or current income are accounted for under the Investment Company Guide and carried at fair value. Additionally, certain private equity investments that are not accounted for under the Investment Company Guide may be carried at fair value under the fair value option election. The carrying value of private equity investments reflects expected exit values based upon market prices or other valuation methodologies including market comparables of similar companies and expected cash flows.

Merrill Lynch has non-controlling investments in the common shares of corporations and in partnerships that do not fall within the scope of Investment Accounting or the Investment Company Guide. Merrill Lynch accounts for these investments using either the cost or the equity method of accounting based on management's ability to influence the investees. See the Consolidation Accounting Policies section of this Note for more information.

For investments accounted for using the equity method, income is recognized based on Merrill Lynch's share of the earnings or losses of the investee. Dividend distributions are generally recorded as reductions in the investment balance. Impairment testing is based on the guidance provided in Equity Method Accounting and the investment is reduced when an impairment is deemed other-than-temporary.

For investments accounted for at cost, income is recognized as dividends are received. Impairment testing is based on the guidance provided in Investment Accounting and the cost basis is reduced when an impairment is deemed other-than-temporary.

Loans, Notes, and Mortgages, Net

Merrill Lynch's lending and related activities include loan originations, syndications and securitizations. Loan originations include corporate and institutional loans, residential and commercial mortgages, asset-based loans, and other loans to individuals and businesses. Merrill Lynch also engages in secondary market loan trading (see the Trading Assets and Liabilities section within this Note) and margin lending. Loans included in loans, notes, and mortgages are classified for accounting purposes as loans held for investment and loans held for sale. Upon completion of the acquisition of Merrill Lynch by Bank of America, certain loans carried by Merrill Lynch were subject to the requirements of ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("Acquired Impaired Loan Accounting"). See Note 10.

Loans held for investment are carried at amortized cost, less an allowance for loan losses. The provision for loan losses is based on management's estimate of the amount necessary to maintain the allowance for loan losses at a level adequate to absorb probable incurred loan losses and is included in interest revenue in the Condensed Consolidated Statements of Earnings/(Loss). Management's estimate of loan losses is influenced by many factors, including adverse situations that may affect the borrower's ability to repay, current economic conditions, prior loan loss experience, and the estimated fair value of any underlying collateral. The fair value of collateral is generally determined by third-party appraisals in the case of residential mortgages, quoted market prices for securities, or other types of estimates for other assets.

Management's estimate of loan losses includes judgment about collectibility based on available information at the balance sheet date, and the uncertainties inherent in those underlying assumptions.

While management has based its estimates on the best information available, future adjustments to the allowance for loan losses may be necessary as a result of changes in the economic environment or variances between actual results and the original assumptions.

In general, loans are evaluated for impairment when they are greater than 90 days past due or exhibit credit quality weakness. Loans are considered impaired when it is probable that Merrill Lynch will not be able to collect the contractual principal and interest due from the borrower. All payments received on impaired loans are applied to principal until the principal balance has been reduced to a level where collection of the remaining recorded investment is not in doubt. Typically, when collection of principal on an impaired loan is not in doubt, contractual interest will be credited to interest income when received.

Loans held for sale are carried at lower of cost or fair value. The fair value option election has been made for certain held for sale loans, notes and mortgages. Estimation is required in determining these fair values. The fair value of loans made in connection with commercial lending activity, consisting mainly of senior debt, is primarily estimated using the market value of publicly issued debt instruments or discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on the individual loan characteristics. For certain homogeneous categories of loans, including residential mortgages, automobile loans, and home equity loans, fair value is estimated using a whole loan valuation or an "as-if" securitized price based on market conditions. An "as-if" securitized price is based on estimated performance of the underlying asset pool collateral, rating agency credit structure assumptions and market pricing for similar securitizations previously executed. Declines in the carrying value of loans held for sale and loans accounted for at fair value under the fair value option election are included in other revenues in the Condensed Consolidated Statements of Earnings/(Loss).

Nonrefundable loan origination fees, loan commitment fees, and "draw down" fees received in conjunction with held for investment loans are generally deferred and recognized over the contractual life of the loan as an adjustment to the yield. If, at the outset, or any time during the term of the loan, it becomes probable that the repayment period will be extended, the amortization is recalculated using the expected remaining life of the loan. When the loan contract does not provide for a specific maturity date, management's best estimate of the repayment period is used. At repayment of the loan, any unrecognized deferred fee is immediately recognized in earnings. If the loan is accounted for as held for sale, the fees received are deferred and recognized as part of the gain or loss on sale in other revenues. If the loan is accounted for under the fair value option election, the fees are included in the determination of the fair value and included in other revenue.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140* ("SFAS No. 166"), and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS No. 167"). The amendments will be effective January 1, 2010 for Merrill Lynch. SFAS No. 166 revises ASC 860, *Transfers and Servicing* ("Financial Transfers and Servicing Accounting"), which establishes sale accounting criteria for transfers of financial assets. Among other things, SFAS No. 166 amends Financial Transfers and Servicing Accounting to eliminate the concept of a QSPE. As a result, existing QSPEs will be subject to consolidation in accordance with the guidance provided in SFAS No. 167.

SFAS No. 167 amends Consolidation Accounting by significantly changing the criteria by which an enterprise determines whether it must consolidate a VIE. A VIE is an entity, typically an SPE, which has insufficient equity at risk or which is not controlled through voting rights held by equity investors. Consolidation Accounting currently requires that a VIE be consolidated by the enterprise that will absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. SFAS No. 167 amends Consolidation Accounting to require that a VIE be consolidated by the enterprise that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. SFAS No. 167 also requires that an enterprise continually reassess, based on current facts and circumstances, whether it should consolidate the VIEs with which it is involved. See Note 9 for Merrill Lynch's involvement with VIEs.

The adoption in January 2010 of SFAS Nos. 166 and 167 will result in the consolidation of certain QSPEs and VIEs that are not currently recorded on Merrill Lynch's Condensed Consolidated Balance Sheets. Based upon the evaluation performed as of September 30, 2009, Merrill Lynch expects to consolidate certain vehicles, including credit-linked note entities, collateralized debt obligations and municipal bond trusts, which hold aggregate assets of approximately $15 billion. These consolidations will result in an increase in trading assets and long-term borrowings. Merrill Lynch continues to evaluate other VIEs with which it is involved to determine the impact of SFAS No. 167.

In May 2009, the FASB issued ASC 855, *Subsequent Events*, which provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of ASC 855, effective June 30, 2009, did not impact Merrill Lynch's financial condition or results of operations. Merrill Lynch evaluated subsequent events through the date of filing.

In April 2009, the FASB amended Fair Value Accounting to provide guidance for determining whether a market is inactive and a transaction is distressed. Merrill Lynch elected to early adopt the amendments effective January 1, 2009. The adoption did not have a material impact on the Condensed Consolidated Financial Statements.

In April 2009, the FASB amended Investment Accounting to require that an entity recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in OCI when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. The amendments also require expanded disclosures. Merrill Lynch elected to early adopt the amendments effective January 1, 2009 and the adoption did not have a material impact on the Condensed Consolidated Financial Statements, as any OCI that Merrill Lynch previously recorded was eliminated upon Bank of America's acquisition of Merrill Lynch. The amendments did not change the recognition of other-than-temporary impairment for equity securities.

In April 2009, the FASB amended ASC 825, *Financial Instruments*, to require expanded disclosures for all financial instruments within its scope, such as loans that are not measured at fair value through earnings. Merrill Lynch adopted the amendments during the second quarter of 2009. Since the amendments only require certain additional disclosures, they did not affect Merrill Lynch's consolidated financial position, results of operations or cash flows. Refer to Note 5 for further information.

In April 2009, the FASB amended ASC 805-10, *Business Combinations*, whereby assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. This new guidance is effective for new acquisitions consummated on or after January 1, 2009. Bank of America applied this guidance to its January 1, 2009 acquisition of Merrill Lynch, and the effects of the adoption were not material to these Condensed Consolidated Financial Statements.

In March 2008, the FASB amended Derivatives Accounting to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. The amendments apply to all derivative instruments within the scope of Derivatives Accounting. The amendments also apply to non-derivative hedging instruments and all hedged items designated and qualifying as hedges under Derivatives Accounting. The amendments require additional qualitative and quantitative disclosures for derivative instruments and hedging activities set forth in Derivatives Accounting and generally increase the level of disaggregation required in an entity's financial statements. Additional disclosures include qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. Merrill Lynch adopted the amendments to Derivatives Accounting on January 1, 2009, effective prospectively. Since the amendments only resulted in certain additional disclosures, they did not have an effect on Merrill Lynch's consolidated financial position, results of operations or cash flows. See Note 6 for further information regarding these disclosures.

In February 2008, the FASB modified Financial Transfers and Servicing Accounting. Under this new guidance, there is a presumption that the initial transfer of a financial asset and subsequent repurchase financing involving the same asset are considered part of the same arrangement (i.e. a linked transaction) under Financial Transfers and Servicing Accounting. However, if certain criteria are met, the initial transfer and repurchase financing will be evaluated as two separate transactions under Financial Transfers and Servicing Accounting. This new guidance was effective for new transactions entered into in fiscal years beginning after November 15, 2008. Early adoption was prohibited. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

In December 2007, the FASB amended Consolidation Accounting to require noncontrolling interests in subsidiaries (formerly known as “minority interests”) initially to be measured at fair value and classified as a separate component of equity. Under the amendments, gains or losses on sales of noncontrolling interests in subsidiaries are not recognized; instead, sales of noncontrolling interests are accounted for as equity transactions. However, in a sale of a subsidiary’s shares that results in the deconsolidation of the subsidiary, a gain or loss is recognized for the difference between the proceeds of that sale and the carrying amount of the interest sold and a new fair value basis is established for any remaining ownership interest. The amendments were effective for Merrill Lynch beginning in 2009; earlier application was prohibited. The amendments were required to be adopted prospectively, with the exception of certain presentation and disclosure requirements (e.g., reclassifying noncontrolling interests to appear in equity), which are required to be adopted retrospectively. The adoption of the amendments did not have a material impact on the Condensed Consolidated Financial Statements.

In December 2007, the FASB issued ASC 805-10, *Business Combinations*, which significantly changed the financial accounting and reporting for business combinations. ASC 805-10 required, for example: (i) assets and liabilities to be measured at fair value as of the acquisition date, (ii) liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period with changes reflected in earnings and not goodwill, and (iii) all acquisition-related costs to be expensed as incurred by the acquirer. Bank of America applied ASC 805-10 to its January 1, 2009 acquisition of Merrill Lynch, the effects of which are included in these Condensed Consolidated Financial Statements.

Note 2. Acquisition and Subsequent Transactions with Bank of America Corporation

As a result of the acquisition of Merrill Lynch by Bank of America, Merrill Lynch recorded the following preliminary purchase accounting adjustments. The allocation of the purchase price will be finalized upon completion of Bank of America’s analysis of the fair values of Merrill Lynch’s assets and liabilities in accordance with the acquisition method of accounting.

(dollars in billions, except per share amounts)	
Purchase Price	
Merrill Lynch common shares exchanged (in millions)	**1,600**
Exchange ratio	0.8595
Bank of America's common stock issued	1,375
Purchase price per share of Bank of America's common stock(1)	$ 14.08
Total value of Bank of America's common stock and cash exchanged for fractional shares	$ 19.4
Merrill Lynch preferred stock(2)	8.6
Fair value of outstanding employee stock awards	1.1
Total purchase price	**$ 29.1**
Preliminary allocation of the purchase price	
Merrill Lynch stockholders' equity	$ 19.9
Merrill Lynch goodwill and intangible assets	(2.6)
Pre-tax adjustments to reflect acquired assets and liabilities at fair value:	
Securities and derivatives	(1.2)
Loans	(6.1)
Intangible assets(3)	5.7
Other assets	(1.5)
Long-term borrowings(4)	15.8
Pre-tax total adjustments	12.7
Deferred income taxes	(5.7)
After-tax total adjustments	7.0
Fair value of net assets acquired	$ 24.3
Preliminary goodwill resulting from the acquisition by Bank of America(5)	**$ 4.8**

(1) The value of the shares of common stock exchanged with Merrill Lynch shareholders was based upon the closing price of Bank of America's common stock at December 31, 2008, the last trading day prior to the date of acquisition.
(2) Represents Merrill Lynch's preferred stock exchanged for Bank of America preferred stock having substantially identical terms and also includes $1.5 billion of convertible preferred stock.
(3) Consists of trade name of $1.2 billion and customer relationship and core deposit intangibles of $4.5 billion. The amortization life is 10 years for the customer relationship and core deposit intangibles, which are primarily amortized on a straight-line basis.
(4) The change in the estimated fair value of long-term borrowings of approximately $400 million had an immaterial impact on net income for the first and second quarters of 2009.
(5) No goodwill is expected to be deductible for federal income tax purposes.

Subsequent to the Bank of America acquisition, certain assets and liabilities were transferred at fair value between Merrill Lynch and Bank of America. These transfers were made in connection with efforts to manage risk in a more effective and efficient manner at the consolidated Bank of America level. The assets and liabilities transferred related to sales and trading activities and included positions associated with the rates and currency, equity and mortgage products trading businesses. During the nine months ended September 30, 2009, these transfers included approximately $47 billion each of assets and liabilities transferred from Merrill Lynch to Bank of America, primarily U.S. matched book repurchase positions and mortgage positions. Approximately $42 billion of assets and $19 billion of liabilities were transferred from Bank of America to Merrill Lynch, primarily equity-related positions. In addition to these transfers, Merrill Lynch also sold one of its U.S. bank subsidiaries to Bank of America during the third quarter of 2009. See Note 21.

Note 3. Segment and Geographic Information

Segment Information

Prior to the acquisition by Bank of America, Merrill Lynch's operations were organized and reported as two operating segments in accordance with the criteria in ASC 280, *Segment Reporting* ("Segment Reporting"): Global Markets and Investment Banking ("GMI") and Global Wealth Management ("GWM").

As a result of the acquisition by Bank of America, Merrill Lynch reevaluated the provisions of Segment Reporting in the first quarter of 2009. Pursuant to Segment Reporting, operating segments represent components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. Based upon how the chief operating decision maker of Merrill Lynch reviews results in terms of allocating resources and assessing performance, it was determined that Merrill Lynch does not contain any identifiable operating segments under Segment Reporting. As a result, the financial information of Merrill Lynch is presented as a single segment.

Geographic Information

Merrill Lynch conducts its business activities through offices in the following five regions:

- United States;
- Europe, Middle East, and Africa ("EMEA");
- Pacific Rim;
- Latin America; and
- Canada.

The principal methodologies used in preparing the geographic information below are as follows:

- Revenues and expenses are generally recorded based on the location of the employee generating the revenue or incurring the expense;
- Pre-tax earnings or loss from continuing operations include the allocation of certain shared expenses among regions; and
- Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated net revenues and pre-tax earnings/(loss) from continuing operations:

(dollars in millions)

	Successor Company		Predecessor Company	
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Three Months Ended September 26, 2008	Nine Months Ended September 26, 2008
Net revenues				
Europe, Middle East, and Africa	$ 1,577	$ 4,642	$ (1,339)	$ 1,061
Pacific Rim	378	1,772	311	1,858
Latin America	207	605	325	1,191
Canada	71	185	22	155
Total Non-U.S.	2,233	7,204	(681)	4,265
United States(1)	2,869	9,585	697	(3,431)
Total net revenues	$ 5,102	$ 16,789	$ 16	$ 834
Pre-tax earnings (loss) from continuing operations(2)				
Europe, Middle East, and Africa	$ 885	$ 2,405	$ (2,410)	$ (2,583)
Pacific Rim	(76)	272	(275)	46
Latin America	76	153	104	473
Canada	39	90	(12)	16
Total Non-U.S.	924	2,920	(2,593)	(2,048)
United States(1)	(415)	(485)	(5,658)	(17,615)
Total pre-tax earnings (loss) from continuing operations(2)	$ 509	$ 2,435	$ (8,251)	$ (19,663)

(1) U.S. results for the three and nine months ended September 30, 2009 included net losses of $2.1 billion and $3.5 billion, respectively, which resulted from the narrowing of Merrill Lynch's credit spreads on the carrying values of certain long-term borrowings. Losses for the three and nine months ended September 26, 2008 were partially offset by gains of $2.8 and $5.0 billion, respectively, that resulted from the widening of Merrill Lynch's credit spreads on the carrying value of certain long-term borrowings, and a $4.3 billion net gain related to the sale of Merrill Lynch's ownership stake in Bloomberg L.P. (see Note 5 of the 2008 Annual Report).

(2) See Note 18 for further information on discontinued operations.

Note 4. Fair Value Disclosures

Fair Value Accounting

Fair Value Hierarchy

In accordance with Fair Value Accounting, Merrill Lynch has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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

Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Merrill Lynch has the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives, U.S. Government securities, and certain other sovereign government obligations).

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

a) Quoted prices for similar assets or liabilities in active markets (examples include restricted stock and U.S. agency securities);

b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including loans, securities and derivatives).

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, certain residential and commercial mortgage-related assets (including loans, securities and derivatives), and long-dated or complex derivatives (including certain equity and currency derivatives and long-dated options on gas and power)).

As required by Fair Value Accounting, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore gains and losses for such assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, the following tables do not take into consideration the offsetting effect of Level 1 and 2 financial instruments entered into by Merrill Lynch that economically hedge certain exposures to the Level 3 positions.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Level 3 gains and losses represent amounts incurred during the period in which the instrument was classified as Level 3. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur. Refer to the recurring and non-recurring sections within this Note for further information on net transfers in and out.

Valuation Techniques

The following outlines the valuation methodologies for the most significant Level 3 positions:

Mortgage related positions

In the most liquid markets, readily available or observable prices are used in valuing mortgage related positions. In less liquid markets, the lack of securitization activity and related pricing necessitates the use of other available information and modeling techniques to approximate the fair value for some of these positions, including whole loans, derivatives, and securities.

Residential and commercial mortgages

For certain residential and commercial mortgages, Merrill Lynch employs a fundamental cash flow valuation approach. This cash flow analysis includes cumulative loss and prepayment assumptions derived from multiple inputs including mortgage remittance reports, property prices and other market data. In addition, independent third party bids received on loans are also considered for valuation purposes.

U.S. ABS CDOs

The valuation for certain of Merrill Lynch's U.S. super senior asset-backed collateralized debt obligations ("ABS CDO") positions is based on cash flow analysis including cumulative loss assumptions. These assumptions are derived from multiple inputs including mortgage remittance reports, housing prices and other market data. Relevant ABX indices are also analyzed as part of the overall valuation process.

Corporate debt, loans and auction rate securities

Certain corporate debt and loans, particularly those related to emerging market, leveraged and distressed companies, and auction rate securities have limited price transparency. For corporate debt and loans, where credit spread pricing is unavailable for a particular company, recent trades as well as proxy credit spreads and trends may be considered in the valuation. For leveraged loans, Merrill Lynch may also refer to certain credit indices. For auction rate securities, the pricing methodology relies upon a number of assumptions including weighted average life, coupon, discount margin and liquidity discounts. In addition, recent trades and issuer tenders may be considered in the valuation.

Private equity and principal investments

For certain private equity and principal investments held, valuation methodologies include publicly traded comparables derived by multiplying a key performance metric (e.g., earnings before interest, taxes, depreciation and amortization) of the portfolio company by the relevant valuation multiple observed for comparable companies, acquisition comparables, entry level multiples and discounted cash flows, and are subject to appropriate discounts for lack of liquidity or marketability. Certain factors which may influence changes to the fair value include, but are not limited to, recapitalizations, subsequent rounds of financing, and offerings in the equity or debt capital markets.

Derivatives and structured notes with significant unobservable correlation

Merrill Lynch enters into a number of derivative contracts and issues structured notes where the performance is wholly or partly dependent on the relative performance of two or more assets. In these transactions, referred to as correlation trades, correlation between the assets can be a significant factor in the valuation. Examples of this type of transaction include: equity or foreign exchange baskets, constant maturity swap spreads (i.e., options where the performance is determined based upon the fluctuations between two benchmark interest rates), and commodity spread trades. Many correlations are available through external pricing services. Where external pricing information is not available, management uses estimates based on historical data, calibrated to more liquid market information. Unobservable credit correlation, such as that influencing the valuation of complex structured CDOs, is calibrated using a proxy approach (e.g., using implied correlation from traded credit index tranches as a proxy for calibrating correlation for a basket of single-name corporate investment grade credits that are infrequently traded).

Derivatives and structured notes with significant unobservable volatility

Merrill Lynch enters into a number of derivative contracts and issues structured notes whose values are dependent on volatilities for which market observable values are not available. These volatilities correspond to options with long-dated expiration dates, strikes significantly in or out of the money, and/or in the case of interest rate underlyings, a large tenor (i.e., an underlying interest rate reference that itself is long-dated). Merrill Lynch uses model-based extrapolation, proxy techniques, or historical analysis to derive the unobservable volatility. These methods are selected based on available market information and are used across all asset classes. Volatility estimation can have a significant impact on valuations.

Recurring Fair Value

The following tables present Merrill Lynch's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 and December 26, 2008, respectively.

	Fair Value Measurements on a Recurring Basis Successor Company as of September 30, 2009				
(dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Netting Adj(1)**	**Total**
Assets:					
Securities segregated for regulatory purposes or deposited with clearing organizations:					
Mortgages, mortgage-backed and asset-backed	$ -	$ 6,045	$ -	$ -	$ 6,045
Corporate debt	-	268	-	-	268
Non-U.S. governments and agencies	1,048	869	-	-	1,917
U.S. government and agencies	369	1,695	-	-	2,064
Total securities segregated for regulatory purposes or deposited with clearing organizations	1,417	8,877	-	-	10,294
Receivables under resale agreements	-	52,436	-	-	52,436
Receivables under securities borrowed transactions	-	993	-	-	993
Trading assets, excluding derivative contracts:					
Equities	16,537	6,644	299	-	23,480
Convertible debentures	-	4,538	-	-	4,538
Mortgages, mortgage-backed and asset-backed	-	2,991	4,024	-	7,015
Corporate debt	-	7,626	8,796	-	16,422
Preferred stock(2)	325	-	6,075	-	6,400
Non-U.S. governments and agencies	18,317	2,456	765	-	21,538
U.S. government and agencies	3,184	448	-	-	3,632
Municipals and money markets	500	4,679	966	-	6,145
Commodities and related contracts	-	693	-	-	693
Total trading assets, excluding derivative contracts	38,863	30,075	20,925	-	89,863
Derivative contracts	5,979	820,966	21,119	(789,874)	58,190
Investment securities trading:					
Equities	-	17	-	-	17
Mortgages, mortgage-backed and asset-backed	-	-	23	-	23
Corporate debt	-	113	40	-	153
Non-U.S. governments and agencies	-	430	247	-	677
Municipals and money markets	345	361	-	-	706
Total investment securities trading	345	921	310	-	1,576
Investment securities available-for-sale:					
Mortgage-backed securities — agency collateralized mortgage obligations	-	9,818	-	-	9,818
Mortgage-backed securities — non-agency MBSs	-	1,559	796	-	2,355
Corporate/agency bonds	-	10	-	-	10
Other taxable securities	-	60	-	-	60
Total investment securities available-for-sale	-	11,447	796	-	12,243
Investment securities non-qualifying	1,945	837	3,262	-	6,044
Total investment securities	2,290	13,205	4,368	-	19,863
Securities received as collateral	14,849	375	-	-	15,224
Loans, notes and mortgages	-	761	4,074	-	4,835

(dollars in millions)	Fair Value Measurements on a Recurring Basis Successor Company as of September 30, 2009 Level 1	Level 2	Level 3	Netting Adj(1)	Total
Liabilities:					
Payables under repurchase agreements	$ -	$ 49,501	$ -	$ -	$ 49,501
Short-term borrowings	-	568	-	-	568
Trading liabilities, excluding derivative contracts:					
Equities	11,469	1,092	-	-	12,561
Convertible debentures	-	154	-	-	154
Corporate debt	-	1,622	-	-	1,622
Non-U.S. governments and agencies	18,990	525	391	-	19,906
U.S. government and agencies	1,391	173	-	-	1,564
Municipals, money markets and other	407	560	-		967
Total trading liabilities, excluding derivative contracts	32,257	4,126	391	-	36,774
Derivative contracts	5,497	823,251	15,316	(802,624)	41,440
Obligation to return securities received as collateral	14,849	375	-	-	15,224
Other payables — interest and other	-	46	241	-	287
Long-term borrowings	-	43,769	5,078	-	48,847

(1) Represents counterparty and cash collateral netting.
(2) Primarily represents auction rate securities.

Level 3 derivative contracts (assets) primarily relate to derivative positions on U.S. ABS CDOs and other mortgages of $5.7 billion, $9.6 billion of other credit derivatives that incorporate unobservable correlation, and $5.8 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have an unobservable model valuation input(s).

Level 3 non-qualifying investment securities primarily relate to private equity and principal investment positions.

Level 3 loans, notes and mortgages primarily relate to mortgage and corporate loans.

Level 3 derivative contracts (liabilities) primarily relate to derivative positions on U.S. ABS CDOs and other mortgages of $4.0 billion, $6.3 billion of other credit derivatives that incorporate unobservable correlation, and $5.0 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable correlation.

Level 3 long-term borrowings primarily relate to equity-linked structured notes of $4.1 billion that are long-dated and/or have unobservable correlation.

(dollars in millions)

	Fair Value Measurements on a Recurring Basis Predecessor Company as of December 26, 2008				
	Level 1	Level 2	Level 3	Netting Adj(1)	Total
Assets:					
Securities segregated for regulatory purposes or deposited with clearing organizations	$ 1,421	$ 10,156	$ -	$ -	$11,577
Receivables under resale agreements	-	62,146	-	-	62,146
Receivables under securities borrowed transactions	-	853	-	-	853
Trading assets, excluding derivative contracts	30,106	33,902	22,120	-	86,128
Derivative contracts	8,538	1,239,225	37,325	(1,195,611)	89,477
Investment securities	2,280	29,254	3,279	-	34,813
Securities received as collateral	9,430	2,228	-	-	11,658
Loans, notes and mortgages	-	690	359	-	1,049
Other assets(2)	-	8,046	-	-	8,046
Liabilities:					
Payables under repurchase agreements	-	32,910	-	-	32,910
Short-term borrowings	-	3,387	-	-	3,387
Trading liabilities, excluding derivative contracts	14,098	4,010	-	-	18,108
Derivative contracts	8,438	1,254,158	35,018	(1,226,251)	71,363
Obligation to return securities received as collateral	9,430	2,228	-	-	11,658
Other payables — interest and other(2)	10	741	-	(79)	672
Long-term borrowings(3)	-	41,575	7,480	-	49,055

(1) Represents counterparty and cash collateral netting.
(2) Primarily represents certain derivatives used for non-trading purposes.
(3) Includes bifurcated embedded derivatives carried at fair value.

Level 3 trading assets primarily include U.S. ABS CDOs of $9.4 billion, corporate bonds and loans of $5.0 billion and auction rate securities of $3.9 billion.

Level 3 derivative contracts (assets) primarily relate to derivative positions on U.S. ABS CDOs of $5.8 billion, $23.6 billion of other credit derivatives that incorporate unobservable correlation, and $7.9 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable correlation.

Level 3 investment securities primarily relate to certain private equity and principal investment positions of $2.6 billion.

Level 3 derivative contracts (liabilities) primarily relate to derivative positions on U.S. ABS CDOs of $6.1 billion, $22.3 billion of other credit derivatives that incorporate unobservable correlation, and $4.8 billion of equity derivatives that are long-dated and/or have unobservable correlation.

Level 3 long-term borrowings primarily relate to structured notes with embedded equity derivatives of $6.3 billion that are long-dated and/or have unobservable correlation.

(dollars in millions)

Level 3 Financial Assets and Liabilities
Successor Company
Three Months Ended September 30, 2009

	Beginning Balance	Total Realized and Unrealized Gains or (Losses) included in Income: Principal Transactions	Other Revenue	Interest	Total Realized and Unrealized Gains or (Losses) included in Income	Unrealized Losses to OCI	Purchases, Issuances and Settlements	Transfers in (out)	Ending Balance
Assets:									
Trading assets, excluding derivative contracts:									
Equities	$ 330	$ (36)	$ -	$ -	$ (36)	$ -	$ 3	$ 2	$ 299
Mortgages, mortgage-backed and asset-backed	7,176	17	-	-	17	-	(3,177)	8	4,024
Corporate debt	4,004	542	-	-	542	-	3,696	554	8,796
Preferred stock	6,591	37	-	-	37	-	(553)	-	6,075
Non-U.S. governments and agencies	691	61	-	-	61	-	-	13	765
Municipals and money markets	931	6	-	-	6	-	29	-	966
Total trading assets, excluding derivative contracts	19,723	627	-	-	627	-	(2)	577	20,925
Derivative contracts, net	6,248	(1,356)	-	-	(1,356)	-	(136)	1,047	5,803
Investment securities trading:									-
Mortgages, mortgage-backed and asset-backed	38	3	-	-	3	-	(18)	-	23
Corporate debt	-	-	-	-	-	-	-	40	40
Non-U.S. governments and agencies	174	-	-	-	-	-	-	73	247
Total investment securities trading	212	3	-	-	3	-	(18)	113	310
Investment securities available-for-sale:									
Mortgage-backed securities — non-agency MBSs	3,227	-	(158)	-	(158)	(602)	(1,691)	20	796
Total investment securities available-for-sale	3,227	-	(158)	-	(158)	(602)	(1,691)	20	796
Investment securities non-qualifying	2,832	-	420	-	420	-	(37)	47	3,262
Total investment securities	6,271	3	262	-	265	(602)	(1,746)	180	4,368
Loans, notes and mortgages	6,085	-	(59)	53	(6)	-	(2,052)	47	4,074
Liabilities:									
Trading liabilities, excluding derivative contracts:									
Non-U.S. governments and agencies	352	(39)	-	-	(39)	-	-	-	391
Total trading liabilities, excluding derivative contracts	352	(39)	-	-	(39)	-	-	-	391
Other liabilities — interest and other	628	-	47	-	47	-	(340)	-	241
Long-term borrowings	5,289	(468)	(93)	-	(561)	-	(371)	(401)	5,078

Net losses in principal transactions related to net derivative contracts were primarily due to the narrowing of credit spreads, primarily related to monoline hedges of mortgage-related positions.

Decreases in purchases, issuances and settlements related to mortgages, mortgage-backed and asset-backed securities are primarily due to the reclassification of certain positions to corporate debt during the third quarter of 2009. Increases in purchases, issuances and settlements related to corporate debt primarily relates to the reclassification of certain positions from mortgages, mortgage-backed and asset-backed securities during the third quarter of 2009 in addition to the recording of assets for which the exposure was previously recognized as a derivative contract (total return swap). Decreases in purchases, issuances and settlements related to available-for-sale mortgage-backed securities — non-agency primarily relates to the sale of certain positions. Decreases in purchases, issuances and settlements related to loans, notes and mortgages were due to the sale of certain held for investment loans associated with the sale of Merrill Lynch Bank USA (“MLBUSA”) to Bank of America during the third quarter of 2009. See Note 21.

Net transfers in for net derivative contracts is primarily due to an increase in the impact of credit valuation adjustments in relation to the overall pricing of certain corporate bespoke CDO positions.

(dollars in millions)

Level 3 Financial Assets and Liabilities
Successor Company
Nine Months Ended September 30, 2009

	Beginning Balance	Total Realized and Unrealized Gains or (Losses) included in Income: Principal Transactions	Other Revenue	Interest	Total Realized and Unrealized Gains or (Losses) included in Income	Unrealized Gains to OCI	Purchases, Issuances and Settlements	Transfers in (out)	Ending Balance
Assets:									
Trading assets, excluding derivative contracts:									
Equities	$ 231	$ (58)	$ -	$ -	$ (58)	$ -	$ 175	$ (49)	$ 299
Mortgages, mortgage-backed and asset-backed	7,568	(315)	-	-	(315)	-	(809)	(2,420)	4,024
Corporate debt	10,149	312	-	-	312	-	2,209	(3,874)	8,796
Preferred stock	3,344	(153)	-	-	(153)	-	2,779	105	6,075
Non-U.S. governments and agencies	30	125	-	-	125	-	10	600	765
Municipals and money markets	798	6	-	-	6	-	175	(13)	966
Total trading assets, excluding derivative contracts	22,120	(83)	-	-	(83)	-	4,539	(5,651)	20,925
Derivative contracts, net	2,307	(1,263)	-	-	(1,263)	-	(56)	4,815	5,803
Investment securities trading:									
Mortgages, mortgage-backed and asset-backed	22	(7)	-	-	(7)	-	(22)	30	23
Corporate debt	146	(9)	-	-	(9)	-	-	(97)	40
Non-U.S. governments and agencies	-	-	-	-	-	-	-	247	247
Total investment securities trading	168	(16)	-	-	(16)	-	(22)	180	310
Investment securities available-for-sale:									
Mortgage-backed securities -non- agency MBSs	350	-	(432)	178	(254)	709	(2,201)	2,192	796
Total investment securities available-for-sale	350	-	(432)	178	(254)	709	(2,201)	2,192	796
Investment securities non-qualifying	2,761	-	568	-	568	-	(60)	(7)	3,262
Total investment securities	3,279	(16)	136	178	298	709	(2,283)	2,365	4,368
Loans, notes and mortgages	359	-	450	53	503	-	(2,646)	5,858	4,074
Liabilities:									
Trading liabilities, excluding derivative contracts:									
Non-U.S. governments and agencies	-	(43)	-	-	(43)	-	-	348	391
Total trading liabilities, excluding derivative contracts	-	(43)	-	-	(43)	-	-	348	391
Other liabilities — interest and other	-	-	717	-	717	-	(340)	1,298	241
Long-term borrowings	7,480	(2,032)	(133)	-	(2,165)	-	(338)	(4,229)	5,078

Net losses in principal transactions related to net derivative contracts were primarily due to the narrowing of credit spreads during the third quarter of 2009, primarily related to monoline hedges of mortgage-related positions. Net losses in principal transactions related to long-term borrowings were primarily due to the narrowing of Merrill Lynch's credit spreads on certain equity linked notes.

Increases in purchases, issuances and settlements related to corporate debt primarily relates to the reclassification of certain positions from mortgages, mortgage-backed and asset-backed securities during the third quarter of 2009 in addition to the recording of assets for which the exposure was previously recognized as a derivative contract (total return swap). Increases in purchases, issuances and settlements of preferred stock were primarily attributable to the purchase of auction rate securities in the first quarter of 2009. Decreases in purchases, issuances and settlements related to available-for-sale mortgage-backed securities — non agency primarily relates to the sale of certain positions. Decreases in purchases, issuances and settlements related to loans, notes and mortgages were due to the sale of certain held for investment loans associated with the sale of MLBUSA to Bank of America during the third quarter of 2009. See Note 21.

Net transfers out for mortgages, mortgage-backed and asset-backed securities primarily relates to increased price transparency (e.g. trading activity and external vendor quotes) for certain

U.S. ABS CDO underlying collateral types. Net transfers out for corporate debt primarily relates to the reclassification in the first quarter of 2009 of certain loans from trading assets to loans, notes and mortgages held for investment, which are not measured at fair value. Net transfers in for net derivative contracts primarily relates to decreased price observability for certain underlying U.S. ABS CDOs and other mortgage positions. Net transfers in for available-for-sale mortgage-backed securities — non agency is the result of changes in price transparency. Net transfers in for loans, notes and mortgages relates to the fair value option election by Merrill Lynch for certain mortgage, corporate and leveraged loans as a result of its acquisition by Bank of America. Net transfers in for other payables — interest and other relates to the fair value option election by Merrill Lynch for certain loan commitments as a result of its acquisition by Bank of America. Net transfers out for long-term borrowings were primarily due to decreases in the significance of unobservable pricing inputs for certain equity linked notes.

(dollars in millions)

	Level 3 Financial Assets and Liabilities Predecessor Company Three Months Ended September 26, 2008							
		Total Realized and Unrealized Gains or (Losses) included in Income						
	Beginning Balance	Principal Transactions	Other Revenue	Interest	Total Realized and Unrealized Gains or (Losses) included in Income	Purchases, Issuances and Settlements	Transfers in (out)	Ending Balance
Assets:								
Securities segregated for regulatory purposes or deposited with clearing organizations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Trading assets	20,190	303	-	5	308	(3,374)	699	17,823
Derivative contracts, net	(1,292)	(8,792)	-	-	(8,792)	13,348	436	3,700
Investment securities	4,589	(147)	(304)	-	(451)	61	3	4,202
Loans, notes and mortgages	172	(6)	(18)	1	(23)	557	15	721
Liabilities:								
Trading liabilities	-	1	-	-	1	-	29	28
Short-term borrowings	34	-	-	-	-	(19)	-	15
Long-term borrowings	12,749	3,788	271	-	4,059	(30)	2,875	11,535

(dollars in millions)

	Level 3 Financial Assets and Liabilities Predecessor Company Nine Months Ended September 26, 2008							
		Total Realized and Unrealized Gains or (Losses) included in Income						
	Beginning Balance	Principal Transactions	Other Revenue	Interest	Total Realized and Unrealized Gains or (Losses) included in Income	Purchases, Issuances and Settlements	Transfers in (out)	Ending Balance
Assets:								
Securities segregated for regulatory purposes or deposited with clearing organizations	$ 84	$ -	$ -	$ 1	$ 1	$ (79)	$ (6)	$ -
Trading assets	9,773	(2,744)	-	86	(2,658)	7,025	3,683	17,823
Derivative contracts, net	(9,069)	(9,849)	-	5	(9,844)	25,467	(2,854)	3,700
Investment securities	5,491	(895)	(291)	-	(1,186)	159	(262)	4,202
Loans, notes and mortgages	63	(6)	(19)	(2)	(27)	676	9	721
Liabilities:								
Trading liabilities	-	1	-	-	1	-	29	28
Short-term borrowings	-	-	-	-	-	15	-	15
Long-term borrowings	4,765	2,171	285	-	2,456	1,435	7,791	11,535

The following tables provide the portion of gains or losses included in income for the three and nine months ended September 30, 2009 and September 26, 2008 attributable to unrealized gains or losses relating to those Level 3 assets and liabilities held at September 30, 2009 and September 26, 2008, respectively.

(dollars in millions)

	Unrealized Gains or (Losses) for Level 3 Assets and Liabilities Still Held Successor Company							
	Three Months Ended Sept. 30, 2009				Nine Months Ended Sept. 30, 2009			
	Principal Transactions	Other Revenue	Interest	Total	Principal Transactions	Other Revenue	Interest	Total
Assets:								
Trading assets, excluding derivative contracts:								
Equities	$ (36)	$ -	$ -	$ (36)	$ (58)	$ -	$ -	$ (58)
Mortgages, mortgage-backed and asset-backed	99	-	-	99	(238)	-	-	(238)
Corporate debt	409	-	-	409	162	-	-	162
Preferred stock	37	-	-	37	(153)	-	-	(153)
Non-U.S. governments and agencies	61	-	-	61	125	-	-	125
Municipals and money markets	6	-	-	6	7	-	-	7
Total trading assets, excluding derivative contracts	576	-	-	576	(155)	-	-	(155)
Derivative contracts, net	(1,365)	-	-	(1,365)	(1,281)	-	-	(1,281)
Investment securities trading:								
Mortgages, mortgage-backed and asset-backed	2	-	-	2	(9)	-	-	(9)
Corporate debt	-	-	-	-	(9)	-	-	(9)
Non-U.S. governments and agencies	-	-	-	-	-	-	-	-
Total investment securities trading	2	-	-	2	(18)	-	-	(18)
Investment securities available-for-sale:								
Mortgage-backed securities — non-agency MBSs	-	(177)	-	(177)	-	(241)	178	(63)
Total investment securities available-for-sale	-	(177)	-	(177)	-	(241)	178	(63)
Investment securities non-qualifying	-	438	-	438	-	586	-	586
Total investment securities	2	261	-	263	(18)	345	178	505
Loans, notes and mortgages	-	46	-	46	-	555	-	555
Liabilities:								
Trading liabilities, excluding derivative contracts:								
Non-U.S. governments and agencies	(39)	-	-	(39)	(43)	-	-	(43)
Total trading liabilities, excluding derivative contracts	(39)	-	-	(39)	(43)	-	-	(43)
Other liabilities — interest and other	-	47	-	47	-	717	-	717
Long-term borrowings	(484)	(93)	-	(577)	(2,266)	(133)	-	(2,399)

Net losses in principal transactions related to net derivative contracts were primarily due to the narrowing of credit spreads, primarily related to monoline hedges of mortgage-related positions. Net losses in principal transactions related to long-term borrowings were primarily due to the narrowing of Merrill Lynch's credit spreads on certain equity linked notes.

(dollars in millions)

	Unrealized Gains or (Losses) for Level 3 Assets and Liabilities Still Held Predecessor Company							
	Three Months Ended September 26, 2008				Nine Months Ended September 26, 2008			
	Principal Transactions	Other Revenue	Interest	Total	Principal Transactions	Other Revenue	Interest	Total
Assets:								
Securities segregated for regulatory purposes or deposited with clearing organizations	$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1
Trading assets	293	-	(29)	264	(2,753)	-	74	(2,679)
Derivative contracts, net	(3,979)	-	-	(3,979)	2,611	-	5	2,616
Investment securities	(102)	(304)	-	(406)	(822)	(295)	-	(1,117)
Loans, notes, and mortgages	(6)	(15)	1	(20)	(6)	(9)	(2)	(17)
Liabilities:								
Long-term borrowings	3,811	271	-	4,082	2,236	285	-	2,521

Non-recurring Fair Value

Certain assets and liabilities are measured at fair value on a non-recurring basis and are not included in the tables above. These assets and liabilities primarily include loans and loan commitments held for sale and reported at lower of cost or fair value and loans held for investment that were initially measured at cost and have been written down to fair value as a result of an impairment. The following table shows the fair value hierarchy for those assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2009 and December 26, 2008, respectively.

(dollars in millions)

	Non-Recurring Basis Successor Company as of September 30, 2009				Gains/(Losses) Three Months Ended Sept. 30, 2009	Gains/(Losses) Nine Months Ended Sept. 30, 2009
	Level 1	Level 2	Level 3	Total		
Assets:						
Loans, notes and mortgages	$ -	$ 941	$2,865	$3,806	$ 111	$ 90
Other assets	-	-	135	135	(61)	(121)
Liabilities:						
Other payables — interest and other	-	-	56	56	(1)	20

(dollars in millions)

	Non-Recurring Basis Predecessor Company as of December 26, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Loans, notes, and mortgages	$ -	$4,386	$6,727	$11,113
Liabilities:				
Other payables — interest and other	-	1,258	67	1,325

Loans, notes, and mortgages includes held for sale loans that are carried at the lower of cost or fair value and for which the fair value was below the cost basis at September 30, 2009 and December 26, 2008, respectively. It also includes certain impaired held for investment loans where an allowance for loan losses has been calculated based upon the fair value of the loans or collateral. Level 3 assets as of

September 30, 2009 primarily relate to residential and commercial real estate loans that are classified as held for sale where there continues to be significant illiquidity in the loan trading and securitization markets. Level 3 assets as of December 26, 2008 primarily related to U.K. and other European residential and commercial real estate loans that are classified as held for sale of $4.6 billion.

Other payables — interest and other include amounts recorded for loan commitments at lower of cost or fair value where the funded loan will be held for sale.

Fair Value Option Election

The fair value option election allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The fair value option election is permitted on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. As discussed above, certain of Merrill Lynch's financial instruments are required to be accounted for at fair value under Investment Accounting and Derivatives Accounting, as well as industry level guidance. For certain financial instruments that are not accounted for at fair value under other applicable accounting guidance, the fair value option election has been made.

The following tables provide information about where in the Condensed Consolidated Statements of Earnings/(Loss) changes in fair values of assets and liabilities, for which the fair value option election has been made, are included for the three and nine months ended September 30, 2009 and September 26, 2008, respectively.

(dollars in millions)

	Successor Company					
	Changes in Fair Value for Items Measured at Fair Value Pursuant to the Fair Value Option Election					
	For the Three Months Ended September 30, 2009			For the Nine Months Ended September 30, 2009		
	Gains/ (losses) Principal Transactions	Gains/ (losses) Other Revenues	Total Changes in Fair Value	Gains/ (losses) Principal Transactions	Gains/ (losses) Other Revenues	Total Changes in Fair Value
Assets:						
Receivables under resale agreements	$ (9)	$ -	$ (9)	$ (330)	$ -	$ (330)
Investment securities	-	(13)	(13)	379	(148)	231
Loans, notes and mortgages	-	(37)	(37)	-	601	601
Liabilities:						
Payables under repurchase agreements	2	-	2	186	-	186
Short-term borrowings	20	-	20	(226)	6	(220)
Other payables — interest and other	-	48	48	-	729	729
Long-term borrowings(1)	(3,438)	11	(3,427)	(7,195)	(29)	(7,224)

(1) Other revenues primarily represent fair value changes on non-recourse long-term borrowings issued by consolidated SPEs.

(dollars in millions)

	Predecessor Company					
	Changes in Fair Value for Items Measured at Fair Value Pursuant to the Fair Value Option Election					
	For the Three Months Ended September 26, 2008			For the Nine Months Ended September 26, 2008		
	Gains/ (losses) Principal Transactions	Gains/ (losses) Other Revenues	Total Changes in Fair Value	Gains/ (losses) Principal Transactions	Gains/ (losses) Other Revenues	Total Changes in Fair Value
Assets:						
Receivables under resale agreements	$ 139	$ -	$ 139	$ (70)	$ -	$ (70)
Investment securities	(588)	(212)	(800)	(671)	(251)	(922)
Loans, notes and mortgages	(40)	-	(40)	(37)	12	(25)
Liabilities:						
Payables under repurchase agreements	(100)	-	(100)	(52)	-	(52)
Short-term borrowings	(367)	-	(367)	(185)	-	(185)
Long-term borrowings(1)	8,632	846	9,478	12,578	1,715	14,293

(1) Other revenues primarily represent fair value changes on non-recourse long-term borrowings issued by consolidated SPEs.

The following describes the rationale for electing to account for certain financial assets and liabilities at fair value, as well as the impact of instrument-specific credit risk on the fair value.

Resale and repurchase agreements:

Merrill Lynch made the fair value option election for certain resale and repurchase agreements. The fair value option election was made based on the tenor of the resale and repurchase agreements, which reflects the magnitude of the interest rate risk. The majority of resale and repurchase agreements collateralized by U.S. government securities were excluded from the fair value option election as these contracts are generally short-dated and therefore the interest rate risk is not considered significant. Amounts loaned under resale agreements require collateral with a market value equal to or in excess of the principal amount loaned resulting in minimal credit risk for such transactions.

Loans, notes and mortgages and loan commitments:

Merrill Lynch made the fair value option election for automobile and certain corporate loans because the loans are risk managed on a fair value basis. Upon the acquisition of Merrill Lynch by Bank of America, Merrill Lynch also made the fair value option election for certain mortgage, corporate, and leveraged loans and loan commitments. The change in the fair value of loans, notes and mortgages and loan commitments for which the fair value option election was made that was attributable to changes in borrower-specific credit risk were gains of $70 million for the three months ended September 30, 2009 and gains of $320 million for the nine months ended September 30, 2009. The change in the fair value of loans, notes and mortgages for which the fair value option election was made that was attributable to changes in borrower-specific credit risk was not material for the three and nine months ended September 26, 2008.

For those loans, notes and mortgages for which the fair value option election has been made, the aggregate fair value of loans that are 90 days or more past due and in non-accrual status is not material to the Condensed Consolidated Financial Statements.

Short-term and long-term borrowings:

Merrill Lynch made the fair value option election for certain short-term and long-term borrowings that are risk managed on a fair value basis, including structured notes, and for which hedge accounting under Derivatives Accounting had been difficult to obtain. The majority of the fair value changes on long-term borrowings is from structured notes with coupon or repayment terms that are linked to the performance of debt and equity securities, indices, currencies or commodities. Excluding losses for the three and nine months ended September 30, 2009 and gains for the three and nine months ended September 26, 2008 related to changes in Merrill Lynch's credit spreads, the majority of (losses)/gains for the respective periods are offset by gains/(losses) on derivatives that economically hedge these borrowings and that are accounted for at fair value under Derivatives Accounting. The changes in the fair value of liabilities for which the fair value option election was made that were attributable to changes in Merrill Lynch credit spreads were losses of approximately $2.1 billion and $3.5 billion for the three and nine months ended September 30, 2009 and gains of $2.8 billion and $5.0 billion for the three and nine months ended September 26, 2008. Changes in Merrill Lynch specific credit risk are derived by isolating fair value changes due to changes in Merrill Lynch's credit spreads as observed in the secondary cash market.

The fair value option election was also made for certain non-recourse long-term borrowings issued by consolidated SPEs. The fair value of these long-term borrowings is unaffected by changes in Merrill Lynch's creditworthiness.

The following tables present the difference between fair values and the aggregate contractual principal amounts of receivables under resale agreements, loans, notes, and mortgages and long-term borrowings for which the fair value option election has been made as of September 30, 2009 and December 26, 2008, respectively.

(dollars in millions)

	Successor Company		
	Fair Value at September 30, 2009	**Principal Amount Due Upon Maturity**	**Difference**
Assets:			
Receivables under resale agreements	$ 52,436	$ 52,083	$ 353
Loans, notes and mortgages	4,765	9,127	(4,362)
Liabilities:			
Long-term borrowings(1)	48,847	55,604	(6,757)

(1) The majority of the difference relates to the impact of the widening of Merrill Lynch's credit spreads, the change in fair value of non-recourse debt, and zero coupon notes issued at a substantial discount from the principal amount.

(dollars in millions)

	Predecessor Company		
	Fair Value at December 26, 2008	Principal Amount Due Upon Maturity	Difference
Assets:			
Receivables under resale agreements	$ 62,146	$ 61,466	$ 680
Receivables under securities borrowed transactions	853	853	-
Loans, notes and mortgages	979	1,326	(347)
Liabilities:			
Long-term borrowings(1)	49,521	62,244	(12,723)

(1) *The majority of the difference relates to the impact of the widening of Merrill Lynch's credit spreads, the change in fair value of non-recourse debt, and zero coupon notes issued at a substantial discount from the principal amount.*

Concentration of risk to the mortgage markets

At September 30, 2009, Merrill Lynch had sizeable exposure to the mortgage market through securities, derivatives, loans and loan commitments. This exposure primarily related to:

- Net exposures of $33.3 billion in U.S. Prime residential mortgage-related positions and $2.6 billion in other residential mortgage-related positions, excluding Merrill Lynch's investment securities portfolio; and
- Net exposure of $5.9 billion in commercial real estate related positions, excluding First Republic, and $5.3 billion in First Republic commercial real estate related positions.

In September 2008, Merrill Lynch sold $30.6 billion gross notional amount of U.S. super senior ABS CDOs (the "Portfolio") to an affiliate of Lone Star Funds for a sales price of $6.7 billion. In connection with this sale, Merrill Lynch provided financing to the purchaser for approximately 75% of the purchase price. The recourse on this loan is limited to the assets of the purchaser, which consist solely of the Portfolio. All cash flows and distributions from the Portfolio (including sale proceeds) will be applied in accordance with a specified priority of payments. The loan had a carrying value of $4.5 billion at September 30, 2009. Events of default under the loan are customary events of default, including failure to pay interest when due and failure to pay principal at maturity.

Valuation of these exposures will continue to be impacted by external market factors including default rates, rating agency actions, and the prices at which observable market transactions occur. Merrill Lynch's ability to mitigate its risk by selling or hedging its exposures is also limited by the market environment.

Concentration of risk to financial guarantors

To economically hedge certain ABS CDO and U.S. sub-prime mortgage positions, Merrill Lynch entered into credit derivatives with various counterparties, including monolines and other financial guarantors. At September 30, 2009, the carrying value of our hedges with financial guarantors related to U.S. super senior ABS CDOs was $1.0 billion.

In addition to hedges with financial guarantors on U.S. super senior ABS CDOs, we also have hedges on certain long exposures related to corporate Collateralized Debt Obligations ("CDOs"), Collateralized Loan Obligations ("CLOs"), Residential Mortgage-Backed Securities ("RMBS") and Commercial Mortgage-Backed Securities ("CMBS"). At September 30, 2009, the carrying value of our hedges with financial guarantors related to these types of exposures was $4.2 billion.

Note 5. Fair Value of Financial Instruments

Disclosure is required on an interim and annual basis of the estimated fair value of financial instruments, including those financial instruments for which Merrill Lynch did not make the fair value option election. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of Merrill Lynch.

Disclosure of the fair value of lease financing arrangements and nonfinancial instruments, including goodwill and intangible assets, is not required.

The following disclosures represent financial instruments for which the ending balances at September 30, 2009 are not carried at fair value in their entirety on Merrill Lynch's Condensed Consolidated Balance Sheets.

Short-term Financial Instruments

The carrying value of short-term financial instruments, including cash and cash equivalents, certain securities financing transactions, customer and broker-dealer receivables and payables, and commercial paper and other short-term borrowings, approximates the fair value of these instruments. These financial instruments generally expose Merrill Lynch to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market. Merrill Lynch applied the fair value option election for certain securities financing transactions.

Loans, Notes and Mortgages

Fair values were generally determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Merrill Lynch estimates the cash flows expected to be collected using internal credit risk, interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment speeds for the life of the loan. Merrill Lynch made the fair value option election for certain loans and loan commitments. See Note 4 for additional information on loans for which Merrill Lynch made the fair value option election.

Deposits

The fair value for certain deposits with stated maturities was calculated by discounting contractual cash flows using current market rates for instruments with similar maturities. For deposits with no stated maturities, the carrying amount was considered to approximate fair value and does not take into account the significant value of the cost advantage and stability of Merrill Lynch's long-term relationships with depositors.

Long-term Borrowings

Merrill Lynch uses quoted market prices for its long-term borrowings when available. When quoted market prices are not available, fair value is estimated based on current market interest rates and credit spreads for debt with similar maturities. Merrill Lynch made the fair value option election for certain long-term borrowings, including structured notes, for which hedge accounting had been difficult to obtain. See Note 4 for additional information.

The book and fair values of certain financial instruments at September 30, 2009 were as follows:

(dollars in millions)

	Successor Company September 30, 2009	
	Book Value	**Fair Value**
Financial assets		
Loans, notes and mortgages(1)	$ 67,729	$ 66,301
Financial liabilities		
Deposits	47,819	47,872
Long-term borrowings(2)	164,990	171,061

(1) Loans are presented net of allowance for loan losses and exclude leases. The fair value is determined based on the present value of future cash flows using credit spreads or risk adjusted rates of return that a buyer of the portfolio would require. Merrill Lynch expects to collect the principal cash flows underlying the book values as well as the related interest cash flows.

(2) Includes junior subordinated notes (related to trust preferred securities).

Note 6. Derivatives

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

Derivatives Accounting establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. Derivatives Accounting requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The fair value of all derivatives is recorded on a net-by-counterparty basis on the Condensed Consolidated Balance Sheets where management believes a legal right of setoff exists under an enforceable netting agreement. All derivatives, including bifurcated embedded derivatives within structured notes, are reported on the Condensed Consolidated Balance Sheets as trading assets and liabilities.

The accounting for changes in fair value of a derivative instrument depends on its intended use and if it is designated and qualifies as an accounting hedging instrument under Derivatives Accounting.

Trading derivatives

Merrill Lynch enters into derivatives to facilitate client transactions, for proprietary trading and financing purposes, and to manage risk exposures arising from trading assets and liabilities. Changes in fair value for these derivatives are reported in current period earnings as principal transactions revenues.

Non-trading derivatives

Merrill Lynch also enters into derivatives in order to manage risk exposures arising from assets and liabilities not carried at fair value as follows:

1. Merrill Lynch's debt was issued in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch enters into derivative transactions to hedge these liabilities. Derivatives used most frequently include swap agreements that:
   - Convert fixed-rate interest payments into variable payments;
   - Change the underlying interest rate basis or reset frequency; and
   - Change the settlement currency of a debt instrument.

Changes in the fair value of interest rate derivatives are reported in interest expense when hedge accounting is applied; otherwise changes in fair value are reported in other revenue. Changes in the fair value of foreign currency derivatives are reported in other revenue.

2. Merrill Lynch uses foreign-exchange forward contracts, foreign-exchange options, and currency swaps to hedge its net investments in foreign operations, as well as other foreign currency exposures (e.g., non-U.S. dollar denominated debt and expenses). These derivatives are used to mitigate the impact of changes in exchange rates. Changes in the fair value of these derivatives are reported in other revenue, unless net investment hedge accounting is applied.
3. Merrill Lynch enters into futures, swaps, options and forward contracts to manage the price risk of certain commodity inventory and forecasted commodity purchases and sales. Changes in fair value of these derivatives are reported in principal transaction revenues, unless cash flow hedge accounting is applied.
4. Merrill Lynch enters into credit default swaps to manage the credit risk on certain loans that are not part of trading activities. Changes in the fair value of these derivatives are reported in other revenue.

Derivatives that qualify as accounting hedges under the guidance in Derivatives Accounting are designated as one of the following:

1. A hedge of the fair value of a recognized asset or liability ("fair value hedge"). Changes in the fair value of derivatives that are designated and qualify as fair value hedges of interest rate risk, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current period earnings as interest expense. Changes in the fair value of derivatives that are designated and qualify as fair value hedges of commodity price risk, along with the gain or loss on the hedged asset that is attributable to the hedged risk, are recorded in current period earnings in principal transactions.

2. A hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). Changes in the fair value of derivatives that are designated and qualify as effective cash flow hedges are recorded in OCI until earnings are affected by the variability of cash flows of the hedged asset or liability. For commodity hedges, the amount is reclassified out of OCI and recorded in principal transactions when the forecasted purchase or sale of the commodity occurs.
3. A hedge of a net investment in a foreign operation. Changes in the fair value of derivatives that are designated and qualify as hedges of a net investment in a foreign operation are recorded in the foreign currency translation adjustment account within OCI. Changes in the fair value of the hedge instruments that are associated with the difference between the spot rate and the contracted forward rate are recorded in current period earnings in other revenues.

Merrill Lynch formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives are highly effective in offsetting changes in fair value or cash flows of hedged items. Merrill Lynch uses regression analysis at the hedge's inception and for each reporting period thereafter to assess whether the derivative used in its hedging transaction is expected to be and has been highly effective in offsetting changes in the fair value or cash flows of the hedged item. When assessing hedge effectiveness on interest rate hedges and fair value hedges of commodity price risk, there are no attributes of the derivatives used to hedge the fair value exposure that are excluded from the assessment. For cash flow hedges of commodity price risk, the difference between the spot rate and the contracted forward rate which represents the time value of money is excluded from the assessment of hedge effectiveness and is recorded in principal transactions revenues. When it is determined that a derivative is not highly effective as a hedge, Merrill Lynch discontinues hedge accounting.

Hedge accounting activity for the three and nine months ended September 30, 2009 included the following:

Fair value hedges of interest rate risk on long-term borrowings

(dollars in millions)

	Account location	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
Gain/(loss) recognized in income on the derivative	Interest expense	$ 944	$ (1,581)
Gain/(loss) recognized in income on the long-term borrowing	Interest expense	$ (1,156)	$ 981
Gain/(loss) recognized in income due to hedge ineffectiveness	Interest expense	$ (212)	$ (600)
Carrying value of hedging derivatives as of September 30, 2009			
	Trading assets	$ 4,678	$ 4,678
	Trading liabilities	$ 60	$ 60
Notional amount of hedging derivatives as of September 30, 2009			
in an asset position		$ 59,845	$ 59,845
in a liability position		$ 2,480	$ 2,480

Fair value hedges of commodity price risk on commodity inventory

(dollars in millions)

	Account location	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Gain/(loss) recognized in income on the derivative	Principal transactions	$ 3	$ 63
Gain/(loss) recognized in income on the commodity inventory	Principal transactions	$ (2)	$ (59)
Gain/(loss) recognized in income due to hedge ineffectiveness	Principal transactions	$ 1	$ 4
Carrying value of hedging derivatives as of September 30, 2009			
	Trading assets	$ 57	$ 57
	Trading liabilities	$ 6	$ 6
Notional amount of hedging derivatives as of September 30, 2009			
in an asset position		$ 163	$ 163
in a liability position		$ 8	$ 8

Cash flow hedges of commodity price risk on forecasted purchases and sales

(dollars in millions)

	Account location	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Gain/(loss) on the derivative deferred in equity	Accumulated other comprehensive income	$ (4)	$ 64
Gain/(loss) reclassified into earnings in the current period	Principal transactions	$ 53	$ 59
Gain/(loss) recognized in income due to hedge ineffectiveness	Principal transactions	$ (1)	$ (1)
Amount that is expected to be reclassified into earnings in the next 12 months as of September 30, 2009	Principal transactions	$ 5	$ 5
Carrying value of hedging derivatives as of September 30, 2009			
	Trading assets	$ 14	$ 14
	Trading liabilities	$ 8	$ 8
Notional amount of hedging derivatives as of September 30, 2009			
in an asset position		$ 101	$ 101
in a liability position		$ 67	$ 67

Net investment hedges of foreign operations

(dollars in millions)

	Account location	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Gain/(loss) on the derivative and non-derivative hedges deferred in equity	Accumulated other comprehensive income	$ (421)	$ (1,682)
Gain/(loss) recognized in income due to hedge ineffectiveness	Other revenue	$ -	$ -
Gain/(loss) recognized in income from the unused portion (time value) of the hedging derivative	Other revenue	$ (6)	$ (98)
Carrying value of hedging derivatives as of September 30, 2009	Trading assets	$ 362	$ 362
	Trading liabilities	$ 398	$ 398
Carrying value of non-derivative hedges as of September 30, 2009	Long-term borrowings	$ 609	$ 609
Notional amount of hedging derivatives as of September 30, 2009			
in an asset position		$ 11,058	$ 11,058
in a liability position		$ 11,266	$ 11,266

Gains/(losses) on non-trading derivatives not in hedge relationships

(dollars in millions)

	Account location	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Interest rate risk	Interest expense	$ 124	$ (594)
Foreign currency risk	Other revenue	1,944	484
Credit risk	Other revenue	(218)	(370)

The above amounts represent net gains/(losses) on derivatives that are not used for trading purposes and are not used in hedging relationships. Interest rate risk primarily relates to derivatives used to hedge long-term debt where hedge accounting is not applied and derivatives with third parties that are recorded by Merrill Lynch and utilized by Bank of America at the consolidated level for hedge accounting purposes. As the hedged item is not held by Merrill Lynch, hedge accounting is not applied by Merrill Lynch. Foreign currency risk primarily relates to economic hedges of foreign currency denominated transactions that generate earnings upon remeasurement in accordance with ASC 830-20 *Foreign Currency Transactions ("Foreign Currency Transactions")*. As both the remeasurement of the foreign currency risk on the transaction and the changes in fair value of the derivative are recorded in earnings, hedge accounting is not applied. Credit risk relates to credit default swaps used to economically manage the credit risk on certain loans not included in trading activities.

Derivative balances by primary risk

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

The following table identifies the primary risk for derivative instruments at September 30, 2009. The primary risk is provided on a gross basis, prior to the application of the impact of counterparty and cash collateral netting.

(dollars in millions)

	Contract/ Notional(1)	Trading Assets- Derivative Contracts	Contract/ Notional(1)	Trading Liabilities- Derivative Contracts
Interest rate contracts				
Swaps	$12,319,763	$ 582,168	$11,215,975	$ 571,174
Futures and forwards	1,635,948	3,050	1,651,469	3,335
Written options	-	-	1,398,659	51,393
Purchased options	1,214,564	51,208	-	-
Foreign exchange contracts				
Swaps	104,920	14,289	113,462	14,939
Spot, futures and forwards	315,051	13,314	292,323	11,935
Written options	-	-	292,876	12,760
Purchased options	304,853	12,821	-	-
Equity contracts				
Swaps	16,557	1,233	14,486	1,618
Futures and forwards	51,890	4,510	48,241	3,569
Written options	-	-	333,942	25,710
Purchased options	290,647	22,954	-	-
Commodity contracts				
Swaps	40,637	8,894	36,459	8,260
Futures and forwards	1,029,546	14,817	1,062,483	13,567
Written options	-	-	96,850	6,350
Purchased options	94,897	5,994	-	-
Credit derivatives				
Purchased protection:				
Credit default swaps	1,211,026	87,250	603,170	24,229
Total return swaps	2,534	352	2,092	372
Other Credit Derivatives	5,547	52	-	-
Written protection:				
Credit default swaps	599,394	23,274	1,318,012	90,273
Total return swaps	2,613	1,884	11,870	4,491
Other Credit Derivatives	-	-	5,267	89
Gross derivative assets/liabilities	$19,240,387	$ 848,064	$18,497,636	$ 844,064
Less: Legally enforceable master netting		(759,009)		(759,009)
Less: Cash collateral applied		(30,865)		(43,615)
Total derivative assets and liabilities		$ 58,190		$ 41,440

(1) These amounts include trading derivatives, non-trading derivatives and bifurcated embedded derivatives.

Trading revenues

Merrill Lynch enters into trading derivatives and non-derivative cash instruments to facilitate client transactions, for proprietary trading and financing purposes, and to manage risk exposures arising from trading assets and liabilities. The resulting risk from derivative and non-derivative cash instruments is managed on a portfolio basis as part of Merrill Lynch's sales and trading activities and the related revenue is recorded on different income statement line items including principal transactions, commissions, other revenues and net interest profit/(loss). The following table identifies the amounts in the income statement line items attributable to trading and non-trading activities including both derivatives and non-derivative cash instruments categorized by primary risk for the three and nine months ended September 30, 2009.

Non-trading amounts relate to activities in connection with principal investment, wealth management, and certain lending activities; economic hedging activity discussed in the *Non-trading derivatives* section above, and the impact of changes in Merrill Lynch's own creditworthiness on borrowings accounted for at fair value.

(dollars in millions)

For the Three Months Ended Sept. 30, 2009	Principal Transactions	Commissions	Other Revenues(1)	Net Interest Profit/(Loss)	Total
Interest Rate Risk	$ 321	$ 16	$ 5	$ 109	$ 451
Foreign Exchange Risk	8	-	-	18	26
Equity Risk	567	781	34	188	1,570
Commodity Risk	146	-	-	(36)	110
Credit Risk	1,494	15	218	326	2,053
Total trading — related	2,536	812	257	605	4,210
Non-trading related	(2,322)	504	1,095	(327)	(1,050)
Total	$ 214	$ 1,316	$ 1,352	$ 278	$ 3,160

(dollars in millions)

For the Nine Months Ended Sept. 30, 2009	Principal Transactions	Commissions	Other Revenues(1)	Net Interest Profit/(Loss)	Total
Interest Rate Risk	$ 1,435	$ 47	$ 17	$ 445	$ 1,944
Foreign Exchange Risk	271	-	1	12	284
Equity Risk	2,248	2,522	63	(378)	4,455
Commodity Risk	762	-	-	(132)	630
Credit Risk	3,445	45	441	1,071	5,002
Total trading — related	8,161	2,614	522	1,018	12,315
Non-trading related	(4,114)	1,435	1,873	(344)	(1,150)
Total	$ 4,047	$ 4,049	$ 2,395	$ 674	$11,165

(1) Includes other income and other-than-temporary impairment losses on available-for-sale debt securities.

Derivatives as guarantees

Merrill Lynch enters into certain derivative contracts that meet the definition of a guarantee under ASC 460, *Guarantees* ("Guarantees Accounting"). Guarantees are defined to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value of interest rates, security prices, currency rates, commodity prices, indices, etc.), that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the definition of guarantees include certain written options (e.g., written interest rate and written currency options). Merrill Lynch does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, Merrill Lynch has disclosed information about all credit derivatives and certain types of written options that can potentially be used by clients to protect against changes in an underlying, regardless of how the contracts are actually used by the client.

Merrill Lynch's derivatives that act as guarantees at September 30, 2009 are summarized below:

(in millions)

	Maximum Payout/ Notional	Less than 1 year	1+ - 3 years	3+ - 5 years	Over 5 years	Carrying Value(1)
Derivative contracts:						
Credit derivatives:						
Investment grade(2)	$ 750,963	$ 62,747	$ 151,832	$ 338,599	$ 197,785	$ 28,731
Non-investment grade(2)	1,180,926	82,472	247,402	404,292	446,760	66,033
Total credit derivatives	1,931,889	145,219	399,234	742,891	644,545	94,764
Other derivatives	1,819,409	569,356	497,093	284,643	468,317	82,995
Total derivative contracts	$3,751,298	$714,575	$ 896,327	$1,027,534	$ 1,112,862	$177,759

(1) Derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting.
(2) Refers to the creditworthiness of the underlying reference obligations.

Credit derivatives

Credit derivatives derive value based on an underlying third party referenced obligation or a portfolio of referenced obligations. Merrill Lynch is both a seller and a buyer of credit protection. A seller of credit protection is required to make payments to a buyer upon the occurrence of a predefined credit event. Such credit events generally include bankruptcy of the referenced credit entity and failure to pay under their credit obligations, as well as acceleration of indebtedness and payment repudiation or moratorium. Merrill Lynch considers credit derivatives to be guarantees where it is the seller of credit protection. For credit derivatives based on a portfolio of referenced credits or credit indices, Merrill Lynch as a seller of credit protection may not be required to make payment until a specified amount of loss has occurred and/or may only be required to make payment up to a specified amount.

For most credit derivatives, the notional value represents the maximum amount payable by Merrill Lynch as a seller of credit protection. However, Merrill Lynch does not exclusively monitor its exposure to credit derivatives based on notional value. Instead, a risk framework is used to define risk tolerances and establish limits to help to ensure that certain credit risk-related losses occur within acceptable, predefined limits. Merrill Lynch discloses internal categorizations (i.e., investment grade, non-investment grade) consistent with how risk is managed to evaluate the payment status of its freestanding credit derivative instruments.

Merrill Lynch economically hedges its exposure to credit derivatives by entering into a variety of offsetting derivative contracts and security positions. For example, in certain instances, Merrill Lynch purchases credit protection with identical underlying referenced names to offset its exposure. At

September 30, 2009, the notional value and carrying value of credit protection purchased and credit protection sold by Merrill Lynch with identical underlying referenced names was:

(in millions)

	Maximum Payout/ Notional	Less than 1 year	1+ - 3 years	3+ - 5 years	Over 5 years	Carrying Value(1)
Credit derivatives purchased	$1,786,772	$138,700	$ 383,858	$ 716,000	$ 548,214	$ 77,886
Credit derivatives sold	1,901,795	142,663	396,678	736,501	625,953	85,628

(1) Derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting.

Other derivative contracts

Other derivative contracts in the guarantees table above primarily represent written interest rate options and written currency options. For such contracts the maximum payout could theoretically be unlimited, because, for example, the rise in interest rates or changes in foreign exchange rates could theoretically be unlimited. Merrill Lynch does not monitor its exposure to derivatives based on the theoretical maximum payout because that measure does not take into consideration the probability of the occurrence. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value is not a reliable indicator of Merrill Lynch's exposure to these contracts. Instead, as previously noted, a risk framework is used to define risk tolerances and establish limits to help ensure that certain risk-related losses occur within acceptable, predefined limits.

As the fair value and risk of payment under these derivative contracts are based upon market factors, such as changes in interest rates or foreign exchange rates, the carrying values in the table above reflect the best estimate of Merrill Lynch's performance risk under these transactions at September 30, 2009. Merrill Lynch economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions.

Credit risk management of derivatives

Merrill Lynch defines counterparty credit risk 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. Merrill Lynch mitigates its credit risk to counterparties through a variety of techniques, including, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees, and the purchase of credit default protection.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. ("ISDA") master agreements or their equivalent ("master netting agreements") with almost all derivative counterparties. 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 accounting and risk management purposes. Netting agreements are generally negotiated bilaterally and can require complex terms. While Merrill Lynch makes reasonable efforts to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. The enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

Where Merrill Lynch has entered into legally enforceable netting agreements with counterparties, it reports derivative assets and liabilities, and any related cash collateral, net in the Condensed Consolidated Balance Sheets in accordance with ASC 210-20, *Balance Sheet-Offsetting*. At September 30, 2009, cash collateral received of $30.9 billion and cash collateral paid of $43.6 billion was netted against derivative assets and liabilities, respectively.

Merrill Lynch considers the impact of counterparty credit risk on the valuation of derivative contracts. Factors used to determine the credit valuation adjustments on the derivatives portfolio include current exposure levels (i.e., fair value prior to credit valuation adjustments) and expected exposure levels profiled over the maturity of the contracts. Credit default swaps market information, including either quoted single name credit default swaps or index or other proxy credit default swaps, is also considered. In addition, the credit valuation adjustments also take into account the netting and credit provisions of relevant agreements including collateral margin agreements and legally enforceable netting agreements. During the three and nine months ended September 30, 2009, valuation adjustments of approximately $1.1 billion and $1.2 billion, respectively were recognized as gains in principal transactions for counterparty credit risk. At September 30, 2009, the cumulative counterparty credit risk valuation adjustment that was reflected in derivative assets was $6.8 billion. In addition, the fair value of derivative liabilities is adjusted to reflect the impact of Merrill Lynch's credit quality. During the three and nine months ended September 30, 2009, valuation adjustments of approximately $0.4 billion and $0.5 billion, respectively, were recognized as losses in principal transactions for changes in Merrill Lynch's credit risk. At September 30, 2009, the cumulative credit risk valuation adjustment that was reflected in the derivative liabilities balance was $0.5 billion.

Bank of America has guaranteed the performance of Merrill Lynch on certain derivative transactions. The aggregate amount of such derivative liabilities was approximately $270 million at September 30, 2009.

Credit-risk related contingent features

The majority of Merrill Lynch's derivative contracts contain credit-risk-related contingent features, primarily within the ISDA agreements, that help to reduce the credit risk of these instruments as compared to other obligations of the respective counterparty with whom Merrill Lynch has transacted (e.g., other senior debt). These contingent features may be for the benefit of Merrill Lynch or may benefit Merrill Lynch's counterparties in respect of changes in Merrill Lynch creditworthiness. At September 30, 2009, Merrill Lynch posted collateral of $48.8 billion under derivative contracts that were in a liability position, of which $43.6 billion represented cash collateral, as noted above.

In connection with certain OTC derivatives transactions and other trading agreements, Merrill Lynch could be required to provide additional collateral to or terminate transactions with certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount and/or an amount related to the market value of the exposure. At September 30, 2009, the amount of additional collateral and termination payments that would be required for such derivatives transactions and trading agreements was approximately $1.6 billion in the event of a downgrade to low single-A by all credit agencies. A further downgrade of ML & Co.'s long-term senior debt credit rating to the BBB+ or equivalent level would require approximately $0.6 billion of additional collateral.

Note 7. Securities Financing Transactions

Merrill Lynch enters into secured borrowing and lending transactions in order to meet customers' needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions.

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agency securities, asset-backed, corporate debt, equity, and non-U.S. government and agency securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans and other loans. Under most agreements, Merrill Lynch is permitted to sell or repledge the securities received (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At September 30, 2009 and December 26, 2008, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $314 billion and $327 billion, respectively, and the fair value of the portion that has been sold or repledged was $259 billion and $251 billion, respectively. Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the Securities Exchange Act of 1934.

Merrill Lynch additionally receives securities as collateral in connection with certain securities transactions in which Merrill Lynch is the lender. In instances where Merrill Lynch is permitted to sell or repledge securities received, Merrill Lynch reports the fair value of such securities received as collateral and the related obligation to return securities received as collateral in the Condensed Consolidated Balance Sheets.

The carrying value and classification of securities owned by Merrill Lynch that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at September 30, 2009 and December 26, 2008 are as follows:

(dollars in millions)

	Successor Company September 30, 2009	Predecessor Company December 26, 2008
Trading asset category		
Corporate debt and preferred stock	$ 6,318	$ 15,024
Equities and convertible debentures	5,188	10,995
U.S. Government and agencies	3,578	4,982
Mortgages, mortgage-backed, and asset-backed securities	3,488	12,462
Municipals and money markets	2,000	1,320
Non-U.S. governments and agencies	786	587
Total	$ 21,358	$ 45,370

Additionally, Merrill Lynch has pledged approximately $2.8 billion and $18.6 billion of loans, and $895 million and $4.4 billion of investment securities to counterparties at September 30, 2009 and December 26, 2008, respectively, where those counterparties do not have the right to sell or repledge those assets. In some cases, Merrill Lynch has transferred assets to consolidated VIEs where those restricted assets serve as collateral for the interests issued by the VIEs. These restricted assets are included in the amounts above. These transactions are also described in Note 9.

Generally, when Merrill Lynch transfers financial instruments that are not recorded as sales (i.e., secured borrowing transactions), the liability is recorded as either payables under repurchase agreements or payables under securities loaned transactions; however, in instances where Merrill Lynch transfers financial assets to a consolidated VIE, the liabilities of the consolidated VIE will be reflected in long or short term borrowings (see Note 9). In either case, at the time of transfer, the related liability is equal to the cash received in the transaction. In most cases the lenders in secured borrowing transactions have full recourse to Merrill Lynch (i.e., recourse beyond the assets pledged). Instances where the lenders do not have full recourse to Merrill Lynch are generally related to failed securitization transactions where residential and commercial mortgages are transferred to VIEs that do not meet QSPE conditions (typically as a result of derivatives entered into by the VIE that pertain to interests held by Merrill Lynch).

Note 8. Investment Securities

Investment securities on the Condensed Consolidated Balance Sheets include:

- Investments within the scope of Investment Accounting that are held by ML & Co. and certain of its non-broker-dealer entities, including Merrill Lynch banks, and consist of:
    - Debt securities, including debt held-for-investment and liquidity and collateral management purposes that are classified as available-for-sale, debt securities held for trading purposes, and debt securities that Merrill Lynch intends to hold until maturity;
    - Marketable equity securities, which are generally classified as available-for-sale.
- Non-qualifying investments are those that are not within the scope of Investment Accounting and consist principally of equity investments, including investments in partnerships and joint ventures. Included in equity investments are investments accounted for under the equity method of accounting, which consist of investments in (i) partnerships and certain limited liability corporations where Merrill Lynch has more than a minor influence (generally defined as greater than a three percent interest) and (ii) corporate entities where Merrill Lynch has the ability to exercise significant influence over the investee (generally defined as ownership and voting interest of 20% to 50%). Also included in equity investments are private equity investments that Merrill Lynch holds for capital appreciation and/or current income and which are accounted for at fair value in accordance with the Investment Company Guide, as well as private equity investments accounted for at fair value under the fair value option election. The carrying value of such private equity investments reflects expected exit values based upon market prices or other valuation methodologies, including discounted expected cash flows and market comparables of similar companies.

Investment securities reported on the Condensed Consolidated Balance Sheets at September 30, 2009 and December 26, 2008 are as follows:

(dollars in millions)

	Successor Company September 30, 2009	Predecessor Company December 26, 2008
Investment securities		
Available-for-sale[(1)]	$ 18,288	$ 34,103
Trading	1,576	1,745
Held-to-maturity[(2)]	253	4,576
Non-qualifying[(3)]		
Equity investments[(4)]	18,190	24,306
Investments in trust preferred securities and other investments	1,654	1,432
Total	$ 39,961	$ 66,162

(1) At September 30, 2009 and December 26, 2008, includes $6.0 billion and $9.2 billion, respectively, of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations. The decline in available-for-sale securities from June 30, 2009 primarily reflected asset sales and the sale of MLBUSA to Bank of America.

(2) The 2008 balance primarily relates to notes issued by Bloomberg, Inc. in connection with the sale of Merrill Lynch's 20% stake in Bloomberg L.P., which was reclassified to loans held for investment in 2009 pursuant to the acquisition by Bank of America.

(3) Non-qualifying for Investment Accounting purposes.

(4) Includes Merrill Lynch's investment in BlackRock, Inc.

As a result of the acquisition of Merrill Lynch by Bank of America, all securities have a new cost basis as of January 1, 2009. For the three and nine-month periods ended September 30, 2009, other-than-temporary impairment charges related to non-agency mortgage-backed available-for-sale securities were $306 million and $603 million, respectively. The credit-related portions of these amounts were $305 million and $599 million for the three and nine-month periods ended September 30, 2009, respectively. In the three and nine months ended September 26, 2008, Merrill Lynch recorded other-than-temporary impairment charges of $847 million and $2.9 billion, respectively, primarily related to certain mortgage and asset-backed securities. Refer to Note 1 for Merrill Lynch's accounting policies regarding other-than-temporary-impairment of investment securities.

Information regarding investment securities subject to Investment Accounting follows:

(dollars in millions)

	Successor Company September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
Mortgage-backed securities:				
Agency collateralized mortgage obligations	$ 15,763	$ 234	$ (134)	$15,863
Non-agency	2,827	269	(741)	2,355
Corporate/Agency bonds	10	-	-	10
Other taxable securities	61	-	(1)	60
Total Available-for-Sale Securities	$ 18,661	$ 503	$ (876)	$18,288
Held-to-Maturity				
Corporate debt and municipal	$ 253	$ -	$ -	$ 253
Total	$ 18,914	$ 503	$ (876)	$18,541

As a result of the acquisition of Merrill Lynch by Bank of America, and the new cost bases established on January 1, 2009, there were no available-for-sale securities in an unrealized loss position for greater than one year. The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 26, 2008.

(dollars in millions)

	Less than 1 Year		More than 1 Year		Total	
Asset category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Predecessor Company December 26, 2008						
Mortgage- and asset-backed	$ 8,449	$ (4,132)	$ 22,291	$ (5,910)	$ 30,740	$ (10,042)
U.S. Government and agencies	3	-	-	-	3	-
Corporate debt	2	(2)	192	(78)	194	(80)
Total debt securities	8,454	(4,134)	22,483	(5,988)	30,937	(10,122)
Equity securities	1	(2)	55	(20)	56	(22)
Total temporarily impaired securities	$ 8,455	$ (4,136)	$ 22,538	$ (6,008)	$ 30,993	$ (10,144)

The amortized cost and fair value of available-for-sale debt securities by expected maturity for mortgage-backed securities and contractual maturity for other debt securities at September 30, 2009 are as follows:

(dollars in millions)

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 674	$ 623
Due after one year through five years	9,045	8,900
Due after five years through ten years	8,386	8,395
Due after ten years	556	370
Total(1)	$ 18,661	$18,288

(1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay their obligations with or without prepayment penalties.

The proceeds and gross realized gains/(losses) from the sale of available-for-sale securities during the three and nine months ended September 30, 2009 are as follows:

(dollars in millions)

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Proceeds(1)	$ 5,655	$ 11,499
Gross realized gains	386	550
Gross realized losses	(29)	(79)

(1) Includes approximately $2 billion related to the sale of MLBUSA to Bank of America during the third quarter of 2009.

Equity Method Investments

Summarized aggregate financial information for Merrill Lynch's most significant equity method investees (BlackRock Inc., Warburg Pincus Funds IX and X, L.P. and WCG Master Fund Ltd.) is as follows:

(dollars in millions)

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Revenues	$ 1,901	$ 3,579
Operating income	1,026	1,130
Earnings before income taxes	1,104	1,106
Net earnings	986	860

Note 9. Securitization Transactions and Transactions with Variable Interest Entities (“VIEs”)

The following provides information for consolidated VIEs, for VIEs in which Merrill Lynch is the sponsor as defined below or is a significant variable interest holder (“Sponsor/Significant VIH”) and for VIEs that are established for securitizations and asset-backed financing arrangements.

Merrill Lynch has defined “sponsor” to include all transactions where Merrill Lynch has transferred assets to a VIE and/or structured the VIE, regardless of whether or not the asset transfer has met the sale conditions in Financial Transfers and Servicing Accounting. Merrill Lynch discloses all instances where continued involvement with the assets exposes it to potential economic gain/(loss), regardless of whether or not that continued involvement is considered to be a variable interest in the VIE.

Continued involvement includes:

- Retaining or holding an interest in the VIE,
- Providing liquidity or other support to the VIE or directly to the investors in the VIE. This includes liquidity facilities, guarantees, and derivatives that absorb the risk of the assets in the VIE, including total return swaps and written credit default swaps,
- Servicing the assets in the VIE, and
- Acting as counterparty to derivatives that do not absorb the risk of the assets in the VIE. These include derivatives that introduce risk into the VIE such as credit default swaps where the VIE takes credit risk (generally found in credit-linked note structures) or equity derivatives where the VIE takes equity risk (generally found in equity-linked note structures); however, Merrill Lynch excludes transactions where it only acts as counterparty to interest rate or foreign exchange derivatives.

Merrill Lynch has not provided financial support to any VIE beyond that which is contractually required. Quantitative information on contractually required support is reflected in the tables provided below and in Note 14.

Transactions with VIEs are categorized as follows:

Primary Beneficiary — Includes transactions where Merrill Lynch is the primary beneficiary and consolidates the VIE.

Sponsor/Significant VIH — Includes transactions where Merrill Lynch is the sponsor and has continued involvement with the VIE or is a significant variable interest holder in the VIE. This category excludes *most* transactions where Merrill Lynch transferred financial assets and the transfer was accounted for as a sale (these transactions are included in securitization transactions as described below). However, unconsolidated credit linked note VIEs (CLNs) and CDOs/CLOs are included in this category, regardless of whether or not Merrill Lynch transferred financial assets and accounted for the transfer as a sale.

Securitization transactions — Securitization transactions include transactions where Merrill Lynch transferred financial assets and accounted for the transfer as a sale (with the exception noted above). These transactions also include asset-backed financing arrangements. This category includes both QSPEs and non-QSPEs and is reflected in the securitization section of this Note. QSPEs are commonly used by Merrill Lynch in mortgage and municipal bond securitization transactions as described below. Merrill Lynch does not consolidate QSPEs.

Merrill Lynch has entered into transactions with different types of VIEs which are described as follows:

Loan and Real Estate VIEs

Merrill Lynch has involvement with VIEs that hold mortgage related loans or real estate. These VIEs include entities that are primarily designed to obtain exposure to mortgage related assets or invest in real estate for both clients and Merrill Lynch. Loan and real estate VIEs include failed securitization transactions where residential and commercial mortgages are transferred to VIEs that do not meet QSPE conditions (typically as a result of derivatives entered into by the VIE that pertain to interests held by Merrill Lynch) and loan VIEs that hold mortgage loans where Merrill Lynch holds most or all of the issued financing but does not have voting control. Loan and real estate VIEs are reported in the Consolidated VIEs table and the Sponsor/Significant VIH table. In addition, many loan VIEs, specifically those related to residential and commercial mortgages, are securitization VIEs that meet the QSPE criteria. Transactions where Merrill Lynch is the transferor of loans to a VIE or QSPE and accounts for the transaction as a sale are reflected in the Securitization Transactions table of this Note.

Merrill Lynch generally consolidates failed securitization VIEs where it retains the residual interests in the VIE and therefore absorbs the majority of the VIE's expected losses, gains or both. As a result of the illiquidity in the securitization markets, Merrill Lynch has been unable to sell certain securities, which has prohibited these VIEs from being considered QSPEs. Depending upon the liquidity in the securitization market, these transactions and future transactions could continue to fail QSPE status and may require consolidation and related disclosures. Given that these VIEs have been designed to meet the QSPE requirements, Merrill Lynch has no control over the assets held by these VIEs. These assets have been pledged to the noteholders in the VIEs, and are therefore included in the firm-owned assets pledged balance reported in Note 7. In most instances, the beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; rather their investments are paid exclusively from the assets in the VIE. Securitization VIEs that hold loan assets are typically financed through the issuance of several classes of debt (i.e., tranches) with ratings that range from AAA to unrated residuals.

Loan VIEs that hold mortgage loans and are not securitization VIEs are typically wholly owned or have a small amount of financing provided by investors (which may include the investment manager) through different classes of loans or securities. Where Merrill Lynch consolidates these VIEs, Merrill Lynch has the ability to use the assets to fund operations.

Real estate VIEs that hold property are typically financed through the issuance of one or more classes of loans or securities (e.g. senior, junior, and mezzanine) and an equity tranche. The investors have recourse only to the real estate assets held by these VIEs. In most real estate entities, the equity tranche is considered sufficient to finance the activities of the entity, and the entity would meet the conditions to be considered a VRE. The real estate entities included in this disclosure are VIEs because generally they do not have sufficient equity to finance their activities.

Equity Funds

Merrill Lynch has made certain investments in equity funds that are VIEs. Merrill Lynch may be the primary beneficiary of these funds as a result of a majority investment in the fund. In instances where Merrill Lynch is not the primary beneficiary, it is considered the sponsor and generally has continued involvement through equity derivatives with these VIEs. VIEs where Merrill Lynch is the sponsor and has continued involvement are reflected in the Sponsor/

Significant VIH table. These VIEs are typically financed by a single tranche of limited life preferred shares or similar debt instruments that pass through the economics of the underlying assets and derivative contracts.

Merrill Lynch sponsors a limited number of equity funds that provide a guaranteed return to investors at the maturity of the fund. The guarantees may include a guarantee of the return of an initial investment or the initial investment plus an agreed upon return depending on the terms of the VIE. Investors in certain of these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the guaranteed amount. In these instances, Merrill Lynch is the primary beneficiary and consolidates the VIEs. These VIEs are typically financed by a single tranche of limited life preferred shares or similar debt instruments that pass through the economics of the underlying assets and derivative contracts.

Credit-Linked Note and Other VIEs

Merrill Lynch has entered into transactions with VIEs where Merrill Lynch typically purchases credit protection from the VIE in the form of a credit default swap in order to provide investors exposure to a specific credit risk. These are commonly known as CLNs. Merrill Lynch may also enter into interest rate swaps and/or cross currency swaps with these CLNs. The assets held by the VIE provide collateral for the derivatives that Merrill Lynch has entered into with the VIE. Most CLNs issue a single credit-linked note, which is often held by a single investor. Typically the assets held by the CLNs can be substituted for other assets by the investors. For these transactions, Merrill Lynch generally transfers the financial assets to the VIE and accounts for that transfer as a sale.

In certain transactions Merrill Lynch takes exposure through total return swaps to the underlying collateral held in the CLNs, including super senior U.S. sub-prime ABS CDOs. Generally, the assets held by these VIEs were not transferred into these VIEs by Merrill Lynch. Unconsolidated CLN transactions are reported in the Sponsor/Significant VIH table.

Merrill Lynch is the primary beneficiary of two VIEs that invest in alternative investment funds which are controlled by third party fund managers. These entities are considered VIEs because the equity holders do not have control through voting rights.

Collateralized Debt Obligations/Collateralized Loan Obligations (CDO/CLOs)

Merrill Lynch has entered into transactions with entities that issue CDOs, synthetic CDOs and CLOs. These entities are generally considered VIEs. CDOs hold pools of corporate debt or asset-backed securities and issue various classes of rated debt and an unrated equity tranche. Synthetic CDOs purchase assets and enter into a portfolio of credit default swaps to synthetically create exposure to corporate or asset-backed securities. CLOs hold pools of loans (corporate, commercial mortgages and residential mortgages) and issue various classes of rated debt and an unrated equity tranche. CDOs, synthetic CDOs and CLOs are typically managed by third party portfolio managers. Merrill Lynch transfers assets to these VIEs, holds interests in the issuances of the VIEs and may be a derivative counterparty to the VIEs (including a credit default swap counterparty for synthetic CDOs). Merrill Lynch typically owns less than half of any tranche issued by the VIE and is therefore not the primary beneficiary. Where Merrill Lynch holds more than half of any tranche issued by a VIE, a quantitative analysis is performed to determine whether or not Merrill Lynch is the primary beneficiary. Most transactions with these VIEs are reflected in the Sponsor/Significant VIH table. Transactions with CDO/CLOs where Merrill Lynch is the primary beneficiary are reported in the Consolidated VIEs table.

Municipal Bond Securitizations

Municipal Bond Securitizations are transactions where Merrill Lynch transfers municipal bonds to SPEs and those SPEs issue puttable floating rate instruments and a residual interest in the form of an inverse floater. Most of these SPEs are QSPEs and are therefore not consolidated by Merrill Lynch. Merrill Lynch reports these SPEs in the Securitization Transactions table below. Municipal Bond transactions where Merrill Lynch is the primary beneficiary are reported in the Consolidated VIEs table.

In the normal course of dealer market-making activities, Merrill Lynch acts as liquidity provider for municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by municipal bond securitization SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. Beneficial interests that are tendered are then sold by Merrill Lynch to investors through a best efforts remarketing where Merrill Lynch is the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity facility issued by Merrill Lynch.

In addition to standby liquidity facilities, Merrill Lynch also provides default protection or credit enhancement to investors in securities issued by certain municipal bond securitization SPEs. Interest and principal payments on beneficial interests issued by these SPEs are secured by a guarantee issued by Merrill Lynch. In the event that the issuer of the underlying municipal bond defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch. Additional information regarding these commitments is provided in Note 14.

Variable Interest Entities

Consolidation Accounting requires an entity to consolidate a VIE if that entity holds a variable interest that will absorb a majority of the VIE’s expected losses, receive a majority of the VIE’s expected residual returns, or both. The entity required to consolidate a VIE is known as the primary beneficiary. VIEs are reassessed for consolidation when reconsideration events occur. Reconsideration events include, changes to the VIEs’ governing documents that reallocate the expected losses/returns of the VIE between the primary beneficiary and other variable interest holders or sales and purchases of variable interests in the VIE. Refer to Note 1 for further information.

The table below provides the disclosure information required for VIEs that are consolidated by Merrill Lynch. The table excludes consolidated VIEs where Merrill Lynch also holds a majority of the voting interests in the entity unless the activities of the VIE are primarily related to securitization or other forms of asset-backed financings.

(dollars in millions)

Consolidated VIEs Type of VIE	Total Assets	Assets after intercompany eliminations: Unrestricted	Assets after intercompany eliminations: Restricted(1)	Liabilities after intercompany eliminations	Maximum Exposure to Loss(2)
Successor Company					
September 30, 2009					
Loan and real estate VIEs(3)	$3,753	$ 736	$ 2,578	$ 1,151	$ 2,311
Equity Funds(4)	235	1	151	105	144
Credit-linked note and other VIEs(5)	1,690	353	823	69	1,086
CDOs/CLOs(6)	3,010	-	304	2,967	2,708
Municipal Bonds(7)	573	573	-	-	573
Predecessor Company					
December 26, 2008					
Loan and real estate VIEs(3)	$9,080	$ 2,475	$ 2,680	$ 4,769	$ 3,479
Equity Funds(4)	473	3	119	230	116
Credit-linked note and other VIEs(5)	1,643	1,221	-	45	45
CDOs/CLOs(6)	693	-	360	489	237

(1) Assets are considered restricted when they cannot be freely pledged or sold by Merrill Lynch.

(2) This column reflects Merrill Lynch's maximum exposure to loss associated with the VIE. It includes the value of on balance sheet assets plus the maximum exposure associated with off balance sheet instruments (e.g., total return swaps) less any liabilities where the investors do not have recourse to Merrill Lynch.

(3) For Loan and real estate VIEs, assets are primarily recorded in loans, notes and mortgages. Assets related to VIEs that hold real estate investments are included in other assets. Liabilities are primarily recorded in short and long-term borrowings.

(4) For Equity funds, assets are recorded in trading assets and liabilities are recorded in long-term borrowings.

(5) For CLNs and other VIEs, assets are recorded in trading assets and investment securities and liabilities are recorded in long-term borrowings.

(6) For CDOs/CLOs, assets are primarily recorded in loans, notes and mortgages and liabilities are recorded in long-term borrowings. Certain consolidated CDOs are established to provide full recourse secured financing to Merrill Lynch.

(7) For Municipal bonds, assets are recorded in trading assets.

Merrill Lynch may also be a Sponsor/Significant VIH in VIEs. Where Merrill Lynch has involvement as a Sponsor/Significant VIH, it is required to disclose the size of the VIE, the assets and liabilities on its balance sheet related to transactions with the VIE, and its maximum exposure to loss as a result of its interest in the VIE.

The following table summarizes Merrill Lynch's involvement with Sponsor/Significant VIH VIEs as of September 30, 2009 and December 26, 2008.

(dollars in millions)

Sponsor/Significant VIH Type of VIE	Size of VIE(1)	Assets on Merrill Lynch's Balance Sheet(2)	Liabilities on Merrill Lynch's Balance Sheet(2)	Maximum Exposure to Loss(3)
Successor Company				
September 30, 2009				
Loan and real estate VIEs(4)	$ 776	$ 334	$ -	$ 334
Equity Funds(5)	2,174	309	579	309
Credit-linked note and other VIEs(6)	12,236	4,487	1,255	9,591
CDOs/CLOs(7)	53,465	3,126	957	6,438
Predecessor Company				
December 26, 2008				
Loan and real estate VIEs(4)	$ 1,761	$ 712	$ 61	$ 712
Equity Funds(5)	2,898	312	537	312
Credit-linked note and other VIEs(6)	13,257	6,889	986	10,452
CDOs/CLOs(7)	59,475	3,584	344	8,155

(1) Size generally reflects the estimated principal of securities issued by the VIE or the principal of the underlying assets held by the VIE and serves to provide information on the relative size of the VIE as compared to Merrill Lynch's involvement with the VIE.

(2) Assets and Liabilities on Merrill Lynch's Balance Sheet reflect the effect of netting, if applicable.

(3) The maximum exposure to loss includes: the assets held by Merrill Lynch — including the value of derivatives that are in an asset position, and the notional amount of liquidity and other support provided to VIEs generally through total return swaps over the assets of the VIE. The maximum exposure to loss for liquidity and other support assumes a total loss on the referenced assets held by the VIE.

(4) Loan and real estate VIE assets primarily include loans recorded in loans, notes and mortgages and derivatives recorded in trading assets. Liabilities include derivatives recorded in trading liabilities.

(5) Equity fund assets include cash instruments and derivatives recorded in trading assets. Liabilities are recorded in payables under repurchase agreements in instances where assets were transferred but the transfer did not meet the sale requirements of Financial Transfers and Servicing Accounting, or trading liabilities for derivatives.

(6) CLN and other VIE assets include derivatives and are recorded in trading assets. Liabilities are recorded in payables under repurchase agreements in instances where assets were transferred but the transfer did not meet the sale requirements of Financial Transfers and Servicing Accounting, or trading liabilities for derivatives. In certain transactions, Merrill Lynch enters into total return swaps over assets held by the VIEs. Maximum exposure to loss represents the sum of the notional amount of these derivatives and the value of any assets on Merrill Lynch's balance sheet.

(7) CDO/CLO assets and liabilities are primarily derivatives recorded in trading assets/liabilities.

Securitizations

In the normal course of business, Merrill Lynch securitizes commercial and residential mortgage loans, municipal, government, and corporate bonds, and other types of financial assets (as described above). In addition, Merrill Lynch sells financial assets to entities that are controlled and consolidated by third parties and provides financing to these entities under asset-backed financing arrangements (these transactions are reflected in Non-QSPEs Loans and real estate entities below). Merrill Lynch's involvement with VIEs that are used to securitize financial assets includes: structuring and/or establishing VIEs; selling assets to VIEs; managing or servicing assets held by VIEs; underwriting, distributing, and making loans to VIEs; making markets in securities issued by VIEs; engaging in derivative transactions with VIEs; owning notes or certificates issued by VIEs; and/or providing liquidity facilities and other guarantees to, or for the benefit of, VIEs. In many instances Merrill Lynch has continued involvement with the transferred assets, including servicing, retaining or holding an interest in the issuances of the VIE, providing liquidity and other support to the VIEs or investors in the VIEs, and entering into derivative contracts with the VIEs.

The table below categorizes securitization transactions between QSPEs and non-QSPEs. Transactions with CLNs and CDO/CLOs that have been accounted for as sales under Financial Transfers and Servicing Accounting are reflected in the Sponsor/Significant VIH table above.

(dollars in millions)

Securitization Transactions Type of Entity	Size/Principal Outstanding(1)	Assets on Balance Sheet(2)	Liabilities on Balance Sheet(2)	Maximum Exposure to Loss(3)	Year-to-date (Loss) on Sale	Year-to-date Cash Flows
Successor Company						
September 30, 2009						
QSPEs:						
Residential Mortgage Loans(4)	$ 45,062	$ 1,305	$ 155	$ 1,314	$ -	$ 7
Municipal Bonds(5)	5,379	1,253	281	6,175	-	312
Commercial Loans and Other(6)	10,261	245	10	337	-	6
Non-QSPEs:						
Loan and real estate VIEs(7)	10,566	7,068	-	7,151	-	96
Predecessor Company						
December 26, 2008						
QSPEs:						
Residential Mortgage Loans(4)	$ 78,162	$ 1,667	$ 207	$ 1,654	$ -	$10,141
Municipal Bonds(5)	9,377	487	674	8,644	-	5,824
Commercial Loans and Other(6)	18,366	288	-	288	-	1,091
Non-QSPEs:						
Loan and real estate VIEs(7)	10,182	6,757	-	6,757	(22)	3,035

(1) *Size/Principal Outstanding reflects the estimated principal of the underlying assets held by the VIE/SPEs.*
(2) *Assets and Liabilities on Merrill Lynch's Balance Sheet reflect the effect of Balance Sheet-Offsetting Accounting, if applicable.*
(3) *The maximum exposure to loss includes the following: the assets held by Merrill Lynch — including the value of derivatives that are in an asset position and retained interests in the VIEs/SPEs; and the notional amount of liquidity and other support generally provided through total return swaps. The maximum exposure to loss for liquidity and other support assumes a total loss on the referenced assets held by the VIE.*
(4) *Residential mortgage loan QSPE assets primarily include servicing advances recorded in other assets and cash instruments recorded in investment securities and trading assets. Liabilities include derivatives recorded in trading liabilities.*
(5) *Municipal bond QSPE assets include cash instruments recorded in trading assets and investment securities. Liabilities include derivatives recorded in trading liabilities. At September 30, 2009 and December 26, 2008, the carrying value of the liquidity and other support related to these transactions was $281 million and $674 million, respectively.*
(6) *Commercial loans and other QSPEs primarily include commercial mortgage securitizations. Assets include cash instruments and derivatives, primarily recorded in trading assets. Liabilities include derivatives recorded in trading liabilities.*
(7) *Loan and real estate entity assets are recorded in loans, notes and mortgages and relate to asset-backed financing arrangements, which include the sale of U.S. super senior ABS CDOs in 2008 to an affiliate of Lone Star Funds.*

In certain instances, Merrill Lynch retains interests in the senior tranche, subordinated tranche, and/or residual tranche of securities issued by VIEs that are created to securitize assets. The gain or loss on the sale of the assets is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, if any, based on their relative fair values at the date of transfer.

Generally, retained interests and contracts that are used to provide support to the VIE or the investors are recorded in the Condensed Consolidated Balance Sheets at fair value. To obtain fair values, observable market prices are used if available. Where observable market prices are unavailable, Merrill Lynch generally estimates fair value based on the present value of expected future cash flows using management's best estimates of credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests are either held as trading assets, with changes in fair value recorded in the Condensed Consolidated Statements of Earnings/(Loss), or as investment securities available-for-sale, with changes in fair value included in OCI.

Retained interests held as available-for-sale securities are reviewed periodically for impairment. In certain cases liquidity facilities are accounted for as guarantees under Guarantees Accounting (refer to Note 14 for more information) and a liability is recorded at fair value at the inception of the transaction.

Retained interests in securitized assets were approximately $1.4 billion and $1.8 billion at September 30, 2009 and December 26, 2008, respectively, which primarily relates to municipal bond securitization transactions. Retained interests in securitized assets do not include loans made to entities under asset-backed financing arrangements.

The following table presents information on retained interests excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of September 30, 2009, which arise from Merrill Lynch's municipal bond securitization transactions. The pre-tax sensitivities of the current fair value of the retained interests to an immediate 100 basis point and 200 basis point increase and decrease in the discount rate are shown below.

(dollars in millions)

	Municipal Bonds
Retained interest amount	$ 1,253
Weighted average credit losses (rate per annum)(1)	0.0%
Weighted average discount rate	6.19%
Impact on fair value of 100 basis point decrease in discount rate	$ 79
Impact on fair value of 200 basis point decrease in discount rate	$ 180
Impact on fair value of 100 basis point increase in discount rate	$ (30)
Impact on fair value of 200 basis point increase in discount rate	$ (39)
Weighted average life (in years)	-
Weighted average prepayment speed (CPR)(2)	0.0%

CPR=Constant Prepayment Rate

(1) Credit losses are computed only on positions for which expected credit loss is either a key assumption in the determination of fair value or is not reflected in the discount rate.

(2) Relates to select securitization transactions where assets are prepayable. Merrill Lynch does not hold any retained interest where the underlying assets are prepayable.

The preceding sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in the fair value disclosed above generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge risks, including credit, interest rate, and prepayment risk, that are inherent in the retained interests. These hedging strategies are structured to take into consideration the hypothetical stress scenarios above, such that they would be effective in principally offsetting Merrill Lynch's exposure to loss in the event that these scenarios occur.

Note 10. Loans, Notes, Mortgages and Related Commitments to Extend Credit

Loans, notes, mortgages and related commitments to extend credit include:

- Consumer loans, which are substantially secured, including residential mortgages, home equity loans, and other loans to individuals for household, family, or other personal expenditures; and
- Commercial loans including corporate and institutional loans (including corporate and financial sponsor, non-investment grade lending commitments), commercial mortgages, asset-based loans, small- and middle-market business loans, and other loans to businesses.

Loans, notes, mortgages and related commitments to extend credit at September 30, 2009 and December 26, 2008, are presented below. This disclosure includes commitments to extend credit that, if drawn upon, will result in loans held for investment or loans held for sale.

(dollars in millions)

	Loans		Commitments(1)	
	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	September 30, 2009	December 26, 2008	September 30, 2009(2)(3)	December 26, 2008
Consumer:				
Mortgages	$ 26,862	$ 29,397	$ 7,499	$ 8,269
Other	9,446	1,360	399	2,582
Commercial and small- and middle-market business:				
Investment grade	12,566	17,321	8,256	28,269
Non-investment grade	18,969	23,184	6,455	9,291
	67,843	71,262	22,609	48,411
Allowance for loan losses	(114)	(2,072)	-	-
Reserve for lending-related commitments(4)	-	-	(1,023)	(2,471)
Total, net	$ 67,729	$ 69,190	$ 21,586	$ 45,940

(1) *Commitments are outstanding as of the date the commitment letter is issued and are comprised of closed and contingent commitments. Closed commitments represent the unfunded portion of existing commitments available for draw down. Contingent commitments are contingent on the borrower fulfilling certain conditions or upon a particular event, such as an acquisition. A portion of these contingent commitments may be syndicated among other lenders or replaced with capital markets funding.*

(2) *See Note 14 for a maturity profile of these commitments.*

(3) *In addition to the loan origination commitments included in the table above, Merrill Lynch had agreements to purchase $478 million of loans that, upon settlement of the commitment, will be classified in loans held for investment and loans held for sale. See Note 14 for additional information.*

(4) *Amounts are included within other payables on the Condensed Consolidated Balance Sheets.*

Activity in the allowance for loan losses is presented below:

(dollars in millions)

	Successor Company Nine Months Ended September 30, 2009	Predecessor Company Nine Months Ended September 26, 2008
Allowance for loan losses, at beginning of period(1)	$ -	$ 533
Provision for loan losses	312	538
Charge-offs	(104)	(233)
Recoveries	5	9
Net charge-offs	(99)	(224)
Other(2)	(99)	5
Allowance for loan losses, at end of period	$ 114	$ 852

(1) The allowance for loan losses as of December 26, 2008 was eliminated as of January 1, 2009 as a result of purchase accounting adjustments.

(2) The amount for 2009 includes $100 million of allowance for loan losses transferred to Bank of America, N.A., a subsidiary of Bank of America, in connection with the sale of MLBUSA. See Note 21 regarding the sale of MLBUSA.

Consumer loans, substantially all of which are collateralized, consisted of approximately 290,000 individual loans at September 30, 2009. Commercial loans consisted of approximately 12,000 separate loans. The principal balance of non-accrual loans was $3.3 billion at September 30, 2009 and $2.5 billion at December 26, 2008. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than the BBB- category.

The above amounts include $7.9 billion and $11.5 billion of loans held for sale at September 30, 2009 and December 26, 2008, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At September 30, 2009, such loans consisted of $3.7 billion of consumer loans, primarily residential mortgages and automobile loans, and $4.2 billion of commercial loans, approximately 16% of which are to investment grade counterparties. At December 26, 2008, such loans consisted of $4.0 billion of consumer loans, primarily residential mortgages and automobile loans, and $7.5 billion of commercial loans, approximately 15% of which were to investment grade counterparties.

In some cases, Merrill Lynch enters into single name and index credit default swaps to mitigate credit exposure related to funded and unfunded commercial loans. The notional value of these swaps totaled $3.5 billion and $13.2 billion at September 30, 2009 and December 26, 2008, respectively. The following tables provide information regarding Merrill Lynch's net credit default protection associated with its funded and unfunded commercial loans as of September 30, 2009:

Net Credit Default Protection by Maturity Profile

	September 30, 2009
Less than or equal to one year	7%
Greater than one year and less than or equal to five years	83
Greater than five years	10
Total net credit default protection	100%

Net Credit Default Protection by Credit Exposure Debt Rating
(dollars in millions)

	September 30, 2009	
Ratings(1)	**Net Notional**	**Percent**
AAA	$ -	-%
AA	(465)	13.4
A	(1,203)	34.8
BBB	(940)	27.2
BB	(409)	11.8
B	(158)	4.6
CCC and below	(244)	7.1
NR	(39)	1.1
Total net credit default protection	$ (3,458)	100.0%

(1) Merrill Lynch considers ratings of BBB- or higher to meet the definition of investment grade.

Effect of the Acquisition of Merrill Lynch by Bank of America

Upon completion of the acquisition of Merrill Lynch by Bank of America, Merrill Lynch adjusted the carrying value of its loans to fair value. Certain of these loans were subject to the requirements of Acquired Impaired Loan Accounting, which addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans if those differences are attributable, at least in part, to credit quality. Acquired Impaired Loan Accounting requires impaired loans to be recorded at estimated fair value and prohibits "carrying over" or the creation of valuation allowances in the initial accounting for loans acquired in a transfer that are within the scope of Acquired Impaired Loan Accounting.

The estimated fair values for loans within the scope of Acquired Impaired Loan Accounting are determined by discounting cash flows expected to be collected using a discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Cash flows expected to be collected at acquisition are estimated using internal prepayment, interest rate and credit risk models that incorporate management's best estimate of certain key assumptions, such as default rates, loss severity and prepayment speeds. All other loans were remeasured at the present value of contractual payments discounted to the prevailing interest rates on the date of acquisition.

Under Acquired Impaired Loan Accounting, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows from the date of acquisition will either impact the accretable yield or result in a charge to the provision for credit losses. Subsequent decreases to expected principal cash flows will result in a charge to provision for credit losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and an increase from expected cash flows to accretable yield for any remaining increase. All changes in expected interest cash flows will result in an increase or decrease of accretable yield.

In connection with Merrill Lynch's acquisition by Bank of America, loans within the scope of Acquired Impaired Loan Accounting had an unpaid principal balance of $5.6 billion ($2.7 billion consumer and $2.9 billion commercial) and a carrying value of $4.2 billion ($2.3 billion consumer and $1.9 billion commercial) as of January 1, 2009. These loans had an unpaid principal balance of $3.1 billion ($1.2 billion consumer and $1.9 billion commercial) and a carrying value of $1.9 billion ($1.0 billion consumer and $0.9 billion commercial, net of allowance for loan losses) as of September 30, 2009. The following table provides details of these loans.

Acquired Impaired Loans
(dollars in millions)

	As of January 1, 2009
Contractually required payments including interest	$ 6,205
Less: Nonaccretable difference	(1,357)
Cash flows expected to be collected(1)	4,848
Less: Accretable yield	(627)
Fair value of loans acquired	$ 4,221

(1) Represents undiscounted expected principal and interest cash flows at the acquisition date (January 1, 2009).

The following table provides activity for the accretable yield of loans within the scope of Acquired Impaired Loan Accounting for the three and nine months ended September 30, 2009.

(dollars in millions)

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Accretable yield, beginning of period	$ 551	$ 627
Impact of sale of MLBUSA to Bank of America	(212)	(212)
Accretions	(12)	(109)
Disposals	-	(8)
Decrease in expected cash flows(1)	(40)	(11)
Accretable yield, September 30, 2009	$ 287	$ 287

(1) Represents reclassifications to/from nonaccretable difference, increases/decreases in interest cash flows due to prepayments and/or changes in interest.

Note 11. Goodwill and Intangible Assets

In connection with the acquisition of Merrill Lynch by Bank of America, the carrying value of Merrill Lynch's goodwill as of December 26, 2008 was eliminated. New goodwill was recorded on January 1, 2009. In addition, as of January 1, 2009, certain intangible assets were adjusted to their fair value and new intangible assets (e.g., trade name) were recorded. Refer to Note 2 for further information.

Goodwill

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at the acquisition date. Goodwill is tested annually (or more frequently under certain conditions) for impairment at the reporting unit level in accordance with ASC 350, *Intangibles — Goodwill and Other,* ("Goodwill and Intangible Assets Accounting"). If the fair value of the reporting unit exceeds its carrying value, its goodwill is not deemed to be impaired. If the fair value is less than the carrying value, a further analysis is required to determine the amount of impairment, if any. In connection with the acquisition by Bank of America, Merrill Lynch changed its annual impairment test date from September 30, 2009 to June 30, 2009 in order to conform to Bank of America's annual test date. Based on the impairment analysis completed during the third quarter of 2009, Merrill Lynch determined that there was no impairment of goodwill as of the June 30, 2009 annual test date.

The following table sets forth the carrying amount of Merrill Lynch's goodwill:

(dollars in millions)	
Predecessor Company -	
Goodwill, December 26, 2008(1)	$2,221
Successor Company -	
Goodwill, January 1, 2009(2)	$5,044
Dispositions(3)	(350)
Purchase Accounting Adjustments(4)	(232)
Goodwill, September 30, 2009	$4,462

(1) Predecessor Company goodwill as of December 26, 2008 was eliminated as of January 1, 2009 as a result of purchase accounting adjustments.

(2) Refer to Note 2 for further information.

(3) Relates to the sale of MLBUSA to a subsidiary of Bank of America on July 1, 2009. Refer to Note 21 for further information.

(4) Represents adjustments to the preliminary purchase accounting established as of January 1, 2009 in conjunction with the acquisition of Merrill Lynch by Bank of America.

Intangible Assets

Intangible assets with definite lives at September 30, 2009 and December 26, 2008 consist primarily of value assigned to customer relationships and core deposits. Intangible assets with definite lives are tested for impairment in accordance with ASC 360, *Property, Plant and Equipment* whenever certain conditions exist which would indicate the carrying amounts of such assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives. Intangible assets with indefinite lives consist of value assigned to the Merrill Lynch brand and are tested for impairment in accordance with Goodwill and Intangible Assets Accounting. Intangible assets with indefinite lives are not amortized.

The gross carrying amounts of intangible assets with definite lives were $4.0 billion and $611 million as of September 30, 2009 and December 26, 2008, respectively. Accumulated amortization of intangible assets amounted to $297 million and $216 million at September 30, 2009 and December 26, 2008, respectively. The gross carrying amounts of intangible assets with indefinite lives were $1.2 billion as of September 30, 2009. During the third quarter of 2009, approximately $500 million of net core deposit intangible assets were transferred to Bank of America in connection with the sale of MLBUSA.

Amortization expense for the three and nine months ended September 30, 2009 was $99 million and $297 million, respectively, compared with $20 million and $73 million for the three and nine months ended September 26, 2008. Aggregate amortization expense is expected to be approximately $396 million per year for each of the next five years through 2014.

Note 12. Borrowings and Deposits

Prior to Merrill Lynch's acquisition by Bank of America, ML & Co. was the primary issuer of all of Merrill Lynch's debt instruments. Debt instruments were also issued by certain subsidiaries. ML & Co. is no longer a primary issuer of new unsecured borrowings under the Bank of America platform.

Following the completion of Bank of America's acquisition of Merrill Lynch, ML & Co. became a subsidiary of Bank of America and established intercompany lending and borrowing arrangements to facilitate centralized liquidity management. Included in these intercompany agreements is an initial $75 billion one-year, revolving unsecured line of credit that allows ML & Co. to borrow funds from Bank of America for operating requirements at a spread to LIBOR that is reset periodically and is consistent with other intercompany agreements. The maturity date for this credit line is January 1, 2010. The credit line will automatically be extended by one year to the succeeding January 1st unless Bank of America provides written notice not to extend at least 45 days prior to the maturity date. The agreement does not contain any financial or other covenants. During the first nine months of 2009, ML & Co. periodically borrowed against the line of credit. There were no outstanding borrowings against the line of credit at September 30, 2009.

The value of Merrill Lynch's debt instruments as recorded on the Condensed Consolidated Balance Sheets does not necessarily represent the amount that will be repaid at maturity. This is due to the following:

- As a result of the acquisition by Bank of America, all debt instruments were adjusted to their fair value on January 1, 2009;
- Certain debt issuances are accounted for at fair value and incorporate changes in Merrill Lynch's creditworthiness as well as other underlying risks (see Note 4);
- Certain structured notes whose coupon or repayment terms are linked to the performance of debt and equity securities, indices, currencies or commodities reflect the fair value of those risks; and
- Certain debt issuances are adjusted for the impact of fair value hedge accounting (see Note 6).

Total borrowings at September 30, 2009 and December 26, 2008, which are comprised of short-term borrowings, long-term borrowings and junior subordinated notes (related to trust preferred securities), consisted of the following:

(dollars in millions)

	Successor Company	Predecessor Company
	September 30, 2009	December 26, 2008
Senior debt issued by ML & Co.	$ 87,586	$ 140,615
Senior debt issued by subsidiaries — guaranteed by ML & Co.	7,465	11,598
Senior structured notes issued by ML & Co.	33,386	34,541
Senior structured notes issued by subsidiaries — guaranteed by ML & Co.	18,392	24,048
Subordinated debt issued by ML & Co.	11,903	13,317
Junior subordinated notes (related to trust preferred securities)	3,546	5,256
Other subsidiary financing — non-recourse(1) and/or not guaranteed by ML & Co.	3,398	13,454
Total	$ 165,676	$ 242,829

(1) Other subsidiary financing — non-recourse is primarily attributable to collateralized borrowings of subsidiaries.

Borrowings and deposits at September 30, 2009 and December 26, 2008, are presented below:

(dollars in millions)

	Successor Company September 30, 2009	Predecessor Company December 26, 2008
Short-term borrowings		
Commercial paper(1)	$ 44	$ 20,104
Secured short-term borrowings	-	14,137
Other unsecured short-term borrowings	642	3,654
Total	$ 686	$ 37,895
Long-term borrowings(2)		
Fixed-rate obligations(3)	$ 78,243	$ 101,403
Variable-rate obligations(4)(5)	83,186	96,511
Zero-coupon contingent convertible debt (LYONs®)	2	1,599
Other obligations	13	165
Total	$ 161,444	$ 199,678
Deposits		
U.S.	$ 32,430	$ 79,528
Non-U.S.	15,389	16,579
Total	$ 47,819	$ 96,107

(1) The decrease in commercial paper reflects the repayment of borrowings under the Federal Reserve's liquidity backstop for U.S. issuers of commercial paper and the FDIC's Temporary Liquidity Guarantee Program.
(2) Excludes junior subordinated notes (related to trust preferred securities).
(3) Fixed-rate obligations are generally swapped to variable-rates.
(4) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.
(5) Includes structured notes.

See Note 5 for additional information on the fair value of the long-term borrowings.

The weighted-average interest rates for borrowings at September 30, 2009 and December 26, 2008 (excluding structured products) were as follows:

	Successor Company September 30, 2009	Predecessor Company December 26, 2008
Short-term borrowings	1.62%	2.95%
Long-term borrowings	3.58	4.65
Junior subordinated notes (related to trust preferred securities)	6.93	6.83

Merrill Lynch also obtains standby letters of credit from issuing banks to satisfy various counterparty collateral requirements, in lieu of depositing cash or securities collateral. Such standby letters of credit aggregated $0.8 billion and $2.6 billion at September 30, 2009 and December 26, 2008, respectively.

Long-Term Borrowings

At September 30, 2009, long-term borrowings mature as follows:

(dollars in millions)		
Less than 1 year	$ 36,874	23%
1 – 2 years	16,288	10
2+ – 3 years	24,846	15
3+ – 4 years	17,540	11
4+ – 5 years	21,336	13
Greater than 5 years	44,560	28
Total	$161,444	100%

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder ("put" options) at specified dates prior to maturity. These borrowings are reflected in the above table as maturing at 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.

Certain structured notes whose coupon or repayment terms are linked to the performance of debt and equity securities, indices, currencies or commodities maturities may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. These notes are included in the portion of long-term debt maturing in less than a year.

Senior and subordinated debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. did not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation, except for an immaterial amount of Floating Rate LYONs®.

Floating Rate LYONs

The completion of Bank of America's acquisition of Merrill Lynch on January 1, 2009, constituted a change in control event under the terms of the LYONs. This required Merrill Lynch to offer to repurchase the LYONs at the accreted price of $1,095.98 for each $1,000 original principal amount. During the nine months ended September 30, 2009, Merrill Lynch repurchased $1.6 billion original principal amount of LYONs for an aggregate price of approximately $1.75 billion. At September 30, 2009, $2.3 million of original principal amount of the LYONs remained outstanding.

Committed Credit Facilities

Prior to Merrill Lynch's acquisition by Bank of America, Merrill Lynch maintained committed unsecured and secured credit facilities to cover regular and contingent funding needs. Following the completion of Bank of America's acquisition of Merrill Lynch on January 1, 2009, certain sources of liquidity were centralized. During the quarter ended March 31, 2009, ML & Co. repaid all outstanding amounts and terminated all of its external committed unsecured and secured credit facilities.

See Note 9 of the 2008 Annual Report for additional information on Borrowings.

Note 13. Stockholders' Equity and Earnings Per Share

Preferred Equity

As of the completion of the acquisition of Merrill Lynch by Bank of America, ML & Co. Series 1 through Series 8 preferred stock that were outstanding as of December 26, 2008 were converted into Bank of America preferred stock with substantially identical terms of the corresponding series of ML & Co. preferred stock (except for additional voting rights provided to the Bank of America securities).

Mandatory Convertible

On July 28, 2008, holders of $4.9 billion of the $6.6 billion of then-outstanding Series 1 convertible preferred stock agreed to exchange their Series 1 convertible preferred stock for approximately 177 million shares of Merrill Lynch common stock, plus $65 million in cash. Holders of the remaining $1.7 billion of Series 1 convertible preferred stock agreed to exchange their preferred stock for new mandatory convertible preferred stock described below. Because all holders of Series 1 convertible preferred stock exchanged their shares, the reset feature associated with the Series 1 convertible preferred stock was eliminated. In connection with the exchange of the Series 1 convertible preferred stock and in satisfaction of its obligations under the reset provisions of the Series 1 convertible preferred stock, Merrill Lynch recorded additional preferred dividends of $2.1 billion in the third quarter of 2008.

On July 28, 2008 Merrill Lynch issued an aggregate of 12,000 shares of newly issued 9% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 2, par value $1.00 per share and liquidation preference $100,000 per share (the "Series 2 convertible preferred stock"). On July 29, 2008 Merrill Lynch issued an aggregate of 5,000 shares of newly issued 9% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 3, par value $1.00 per share and liquidation preference $100,000 per share (the "Series 3 convertible preferred stock" and, together with the Series 2 convertible preferred stock, the "new convertible preferred stock"). The new convertible preferred stock remained issued and outstanding subsequent to the acquisition by Bank of America, but is now convertible into Bank of America common stock. Each share of the Series 2 and Series 3 convertible preferred stock will be converted on October 15, 2010 into a maximum of 2,605 shares and 3,820 shares, respectively, of Bank of America's common stock; however, they are optionally convertible prior to that date into 2,227 shares and 3,265 shares, respectively, of Bank of America's common stock.

Common Stock

As of the completion of the acquisition of Merrill Lynch by Bank of America, each outstanding share of ML & Co. common stock was converted into 0.8595 shares of Bank of America common stock. Since January 1, 2009, there have been 1,000 shares of ML & Co. common stock outstanding, all of which are owned by Bank of America.

In connection with Merrill Lynch's July 2008 offering of common stock, a $2.5 billion payment to affiliates and transferees of Temasek Holdings (Private) Limited was recorded as an expense in the Condensed Consolidated Statements of Earnings/(Loss) for the three and nine months ended September 26, 2008.

Earnings Per Share

Basic EPS is calculated by dividing earnings applicable to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS for 2008. For 2009, such amounts are not presented as Merrill Lynch is now a wholly-owned subsidiary of Bank of America.

(dollars in millions, except per share amounts)

	Successor Company		Predecessor Company	
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Three Months Ended September 26, 2008	Nine Months Ended September 26, 2008
Net earnings/(loss) from continuing operations	$ 690	$ 2,194	$ (5,120)	$ (11,723)
Net loss from discontinued operations	-	-	(32)	(45)
Preferred stock dividends	38	91	(2,319)	(2,730)
Net earnings/(loss) applicable to common shareholders — for basic EPS	$ 652	$ 2,103	$ (7,471)	$ (14,498)
Net earnings/(loss) applicable to common shareholders — for diluted EPS	$ 652	$ 2,103	$ (7,471)	$ (14,498)
(shares in thousands)				
Weighted-average basic shares outstanding(1)	N/A	N/A	1,338,963	1,098,630
Effect of dilutive instruments:				
Employee stock options(2)	N/A	N/A	-	-
FACAAP shares(2)	N/A	N/A	-	-
Restricted shares and units(2)	N/A	N/A	-	-
Convertible LYONs®(3)	N/A	N/A	-	-
ESPP shares(2)	N/A	N/A	-	-
Dilutive potential common shares	N/A	N/A	-	-
Diluted Shares(4)	N/A	N/A	1,338,963	1,098,630
Basic EPS from continuing operations	N/A	N/A	$ (5.56)	$ (13.16)
Basic EPS from discontinued operations	N/A	N/A	(0.02)	(0.04)
Basic EPS	N/A	N/A	$ (5.58)	$ (13.20)
Diluted EPS from continuing operations	N/A	N/A	$ (5.56)	$ (13.16)
Diluted EPS from discontinued operations	N/A	N/A	(0.02)	(0.04)
Diluted EPS	N/A	N/A	$ (5.58)	$ (13.20)
Common shares outstanding at period end	1,000	1,000	1,600,100	1,600,100

N/A Earnings per share data is not provided for the three and nine months ended September 30, 2009, as Merrill Lynch was a wholly-owned subsidiary of Bank of America during that period.
(1) Includes shares exchangeable into common stock in 2008.
(2) See Note 13 of the 2008 Annual Report for a description of these items.
(3) See Note 12 for additional information on LYONs.
(4) Due to the net loss for the three and nine months ended September 26, 2008, the diluted EPS calculation excludes 300 million equity-related instruments as they were antidilutive.

Basic and diluted loss per common share for the period from December 27, 2008 to December 31, 2008 were both $(0.10) per common share. The related weighted average shares outstanding used to compute both basic and diluted loss per common share was 1,600.3 million shares.

Note 14. Commitments, Contingencies and Guarantees

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.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies.

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest many of these matters. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch may explore potential settlements before a case is taken through trial because of the uncertainty, risks, and costs inherent in the litigation process. In accordance with ASC 450, *Contingencies*, Merrill Lynch will accrue a liability when it is probable of being incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, 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 or estimate what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Commitments

At September 30, 2009, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	Less than 1 year	1+ - 3 years	3+ - 5 years	Over 5 years
Lending commitments	$ 22,609	$ 7,747	$6,174	$3,691	$4,997
Purchasing and other commitments	6,285	2,524	968	1,358	1,435
Operating leases	3,791	761	1,305	841	884
Commitments to enter into forward dated resale and securities borrowing agreements	69,616	69,616	-	-	-
Commitments to enter into forward dated repurchase and securities lending agreements	85,052	85,052	-	-	-
Total	$187,353	$165,700	$8,447	$5,890	$7,316

Lending Commitments

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance, corporate and institutional transactions and asset-based lending transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions. See Note 10 for additional information.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn.

For lending commitments where the loan will be classified as held for sale upon funding, liabilities associated with unfunded commitments are calculated at the lower of cost or fair value, capturing declines in the fair value of the respective credit risk. For loan commitments where the loan will be classified as held for investment upon funding, liabilities are calculated considering both market and historical loss rates. Loan commitments held by entities that apply broker-dealer industry level accounting are accounted for at fair value.

Purchasing and Other Commitments

In the normal course of business, Merrill Lynch enters into institutional and margin-lending transactions, some of which are on a committed basis, but most of which are not. Margin lending on a committed basis only includes amounts where Merrill Lynch has a binding commitment. There were no binding margin lending commitments outstanding at September 30, 2009 or December 26, 2008.

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity and principal investing activities, of $1.4 billion and $1.3 billion at September 30, 2009 and December 26, 2008, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, systems consulting, and other office-related services. At September 30, 2009 and December 26, 2008, minimum fee commitments over the remaining life of these agreements totaled $1.8 billion and $2.2 billion, respectively. Merrill Lynch entered into commitments to purchase loans of $2.5 billion (which upon settlement of the commitment will be included in trading assets, loans held for investment or loans held for sale) at September 30, 2009. Such commitments totaled $3.9 billion at December 26, 2008. Other purchasing commitments amounted to $0.6 billion and $0.7 billion at September 30, 2009 and December 26, 2008, respectively.

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of September 30, 2009 would not have a material effect on the Condensed Consolidated Balance Sheets of Merrill Lynch.

In connection with trading activities, Merrill Lynch enters into commitments to enter into resale and securities borrowing and also repurchase and securities lending agreements.

Operating Leases

Merrill Lynch has entered into various non-cancelable long-term lease agreements for premises that expire through 2028. Merrill Lynch has also entered into various non-cancelable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

Guarantees

Merrill Lynch issues various guarantees to counterparties in connection with certain leasing, securitization and other transactions. Merrill Lynch is required to disclose information for guarantee arrangements such as the maximum potential amount of future payments under the guarantee, the term and carrying value of the guarantee, the nature of any collateral or recourse provisions and the current payment status of the guarantee. Merrill Lynch's guarantee arrangements and their expiration at September 30, 2009 are summarized as follows (see Note 6 for information related to derivative financial instruments within the scope of Guarantees Accounting):

(dollars in millions)

	Maximum Payout	Less than 1 year	1+ - 3 years	3+ - 5 years	Over 5 years	Carrying Value
Standby liquidity facilities	$ 4,950	$ 2,178	$ 2	$ 2,770	$ -	$ 311
Auction rate security guarantees	505	505	-	-	-	41
Residual value guarantees	738	322	96	320	-	6
Standby letters of credit and other guarantees	29,455	1,531	432	130	27,362	500

Standby Liquidity Facilities

Merrill Lynch provides standby liquidity facilities to certain municipal bond securitization SPEs. In these arrangements, Merrill Lynch is required to fund these standby liquidity facilities if the fair value of the assets held by the SPE declines below par value and certain other contingent events take place. In those instances where the residual interest in the securitized trust is owned by a third party, any payments under the facilities are offset by economic hedges entered into by Merrill Lynch. In those instances where the residual interest in the securitized trust is owned by Merrill Lynch, any requirement to pay under the facilities is considered remote because Merrill Lynch, in most instances, will purchase the senior interests issued by the trust at fair value as part of its dealer market-making activities. However, Merrill Lynch will have exposure to these purchased senior interests. In certain of these facilities, Merrill Lynch is required to provide liquidity support within seven days, while the remainder have third-party liquidity support for between 30 and 364 days before Merrill Lynch is required to provide liquidity. A portion of the facilities where Merrill Lynch is required to provide liquidity support within seven days are "net liquidity" facilities where upon draw Merrill Lynch may direct the trustee for the SPE to collapse the SPE trusts and liquidate the municipal bonds, and Merrill Lynch would only be required to fund any difference between par and the sale price of the bonds. "Gross liquidity" facilities require Merrill Lynch to wait up to 30 days before directing the trustee to liquidate the municipal bonds. Details of these liquidity facilities as of September 30, 2009, are illustrated in the table below:

(dollars in millions)

	Merrill Lynch Liquidity Facilities Can Be Drawn:				
	In 7 Days with "Net Liquidity"	In 7 Days with "Gross Liquidity"	After 7 and Up to 364 Days(1)	Total	Municipal Bonds to Which Merrill Lynch Has Recourse if Facilities Are Drawn
Merrill Lynch provides standby liquidity facilities	$ 1,370	$ 794	$ 2,757	$4,921	$ 5,759

(1) Initial liquidity support is provided by third parties within seven days, to be reimbursed by Merrill Lynch within 364 days.

Refer to Note 9 for further information.

Auction Rate Security ("ARS") Guarantees

Under the terms of its announced purchase program, as augmented by the global agreement reached with the New York Attorney General, the Securities and Exchange Commission, the Massachusetts Securities Division and other state securities regulators, Merrill Lynch agreed to purchase ARS at par from its retail clients, including individual, not-for-profit, and small business clients. Certain retail clients with less than $4 million in assets with Merrill Lynch as of February 13, 2008 were eligible to sell eligible ARS to Merrill Lynch starting on October 1, 2008. Other eligible retail clients meeting specified asset requirements were eligible to sell ARS to Merrill Lynch beginning on January 2, 2009. The final date of the ARS purchase program is January 15, 2010. Under the ARS purchase program, the eligible ARS held in accounts of eligible retail clients at Merrill Lynch as of September 30, 2009 was $505 million. As of September 30, 2009, Merrill Lynch had purchased $8.1 billion of ARS from eligible clients. In addition, under the ARS purchase program, Merrill Lynch has agreed to purchase ARS from retail clients who purchased their securities from Merrill Lynch and transferred their accounts to other brokers prior to February 13, 2008. Payment risk related to ARS guarantees is based largely upon the client's overall financial objectives. At September 30, 2009, a liability of $41 million has been recorded for the difference between the fair value and par value of all outstanding ARS that are subject to this guarantee.

Residual Value Guarantees

At September 30, 2009, residual value guarantees of $738 million include amounts associated with the Hopewell, NJ campus, aircraft leases and certain power plant facilities. Payments under these guarantees would only be required if the fair value of such assets declined below their guaranteed value. As of September 30, 2009, no payments have been made under this guarantee, as Merrill Lynch believes that the estimated fair value of such assets was in excess of their guaranteed value.

Standby Letters of Credit and Other Guarantees

Merrill Lynch provides guarantees to certain counterparties in the form of standby letters of credit in the amount of $1.0 billion. Payment risk is evaluated based upon historical payment activity.

In connection with residential mortgage loan and other securitization transactions, Merrill Lynch typically makes representations and warranties about the underlying assets. If there is a material breach of such representations and warranties, Merrill Lynch may have an obligation to repurchase the assets or indemnify the purchaser against any loss. For residential mortgage loan and other securitizations, the maximum potential amount that could be required to be repurchased is the current outstanding asset balance. Specifically related to First Franklin activities, there is currently approximately $27 billion (including loans serviced by others) of outstanding loans that First Franklin sold in various asset sales and securitization transactions where there may be an obligation to repurchase the asset or indemnify the purchaser against the loss if claims are made and it is ultimately determined that there has been a material breach related to such loans. The risk of repurchase under the First Franklin representations and warranties is evaluated by management based on an analysis of the unpaid principal balance on the loans sold along with historical payment experience and general market conditions. The repurchase reserve liability arising from these First Franklin residential mortgage sales and securitization transactions was approximately $500 million at September 30, 2009.

See Note 11 of the 2008 Annual Report for additional information on guarantees.

Note 15. Employee Benefit Plans

Merrill Lynch provides pension and other postretirement benefits to its employees worldwide through defined contribution pension, defined benefit pension and other postretirement plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 12 of the 2008 Annual Report for a complete discussion of employee benefit plans.

Effective January 1, 2009, Merrill Lynch's employee benefit plans were assumed by Bank of America.

Defined Benefit Pension Plans

Pension cost for the three and nine months ended September 30, 2009 and September 26, 2008, for Merrill Lynch's defined benefit pension plans, included the following components:

(dollars in millions)

	Successor Company					
	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	$ -	$ 6	$ 6	$ -	$ 19	$ 19
Interest cost	25	17	42	74	52	126
Expected return on plan assets	(37)	(17)	(54)	(111)	(52)	(163)
Total defined benefit pension cost	$ (12)	$ 6	$ (6)	$ (37)	$ 19	$ (18)

(dollars in millions)

	Predecessor Company					
	Three Months Ended September 26, 2008			Nine Months Ended September 26, 2008		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	$ -	$ 7	$ 7	$ -	$ 21	$ 21
Interest cost	24	21	45	72	64	136
Expected return on plan assets	(29)	(21)	(50)	(88)	(64)	(152)
Amortization of net (gains)/losses, prior service costs and other	-	3	3	-	9	9
Total defined benefit pension cost	$ (5)	$ 10	$ 5	$ (16)	$ 30	$ 14

Merrill Lynch disclosed in its 2008 Annual Report that it expected to pay $1 million of benefit payments to participants in the U.S. non-qualified pension plan and that it expected to contribute $120 million and $55 million, respectively, to its U.S. and non-U.S. defined benefit pension plans in 2009. Merrill Lynch does not expect its contributions to differ significantly from amounts previously disclosed.

Postretirement Benefits Other Than Pensions

Other postretirement benefit cost for the three and nine months ended September 30, 2009 were $4 million and $13 million, respectively, and were $2 million for both the three and nine months ended September 26, 2008. Approximately 93% of the postretirement benefit cost components for the period relate to the U.S. postretirement plan.

Note 16. Income Taxes

On September 30, 2009, Merrill Lynch's net deferred tax asset was approximately $16 billion. This balance included the January 1, 2009 impact of measuring Merrill Lynch's deferred tax assets and liabilities under the acquisition method of accounting and also reflects the sale of MLBUSA to a subsidiary of Bank of America during the third quarter of 2009. This measurement process resulted in an adjustment to certain deferred tax assets and liabilities, including a $1 billion reduction to valuation allowances primarily associated with the U.S. federal capital losses and foreign tax credit carryforwards. The remeasured net deferred tax asset includes carryforward amounts generated in the U.S. and U.K. that are deductible in the future as net operating losses ("NOLs"). The U.K. NOL deferred tax asset of approximately $10 billion has an unlimited carryforward period but, due to change-in-control limitations in the three years prior to and following the change in ownership, can be jeopardized by certain major changes in the nature or conduct of the U.K. businesses. The U.S. federal NOL of $12 billion, which is represented by a deferred tax asset of approximately $4 billion, can be carried forward against future tax periods of Bank of America until 2028. Merrill Lynch has concluded that no valuation allowances are necessary to reduce NOL deferred tax assets since estimated future taxable income will more likely than not be sufficient to utilize the assets prior to expiration. Due to capital gains recognized by Bank of America during the nine month period ended September, 30, 2009, Merrill Lynch's effective tax rate reflects the release of $750 million of a valuation allowance attributable to its federal capital loss carryforward during 2009.

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in countries and states in which Merrill Lynch has significant business operations. The tax years under examination vary by jurisdiction. The IRS audits for the years 2005, 2006 and 2007 may be completed in 2009. The IRS proposed adjustments for two issues in the audit for the tax year 2004 which Merrill Lynch has protested to the Appeals office. The issues involve eligibility for the dividend received deduction and foreign tax credits with respect to certain transactions. Similarly, Merrill Lynch intends to protest any proposed adjustments for these two issues for the years 2005, 2006 and 2007. During 2008, the Japanese tax authorities completed the audit of the fiscal tax years April 1, 2003 through March 31, 2007. An assessment reflecting the Japanese tax authorities' view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the U.S., should have been allocated to Japan was issued and paid in 2008. Similar to another Japan tax assessment received in 2005, Merrill Lynch is in the process of obtaining clarification from international authorities (Competent Authority) on the appropriate allocation of income among multiple jurisdictions to prevent double taxation. The audits in the U.K. for the tax year 2006 and in Germany for the tax year 2007 are also in progress and may be completed during 2009. The Canadian tax authorities completed the audit for the tax years 2004 and 2005 during the first quarter of 2009. In October of 2009, Merrill Lynch reached agreements with New York State and New York City on the examinations for the years 2002 through 2006. While the settlement will not have a material impact to income tax expense, the unrecognized tax benefits balance will decrease in the fourth quarter of 2009 by the settled amount.

Depending on the outcomes of multi-jurisdictional global audits and the ongoing Competent Authority proceeding with respect to the Japan assessments, it is reasonably possible Merrill Lynch's unrecognized tax benefits, which were approximately $2 billion as of September 30, 2009, may be reduced during the next 12 months, either because Merrill Lynch's tax positions are sustained on audit or Merrill Lynch agrees to settle certain issues. Merrill Lynch's unrecognized tax benefits may decrease by as much as $878 million during that period since resolved items would be removed from the unrecognized tax benefit balance whether their resolution resulted in payment or recognition.

Note 17. Regulatory Requirements

Prior to its acquisition by Bank of America, Merrill Lynch was a consolidated supervised entity subject to group-wide supervision by the SEC and capital requirements generally consistent with the standards of the Basel Committee on Banking Supervision. As such, Merrill Lynch computed allowable capital and risk allowances consistent with Basel II capital standards; permitted the SEC to examine the books and records of ML & Co. and any affiliate that did not have a principal regulator; and had various additional SEC reporting, record-keeping, and notification requirements.

As a wholly-owned subsidiary of Bank of America, a bank holding company that is also a financial holding company, Merrill Lynch is subject to the oversight of, and inspection by, the Board of Governors of the Federal Reserve System.

Certain U.S. and non-U.S. subsidiaries are subject to various securities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These regulatory restrictions may impose regulatory capital requirements and limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. Merrill Lynch's principal regulated subsidiaries are discussed below.

Securities Regulation

As a registered broker-dealer, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 ("the Rule"). Under the alternative method permitted by the Rule, the minimum required net capital, as defined, shall be the greater of 2% of aggregate debit items ("ADI") arising from customer transactions or $500 million in accordance with Appendix E of the Rule. At September 30, 2009, MLPF&S's regulatory net capital of $5.4 billion was approximately 45% of ADI, and its regulatory net capital in excess of the SEC minimum required was $4.9 billion.

As a futures commission merchant, MLPF&S is also subject to the capital requirements of the Commodity Futures Trading Commission ("CFTC"), which requires that minimum net capital should not be less than 8% of the total customer risk margin requirement plus 4% of the total non-customer risk margin requirement. At September 30, 2009, MLPF&S regulatory net capital of $5.4 billion exceeded the CFTC minimum requirement of $614 million by $4.8 billion.

Merrill Lynch International ("MLI"), a U.K. regulated investment firm, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement set by the FSA. At September 30, 2009, MLI's financial resources were $18.4 billion, exceeding the minimum requirement by $1.9 billion.

Merrill Lynch Japan Securities Co., Ltd. ("MLJS"), a Japan-based regulated broker-dealer, is subject to capital requirements of the Japanese Financial Services Agency ("JFSA"). Net capital, as defined, must exceed 120% of the total risk equivalents requirement of the JFSA. At September 30, 2009, MLJS's net capital was $1.6 billion, exceeding the minimum requirement by $978 million.

Merrill Lynch Government Securities Inc. ("MLGSI") was a primary dealer in U.S. Government securities. As a result of the Bank of America acquisition of Merrill Lynch, MLGSI was delisted as a primary U.S. Government securities dealer in February 2009.

Banking Regulation

MLBUSA is a Utah-chartered industrial bank, regulated by the Federal Deposit Insurance Corporation ("FDIC") and the State of Utah Department of Financial Institutions ("UTDFI"). Merrill Lynch Bank & Trust Co., FSB ("MLBT-FSB") is a full service thrift institution regulated by the Office of Thrift Supervision ("OTS"), whose deposits are insured by the FDIC. Both MLBUSA and MLBT-FSB are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. MLBUSA was sold to a subsidiary of Bank of America on July 1, 2009.

The following table illustrates the actual capital ratios and capital amounts for MLBT-FSB as of September 30, 2009.

(dollars in millions)

	Well Capitalized Minimum	MLBT-FSB Actual Ratio	MLBT-FSB Actual Amount
Tier 1 leverage	5%	10.06%	$ 3,596
Tier 1 capital	6%	14.57%	3,596
Total capital	10%	15.14%	3,737

As a result of its ownership of MLBT-FSB, ML & Co. is registered with the OTS as a savings and loan holding company ("SLHC") and is subject to regulation and examination by the OTS as a SLHC. As a result of the Bank of America acquisition, ML & Co. has requested that it be deregistered as a SLHC.

Merrill Lynch International Bank Limited ("MLIB"), an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority ("IFSRA"). MLIB is required to meet minimum regulatory capital requirements under the European Union ("EU") banking law as implemented in Ireland by the IFSRA. At September 30, 2009, MLIB's financial resources were $15.0 billion, exceeding the minimum requirement by $2.7 billion.

Note 18. Discontinued Operations

During the three and nine months ended September 26, 2008, Merrill Lynch recorded pre-tax losses of $53 million and $110 million, and net losses of $32 million and $45 million within discontinued operations. Such results were associated with Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York, which were sold in 2007, and Merrill Lynch Capital, which was sold in 2008.

Note 19. Restructuring Charge

Merrill Lynch recorded a pre-tax restructuring charge of approximately $486 million during 2008, of which $39 million and $484 million was recorded in the three and nine months ended September 26, 2008, respectively. The full year 2008 charge was comprised of severance costs of $348 million and expenses related to the accelerated amortization of previous granted equity-based compensation awards of $138 million.

During 2008, Merrill Lynch made cash payments, primarily severance related, of $331 million, resulting in a remaining liability balance of $17 million as of December 26, 2008. During the first nine months of 2009, Merrill Lynch made cash payments, primarily severance related, of $11 million, resulting in a remaining liability balance of $6 million as of September 30, 2009. This liability is recorded in other payables on the Condensed Consolidated Balance Sheets.

Note 20. Related Party Transactions

Merrill Lynch has entered into various transactions with Bank of America, primarily in connection with certain sales and trading and financing activities. Details on amounts receivable from and payable to Bank of America as of September 30, 2009 are presented below:

Receivables from Bank of America are comprised of:

(dollars in millions)	
Cash and cash equivalents	$10,796
Cash and securities segregated for regulatory purposes	1,800
Receivables under resale agreements and securities borrowed transactions	1,445
Trading assets	471
Intercompany funding receivable	4,115
Other receivables	2,377
Other assets	442
Total	$21,446

Payables to Bank of America are comprised of:

(dollars in millions)	
Payables under repurchase agreements	$12,217
Payables under securities loaned transactions	10,187
Trading liabilities	338
Other payables	4,122
Total	$26,864

Revenues and expenses related to transactions with Bank of America were not material for the three and nine months ended September 30, 2009.

Note 21. Sale of U.S. Banks to Bank of America

During the second quarter of 2009, the separate boards of directors of MLBUSA and MLBT-FSB approved the sale of their respective entities to a subsidiary of Bank of America.

In both transactions, Merrill Lynch sold the shares of the respective entity to Bank of America. The sale price of each entity was equal to its net book value as of the date of transfer. Consideration for the sale of MLBUSA was in the form of an $8.9 billion floating rate demand note payable from Bank of America to Merrill Lynch, while MLBT-FSB was sold for cash of approximately $4.4 billion. The demand note received by Merrill Lynch in connection with the MLBUSA sale had a stated interest rate that was a market rate at the time of sale.

The MLBUSA sale was completed on July 1, 2009. At that time, MLBUSA was merged into Bank of America, N.A., a subsidiary of Bank of America. The sale of MLBT-FSB was completed on November 2, 2009. At that time, MLBT-FSB was also merged into Bank of America, N.A. At September 30, 2009, the total assets of MLBT-FSB were $37.7 billion. In October, 2009, Bank of America announced that it had reached a definitive agreement to sell First Republic Bank, a division of MLBT-FSB, to a group of third party investors. The sale is expected to close in the second quarter of 2010, subject to receipt of all regulatory approvals.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Non-GAAP Financial Measures

We have included certain statements in this report which may be considered forward-looking, including those about management expectations and intentions, the impact of off-balance sheet exposures, significant contractual obligations and anticipated results of litigation and regulatory investigations and proceedings. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch", the "Company", the "Corporation", "we", "our" or "us") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond our control, which affect our operations, performance, business strategy and results and could cause our 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 and counterparties, general economic conditions, market conditions, the effects of current, pending and future legislation, regulation and regulatory actions, the actions of rating agencies and the other risks and uncertainties detailed in this report. See "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 26, 2008 (the "2008 Annual Report"). Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do 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 we may make in future filings of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

From time to time, we may also disclose financial information on a non-GAAP basis where management uses this information and believes this information will be valuable to investors in gauging the quality of our financial performance, identifying trends in our results and providing more meaningful period-to-period comparisons.

Introduction

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, we created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, is one of the world's leading capital markets, advisory and wealth management companies. We are a leading global trader and underwriter of securities and derivatives across a broad range of asset classes, and we serve as a strategic advisor to corporations, governments, institutions and individuals worldwide. In addition, as of September 30, 2009, we owned approximately 48 percent of the economic interest of BlackRock, Inc. ("BlackRock"), one of the world's largest publicly traded investment management companies with approximately $1.4 trillion in assets under management at September 30, 2009. See "Executive Overview — Other Events" for additional information regarding our investment in BlackRock.

Bank of America Acquisition and Basis of Presentation

On January 1, 2009, Merrill Lynch was acquired by Bank of America Corporation ("Bank of America") through the merger of a wholly owned subsidiary of Bank of America with and into ML & Co. with ML & Co. continuing as the surviving corporation and a wholly owned subsidiary of Bank of America. Upon completion of the acquisition, each outstanding share of ML & Co. common stock was converted into 0.8595 shares of Bank of America common stock. As of the completion of the acquisition, ML & Co. Series 1 through Series 8 preferred stock were converted into Bank of America preferred stock with substantially identical terms to the corresponding series of Merrill Lynch preferred stock (except for additional voting rights provided to the Bank of America securities). The Merrill Lynch 9.00% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 2, and 9.00% Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock, Series 3 that was outstanding immediately prior to the completion of the acquisition remained issued and outstanding subsequent to the acquisition, but are now convertible into Bank of America common stock.

Bank of America's cost of acquiring Merrill Lynch has been pushed down to form a new accounting basis for Merrill Lynch. Accordingly, the Condensed Consolidated Financial Statements appearing in Part I, Item 1 of this Form 10-Q are presented for Merrill Lynch for periods occurring prior to the acquisition by Bank of America (the "Predecessor Company") and subsequent to the January 1, 2009 acquisition (the "Successor Company"). The Predecessor Company and Successor Company periods have been separated by a vertical line on the face of the Condensed Consolidated Financial Statements to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting.

Effective January 1, 2009, Merrill Lynch adopted calendar quarter-end and year-end reporting periods to coincide with those of Bank of America. As a result, the following discussion of the results of operations for the third quarter of 2009 refers to the period from July 1, 2009 through September 30, 2009, and the first nine months of 2009 refers to the period from January 1, 2009 through September 30, 2009. The third quarter of 2008 refers to the period from June 28, 2008 through September 26, 2008, and the first nine months of 2008 refers to the period from December 29, 2007 through September 26, 2008. The intervening period between Merrill Lynch's previous fiscal year end (December 26, 2008) and the beginning of the first quarter of 2009 (January 1, 2009) is presented separately on the Condensed Consolidated Statements of Earnings/(Loss).

In connection with our acquisition by Bank of America, we evaluated the provisions of Accounting Standards Codification ("ASC") 280, *Segment Reporting* ("Segment Reporting"), in the first quarter of 2009. Pursuant to Segment Reporting, operating segments represent components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. Based upon how the chief operating decision maker of Merrill Lynch reviews our results, it was determined that Merrill Lynch does not contain any identifiable operating segments. As a result, the financial information of Merrill Lynch is presented as a single segment.

During the third quarter of 2009, Merrill Lynch adjusted previously reported prior period 2009 amounts related to the valuation of certain long-term borrowings, primarily structured notes. The impact of these adjustments reduced principal transactions revenues by $252 million and $178 million and net earnings by $176 million and $160 million for the first and second quarters of 2009, respectively. The results for the three and nine months ended September 30, 2009 are appropriately stated. Historical quarterly results presented in future filings will include the impact of these revisions.

As a result of the acquisition of Merrill Lynch by Bank of America, certain information is not required in this Form 10-Q as permitted by general Instruction H of Form 10-Q. We have also abbreviated Management's Discussion and Analysis of Financial Condition and Results of Operations as permitted by general Instruction H.

Executive Overview

Company Results

We reported net earnings from continuing operations for the three and nine months ended September 30, 2009 of $690 million and $2.2 billion. These results compare with net losses from continuing operations of $(5.1) billion and $(11.7) billion for the three and nine months ended September 26, 2008. Revenues, net of interest expense ("net revenues") for the three and nine months ended September 30, 2009 were $5.1 billion and $16.8 billion, compared with $16 million and $834 million in the three and nine months ended September 26, 2008. Pre-tax earnings from continuing operations were $509 million and $2.4 billion for the three and nine months ended September 30, 2009, respectively. Pre-tax losses from continuing operations were $(8.3) billion and $(19.7) billion in the three and nine months ended September 26, 2008.

The results for the third quarter of 2009 reflected improved sales and trading results as compared with the prior year. Net revenues increased due primarily to higher revenues from fixed income trading activities, including mortgage and credit products, which generated positive trading revenues in the current year as compared with significant net write-downs recorded in the prior year period. These increases were partially offset by lower equity and commodity net revenues. In addition, net revenues for the third quarter of 2009 were adversely affected by net losses of $2.1 billion due to the impact of the narrowing of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities. The results for the nine month period ended September 30, 2009 also reflected higher revenues from fixed income trading as compared with the net losses recorded in the prior year. The results for the first nine months of 2009 also included a $3.5 billion net loss due to the impact of the narrowing of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities. The results for both the three and nine month periods ended September 30, 2009 reflected lower investment banking revenues and lower revenues from our global wealth management activities.

In the third quarter of 2008, net revenues and net earnings were materially affected by a number of significant items, which included: net write-downs of $5.7 billion resulting from the sale of U.S. asset-backed collateralized debt obligations ("ABS CDOs") and the termination and settlement of related hedges; a net gain of $4.3 billion from the sale of our 20% ownership stake in Bloomberg, L.P.; net write-downs of $3.8 billion associated with real estate-related assets and losses related to certain government-sponsored entities and major U.S. broker dealers, as well as the default of a major U.S. broker-dealer; net gains of $2.8 billion due to the impact of the widening of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities; net losses of $2.6 billion across residential and commercial mortgage exposures; a $2.5 billion non-deductible payment to affiliates and transferees of Temasek Holdings (Private) Limited ("Temasek") related to our July 2008 offering of common stock; and a $425 million expense, including a $125 million fine, arising from Merrill Lynch's offer to repurchase auction rate securities ("ARS") from our private clients and the associated settlement with regulators.

The results for the nine months ended September 26, 2008 included net losses related to U.S. ABS CDOs of $9.8 billion; credit valuation adjustments related to hedges with financial guarantors of $7.2 billion; net losses related to certain residential mortgage exposures of $4.3 billion; net losses related to the investment securities portfolio of Merrill Lynch's U.S. banks of $2.9 billion; net losses of $2.1 billion related to U.S. broker-dealers and certain government-sponsored entities; and leveraged finance commitment write-downs of $1.8 billion. In addition, the results for the nine months ended September 26, 2008 included a restructuring charge of $484 million arising from staff reductions completed during the period. These results were partially offset by a net gain of $4.3 billion from the sale of our ownership stake in Bloomberg, L.P. as well as a net benefit of $5.0 billion related to the widening of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities.

Our net loss applicable to common shareholders for the three and nine months ended September 26, 2008 included $2.1 billion of additional preferred dividends associated with the exchange of Merrill Lynch's mandatory convertible preferred stock, which occurred in July 2008.

Transactions with Bank of America

Asset and Liability Transfers

Subsequent to the Bank of America acquisition, certain assets and liabilities were transferred at fair value between Merrill Lynch and Bank of America. These transfers were made in connection with efforts to manage risk in a more effective and efficient manner at the consolidated Bank of America level. The assets and liabilities transferred related to sales and trading activities and included positions associated with the rates and currency, equity and mortgage products trading businesses. During the nine months ended September 30, 2009, these transfers included approximately $47 billion each of assets and liabilities transferred from Merrill Lynch to Bank of America, primarily U.S. matched book repurchase positions and mortgage positions. Approximately $42 billion of assets and $19 billion of liabilities were transferred from Bank of America to Merrill Lynch, primarily equity-related positions. In the future, Merrill Lynch and Bank of America may continue to transfer certain assets and liabilities to (and from) each other.

Sale of U.S. Banks to Bank of America

During the second quarter of 2009, the separate boards of directors of Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co., FSB ("MLBT-FSB") approved the sale of their respective entities to a subsidiary of Bank of America.

In both transactions, Merrill Lynch sold the shares of the respective entity to Bank of America. The sale price of each entity was equal to its net book value as of the date of transfer. Consideration for the sale of MLBUSA was in the form of an $8.9 billion floating rate demand note payable from Bank of America to Merrill Lynch, while MLBT-FSB was sold for cash of approximately $4.4 billion. The demand note received by Merrill Lynch in connection with the MLBUSA sale had a stated interest rate that was a market rate at the time of sale.

The MLBUSA sale was completed on July 1, 2009. At that time, MLBUSA was merged into Bank of America, N.A., a subsidiary of Bank of America. The sale of MLBT-FSB was completed on November 2, 2009. At that time, MLBT-FSB was also merged into Bank of America, N.A. At September 30, 2009, the total assets of MLBT-FSB were $37.7 billion. In October, 2009, Bank of America announced that it had reached a definitive agreement to sell First Republic Bank, a division of MLBT-FSB, to a group of third party investors. The sale is expected to close in the second quarter of 2010, subject to receipt of all regulatory approvals.

Other Events

On June 12, 2009, BlackRock agreed to purchase Barclays Global Investors from Barclays, Plc. and upon the closing of this transaction, which is anticipated to occur in the fourth quarter of 2009, we will record an adjustment to our investment in BlackRock. This acquisition has the effect of diluting our ownership interest in BlackRock, which for accounting purposes will be treated as a sale of a portion of our ownership interest. As a result, our economic interest in BlackRock will be reduced from approximately 48 percent to approximately 34 percent.

On September 21, 2009, Bank of America reached an agreement to terminate its term sheet with the U.S. government under which the U.S. government agreed in principle to provide protection against the possibility of unusually large losses on a pool of Bank of America's financial instruments that were acquired from Merrill Lynch. In connection with the termination of the term sheet, Bank of America paid a total of $425 million in the third quarter to the U.S. government to be allocated among the U.S. Treasury, the Federal Reserve and the Federal Deposit Insurance Corporation.

Results Of Operations

(dollars in millions, except per share amounts)

	Successor Company		Predecessor Company			
	Three Months Ended Sept. 30, 2009	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 26, 2008	Nine Months Ended Sept. 26, 2008	% Change between the Three Months Ended Sept. 30, 2009 and the Three Months Ended Sept. 26, 2008	% Change between the Nine Months Ended Sept. 30, 2009 and the Nine Months Ended Sept. 26, 2008
Revenues						
Principal transactions	$ 214	$ 4,047	$ (6,573)	$ (13,074)	N/M%	N/M%
Commissions	1,316	4,049	1,745	5,445	(25)	(26)
Managed account and other fee-based revenues	997	3,118	1,395	4,249	(29)	(27)
Investment banking	732	2,200	845	2,920	(13)	(25)
Earnings from equity method investments	213	306	4,401	4,943	(95)	(94)
Other(1)	1,352	2,395	(2,986)	(6,310)	N/M	N/M
Subtotal	4,824	16,115	(1,173)	(1,827)	N/M	N/M
Interest and dividend revenues	2,685	9,505	9,019	28,415	(70)	(67)
Less interest expense	2,407	8,831	7,830	25,754	(69)	(66)
Net interest profit	278	674	1,189	2,661	(77)	(75)
Revenues, net of interest expense	5,102	16,789	16	834	N/M	N/M
Non-interest expenses:						
Compensation and benefits	2,768	9,203	3,483	11,170	(21)	(18)
Communications and technology	501	1,395	546	1,667	(8)	(16)
Brokerage, clearing, and exchange fees	240	732	348	1,105	(31)	(34)
Occupancy and related depreciation	314	867	314	951	-	(9)
Professional fees	148	396	242	747	(39)	(47)
Advertising and market development	89	248	159	501	(44)	(50)
Office supplies and postage	38	115	48	160	(21)	(28)
Other	495	1,398	588	1,212	(16)	15
Payment related to price reset on common stock offering	-	-	2,500	2,500	N/M	N/M
Restructuring charge	-	-	39	484	N/M	N/M
Total non-interest expenses	4,593	14,354	8,267	20,497	(44)	(30)
Pre-tax earnings/(loss) from continuing operations	509	2,435	(8,251)	(19,663)	N/M	N/M
Income tax (benefit)/expense	(181)	241	(3,131)	(7,940)	N/M	N/M
Net earnings/(loss) from continuing operations	690	2,194	(5,120)	(11,723)	N/M	N/M
Discontinued operations:						
Pre-tax loss from discontinued operations	-	-	(53)	(110)	N/M	N/M
Income tax benefit	-	-	(21)	(65)	N/M	N/M
Net loss from discontinued operations	-	-	(32)	(45)	N/M	N/M
Net earnings/(loss)	690	2,194	(5,152)	(11,768)	N/M	N/M
Preferred stock dividends	38	91	2,319	2,730	N/M	N/M
Net earnings/(loss) applicable to common stockholders	$ 652	$ 2,103	$ (7,471)	$ (14,498)	N/M	N/M
Basic loss per common share from continuing operations	N/A	N/A	$ (5.56)	$ (13.16)	N/M	N/M
Basic loss per common share from discontinued operations	N/A	N/A	(0.02)	(0.04)	N/M	N/M
Basic loss per common share	N/A	N/A	$ (5.58)	$ (13.20)	N/M	N/M
Diluted loss per common share from continuing operations	N/A	N/A	$ (5.56)	$ (13.16)	N/M	N/M
Diluted loss per common share from discontinued operations	N/A	N/A	(0.02)	(0.04)	N/M	N/M
Diluted loss per common share	N/A	N/A	$ (5.58)	$ (13.20)	N/M	N/M
Book value per share	N/M	N/M	$ 18.59	$ 18.59	N/M	N/M

(1) Successor Company amounts include other income and other-than-temporary impairment losses on available-for-sale debt securities. The other-than-temporary impairment losses were $305 million and $599 million for the three and nine months ended September 30, 2009, respectively.

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.
N/M = Not meaningful.
N/A = Earnings per share information is not applicable to the Successor Company periods since Merrill Lynch is now a wholly-owned subsidiary of Bank of America.

Quarterly Consolidated Results of Operations

Our net earnings from continuing operations for the third quarter of 2009 was $690 million compared with a net loss of $5.1 billion for the third quarter of 2008. Net revenues for the three months ended September 30, 2009 were $5.1 billion compared with $16 million for the prior year period. The results in 2009 primarily reflected improved performance from our fixed income trading businesses. The quarter's results also included a $2.1 billion loss due to the impact of the narrowing of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities. The net losses for the quarter ended September 26, 2008 were primarily driven by our fixed income businesses and were materially impacted by the challenging market environment that existed during that period. Losses incurred during the third quarter of 2008 included write-downs from the sale of U.S. ABS CDOs and the termination of related hedges, losses across residential and commercial mortgage-related exposures, real estate asset write-downs and losses related to certain government sponsored entities and major U.S. broker-dealers, including the default of a major U.S broker-dealer.

Principal transactions revenues include both realized and unrealized gains and losses on trading assets and trading liabilities and investment securities classified as trading. Principal transactions revenues were $214 million for the three months ended September 30, 2009 compared with negative $6.6 billion for the three months ended September 26, 2008. Principal transactions revenues in the third quarter of 2009 were adversely affected by a $2.1 billion loss due to the impact of the narrowing of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities. Equity trading revenues increased as compared with the prior year, primarily reflecting higher revenues from cash and derivative products. Credit products revenues increased, reflecting strong liquidity and client activity, augmented by strong new issuance volume, as well as more favorable market conditions as compared with the prior year. Revenues from certain other fixed income trading activities also increased, including mortgage products, reflecting improved results in the current year as compared with the significant net write-downs recorded in the prior year period. These increases were partially offset by lower revenues from commodities and rates and currencies as compared with the prior year. In the third quarter of 2008, the negative principal transaction revenues were driven primarily by net losses in our fixed income trading businesses, including losses related to the sale of ABS CDOs and the termination and settlement of related hedges, net losses associated with real estate-related assets, and net losses from credit spread widening across most asset classes to significantly higher levels during that period. Net losses were also recorded as a result of severe market dislocations that occurred in September 2008, including the impact of the default of a major U.S. broker-dealer and the U.S. government's conservatorship of certain government sponsored entities. Such losses were partially offset by strong net revenues generated by our interest rate and currencies and commodities businesses, as well as gains arising from the widening of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities.

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 our businesses, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit is an integral component of trading activity. In assessing the profitability of our client facilitation and trading activities, we view principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate from period to period. Net interest profit was $278 million for the three months ended September 30, 2009 as compared with $1.2 billion in the prior year period. Interest revenues declined as a result of lower asset levels and stated interest rates on those assets. Interest expense also decreased due to reduced funding levels and lower interest rates on such funding in our sales and trading businesses. The decline in net interest profit also reflected the amortization of purchase accounting adjustments related to the fair value of certain long-term borrowings that were recorded in connection with the acquisition of Merrill Lynch by Bank of America.

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. Commissions revenues were $1.3 billion for the three months ended September 30, 2009, down 25% from the prior year period, driven primarily by lower revenues from our global cash equity trading business resulting from lower transaction volumes. Commission revenues from our global wealth management activities also declined as compared with the prior year.

Managed accounts and other fee-based revenues primarily consist of asset-priced portfolio service fees earned from the administration of separately managed and other investment accounts for retail investors, annual account fees, and certain other account-related fees. Managed accounts and other fee-based revenues were $1.0 billion for the three months ended September 30, 2009, a decrease of 29% from the prior year period. The decline was primarily due to lower fee-based revenues from our global wealth management activities, driven by lower levels of fee-based assets from which such revenues are generated, reflecting market prices and net outflows of client assets.

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 $732 million for the three months ended September 30, 2009, down 13% from the prior year period. Underwriting revenues increased 23% to $602 million. Revenues from strategic advisory services declined 63% to $130 million, reflecting an industry-wide decline in transaction volumes. As a result of Bank of America's acquisition of Merrill Lynch, beginning in 2009, certain debt origination activities that were formerly conducted by Merrill Lynch are now being conducted within the Bank of America platform, while certain equity origination activities that were formerly conducted by Bank of America are now being conducted within the Merrill Lynch platform.

Earnings from equity method investments include our pro rata share of income and losses associated with investments accounted for under the equity method of accounting. Earnings from equity method investments were $213 million for the three months ended September 30, 2009 compared with $4.4 billion for the three months ended September 26, 2008, which included a net pre-tax gain of $4.3 billion from the sale of our 20% ownership stake in Bloomberg, L.P. Excluding this gain, prior year revenues were $105 million. The year over year increase primarily reflected higher revenues from certain investments, including partnerships and alternative investment management companies. Refer to Note 5 of the 2008 Annual Report for further information on equity method investments.

Other revenues include gains and losses on investment securities, including certain available-for-sale securities, gains and losses on private equity investments, and gains and losses on loans and other miscellaneous items. Other revenues were $1.4 billion for the three months ended September 30, 2009, compared with negative $3.0 billion in the prior year period. Other revenues in the third quarter of 2009 were primarily associated with an increase in the fair value of certain private equity investments. The negative revenues for 2008 primarily reflected net losses from asset sales across residential and commercial mortgage exposures, other-than-temporary impairment charges on available-for-sale securities within our U.S. banks investment securities portfolio, write-downs on leveraged finance commitments, and a decrease in the value of certain private equity investments due primarily to the decline in the value of certain non-public investments.

Compensation and benefits expenses were $2.8 billion for the three months ended September 30, 2009 and $3.5 billion in the prior year period. The year over year decrease primarily reflects lower compensation costs as a result of reduced headcount levels. Amortization expense associated with prior year stock-based compensation awards also decreased as a result of the revaluation of these awards due to purchase accounting adjustments that were recorded in connection with the acquisition of Merrill Lynch by Bank of America. In addition, the decline in compensation expense reflects a change in compensation that delivers a greater portion of incentive compensation over time.

Non-compensation expenses were $1.8 billion for the quarter ended September 30, 2009 and $4.8 billion in the prior year period. Brokerage, clearing and exchange fees were $240 million, down 31% primarily associated with decreased transaction volumes. Professional fees were $148 million, down 39% primarily due to lower legal and consulting fees. Advertising and market development costs were $89 million, down 44% primarily due to lower travel and entertainment expenses as well as lower promotion and marketing expenses. Other expenses were $495 million, a decrease of 16% from the prior year. Other expenses for 2008 included a charge of $425 million related to Merrill Lynch's offer to repurchase ARS from our private clients and the associated settlement with regulators. Excluding this item, other expenses increased $332 million, which included an additional $80 million of amortization expense due to intangible assets that were recorded in connection with the acquisition of Merrill Lynch by Bank of America, and an additional $150 million of expense associated with non-controlling interests of certain principal investments, including private equity investments. Non-compensation expenses for the third quarter of 2008 included a $2.5 billion non-tax deductible payment to Temasek related to Merrill Lynch's July 2008 common stock offering, as well as a restructuring charge of $39 million primarily related to severance costs and the accelerated amortization of previously granted stock awards arising from headcount reduction initiatives conducted during that quarter.

The income tax benefit from continuing operations was $181 million for the three months ended September 30, 2009 compared with $3.1 billion for the comparable period in 2008. The effective tax rate for the third quarter of 2009 was (35.6)%, which reflects the benefit of a shift in the geographic mix of our earnings as well as net permanent tax benefits discussed in the "Year-to-Date Consolidated Results of Operations" section below offsetting a higher percentage of our pre-tax income. For the prior year period, the effective tax rate was 37.9%, which was primarily driven by a tax benefit attributable to a loss on foreign subsidiary stock offset by a charge related to a nondeductible expense and the geographic mix of our earnings.

The majority of the income of certain foreign subsidiaries is not currently subject to U.S. income tax as a result of deferral provisions applicable to active financing income. These provisions are scheduled to expire for taxable years beginning on or after January 1, 2010. Absent an extension of these provisions, active financing income earned by foreign subsidiaries after expiration will be subject to a tax provision that considers the incremental U.S. tax. Merrill Lynch does not expect the impact, which will depend upon the amount and geographic mix of future earnings, to drive Merrill Lynch's effective tax rate higher than the U.S. statutory tax rates for 2010.

Year-to-Date Consolidated Results of Operations

For the first nine months of 2009, our net income from continuing operations was $2.2 billion, compared with a net loss from continuing operations of $11.7 billion in the prior-year period. Net revenues for the first nine months of 2009 were $16.8 billion compared with $834 million in the prior-year period. The increase in net revenues primarily reflected improved fixed income trading results, including mortgage and credit products. These increases were partially offset by lower equity trading revenues and a net loss of $3.5 billion due to the impact of the narrowing of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities. The results for the first nine months of 2008 included net losses related to U.S. ABS CDOs of $9.8 billion, credit valuation adjustments related to hedges with financial guarantors of $7.2 billion, net losses related to certain residential and commercial mortgage exposures of $5.1 billion, net losses related to the investment securities portfolio of Merrill Lynch's U.S. banks of $2.9 billion, net losses of $2.1 billion related to major U.S. broker-dealers and certain government sponsored entities, and leveraged finance commitment write-downs of $1.8 billion. These losses were partially offset by a net gain of $5.0 billion related to the impact of the widening of credit spreads on the carrying value of certain of our long-term debt liabilities and a net pre-tax gain from the sale of our 20% ownership stake in Bloomberg, L.P. of $4.3 billion.

Compensation and benefits expenses were $9.2 billion for the first nine months of 2009, down 18% from $11.2 billion in the first nine months of 2008 due primarily to the same reasons as the quarterly decline, including a change in compensation that delivers a greater portion of incentive compensation over time.

Non-compensation expenses were $5.2 billion for the first nine months of 2009 and $9.3 billion in prior year period, which included the $2.5 billion Temasek payment and the $425 million ARS-related expense incurred in the third quarter of 2008. Brokerage, clearing, and exchange fees were $732 million, down 34% primarily due to decreased transaction volumes. Professional fees were $396 million, down 47% primarily due to lower legal and consulting fees. Advertising and market development costs were $248 million, down 50% primarily due to lower travel and entertainment expenses as well as lower promotion and marketing expenses. Other expenses were $1,398 million as compared with $1,212 million in 2008, which included the $425 million ARS-related expense. The increase from the prior year included additional amortization of intangible assets that were recorded in connection with the acquisition of Merrill Lynch by Bank of America, and additional expense associated with non-controlling interests of certain principal investments, including private equity investments. Non-compensation expenses for the first nine months of 2008 also included a restructuring charge of $484 million related to headcount reduction initiatives conducted during that period.

The income tax expense/(benefit) was $241 million for the nine months ended September 30, 2009 compared with $(7.9) billion for the prior year period. The effective tax rate for the nine months ended September 30, 2009 of 9.9% was driven by net permanent tax benefits, primarily a valuation allowance release and foreign earnings taxed at rates below the U.S. rate, offsetting a higher percentage of our pre-tax income. For the prior year period, the effective tax rate was 40.4%, which reflects the impact of a tax benefit attributable to a loss on foreign subsidiary stock offset by the geographic mix of our earnings and a non-deductible expense related to the Temasek dividend payment. During the nine months ended September 30, 2009, Bank of America recognized capital gains against which a portion of the U.S. capital loss carryforwards may be utilized. Merrill Lynch's effective tax rate reflects the release of $750 million of a valuation allowance attributable to its U.S. capital loss carryforward during 2009. The effective tax rate for the fourth quarter may be positively impacted by one-time items, including tax benefits from the recognition of additional tax capital losses and possible settlements with various taxing authorities.

U.S. ABS CDO and Other Mortgage-Related Activities

Capital markets showed some signs of improvement in the first nine months of 2009. Market dislocations that occurred throughout 2008 continued to impact our results in the first nine months of

2009, but to a much lesser extent in comparison with the losses we incurred on CDOs and other mortgage related products in the first nine months of 2008.

Residential Mortgage, U.S. Super Senior ABS CDO and Commercial Mortgage-Related Activities (excluding the Investment Securities Portfolio)

The following table provides a summary of our U.S. super senior ABS CDO, residential and commercial mortgage-related net exposures, excluding net exposures to residential and commercial mortgage-backed securities held in our investment securities portfolio, which are described in the *Investment Securities Portfolio* section below.

(Excluding the investment securities portfolio.)

(dollars in millions)	Net exposures as of Dec. 26, 2008	Net exposures as of June 30, 2009	Net exposures as of Sept. 30, 2009
Residential Mortgage-Related			
U.S. Prime(1)	$ 34,799	$ 33,226	$ 33,275
Other Residential:			
U.S. Sub-prime	$ 195	$ (233)	$ (478)
U.S. Alt-A	27	34	(6)
Non-U.S.	3,380	3,178	3,131
Total Other Residential(2)	$ 3,602	$ 2,979	$ 2,647
U.S. Super Senior ABS CDO	$ 708	$ 94	$ 100
Commercial Real Estate:			
Whole Loans/Conduits	$ 3,845	$ 3,765	$ 3,505
Securities and Derivatives	174	(652)	(1,174)
Real Estate Investments(3)	5,685	4,054	3,606
Total Commercial Real Estate, excluding First Republic Bank	$ 9,704	$ 7,167	$ 5,937
First Republic Bank, Commercial Real Estate	$ 3,119	$ 5,280	$ 5,346

(1) As of September 30, 2009, net exposures include approximately $30.8 billion of prime loans originated with clients of our global wealth management business (of which $13.9 billion were originated by First Republic Bank).

(2) Includes warehouse lending, whole loans and residential mortgage-backed securities.

(3) Merrill Lynch makes debt and equity investments in entities whose underlying assets are real estate. The amounts presented are net investments and therefore exclude the amounts that have been consolidated but for which Merrill Lynch does not consider itself to have economic exposure.

U.S. ABS CDO Activities

In September 2008, we sold $30.6 billion gross notional amount of U.S. super senior ABS CDOs (the “Portfolio”) to an entity owned and controlled by Lone Star Funds (“Lone Star”) for a sales price of $6.7 billion. We provided a financing loan to the purchaser for approximately 75% of the purchase price. The recourse on this loan, which is not included in the table above, is limited to the assets of the purchaser, which consist solely of the Portfolio. All cash flows and distributions from the Portfolio (including sale proceeds) will be applied in accordance with a specified priority of payments. The loan had a carrying value of $4.5 billion at September 30, 2009. Events of default under the loan are customary events of default, including failure to pay interest when due and failure to pay principal at maturity. As of September 30, 2009, all scheduled payments on the loan have been received.

Monoline Financial Guarantors

We hedge a portion of our long exposures of U.S. super senior ABS CDOs with various market participants, including financial guarantors. We define financial guarantors as monoline insurance companies that provide credit support for a security either through a financial guaranty insurance policy on a particular security or through an instrument such as a credit default swap (“CDS”). Under a CDS, the financial guarantor generally agrees to compensate the counterparty to the swap for the deterioration in the value of the underlying security upon an occurrence of a credit event, such as a failure by the underlying obligor on the security to pay principal and/or interest.

We hedged a portion of our long exposures to U.S. super senior ABS CDOs with certain financial guarantors through the execution of CDS that are structured to replicate standard financial guaranty insurance policies, which provide for timely payment of interest and/or ultimate payment of principal at their scheduled maturity date. CDS gains and losses are based on the fair value of the referenced ABS CDOs. Based on the creditworthiness of the financial guarantor hedge counterparties, we record credit valuation adjustments in estimating the fair value of the CDS.

At September 30, 2009, the carrying value of our hedges with financial guarantors related to U.S. super senior ABS CDOs was $1.0 billion.

In addition to hedges with financial guarantors on U.S. super senior ABS CDOs, we also have hedges on certain long exposures related to corporate CDOs, Collateralized Loan Obligations (“CLOs”), Residential Mortgage-Backed Securities (“RMBS”) and Commercial Mortgage-Backed Securities (“CMBS”). At September 30, 2009, the carrying value of our hedges with financial guarantors related to these types of exposures was $4.2 billion, of which approximately 36% pertains to CLOs and various high grade basket trades. The other 64% relates primarily to CMBS and RMBS in the U.S. and Europe.

The following table provides a summary of our total financial guarantor exposures to other referenced assets, as described above, other than U.S. super senior ABS CDOs, as of September 30, 2009.

(dollars in millions)

Credit Default Swaps with Financial Guarantors (Excluding U.S. Super Senior ABS CDO)	**Notional of CDS**[1]	**Net Exposure**[2]	**Mark-to-Market Prior to Credit Valuation Adjustments**	**Life-to-Date Credit Valuation Adjustments**	**Carrying Value**[4]
By counterparty credit quality[3]					
AAA	$ (11,737)	$ (9,898)	$ 1,839	$ (192)	$ 1,647
Non-investment grade or unrated	(23,374)	(16,920)	6,454	(3,882)	2,572
Total financial guarantor exposures	$ (35,111)	$ (26,818)	$ 8,293	$ (4,074)	$ 4,219

(1) Represents the gross notional amount of CDS purchased as protection to hedge predominantly Corporate CDO, CLO, RMBS & CMBS exposure. Amounts do not include exposure with financial guarantors on U.S. super senior ABS CDOs which are reported separately above.

(2) Represents the notional of the total CDS, net of gains prior to credit valuation adjustments.

(3) Represents S&P rating band as of September 30, 2009.

(4) The total carrying value as of June 30, 2009 and December 26, 2008 was $5,321 million and $7,770 million, respectively. The decrease in carrying value from June 30, 2009 primarily reflected a $900 million decrease in CLO, corporate CDO, CMBS and RMBS carrying value.

Investment Securities Portfolio

The investment securities portfolio had historically consisted of investment securities comprising various asset classes held by MLBUSA and MLBT-FSB (the “Investment Securities Portfolio”). During the fourth quarter of 2008, in order to manage capital at MLBUSA, certain investment securities were transferred from MLBUSA to a consolidated non-bank entity. This transfer had no impact on how the investment securities were valued or the subsequent accounting treatment. The net exposure of this portfolio was $2.2 billion at September 30, 2009 and $8.1 billion at June 30, 2009. The decline primarily reflected asset sales and the sale of MLBUSA to Bank of America (see “Executive Overview — Transactions with Bank of America — Sale of U.S. Banks to Bank of America” for further information). The cumulative balances in other comprehensive income/(loss) as of December 26, 2008 associated with this portfolio were eliminated as of January 1, 2009 as a result of purchase accounting adjustments recorded in connection with the acquisition of Merrill Lynch by Bank of America. We regularly (at least quarterly) evaluate each security whose value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. We value RMBS based on observable prices and where prices are not observable, values are based on modeling the present value of projected cash flows that we expect to receive, based on the actual and projected performance of the mortgages underlying a particular securitization. Key determinants affecting our estimates of future cash flows include estimates for borrower prepayments, delinquencies, defaults, and loss severities.

A decline in a debt security’s fair value is considered to be other-than-temporary if it is probable that not all amounts contractually due will be collected. In assessing whether it is probable that all amounts contractually due will not be collected, we consider the following:

- The period of time over which it is estimated that the fair value will increase from the current level to at least the amortized cost level, or until principal and interest is estimated to be received;
- The period of time a security’s fair value has been below amortized cost;
- The amount by which the security’s fair value is below amortized cost;
- The financial condition of the issuer; and
- Management’s intention to sell the security or if it is more likely than not that Merrill Lynch will be required to sell the security before the recovery of its amortized cost.

Refer to Note 1 to the Condensed Consolidated Financial Statements for additional information.

The following table provides a summary of the Investment Securities Portfolio's net exposures and losses.

(dollars in millions)

	Net exposures as of June 30 2009	Sale of MLBUSA	Net gains/(losses) reported in income	Unrealized gains/(losses) included in OCI (pre-tax)	Other net changes in net exposures(1)	Net exposures as of Sept. 30, 2009
Investment Securities Portfolio:						
Sub-prime residential mortgage-backed securities	$ 1,717	$ -	$ 114	$ 67	$ (1,044)	$ 854
Alt-A residential mortgage-backed securities	2,479	-	208	162	(2,078)	771
Commercial mortgage-backed securities	1,802	(1,491)	149	(45)	(415)	-
Prime residential mortgage-backed securities	1,508	(120)	49	74	(1,035)	476
Non-residential asset-backed securities	280	(276)	(1)	-	(3)	-
Non-residential CDOs	225	(16)	7	(6)	(144)	66
Agency residential asset-backed securities and other	95	(90)	2	1	(6)	2
Total	$ 8,106	$ (1,993)	$ 528	$ 253	$ (4,725)	$ 2,169

(1) *Primarily represents sales and principal paydowns.*

Off-Balance Sheet Exposures

As a part of our normal operations, we enter into various off-balance sheet arrangements that may require future payments. The table and discussion below outline our significant off-balance sheet arrangements, as well as their future expirations, as of September 30, 2009. Refer to Note 14 to the Condensed Consolidated Financial Statements for further information.

(dollars in millions)

	Maximum Payout	Less than 1 year	1+ - 3 years	3+ - 5 years	Over 5 years
Standby liquidity facilities	$ 4,950	$ 2,178	$ 2	$2,770	$ -
Auction rate security guarantees	505	505	-	-	-
Residual value guarantees	738	322	96	320	-
Standby letters of credit and other guarantees	29,455	1,531	432	130	27,362

Standby Liquidity Facilities

Merrill Lynch provides standby liquidity facilities to certain municipal bond securitization special purpose entities ("SPEs"). In these arrangements, Merrill Lynch is required to fund these standby liquidity facilities if the fair value of the assets held by the SPE declines below par value and certain other contingent events take place. In those instances where the residual interest in the securitized trust is owned by a third party, any payments under the facilities are offset by economic hedges entered into by Merrill Lynch. In those instances where the residual interest in the securitized trust is owned by Merrill Lynch, any requirement to pay under the facilities is considered remote because Merrill Lynch, in most instances, will purchase the senior interests issued by the trust at fair value as part of its dealer market-making activities. However, Merrill Lynch will have exposure to these purchased senior interests. Refer to Note 9 to the Condensed Consolidated Financial Statements for further information.

Auction Rate Security (“ARS”) Guarantees

Under the terms of its announced purchase program as augmented by the global agreement reached with the New York Attorney General, the Securities and Exchange Commission, the Massachusetts Securities Division and other state securities regulators, Merrill Lynch agreed to purchase ARS at par from its retail clients, including individual, not-for-profit, and small business clients. Certain retail clients with less than $4 million in assets with Merrill Lynch as of February 13, 2008 were eligible to sell eligible ARS to Merrill Lynch starting on October 1, 2008. Other eligible retail clients meeting specified asset requirements were eligible to sell ARS to Merrill Lynch beginning on January 2, 2009. The final date of the ARS purchase program is January 15, 2010. Under the ARS purchase program, the eligible ARS held in accounts of eligible retail clients at Merrill Lynch as of September 30, 2009 was $505 million. As of September 30, 2009, Merrill Lynch had purchased $8.1 billion of ARS from eligible clients. In addition, under the ARS purchase program, Merrill Lynch has agreed to purchase ARS from retail clients who purchased their securities from Merrill Lynch and transferred their accounts to other brokers prior to February 13, 2008. At September 30, 2009, a liability of $41 million has been recorded for our estimated exposure related to this guarantee.

Residual Value Guarantees

At September 30, 2009, residual value guarantees of $738 million included amounts associated with the Hopewell, NJ campus, aircraft leases and certain power plant facilities.

Standby Letters of Credit and Other Guarantees

Merrill Lynch provides guarantees to certain counterparties in the form of standby letters of credit in the amount of $1.0 billion.

In connection with residential mortgage loan and other securitization transactions, Merrill Lynch typically makes representations and warranties about the underlying assets. If there is a material breach of such representations and warranties, Merrill Lynch may have an obligation to repurchase the assets or indemnify the purchaser against any loss. For residential mortgage loan and other securitizations, the maximum potential amount that could be required to be repurchased is the current outstanding asset balance. Specifically related to First Franklin activities, there is currently approximately $27 billion (including loans serviced by others) of outstanding loans that First Franklin sold in various asset sales and securitization transactions where there may be an obligation to repurchase the asset or indemnify the purchaser against the loss if claims are made and it is ultimately determined that there has been a material breach related to such loans. The repurchase reserve liability arising from these First Franklin residential mortgage sales and securitization transactions was approximately $500 million at September 30, 2009.

Derivatives

We record all derivative transactions at fair value on our Condensed Consolidated Balance Sheets. We do not monitor our exposure to derivatives based on the notional amount because that amount is not a relevant indicator of our exposure to these contracts, as it is not indicative of the amount that we would owe on the contract. Instead, a risk framework is used to define risk tolerances and establish limits to help to ensure that certain risk-related losses occur within acceptable, predefined limits. Since derivatives are recorded on the Condensed Consolidated Balance Sheets at fair value and the disclosure of the notional amounts is not a relevant indicator of risk, notional amounts are not provided for the off-balance sheet exposure on derivatives. Derivatives that meet the definition of a guarantee under

ASC 460, *Guarantees,* and credit derivatives are included in Note 6 to the Condensed Consolidated Financial Statements.

Involvement with SPEs

We transact with SPEs in a variety of capacities, including those that we help establish as well as those initially established by third parties. Our involvement with SPEs can vary and, depending upon the accounting definition of the SPE (i.e., voting rights entity ("VRE"), variable interest entity ("VIE") or qualified special purpose entity ("QSPE")), we may be required to reassess prior consolidation and disclosure conclusions. An interest in a VRE requires reconsideration when our equity interest or management influence changes, an interest in a VIE requires reconsideration when an event occurs that was not originally contemplated (e.g., a purchase of the SPE's assets or liabilities), and an interest in a QSPE requires reconsideration if the entity no longer meets the definition of a QSPE. Refer to Note 1 to the Condensed Consolidated Financial Statements for a discussion of our consolidation accounting policies. Types of SPEs with which we have historically transacted include:

- **Municipal bond securitization SPEs:** SPEs that issue medium-term paper, purchase municipal bonds as collateral and purchase a guarantee to enhance the creditworthiness of the collateral.
- **Asset-backed securities SPEs:** SPEs that issue different classes of debt, from super senior to subordinated, and equity and purchase assets as collateral, including residential mortgages, commercial mortgages, auto leases and credit card receivables.
- **ABS CDOs:** SPEs that issue different classes of debt, from super senior to subordinated, and equity and purchase asset-backed securities collateralized by residential mortgages, commercial mortgages, auto leases and credit card receivables.
- **Synthetic CDOs:** SPEs that issue different classes of debt, from super senior to subordinated, and equity, purchase high-grade assets as collateral and enter into a portfolio of credit default swaps to synthetically create the credit risk of the issued debt.
- **Credit-linked note SPEs:** SPEs that issue notes linked to the credit risk of a company, purchase high-grade assets as collateral and enter into credit default swaps to synthetically create the credit risk to pay the return on the notes.
- **Tax planning SPEs:** SPEs are sometimes used to legally isolate transactions for the purpose of obtaining a particular tax treatment for our clients as well as ourselves. The assets and capital structure of these entities vary for each structure.
- **Trust preferred security SPEs:** These SPEs hold junior subordinated debt issued by ML & Co. or our subsidiaries, and issue preferred stock on substantially the same terms as the junior subordinated debt to third party investors. We also provide a parent guarantee, on a junior subordinated basis, of the distributions and other payments on the preferred stock to the extent that the SPEs have funds legally available. The debt we issue into the SPE is classified as long-term borrowings on our Condensed Consolidated Balance Sheets. The ML & Co. parent guarantees of its own subsidiaries are not required to be recorded in the Condensed Consolidated Financial Statements.
- **Conduits:** Generally, entities that issue commercial paper and subordinated capital, purchase assets, and enter into total return swaps or repurchase agreements with higher-rated counterparties, particularly banks. The Conduits generally have a liquidity and/or credit facility

to further enhance the credit quality of the commercial paper issuance. A single seller conduit will execute total return swaps, repurchase agreements, and liquidity and credit facilities with one financial institution. A multi-seller Conduit will execute total return swaps, repurchase agreements, and liquidity and credit facilities with numerous financial institutions.

Our involvement with SPEs includes off-balance sheet arrangements discussed above, as well as the following activities:

- **Holder of Issued Debt and Equity:** Merrill Lynch invests in debt of third party securitization vehicles that are SPEs and also invests in SPEs that we establish. In Merrill Lynch formed SPEs, we may be the holder of debt and equity of an SPE. These holdings will be classified as trading assets, loans, notes and mortgages or investment securities. Such holdings may change over time at our discretion and rarely are there contractual obligations that require us to purchase additional debt or equity interests. Significant obligations are disclosed in the off-balance sheet arrangements table above.
- **Warehousing of Loans and Securities:** Warehouse loans and securities represent amounts maintained on our balance sheet that are intended to be sold into a trust for the purposes of securitization. We may retain these loans and securities on our balance sheet for the benefit of a CDO managed by a third party. Warehoused loans are carried as held for sale and warehoused securities are carried as trading assets.
- **Securitizations:** In the normal course of business, we securitize: commercial and residential mortgage loans; municipal, government, and corporate bonds; and other types of financial assets. Securitizations involve the selling of assets to SPEs, which in turn issue debt and equity securities ("tranches") with those assets as collateral. We may retain interests in the securitized financial assets through holding tranches of the securitization. See Note 9 to the Condensed Consolidated Financial Statements.

Funding and Liquidity

Funding

We fund our assets primarily with a mix of secured and unsecured liabilities through a globally coordinated funding strategy with Bank of America. We fund a portion of our trading assets with secured liabilities, including repurchase agreements, securities loaned and other short-term secured borrowings, which are less sensitive to our credit ratings due to the underlying collateral. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional information regarding our borrowings.

Credit Ratings

Our credit ratings affect the cost and availability of our unsecured funding, and it is our objective to maintain high quality credit ratings. In addition, credit ratings are important when we compete in certain markets and when we seek to engage in certain long-term transactions, including OTC derivatives. Following the acquisition by Bank of America, the major credit rating agencies have indicated that the primary drivers of Merrill Lynch's credit ratings are Bank of America's credit ratings. The rating agencies have also noted that Bank of America's credit ratings currently reflect significant support from the U.S. government. In addition to Bank of America's credit ratings, other factors that influence our credit ratings include rating agencies' assessment of the general operating environment, our relative positions in the markets in which we compete, our reputation, our liquidity position, the level and volatility of our earnings, our corporate governance and risk management policies, and our capital management practices. Management maintains an active dialogue with the rating agencies.

The following table sets forth ML & Co.'s unsecured credit ratings as of November 2, 2009:

Rating Agency	Senior Debt Ratings	Subordinated Debt Ratings	Trust Preferred Ratings	Commercial Paper Ratings	Long-Term Debt Ratings Outlook
Dominion Bond Rating Service Ltd.	A	A (low)	A (low)	R-1 (middle)	Stable
Fitch Ratings	A+	A	BB-	F1+	Stable
Moody's Investors Service, Inc.	A2	A3	Baa3	P-1	Stable
Rating & Investment Information, Inc. (Japan)	A+	A	Not rated	a-1	Negative
Standard & Poor's Ratings Services	A	A-	B	A-1	Stable

In connection with certain OTC derivatives transactions and other trading agreements, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount and/or the market value of the exposure. At September 30, 2009, the amount of additional collateral and termination payments that would be required for such derivatives transactions and trading agreements was approximately $1.6 billion in the event of a downgrade to low single-A by all credit agencies. A further downgrade of ML & Co.'s long-term senior debt credit rating to the BBB+ or equivalent level would require approximately $0.6 billion of additional collateral. Our liquidity risk analysis considers the impact of additional collateral outflows due to changes in ML & Co. credit ratings, as well as for collateral that is owed by us and is available for payment, but has not been called for by our counterparties.

Liquidity Risk

Following the completion of Bank of America's acquisition of Merrill Lynch, ML & Co. became a subsidiary of Bank of America and established intercompany lending and borrowing arrangements to facilitate centralized liquidity management. Included in these intercompany agreements is an initial $75 billion one year, revolving unsecured line of credit that allows ML & Co. to borrow funds from Bank of America for operating requirements at a spread to LIBOR that is reset periodically and is consistent with other intercompany agreements. The maturity date for this credit line is January 1, 2010. The credit line will automatically be extended by one year to the succeeding January 1st unless Bank of America provides written notice not to extend at least 45 days prior to the maturity date. The agreement does not contain any financial or other covenants. During 2009, ML & Co. periodically borrowed against the line of credit. There were no outstanding borrowings against the line of credit at September 30, 2009.

We may also maintain excess liquidity, primarily in the form of cash and cash equivalents and unencumbered government securities, at our largest U.S. and international broker-dealer subsidiaries.

Unencumbered Loans and Securities

At September 30, 2009 and June 30, 2009, unencumbered liquid assets at our regulated bank subsidiaries were $21 billion and $60 billion, respectively. The $39 billion reduction from June 30, 2009 primarily reflected the sale of MLBUSA to Bank of America, N.A. on July 1, 2009. These assets are investment grade asset-backed securities and prime residential mortgages and were available to meet potential deposit obligations, business activity demands and stressed liquidity needs of the bank subsidiaries. These unencumbered assets are generally restricted from transfer and unavailable as a liquidity source to ML & Co. and other non-bank subsidiaries.

At September 30, 2009, our non-bank subsidiaries, including broker-dealer subsidiaries, maintained $69 billion of unencumbered securities, including $8 billion of customer margin securities. These unencumbered securities are an important source of liquidity for broker-dealer activities and other individual subsidiary financial commitments, and are generally restricted from transfer and therefore unavailable to support liquidity needs of ML & Co. or other subsidiaries. Proceeds from encumbering customer margin securities are further limited to supporting qualifying customer activities.

Committed Credit Facilities

Prior to Merrill Lynch's acquisition by Bank of America, we maintained committed unsecured and secured credit facilities to cover regular and contingent funding needs. Following the completion of Bank of America's acquisition of Merrill Lynch on January 1, 2009, certain sources of liquidity were centralized. During the quarter ended March 31, 2009, ML & Co. repaid all outstanding amounts and terminated all of its external committed unsecured and secured credit facilities.

U.S. Government Liquidity Facilities

The U.S. Government created several temporary programs to enhance liquidity and provide stability to the financial markets following the deterioration of the credit markets in 2008. Merrill Lynch participated in a number of these programs. Following the completion of Bank of America's acquisition of Merrill Lynch and resulting integration activities, Merrill Lynch is no longer eligible to directly access certain liquidity facilities or issue new securities under the programs. In response, we established intercompany arrangements with Bank of America to ensure access to liquidity in the event of contingent funding requirements.

As of September 30, 2009, we had no outstanding borrowings under these programs.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Not required pursuant to Instruction H(2).

Item 4. ***Controls and Procedures***

Material Weaknesses Previously Disclosed

As discussed in Item 9A of our Annual Report on Form 10-K for the year ended December 26, 2008 and in Part II, Item 4 of our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2009 and June 30, 2009, in January 2009, we identified two material weaknesses in the design and operation of our internal controls. The first involved the contemporaneous documentation and fair value hedge effectiveness requirements of ASC 815, *Derivatives and Hedging* ("Derivatives Accounting") for a single material hedge relationship entered into in the fourth quarter of 2008, which was fully remediated in the first quarter of 2009.

The second relates to the accounting for certain intercompany swaps with affiliates entered into by ML & Co. During the first quarter of 2009, change management and escalation controls and procedures were put in place to enhance the control environment. Further, we undertook a balance sheet account substantiation review during the third quarter for the financial accounts related to these activities. We will continue to monitor the execution of these additional control procedures, including the account reconciliation routines evaluated in the substantiation review, for on-going effectiveness before we conclude on the remediation of this material weakness. We currently anticipate that this remaining material weakness will be fully remediated prior to the end of the period ending December 31, 2009.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness and design of the Corporation's disclosure controls and procedures (as that term is defined in Rule 13a-15(e) of the Exchange Act). Based upon that evaluation, and due solely to the one remaining material weakness, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were not effective, as of the end of the period covered by this report, in recording, processing, summarizing and reporting information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act, within the time periods specified in the Securities and Exchange Commission's rules and forms. As a result of this conclusion, the financial statements for the period covered by this report were prepared with particular attention to the unremediated material weakness previously disclosed. Accordingly, management believes that the Condensed Consolidated Financial Statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented.

Changes in Internal Control over Financial Reporting

No change in ML & Co.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of 2009 that has materially affected, or is reasonably likely to materially affect, ML & Co.'s internal control over financial reporting. As previously disclosed, during the first and second quarters of 2009, as part of our plan to address the aforementioned material weaknesses, we put in place additional change management and escalation controls and procedures pertaining to the pricing and recording of certain intercompany swap transactions. In addition, the contemporaneous documentation and fair value hedge effectiveness requirements of Derivatives Accounting are now compliant with the Bank of America Corporation policies and procedures. We believe that these actions have strengthened our internal controls over financial reporting.

PART II — Other Information

Item 1. ***Legal Proceedings***

Legal and Regulatory Matters

The following information supplements the discussion in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2008 and in Part II, Item 1 "Legal Proceedings" in our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2009 and June 30, 2009.

Auction Rate Securities Claims

Additional arbitrations and individual lawsuits have been filed against Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and, in some cases, also against ML & Co. and Merrill Lynch International, by parties who purchased auction rate securities. Plaintiffs in these and the previously disclosed cases, all of which assert substantially the same types of claims, seek compensatory damages totaling in excess of $1.3 billion rescission and, in some cases, punitive damages, among other relief.

Bank Sweep Programs Litigation

DeBlasio v. Merrill Lynch, et al.: On July 27, 2009, the U.S. District Court for the Southern District of New York entered an order dismissing the complaint with prejudice. The plaintiffs have filed a notice of intent to appeal the Court's decision.

In re Initial Public Offering Securities Litigation

On October 5, 2009, the U.S. District Court for the Southern District of New York granted final approval of the settlement. Certain objectors to the settlement have filed an appeal of the District Court's certification of the settlement class to the U.S. Court of Appeals for the Second Circuit.

Illinois Funeral Directors Association Matters

Fred C. Dames Funeral Homes, Inc., et al., v. Daniel W. Hynes, the Illinois Office of the Comptroller et al.: On September 4, 2009, the plaintiffs, the Illinois Office of the Comptroller and the Illinois Department of Insurance filed motions for summary judgment.

Calvert Funeral Homes Ltd., et al. v. Robert W. Ninker, et al.: On August 14, 2009, MLPF&S and Merrill Lynch Life Agency, Inc. ("MLLA"), among others, moved to dismiss the complaint and to compel arbitration.

David Tipsword as Trustee of Mildred E. Tipsword Trust, et al. v. I.F.D.A. Services Inc., et al.: On August 28, 2009, MLPF&S filed a motion to dismiss the complaint. On October 7, 2009, the U.S. District Court for the Southern District of Illinois stayed the entire action.

Clancy-Gernon Funeral Home, Inc., et al. v. MLPF&S, et al.: On July 29, 2009, MLPF&S and MLLA removed the complaint to the U.S. District Court for the Northern District of Illinois. Plaintiffs have filed a motion to remand the case back to the Circuit Court for Cook County or to transfer the case to the U.S. District Court for the Southern District of Illinois.

IndyMac

On July 29, 2009, *Police & Fire Retirement System of the City of Detroit v. IndyMac MBS, Inc., et al.* and *Wyoming State Treasurer, et al. v. John Olinski, et al.*, were consolidated by the U.S. District Court for the Southern District of New York and a consolidated amended complaint was filed on October 9, 2009, naming MLPF&S as a defendant, among others. Prior to the consolidation of these matters, the *IBEW Local 103 v. Indymac MBS et al.* case was voluntarily dismissed by plaintiffs and its allegations and claims are incorporated into the consolidated amended complaint.

Lyondell Litigation

The U.S. Bankruptcy Court for the Southern District of New York has bifurcated the adversary proceeding to allow for the adjudication of certain of the fraudulent transfer and avoidance claims (the "Phase I Claims") of the Official Committee of Unsecured Creditors of Lyondell Chemical Company and affiliates on an expedited basis. On August 26, 2009, MLPF&S and Merrill Lynch Capital Corporation moved to dismiss the Phase I Claims. Trial of these claims is set to begin on December 1, 2009. The Court has stayed all other claims pending a ruling on the Phase I Claims.

On October 1, 2009, a second adversary proceeding, *The Wilmington Trust Co. v. LyondellBasell Industries AF S.C.A.*, et al., was filed in the U.S. Bankruptcy Court for the Southern District of New York. This adversary proceeding, in which MLPF&S, Merrill Lynch Capital Corporation and Merrill Lynch International Bank Limited along with more than seventy other entities are named defendants, was filed by The Wilmington Trust Company as Successor Trustee for holders of certain Lyondell Senior Notes due 2015, and asserts causes of action for declaratory judgment, breach of contract, and equitable subordination. The declaratory judgment action alleges that the 2007 leveraged buyout of Lyondell violated a 2005 Intercreditor Agreement executed in connection with the August 2005 issuance of the Senior Notes and asks the Court to declare the 2007 Intercreditor Agreement, and specifically the debt priority provisions contained therein, null and void. The breach of contract action seeks unspecified damages. The equitable subordination action seeks to subordinate the defendants' bankruptcy claims to the claims of the holders of the Senior Notes.

Subprime Related Matters

In Re Merrill Lynch & Co., Inc. Securities, Derivative and ERISA Litigation: On August 25, 2009, the U.S. District Court for the Southern District of New York granted final approval of the settlement of the ERISA Action.

On September 21, 2009, all defendants filed motions to dismiss the derivative claims in the July 27, 2009 amended complaint.

On September 28, 2009, an action, entitled *N.A. Lambrecht v. O'Neal, et al*., was filed in the U.S. District Court for the Southern District of New York by a former Merrill Lynch shareholder. The plaintiff asserts double-derivative claims on behalf of Bank of America and Merrill Lynch and alleges causes of action for breach of fiduciary duty and corporate waste arising out of Merrill Lynch's business practices in the underwriting of collateralized debt obligations and for breach of fiduciary duty against certain former Merrill Lynch officers for allegedly selling shares on the basis of inside information. The complaint also alleges a breach of fiduciary duty and corporate waste by certain former Merrill Lynch officers in connection with the payment of incentive compensation to Merrill Lynch employees in December 2008 and alleges that certain Bank of America officers aided and abetted such breach. The complaint seeks an unspecified amount of monetary damages, equitable relief, including reimbursement of certain compensation and benefits paid to individual defendants, and an award of attorneys' fees and expenses.

Louisiana Sheriffs' Pension & Relief Fund v. Conway, et al.: On August 25, 2009, the U.S. District Court for the Southern District of New York granted preliminary approval of the settlement.

Short Term Interest Rate Trading (STIRT) Matter

On October 22, 2009, Merrill Lynch International Bank Limited reached a settlement of this matter with the Irish Financial Regulator, which resulted in payment of a fine that was not material to Merrill Lynch.

Item 1A. **Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K for the year ended December 26, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Merrill Lynch. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There are no material changes from the risk factors set forth under Part I, Item 1A. "Risk Factors" in Merrill Lynch's 2008 Annual Report on Form 10-K, other than the addition of the following risk factor.

Recent legislative and regulatory initiatives may significantly impact Merrill Lynch's financial condition, operations and ability to pursue business opportunities.

The recent economic and political environment has led to a number of legislative and regulatory initiatives, both enacted and proposed, that may significantly impact Merrill Lynch. For example, President Obama's administration has released a proposal that contains far reaching changes to the financial regulatory system that would significantly affect the financial services industry, including greater powers to regulate risk across the financial system; a new Financial Services Oversight Council chaired by the U.S. Treasury Secretary; a Consumer Financial Protection Agency (which may allow imposition of additional state consumer protection laws that historically have been pre-empted); and a new National Bank Supervisor. The proposal also calls for increased scrutiny and regulation for financial firms whose combination of size, leverage, and interconnectedness could pose a threat to financial stability if they were to fail; requiring that broker-dealers who provide investment advice about securities to investors have the same fiduciary obligations as registered investment advisers; new requirements for the securitization market; and comprehensive regulation of large participants in the over-the-counter derivatives markets.

The various legislative and regulatory initiatives noted above create significant uncertainty for Merrill Lynch, its parent company Bank of America, and the financial services industry in general, including the ability to recruit, retain and motivate key associates. There can be no assurance as to whether or when any of the parts of the Administration's plan or other proposals will be enacted, and if adopted, what the final initiatives will be. The legislative and regulatory initiatives could require Merrill Lynch to change certain of its business practices, impose additional costs on Merrill Lynch, limit the products that Merrill Lynch offers, result in a significant loss of revenue, limit Merrill Lynch's ability to pursue business opportunities, cause business disruptions, impact the value of assets that it holds or otherwise adversely affect Merrill Lynch's business, results of operations or financial condition. The long-term impact of these initiatives on Merrill Lynch's business practices and revenues will depend upon the successful implementation of its strategies, and competitors' responses to such initiatives, all of which are difficult to predict.

Item 6. **Exhibits**

An exhibit index has been filed as part of this report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Merrill Lynch & Co., Inc.
(Registrant)

By: /s/ ROBERT QUTUB
Robert Qutub
Chief Financial Officer

By: /s/ THOMAS W. PERRY
Thomas W. Perry
Chief Accounting Officer and Controller

Date: November 6, 2009

EXHIBIT INDEX

Exhibit	Description
12 *	Statement re: computation of ratios.
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 *	The following materials from Merrill Lynch & Co., Inc.'s Quarterly Report on Form 10-Q for the three and nine-month periods ended September 30, 2009, formatted in XBRL (Extensible Business Reporting Language):(i) the Condensed Consolidated Statements of Earnings/(Loss), (ii) the Condensed Consolidated Statements of Comprehensive Income/(Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

* *Filed herewith*

EXHIBIT 12

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollars in millions)

	Successor Company		Predecessor Company				
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Year Ended Last Friday in December 2008 (52 weeks)	2007 (52 weeks)	2006 (52 weeks)	2005 (52 weeks)	2004 (53 weeks)
Pre-tax earnings (loss)(a)	$ 218	$ 2,130	$ (45,438)	$ (13,723)	$ 9,313	$ 6,335	$ 5,106
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	2,474	9,034	29,641	51,683	35,719	21,764	10,591
Pre-tax earnings before fixed charges	2,692	11,164	(15,797)	37,960	45,032	28,099	15,697
Fixed charges:							
Interest	2,407	8,831	29,349	51,425	35,499	21,549	10,387
Other(b)	67	203	292	258	220	215	204
Total fixed charges	2,474	9,034	29,641	51,683	35,719	21,764	10,591
Preferred stock dividend requirements	28	101	4,356	401	259	99	54
Total combined fixed charges and preferred stock dividends	$ 2,502	$ 9,135	$ 33,997	$ 52,084	$ 35,978	$ 21,863	$ 10,645
Ratio of earnings to fixed charges	1.09	1.24	*	*	1.26	1.29	1.48
Ratio of earnings to combined fixed charges and preferred stock dividends	1.08	1.22	*	*	1.25	1.29	1.47

(a) *Excludes undistributed earnings (loss) from equity investments and earnings from discontinued operations.*

(b) *Other fixed charges consist of the interest factor in rentals, amortization of debt issuance costs and preferred security dividend requirements of subsidiaries.*

* *The earnings for year-end 2008 and 2007 were inadequate to cover total fixed charges and total fixed charges and preferred stock dividends. The coverage deficiencies for total fixed charges were $45,438 and $13,723, respectively. The coverage deficiencies for total fixed charges and preferred stock dividends were $49,794 and $14,124, respectively.*

Exhibit 31.1

CERTIFICATION

I, Thomas K. Montag, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2009 of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ THOMAS K. MONTAG
Thomas K. Montag
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Robert Qutub, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2009 of Merrill Lynch & Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ ROBERT QUTUB
Robert Qutub
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas K. Montag, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2009

/s/ THOMAS K. MONTAG
Thomas K. Montag
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert Qutub, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2009

/s/ ROBERT QUTUB
Robert Qutub
Chief Financial Officer