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**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 March 31, 2010**

**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**<br>**100 N. Tryon Street**<br>**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).

_ 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 _ | Accelerated filer _ | Non-accelerated filer X<br>(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 May 7, 2010, 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 Instructions 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 MARCH 31, 2010**
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PART I

**Item 1. Financial Statements**

**Merrill Lynch & Co., Inc. and Subsidiaries**

**Condensed Consolidated Statements of Earnings (Unaudited)**

| *(dollars in millions)* | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| **Revenues** | | |
| Principal transactions | $ 3,218 | $ 5,914 |
| Commissions | 1,467 | 1,380 |
| Managed account and other fee-based revenues | 1,051 | 1,156 |
| Investment banking | 667 | 606 |
| Earnings from equity method investments | 281 | 40 |
| Other income | 1,154 | 271 |
| Other-than-temporary impairment losses on AFS debt securities: | | |
| Total other-than-temporary impairment losses on AFS debt securities | (105) | - |
| Portion of other-than-temporary impairment losses recognized in OCI on AFS debt securities | 19 | - |
| Subtotal | 7,752 | 9,367 |
| Interest and dividend revenues | 1,815 | 4,383 |
| Less interest expense | 2,040 | 3,455 |
| Net interest (expense)/profit | (225) | 928 |
| **Revenues, net of interest expense** | 7,527 | 10,295 |
| **Non-interest expenses** | | |
| Compensation and benefits | 3,844 | 3,278 |
| Communications and technology | 462 | 399 |
| Occupancy and related depreciation | 305 | 271 |
| Brokerage, clearing, and exchange fees | 280 | 272 |
| Advertising and market development | 85 | 106 |
| Professional fees | 144 | 102 |
| Office supplies and postage | 43 | 42 |
| Other | 431 | 451 |
| **Total non-interest expenses** | 5,594 | 4,921 |
| **Pre-tax earnings** | 1,933 | 5,374 |
| Income tax expense | 664 | 1,624 |
| **Net earnings** | $ 1,269 | $ 3,750 |
| Preferred stock dividends | 38 | 15 |
| **Net earnings applicable to common stockholder** | $ 1,231 | $ 3,735 |

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)* | March 31, 2010 | December 31, 2009 |
| --- | --- | --- |
| **ASSETS** | | |
| Cash and cash equivalents | $ 19,784 | $ 15,005 |
| Cash and securities segregated for regulatory purposes or deposited with clearing organizations | 11,239 | 20,430 |
| Securities financing transactions | | |
| Receivables under resale agreements (includes $48,627 in 2010 and $41,740 in 2009 measured at fair value in accordance with the fair value option election) | 76,710 | 69,738 |
| Receivables under securities borrowed transactions (includes $3,233 in 2010 and $2,888 in 2009 measured at fair value in accordance with the fair value option election) | 56,141 | 45,422 |
| | 132,851 | 115,160 |
| Trading assets, at fair value (includes securities pledged as collateral that can be sold or repledged of $24,769 in 2010 and $25,901 in 2009): | | |
| Derivative contracts | 45,355 | 49,582 |
| Equities and convertible debentures | 33,475 | 34,501 |
| Non-U.S. governments and agencies | 27,350 | 21,256 |
| Corporate debt and preferred stock | 19,966 | 16,779 |
| Mortgages, mortgage-backed, and asset-backed | 8,414 | 7,971 |
| U.S. Government and agencies | 2,137 | 1,458 |
| Municipals, money markets, physical commodities and other | 13,548 | 8,778 |
| | 150,245 | 140,325 |
| Investment securities (includes $268 in 2010 and $253 in 2009 measured at fair value in accordance with the fair value option election) | 25,040 | 32,840 |
| Securities received as collateral, at fair value | 22,963 | 16,346 |
| Receivables from Bank of America | 29,492 | 20,619 |
| Other receivables | | |
| Customers (net of allowance for doubtful accounts of $9 in 2010 and $10 in 2009) | 20,073 | 31,818 |
| Brokers and dealers | 4,525 | 5,998 |
| Interest and other | 13,266 | 14,251 |
| | 37,864 | 52,067 |
| Loans, notes, and mortgages (net of allowances for loan losses of $34 in 2010 and $33 in 2009) (includes $4,113 in 2010 and $4,649 in 2009 measured at fair value in accordance with the fair value option election) | 35,194 | 37,663 |
| Equipment and facilities (net of accumulated depreciation and amortization of $892 in 2010 and $726 in 2009) | 2,110 | 2,324 |
| Goodwill and other intangible assets | 8,889 | 8,883 |
| Other assets | 17,939 | 17,533 |
| **Total Assets** | $ 493,610 | $ 479,195 |
| **Assets of Consolidated VIEs Included in Total Assets Above (pledged as collateral)** | | |
| Trading assets, excluding derivative contracts | $ 10,122 | |
| Derivative contracts | 442 | |
| Investment securities | 1,775 | |
| Loans, notes, and mortgages (net) | 3,372 | |
| Other assets | 2,960 | |
| **Total Assets of Consolidated VIEs** | $ 18,671 | |

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

| *(dollars in millions, except per share amounts)* | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **LIABILITIES** | | |
| Securities financing transactions | | |
| Payables under repurchase agreements (includes $44,376 in 2010 and $37,325 in 2009 measured at fair value in accordance with the fair value option election) | $ 74,174 | $ 66,260 |
| Payables under securities loaned transactions | 15,232 | 24,915 |
| | 89,406 | 91,175 |
| Short-term borrowings (includes $7,021 in 2010 and $813 in 2009 measured at fair value in accordance with the fair value option election) | 7,101 | 853 |
| Deposits | 13,473 | 15,187 |
| Trading liabilities, at fair value | | |
| Derivative contracts | 36,114 | 35,120 |
| Equities and convertible debentures | 16,533 | 13,654 |
| Non-U.S. governments and agencies | 21,619 | 12,844 |
| Corporate debt and preferred stock | 4,328 | 1,903 |
| U.S. Government and agencies | 1,436 | 1,296 |
| Municipals, money markets and other | 411 | 643 |
| | 80,441 | 65,460 |
| Obligation to return securities received as collateral, at fair value | 22,963 | 16,346 |
| Payables to Bank of America | 24,246 | 23,550 |
| Other payables | | |
| Customers | 36,487 | 39,307 |
| Brokers and dealers | 12,000 | 14,148 |
| Interest and other (includes $201 in 2010 and $240 in 2009 measured at fair value in accordance with the fair value option election) | 18,486 | 17,080 |
| | 66,973 | 70,535 |
| Long-term borrowings (includes $46,099 in 2010 and $47,040 in 2009 measured at fair value in accordance with the fair value option election) | 142,248 | 151,399 |
| Junior subordinated notes (related to trust preferred securities) | 3,557 | 3,552 |
| **Total Liabilities** | 450,408 | 438,057 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred Stockholders' Equity; authorized 25,000,000 shares; (liquidation preference of $100,000 per share; issued: 17,000 shares) | 1,541 | 1,541 |
| Common Stockholder's Equity | | |
| Common stock (par value $1.33 $^{1}/_{3}$ per share; authorized: 3,000,000,000 shares; issued: 1,000 shares) | - | - |
| Paid-in capital | 36,303 | 35,126 |
| Accumulated other comprehensive (loss) (net of tax) | (311) | (112) |
| Retained earnings | 5,669 | 4,583 |
| **Total Common Stockholder's Equity** | 41,661 | 39,597 |
| **Total Stockholders' Equity** | 43,202 | 41,138 |
| **Total Liabilities and Stockholders' Equity** | $ 493,610 | $ 479,195 |
| **Liabilities of Consolidated VIEs Included in Total Liabilities Above** | | |
| Short-term borrowings | $ 4,956 | |
| Derivative contracts | 42 | |
| Other liabilities | 1,151 | |
| Long-term borrowings | 7,312 | |
| **Total Liabilities of Consolidated VIEs** | $ 13,461 | |

See Notes to Condensed Consolidated Financial Statements.

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

| *(dollars in millions)* | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net earnings | $ 1,269 | $ 3,750 |
| Adjustments to reconcile net earnings to cash (used for)/provided by operating activities | | |
| Depreciation and amortization | 242 | 303 |
| Share-based compensation expense | 594 | 248 |
| Deferred taxes | 917 | 1,268 |
| Earnings from equity method investments | (203) | (40) |
| Other | 311 | 2,815 |
| Changes in operating assets and liabilities: | | |
| Trading assets | (6,116) | 11,228 |
| Cash and securities segregated for regulatory purposes or deposited with clearing organizations | 3,666 | 3,499 |
| Receivables from Bank of America | (8,873) | (17,507) |
| Receivables under resale agreements | (6,972) | 48,119 |
| Receivables under securities borrowed transactions | (10,719) | (5,260) |
| Customer receivables | 11,746 | 11,366 |
| Brokers and dealers receivables | 1,475 | 7,329 |
| Proceeds from loans, notes, and mortgages held for sale | 1,823 | 3,015 |
| Other changes in loans, notes, and mortgages held for sale | (927) | (1,573) |
| Trading liabilities | 15,295 | (15,934) |
| Payables under repurchase agreements | 7,914 | (32,623) |
| Payables under securities loaned transactions | (9,683) | (8,139) |
| Payables to Bank of America | 696 | 25,213 |
| Customer payables | (2,820) | (7,821) |
| Brokers and dealers payables | (2,148) | (2,270) |
| Other, net | 1,319 | (1,957) |
| Cash (used for)/provided by operating activities | (1,194) | 25,029 |
| **Cash flows from investing activities:** | | |
| Proceeds from (payments for): | | |
| Maturities of available-for-sale securities | 770 | 2,095 |
| Sales of available-for-sale securities | 13,427 | 2,329 |
| Purchases of available-for-sale securities | (298) | (279) |
| Equipment and facilities, net | 49 | (22) |
| Loans, notes, and mortgages held for investment | 568 | (2,418) |
| Other investments | 1,148 | 2,218 |
| Cash provided by investing activities | 15,664 | 3,923 |
| **Cash flows from financing activities:** | | |
| Proceeds from (payments for): | | |
| Commercial paper and short-term borrowings | 1,235 | (33,215) |
| Issuance and resale of long-term borrowings | 2,814 | 1,602 |
| Settlement and repurchases of long-term borrowings | (11,988) | (19,871) |
| Capital contributions from Bank of America | - | 6,850 |
| Deposits | (1,714) | (819) |
| Dividends | (38) | (15) |
| Cash used for financing activities | (9,691) | (45,468) |
| Increase/(decrease) in cash and cash equivalents | 4,779 | (16,516) |
| Cash and cash equivalents, beginning of period | 15,005 | 52,603 |
| Cash and cash equivalents, end of period | $ 19,784 | $ 36,087 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Income taxes paid (net of refunds) | $ - | $ 193 |
| Interest paid | 1,429 | 4,273 |

*Non-cash investing and financing activities:*

*During the quarter ended March 31, 2010, Merrill Lynch received a non-cash capital contribution of approximately $1 billion from Bank of America associated with certain employee stock awards. In addition, as of January 1, 2010, Merrill Lynch assumed assets and liabilities in connection with the consolidation of certain VIEs. See Note 9.*

*In connection with the acquisition of Merrill Lynch by Bank of America, Merrill Lynch recorded purchase accounting adjustments in the quarter ended March 31, 2009, which were recorded as non-cash capital contributions.*

See Notes to Condensed Consolidated Financial Statements.

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

| *(dollars in millions)* | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| Net earnings | $ 1,269 | $ 3,750 |
| Other comprehensive (loss)/income, net of tax: | | |
| Foreign currency translation adjustment | (59) | 229 |
| Net unrealized (loss)/gain on investment securities available-for-sale | (158) | 106 |
| Net deferred gain on cash flow hedges | 17 | 39 |
| Defined benefit pension and postretirement plans | 1 | 2 |
| Total other comprehensive (loss)/income, net of tax | (199) | 376 |
| Comprehensive income | $ 1,070 | $ 4,126 |

See Notes to Condensed Consolidated Financial Statements.

**Merrill Lynch & Co., Inc. and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements**
**March 31, 2010**

## Note 1. Summary of Significant Accounting Policies

### Description of Business

Merrill Lynch & Co. Inc. ("ML & Co.") and together with its subsidiaries ("Merrill Lynch"), provide trading, investment, financing and related services to individuals and institutions on a global basis through its broker, dealer, banking and other financial services subsidiaries.

### Bank of America Acquisition

On January 1, 2009, Merrill Lynch was acquired by Bank of America Corporation ("Bank of America" or "BAC") 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 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.

### 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 ("U.S. GAAP"). 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 are unaudited; however, all adjustments for a fair presentation of the Condensed Consolidated Financial Statements have been included.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in Merrill Lynch's Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Annual Report"). 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. Certain prior-period amounts have been reclassified to conform to the current period presentation.

As disclosed in Note 22 to the Consolidated Financial Statements contained in the 2009 Annual Report, Merrill Lynch adjusted previously reported 2009 quarterly amounts related to the valuation of certain long-term borrowings, primarily structured notes. Merrill Lynch also recorded revisions to certain purchase accounting adjustments made in connection with the acquisition of Merrill Lynch by Bank of America. In addition, Merrill Lynch's previously reported results for the first quarter of 2009 were adjusted to include the results of Banc of America Investment Services, Inc. ("BAI"), which was contributed by Bank of America to Merrill Lynch in October 2009, as if the contribution had occurred on January 1, 2009. The aggregate impact of the adjustments related to certain long-term borrowings,

purchase accounting adjustments and BAI on net earnings for the first quarter of 2009 was an increase of $90 million.

**Consolidation Accounting**

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 (prior to January 1, 2010) a qualified special purpose entity (“QSPE”).

The Condensed Consolidated Financial Statements include the accounts of Merrill Lynch, whose subsidiaries are generally controlled through a majority voting interest or a controlling financial interest. In periods prior to January 1, 2010, in certain cases, Merrill Lynch VIEs may have been consolidated based on a risks and rewards approach. Additionally, prior to January 1, 2010, Merrill Lynch did not consolidate those special purpose entities that met the criteria of a QSPE. See the “New Accounting Pronouncements” section of this note for information regarding new VIE accounting guidance that became effective on January 1, 2010.

VREs — VREs are defined to include entities that have both equity at risk that is sufficient to fund future operations and have equity investors that have a controlling financial interest in the entity through their equity investments. In accordance with Accounting Standards Codification (“ASC”) 810, *Consolidation*, (“Consolidation Accounting”), Merrill Lynch generally consolidates those VREs where it has the majority of the voting rights. 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% to 5% 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 (prior to January 1, 2010) QSPEs. A VIE is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. Merrill Lynch consolidates those VIEs for which it is the primary beneficiary. In accordance with new accounting guidance effective January 1, 2010, Merrill Lynch is considered the primary beneficiary when it has a controlling financial interest in a VIE. Merrill Lynch has a controlling financial interest when it has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Prior to January 1, 2010, the primary beneficiary was the entity that would absorb a majority of the economic risks and rewards of the VIE, based on an analysis of probability-weighted cash flows. Merrill Lynch reassesses whether it is the primary beneficiary of a VIE on a quarterly basis. The quarterly reassessment process considers whether Merrill Lynch has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The reassessment also considers whether Merrill Lynch has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which Merrill Lynch is involved may change as a result of such reassessments.

QSPEs — Before January 1, 2010, QSPEs were passive entities with significantly limited permitted activities. QSPEs were generally used as securitization vehicles and were 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. As noted above, prior to January 1, 2010, Merrill Lynch did not consolidate QSPEs.

**Securitization Activities**

In the normal course of business, Merrill Lynch has securitized 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 ASC 860, *Transfers and Servicing* ("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
  - Prior to January 1, 2010, if the entity was a QSPE the beneficial interest holders have the right to pledge or exchange their beneficial interests
  - After January 1, 2010, if the transferee's sole purpose is to engage in securitization or asset-backed financing, 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 certain 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 account 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 and other 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 other principal 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;
- The determination of which VIEs should be consolidated and, prior to January 1, 2010, 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,* (the “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”) defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

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 valued 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 based 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 and certain structured notes carried at fair value under the fair value option election. 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 derivative 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 consider various sources of evidence in assessing the necessity of valuation allowances to reduce deferred tax assets to amounts more-likely-than-not to be realized, including the following: 1) past and projected earnings, including losses, of 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 the 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, 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 pro forma return basis, 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 Bank of America's tax returns or the utilization in Merrill Lynch's pro forma tax returns.

**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 generally 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. In resale and repurchase agreements, typically the termination date of the agreements is before the maturity date of the underlying security. However, in certain situations, Merrill Lynch may enter into agreements where the termination date of the transaction is the same as the maturity date of the underlying security. These transactions are referred to as "repo-to-maturity" transactions. Merrill Lynch accounts for repo-to-maturity transactions as sales in accordance with U.S. GAAP. Repo-to-maturity transactions were not material for the periods presented.

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 Merrill Lynch-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 such 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 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, certain of which were sold to Bank of America during 2009, 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. 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.

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 other equity 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. Investments in real estate VIEs that are held by the consolidated real estate fund are also 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").

Loans held for investment are carried at amortized cost, less an allowance for loan losses, which represents Merrill Lynch's estimate of probable losses inherent in its lending activities. Merrill Lynch performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess overall collectability. These reviews, which are updated on a quarterly basis in order to incorporate information reflective of the current economic environment, consider a variety of factors including, but not limited to, historical loss experience, estimated defaults, delinquencies, economic conditions, credit scores and the fair value of any underlying collateral. Provisions for loan losses are

included in interest and dividend revenue in the Condensed Consolidated Statements of Earnings/(Loss).

Merrill Lynch's estimate of loan losses includes judgment about collectability 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 that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, including loans that are individually identified as being impaired, are classified as impaired unless well-secured and in the process of collection. Commercial loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered troubled debt restructurings and are classified as impaired until the loans have performed for an adequate period of time under the restructured agreement. Interest accrued but not collected is reversed when a commercial loan is classified as impaired. Interest collections on commercial loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to income when received. Commercial loans may be restored to non-impaired status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

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 when available 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 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 revenues.

**New Accounting Pronouncements**

In March 2010, the FASB amended Derivatives Accounting to clarify the scope exception for embedded credit derivatives. The amendments define which embedded credit derivatives should be evaluated for bifurcation and separate accounting. The amendments will be adopted by Merrill Lynch

in the third quarter of 2010. Merrill Lynch is currently evaluating the impact of these amendments on the Condensed Consolidated Financial Statements.

On January 1, 2010, Merrill Lynch adopted new amendments to Fair Value Accounting. The amendments require disclosure of significant transfers between Level 1 and Level 2 as well as significant transfers in and out of Level 3 on a gross basis. The amendments also clarify existing disclosure requirements regarding the level of disaggregation of fair value measurements and inputs and valuation techniques. The enhanced disclosures required under these amendments are included in Note 4.

On January 1, 2010, Merrill Lynch adopted new accounting guidance on transfers of financial assets and consolidation of VIEs. This new accounting guidance revises sale accounting criteria for transfers of financial assets, including elimination of the concept of and accounting for QSPEs, and significantly changes the criteria by which an enterprise determines whether it must consolidate a VIE. The adoption of this new accounting guidance resulted in the consolidation of certain VIEs that previously were QSPEs and VIEs that were not recorded on Merrill Lynch's Consolidated Balance Sheet prior to January 1, 2010. See Note 9 for the initial impact of the new Consolidation Accounting guidance on Merrill Lynch's Condensed Consolidated Balance Sheet.

## Note 2. Transactions with Bank of America

Merrill Lynch has entered into various transactions with Bank of America, primarily to integrate certain activities within either Bank of America or Merrill Lynch. Transactions with Bank of America also include various asset and liability transfers and transactions associated with intercompany sales and trading and financing activities.

### Sale of U.S. Banks to Bank of America

During 2009, Merrill Lynch sold Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co., FSB ("MLBT-FSB") 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, and the sale of MLBT-FSB was completed on November 2, 2009. After each sale was completed, MLBUSA and MLBT-FSB were merged into Bank of America, N.A., a subsidiary of Bank of America.

### Acquisition of BAI from Bank of America

In October 2009, Bank of America contributed the shares of BAI, one of its wholly-owned broker-dealer subsidiaries, to ML & Co. Subsequent to the transfer, BAI was merged into Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a wholly-owned broker-dealer subsidiary of ML & Co. The net amount contributed by Bank of America to ML & Co. was equal to BAI's net book value of approximately $263 million. In accordance with Business Combinations Accounting, Merrill Lynch's results of operations for the year ended December 31, 2009 include the results of BAI as if the contribution from Bank of America had occurred on January 1, 2009. BAI's impact on Merrill Lynch's 2009 pre-tax earnings and net earnings was not material.

**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 the integration of certain trading activities with Bank of America and efforts to manage risk in a more effective and efficient manner at the consolidated Bank of America level. During the quarter ended March 31, 2010, such asset or liability transfers were not significant. During the quarter ended March 31, 2009, Merrill Lynch transferred approximately $47 billion each of assets and liabilities to Bank of America and Bank of America transferred approximately $16 billion of assets to Merrill Lynch. In the future, Merrill Lynch and Bank of America may continue to transfer certain assets and liabilities to (and from) each other.

In addition to these transfers, during the quarter ended March 31, 2010, Merrill Lynch sold approximately $11 billion of available-for-sale securities to Bank of America.

**Other Related Party Transactions**

Merrill Lynch has entered into various other 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 March 31, 2010 and December 31, 2009 are presented below:

Receivables from Bank of America are comprised of:

| *(dollars in millions)* | **March 31, 2010** | **December 31, 2009** |
|---|---|---|
| Cash and cash equivalents | $ 12,932 | $ 8,265 |
| Cash and securities segregated for regulatory purposes | 6,776 | 3,000 |
| Receivables under resale agreements and securities borrowed transactions | 2,120 | 77 |
| Trading assets | 619 | 700 |
| Intercompany funding receivable | 5,260 | 5,778 |
| Other receivables | 1,728 | 2,682 |
| Other assets | 57 | 117 |
| Total | $ 29,492 | $ 20,619 |

Payables to Bank of America are comprised of:

| *(dollars in millions)* | **March 31, 2010** | **December 31, 2009** |
|---|---|---|
| Payables under repurchase agreements | $ 10,242 | $ 8,307 |
| Payables under securities loaned transactions | 8,938 | 10,326 |
| Deposits | 33 | 35 |
| Trading liabilities | 576 | 718 |
| Other payables | 4,457 | 4,164 |
| Total | $ 24,246 | $ 23,550 |

Total net revenues and non-interest expenses related to transactions with Bank of America for the three months ended March 31, 2010 were $360 million and $172 million, respectively. Net revenues for the three months ended March 31, 2010 included a gain of approximately $280 million from the sale of approximately $11 billion of available-for-sale securities to Bank of America. Revenues and expenses related to transactions with Bank of America were not material for the three months ended March 31, 2009.

## 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 are generally recorded based on the location of the employee generating the revenue; 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:

| *(dollars in millions)* | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| **Revenues, net of interest expense** | | |
| Europe, Middle East, and Africa | $ 2,121 | $ 1,935 |
| Pacific Rim | 778 | 806 |
| Latin America | 340 | 235 |
| Canada | 73 | 52 |
| Total Non-U.S. | 3,312 | 3,028 |
| United States (1)(2) | 4,215 | 7,267 |
| **Total revenues, net of interest expense** | $ 7,527 | $ 10,295 |

*(1) U.S. results for the three months ended March 31, 2010 and March 31, 2009 included gains of $0.2 billion and $2.2 billion, respectively, which resulted from the widening of Merrill Lynch's credit spreads on the carrying values of certain long-term borrowings, primarily structured notes.*

*(2) Corporate net revenues and adjustments are reflected in the U.S. region.*

**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 can 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 view 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 and long-dated or complex derivatives).

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 or transfers 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 transfers in and out of Level 3.

Transfers between Level 1 and Level 2 assets and liabilities were not significant for the quarter ended March 31, 2010.

*Valuation Techniques*

The following outlines the valuation methodologies for Merrill Lynch's material categories of assets and liabilities:

*U.S. Government and agencies*

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

U.S. agency securities U.S. agency securities are comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. Agency issued debt securities are generally valued using quoted market prices. Mortgage pass-throughs include To-be-announced ("TBA") securities and mortgage pass-through certificates. TBA securities are generally valued using quoted market prices. The fair value of mortgage pass-through certificates are model driven based on the comparable TBA security. Agency issued debt securities and mortgage pass-throughs are generally classified as Level 2 in the fair value hierarchy.

*Non-U.S. governments and agencies*

Sovereign government obligations are valued using quoted prices in active markets when available. To the extent quoted prices are not available, fair value is determined based on reference to recent trading activity and quoted prices of similar securities. These securities are generally classified in Level 1 or Level 2 in the fair value hierarchy, primarily based on the issuing country.

*Municipal debt*

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

Auction Rate Securities ("ARS") Merrill Lynch holds investments in certain ARS, including student loan and municipal ARS. Student loan ARS are comprised of various pools of student loans. Municipal ARS are issued by states and municipalities for a wide variety of purposes, including but not limited to healthcare, industrial development, education and transportation infrastructure. The fair value of the student loan ARS is calculated using a pricing model that relies upon a number of assumptions including weighted average life, coupon, discount margin and liquidity discounts. The fair value of the municipal ARS is calculated based upon projected refinancing and spread assumptions. In both cases, recent trades and issuer tenders are considered in the valuations. Student loan ARS and municipal ARS are classified as Level 3 in the fair value hierarchy.

*Corporate and other debt*

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

Corporate loans and commitments The fair values of corporate loans and loan commitments are based on market prices and most recent transactions when available. When not available, a discounted cash flow valuation approach is applied using market-based credit spreads of comparable debt instruments, recent new issuance activity or relevant credit derivatives with appropriate cash-to-synthetic basis adjustments. Corporate loans and commitments are generally classified as Level 2 in the fair value hierarchy. Certain corporate loans, particularly those related to emerging market, leveraged and distressed companies have limited price transparency. These loans are generally classified as Level 3 in the fair value hierarchy.

*Mortgages, mortgage-backed and asset-backed*

Residential Mortgage-Backed Securities (“RMBS”), Commercial Mortgage-Backed Securities (“CMBS”), and other Asset-Backed Securities (“ABS”) RMBS, CMBS and other ABS are valued based on observable price or credit spreads for the particular security, or when price or credit spreads are not observable, the valuation is based on prices of comparable bonds or the present value of expected future cash flows. Valuation levels of RMBS and CMBS indices are used as an additional data point for benchmarking purposes or to price outright index positions.

When estimating the fair value based upon the present value of expected future cash flows, Merrill Lynch uses its best estimate of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved, while also taking into account performance of the underlying collateral.

RMBS, CMBS and other ABS are classified as Level 3 in the fair value hierarchy if external prices or credit spreads are unobservable or if comparable trades/assets involve significant subjectivity related to property type differences, cash flows, performance and other inputs; otherwise, they are classified as Level 2 in the fair value hierarchy.

*Equities*

Exchange-Traded Equity Securities Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, they are classified as Level 1 in the fair value hierarchy, otherwise they are classified as Level 2.

*Derivative contracts*

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

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

The fair value of OTC derivatives is derived using market prices and other market based pricing parameters such as interest rates, currency rates and volatilities that are observed directly in the market or gathered from independent sources such as dealer consensus pricing services or brokers. Where models are used, they are used consistently and reflect the contractual terms of and specific risks inherent in the contracts. Generally, the models do not require a high level of subjectivity since the valuation techniques used in the models do not require significant judgment and inputs to the models are readily observable in active markets. When appropriate, valuations are adjusted for various factors such as liquidity and credit considerations based on available market evidence. The majority of OTC derivative contracts are classified as Level 2 in the fair value hierarchy.

OTC derivative contracts that do not have readily observable market based pricing parameters are classified as Level 3 in the fair value hierarchy. Examples of derivative contracts classified within Level 3 include contractual obligations that have tenures that extend beyond periods in which inputs to the model would be observable, exotic derivatives with significant inputs into a valuation model that are less transparent in the market and certain credit default swaps (“CDS”) referenced to mortgage-backed securities.

For example, derivative instruments, such as certain CDS referenced to RMBS, CMBS, ABS and collateralized debt obligations (“CDOs”), are valued based on the underlying mortgage risk. As these instruments are not actively quoted, the estimate of fair value considers the valuation of the underlying collateral (mortgage loans). Inputs to the valuation will include available information on similar underlying loans or securities in the cash market. The prepayments and loss assumptions on the underlying loans or securities are estimated using a combination of historical data, prices on recent market transactions, relevant observable market indices such as the ABX or CMBX and prepayment and default scenarios and analysis.

CDOs The fair value of CDOs is derived from a referenced basket of CDS, the CDO’s capital structure, and the default correlation, which is an input to a proprietary CDO valuation model. The underlying CDO portfolios typically contain investment grade as well as non-investment grade obligors. After adjusting for differences in risk profile, the correlation parameter for an actual transaction is estimated by benchmarking against observable standardized index tranches and other comparable transactions. CDOs are classified as either Level 2 or Level 3 in the fair value hierarchy.

*Investment securities non-qualifying*

Investments in Private Equity, Real Estate and Hedge Funds Merrill Lynch has investments in numerous asset classes, including: direct private equity, private equity funds, hedge funds and real estate funds. Valuing these investments requires significant management judgment due to the nature of the assets and the lack of quoted market prices and liquidity in these assets. Initially, the transaction price of the investment is generally considered to be the best indicator of fair value. Thereafter, valuation of direct investments is based on an assessment of each individual investment using various methodologies, which 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. These valuations are subject to appropriate discounts for lack of liquidity or marketability. Certain factors which may influence changes to fair value include but are not limited to, recapitalizations, subsequent rounds of financing, and offerings in the equity or debt capital markets. For fund investments, Merrill Lynch generally records the fair value of its proportionate interest in the fund’s capital as reported by the fund’s respective managers.

Publicly traded private equity investments are primarily classified as either Level 1 or Level 2 in the fair value hierarchy. Level 2 classifications generally include those publicly traded equity investments that have a legal or contractual transfer restriction. All other investments are classified as Level 3 in the fair value hierarchy due to infrequent trading and/or unobservable market prices.

*Resale and repurchase agreements*

Merrill Lynch elected the fair value option for certain resale and repurchase agreements. For such agreements, the fair value is estimated using a discounted cash flow model which incorporates inputs such as interest rate yield curves and option volatility. Resale and repurchase agreements for which the fair value option has been elected are generally classified as Level 2 in the fair value hierarchy.

*Long-term and short term borrowings*

Merrill Lynch and its consolidated VIEs issue structured notes that have coupons or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. The fair value of structured notes is estimated using valuation models for the combined derivative and debt portions of the notes when the fair value option has been elected. These models incorporate observable and in some instances unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs. The impact of Merrill Lynch's own credit spreads is also included based on Merrill Lynch's observed secondary bond market spreads. Structured notes are classified as either Level 2 or Level 3 in the fair value hierarchy.

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**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 March 31, 2010 and December 31, 2009, respectively.

| | Fair Value Measurements on a Recurring Basis as of March 31, 2010 | | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | **Level 1** | **Level 2** | **Level 3** | **Netting Adj[(1)]** | **Total** |
| **Assets:** | | | | | |
| Securities segregated for regulatory purposes or deposited with clearing organizations: | | | | | |
| Equities | $ - | $ 129 | $ - | $ - | $ 129 |
| Corporate debt | - | 623 | - | - | 623 |
| Non-U.S. governments and agencies | 892 | 957 | - | - | 1,849 |
| U.S. government and agencies | 665 | 974 | - | - | 1,639 |
| Total securities segregated for regulatory purposes or deposited with clearing organizations | 1,557 | 2,683 | - | - | 4,240 |
| Receivables under resale agreements | - | 48,627 | - | - | 48,627 |
| Receivables under securities borrowed transactions | - | 3,233 | - | - | 3,233 |
| Trading assets, excluding derivative contracts: | | | | | |
| Equities | 20,037 | 7,868 | 245 | - | 28,150 |
| Convertible debentures | - | 5,325 | - | - | 5,325 |
| Non-U.S. governments and agencies | 23,568 | 2,726 | 1,056 | - | 27,350 |
| Corporate debt | - | 13,178 | 6,026 | - | 19,204 |
| Preferred stock | - | 552 | 210 | - | 762 |
| Mortgages, mortgage-backed and asset-backed | - | 2,015 | 6,399 | - | 8,414 |
| U.S. government and agencies | 1,709 | 428 | - | - | 2,137 |
| Municipals and money markets | 780 | 9,361 | 2,819 | - | 12,960 |
| Commodities and related contracts | - | 588 | - | - | 588 |
| Total trading assets, excluding derivative contracts | 46,094 | 42,041 | 16,755 | - | 104,890 |
| Derivative contracts[(2)] | 4,591 | 618,512 | 17,249 | (594,997) | 45,355 |
| Investment securities available-for-sale: | | | | | |
| Mortgage-backed securities — agency collateralized mortgage obligations | - | 1,595 | - | - | 1,595 |
| Mortgage-backed securities — non-agency MBSs | - | 931 | 585 | - | 1,516 |
| Total investment securities available-for-sale | - | 2,526 | 585 | - | 3,111 |
| Investment securities non-qualifying | 2,121 | 370 | 3,490 | - | 5,981 |
| Total investment securities | 2,121 | 2,896 | 4,075 | - | 9,092 |
| Securities received as collateral | 22,158 | 805 | - | | 22,963 |
| Loans, notes and mortgages | - | 690 | 3,532 | - | 4,222 |

| (dollars in millions) | Fair Value Measurements on a Recurring Basis as of March 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting Adj[(1)] | Total |
| **Liabilities:** | | | | | |
| Payables under repurchase agreements | - | 44,376 | - | - | 44,376 |
| Short-term borrowings | - | 7,021 | - | - | 7,021 |
| Trading liabilities, excluding derivative contracts: | | | | | |
| Equities | 12,390 | 3,192 | - | - | 15,582 |
| Convertible debentures | - | 951 | - | - | 951 |
| Non-U.S. governments and agencies | 20,565 | 685 | 369 | - | 21,619 |
| Corporate debt | - | 4,328 | - | - | 4,328 |
| U.S. government and agencies | 1,436 | - | - | - | 1,436 |
| Municipals, money markets and other | 411 | - | - | - | 411 |
| Total trading liabilities, excluding derivative contracts | 34,802 | 9,156 | 369 | - | 44,327 |
| Derivative contracts[(2)] | 4,169 | 621,136 | 9,969 | (599,160) | 36,114 |
| Obligation to return securities received as collateral | 22,158 | 805 | - | - | 22,963 |
| Other payables — interest and other | - | 53 | 148 | - | 201 |
| Long-term borrowings | - | 41,580 | 4,519 | - | 46,099 |

*(1) Represents counterparty and cash collateral netting.*
*(2) Refer to Note 6 for product level detail.*

Level 3 derivative contracts (assets) primarily relate to derivative positions on U.S. ABS CDOs and other mortgage products of $6.7 billion, $5.4 billion of other credit derivatives that incorporate unobservable correlation, and $5.1 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation).

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

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

Level 3 derivative contracts (liabilities) primarily relate to derivative positions on U.S. ABS CDOs and other mortgage products of $3.4 billion, $2.2 billion of other credit derivatives that incorporate unobservable correlation, and $4.4 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation).

Level 3 long-term borrowings primarily relate to equity-linked structured notes of $2.9 billion that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation) and non-recourse borrowings issued by consolidated VIEs of $1.0 billion that hold Level 3 residential mortgages.

| (dollars in millions) | Level 1 | Level 2 | Level 3 | Netting Adj(1) | Total |
|---|---|---|---|---|---|
| | Fair Value Measurements on a Recurring Basis as of December 31, 2009 | | | | |
| **Assets:** | | | | | |
| Securities segregated for regulatory purposes or deposited with clearing organizations: | | | | | |
| Mortgages, mortgage-backed and asset-backed | $ - | $ 5,525 | $ - | $ - | $ 5,525 |
| Corporate debt | - | 579 | - | - | 579 |
| Non-U.S. governments and agencies | 946 | 893 | - | - | 1,839 |
| U.S. government and agencies | 1,046 | 1,541 | - | - | 2,587 |
| Total securities segregated for regulatory purposes or deposited with clearing organizations | 1,992 | 8,538 | - | - | 10,530 |
| Receivables under resale agreements | - | 41,740 | - | - | 41,740 |
| Receivables under securities borrowed transactions | - | 2,888 | - | - | 2,888 |
| Trading assets, excluding derivative contracts: | | | | | |
| Equities | 23,083 | 6,297 | 259 | - | 29,639 |
| Convertible debentures | - | 4,862 | - | - | 4,862 |
| Non-U.S. governments and agencies | 17,407 | 2,718 | 1,131 | - | 21,256 |
| Corporate debt | - | 9,241 | 6,540 | - | 15,781 |
| Preferred stock | - | 436 | 562 | - | 998 |
| Mortgages, mortgage-backed and asset-backed | - | 1,680 | 6,291 | - | 7,971 |
| U.S. government and agencies | 979 | 479 | - | - | 1,458 |
| Municipals and money markets | 798 | 5,181 | 2,148 | - | 8,127 |
| Commodities and related contracts | - | 651 | - | - | 651 |
| Total trading assets, excluding derivative contracts | 42,267 | 31,545 | 16,931 | - | 90,743 |
| Derivative contracts(2) | 2,218 | 658,264 | 17,939 | (628,839) | 49,582 |
| Investment securities available-for-sale: | | | | | |
| Mortgage-backed securities — agency collateralized mortgage obligations | - | 9,688 | - | - | 9,688 |
| Mortgage-backed securities — non-agency MBSs | - | 1,132 | 473 | - | 1,605 |
| Total investment securities available-for-sale | - | 10,820 | 473 | - | 11,293 |
| Investment securities non-qualifying | 2,027 | 451 | 3,696 | - | 6,174 |
| Total investment securities | 2,027 | 11,271 | 4,169 | - | 17,467 |
| Securities received as collateral | 15,780 | 566 | - | - | 16,346 |
| Loans, notes and mortgages | - | 654 | 4,115 | - | 4,769 |
| **Liabilities:** | | | | | |
| Payables under repurchase agreements | - | 37,325 | - | - | 37,325 |
| Short-term borrowings | - | 813 | - | - | 813 |
| Trading liabilities, excluding derivative contracts: | | | | | |
| Equities | 12,051 | 1,069 | - | - | 13,120 |
| Convertible debentures | - | 534 | - | - | 534 |
| Non-U.S. governments and agencies | 12,028 | 430 | 386 | - | 12,844 |
| Corporate debt | - | 1,903 | - | - | 1,903 |
| U.S. government and agencies | 1,296 | - | - | - | 1,296 |
| Municipals, money markets and other | 273 | 370 | - | - | 643 |
| Total trading liabilities, excluding derivative contracts | 25,648 | 4,306 | 386 | - | 30,340 |
| Derivative contracts(2) | 1,727 | 662,629 | 11,073 | (640,309) | 35,120 |
| Obligation to return securities received as collateral | 15,780 | 566 | - | - | 16,346 |
| Other payables — interest and other | - | 54 | 186 | - | 240 |
| Long-term borrowings | - | 42,357 | 4,683 | - | 47,040 |

*(1) Represents counterparty and cash collateral netting.*
*(2) Refer to Note 6 for product level detail.*

Level 3 derivative contracts (assets) primarily relate to derivative positions on U.S. ABS CDOs and other mortgage products of $7.5 billion, $5.0 billion of other credit derivatives that incorporate unobservable correlation, and $5.4 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation).

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

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

Level 3 derivative contracts (liabilities) primarily relate to derivative positions on U.S. ABS CDOs and other mortgage products of $4.1 billion, $2.2 billion of other credit derivatives that incorporate unobservable correlation, and $4.8 billion of equity, currency, interest rate and commodity derivatives that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation).

Level 3 long-term borrowings primarily relate to equity-linked structured notes of $3.6 billion that are long-dated and/or have unobservable model valuation inputs (e.g., unobservable correlation).

The following tables provide a summary of changes in fair value of Merrill Lynch's Level 3 financial assets and liabilities for the three months ended March 31, 2010 and March 31, 2009.

*(dollars in millions)*

| | Level 3 Financial Assets and Liabilities Three Months Ended March 31, 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 | Unrealized Gains to OCI | Purchases, Issuances and Settlements | Transfers in | Transfers out | Ending Balance |
| **Assets:** | | | | | | | | | | |
| Trading assets, excluding derivative contracts: | | | | | | | | | | |
| Equities | $ 259 | $ 2 | $ - | $ - | $ 2 | $ - | $ (7) | $ 31 | $ (40) | $ 245 |
| Non-U.S. governments and agencies | 1,131 | (83) | - | - | (83) | - | (28) | 87 | (51) | 1,056 |
| Corporate debt | 6,540 | 212 | - | - | 212 | - | (607) | 300 | (419) | 6,026 |
| Preferred stock | 562 | (2) | - | - | (2) | - | (350) | - | - | 210 |
| Mortgages, mortgage-backed and asset-backed | 6,291 | (60) | - | - | (60) | - | 310 | 22 | (164) | 6,399 |
| Municipals and money markets | 2,148 | 17 | - | - | 17 | - | (420) | 1,074 | - | 2,819 |
| Total trading assets, excluding derivative contracts | 16,931 | 86 | - | - | 86 | - | (1,102) | 1,514 | (674) | 16,755 |
| Derivative contracts, net | 6,866 | (419) | - | - | (419) | - | (135) | 1,029 | (61) | 7,280 |
| Investment securities available-for-sale: | | | | | | | | | | |
| Mortgage-backed securities - residential non-agency MBSs | 473 | - | (20) | 24 | 4 | (27) | 83 | 52 | - | 585 |
| Total investment securities available-for-sale | 473 | - | (20) | 24 | 4 | (27) | 83 | 52 | - | 585 |
| Investment securities non-qualifying | 3,696 | - | 363 | - | 363 | - | (434) | - | (135) | 3,490 |
| Total investment securities | 4,169 | - | 343 | 24 | 367 | (27) | (351) | 52 | (135) | 4,075 |
| Loans, notes and mortgages | 4,115 | - | (151) | 46 | (105) | - | (478) | - | - | 3,532 |
| **Liabilities:** | | | | | | | | | | |
| Trading liabilities, excluding derivative contracts: | | | | | | | | | | |
| Non-U.S. governments and agencies | 386 | 21 | - | - | 21 | - | 15 | - | (11) | 369 |
| Total trading liabilities, excluding derivative contracts | 386 | 21 | - | - | 21 | - | 15 | - | (11) | 369 |
| Other liabilities — interest and other | 186 | - | 30 | - | 30 | - | (8) | - | - | 148 |
| Long-term borrowings | 4,683 | 123 | 79 | - | 202 | - | 452 | 271 | (685) | 4,519 |

Transfers in for municipals and money markets relates to reduced price transparency (e.g., trading activity) for municipal auction rate securities. Transfers in for net derivative contracts primarily relates to a lack of price observability for certain credit default swaps.

*(dollars in millions)*

| | Level 3 Financial Assets and Liabilities Three Months Ended March 31, 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 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 | Unrealized Gains to OCI | Purchases, Issuances and Settlements | Transfers in (out) | Ending Balance |
| **Assets:** | | | | | | | | | |
| Trading assets, excluding derivative contracts: | | | | | | | | | |
| Equities | $ 231 | $ (18) | $ - | $ - | $ (18) | $ - | $ 184 | $ (18) | $ 379 |
| Non-U.S. governments and agencies | 30 | (15) | - | - | (15) | - | (1) | 587 | 601 |
| Corporate debt | 10,295 | (484) | - | - | (484) | - | (394) | (3,772) | 5,645 |
| Preferred stock | 3,344 | (109) | - | - | (109) | - | 3,419 | 105 | 6,759 |
| Mortgages, mortgage-backed and asset-backed | 7,590 | (261) | - | - | (261) | - | (591) | 699 | 7,437 |
| Municipals and money markets | 798 | 64 | - | - | 64 | - | 197 | (13) | 1,046 |
| Total trading assets, excluding derivative contracts | 22,288 | (823) | - | - | (823) | - | 2,814 | (2,412) | 21,867 |
| Derivative contracts, net | 2,307 | 913 | - | - | 913 | - | 441 | 207 | 3,868 |
| Investment securities available-for-sale: | | | | | | | | | |
| Mortgage-backed securities - residential non-agency MBSs | 350 | - | - | 178 | 178 | 649 | (92) | 2,108 | 3,193 |
| Total investment securities available-for-sale | 350 | - | - | 178 | 178 | 649 | (92) | 2,108 | 3,193 |
| Investment securities non-qualifying | 2,761 | - | (179) | - | (179) | - | (23) | (65) | 2,494 |
| Total investment securities | 3,111 | - | (179) | 178 | (1) | 649 | (115) | 2,043 | 5,687 |
| Loans, notes and mortgages | 359 | - | (466) | - | (466) | - | 266 | 5,985 | 6,144 |
| **Liabilities:** | | | | | | | | | |
| Trading liabilities, excluding derivative contracts: | | | | | | | | | |
| Non-U.S. governments and agencies | - | 22 | - | - | 22 | - | - | 348 | 326 |
| Total trading liabilities, excluding derivative contracts | - | 22 | - | - | 22 | - | - | 348 | 326 |
| Other liabilities — interest and other | - | - | 392 | - | 392 | - | 54 | 1,337 | 999 |
| Long-term borrowings | 7,480 | (499) | 7 | - | (492) | - | 403 | (326) | 8,049 |

Net gains in principal transactions related to net derivative contracts were primarily due to $1.2 billion of gains on credit derivatives that incorporate unobservable correlation.

Increases in purchases, issuances and settlements of preferred stock were primarily attributable to the purchase of auction rate securities.

Net transfers out for corporate debt primarily relate to the reclassification of certain loans from trading assets to loans, notes and mortgages held for investment, which are not measured at fair value as a result of the acquisition by Bank of America. Net transfers in for available-for-sale mortgage-backed securities — residential non-agency MBS are the result of reduced price observability. Net transfers in for loans, notes, and mortgages relate to the fair value option election for certain mortgage loans, corporate loans and leveraged loans by Merrill Lynch as a result of the acquisition of Merrill Lynch by Bank of America. Net transfers in for other liabilities — interest and other relate to the fair value option election for certain loan commitments by Merrill Lynch as a result of the acquisition by Bank of America.

The following tables provide the portion of gains or losses included in income for the three months ended March 31, 2010 and March 31, 2009 attributable to unrealized gains or losses relating to those Level 3 assets and liabilities held at March 31, 2010 and March 31, 2009, respectively.

*(dollars in millions)*

| | Unrealized Gains or (Losses) for Level 3 Assets and Liabilities Still Held | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended March 31, 2010 | | | | Three Months Ended March 31, 2009 | | | |
| | Principal Transactions | Other Revenue | Interest | Total | Principal Transactions | Other Revenue | Interest | Total |
| **Assets:** | | | | | | | | |
| Trading assets, excluding derivative contracts: | | | | | | | | |
| Equities | $ (4) | $ - | $ - | $ (4) | $ (18) | $ - | $ - | $ (18) |
| Non-U.S. governments and agencies | (83) | - | - | (83) | (15) | - | - | (15) |
| Corporate debt | 124 | - | - | 124 | (487) | - | - | (487) |
| Preferred stock | (2) | - | - | (2) | (109) | - | - | (109) |
| Mortgages, mortgage-backed and asset-backed | (64) | - | - | (64) | (278) | - | - | (278) |
| Municipals and money markets | 17 | - | - | 17 | 64 | - | - | 64 |
| Total trading assets, excluding derivative contracts | (12) | - | - | (12) | (843) | - | - | (843) |
| Derivative contracts, net | (366) | - | - | (366) | 991 | - | - | 991 |
| Investment securities available-for-sale: | | | | | | | | |
| Mortgage-backed securities - non-agency MBSs | - | (20) | 24 | 4 | - | - | 178 | 178 |
| Total investment securities available-for-sale | - | (20) | 24 | 4 | - | - | 178 | 178 |
| Investment securities non-qualifying | - | (206) | - | (206) | - | (179) | - | (179) |
| Total investment securities | - | (226) | 24 | (202) | - | (179) | 178 | (1) |
| Loans, notes and mortgages | - | 22 | - | 22 | - | (466) | - | (466) |
| **Liabilities:** | | | | | | | | |
| Trading liabilities, excluding derivative contracts: | | | | | | | | |
| Non-U.S. governments and agencies | 21 | - | - | 21 | 22 | - | - | 22 |
| Total trading liabilities, excluding derivative contracts | 21 | - | - | 21 | 22 | - | - | 22 |
| Other liabilities — interest and other | - | 30 | - | 30 | - | 392 | - | 392 |
| Long-term borrowings | 110 | 78 | - | 188 | (533) | 7 | - | (526) |

For the three months ended March 31, 2009, net unrealized gains in principal transactions related to net derivative contracts were primarily due to $1.2 billion of gains on credit derivatives that incorporate unobservable correlation.

### 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 that are 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 March 31, 2010 and December 31, 2009, respectively.

*(dollars in millions)*

| | Non-Recurring Basis as of March 31, 2010 | | | | (Losses) Three Months Ended March 31, 2010 | (Losses) Three Months Ended March 31, 2009 |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | | |
| **Assets:** | | | | | | |
| Investment securities non-qualifying | $ - | $ - | $ 81 | $ 81 | $ - | $ - |
| Loans, notes and mortgages | - | 417 | 1,946 | 2,363 | (77) | (226) |
| Other assets | - | - | 25 | 25 | (5) | - |
| **Liabilities:** | | | | | | |
| Other payables — interest and other | - | - | 31 | 31 | (2) | - |

*(dollars in millions)*

| | Non-Recurring Basis as of December 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Investment securities non-qualifying | $ - | $ - | $ 182 | $ 182 |
| Loans, notes and mortgages | - | 524 | 2,671 | 3,195 |
| Other assets | - | - | 210 | 210 |
| **Liabilities:** | | | | |
| Other payables — interest and other | - | - | 39 | 39 |

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 March 31, 2010 and December 31, 2009. 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 March 31, 2010 primarily relate to 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 31, 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.

Other payables — interest and other includes 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 months ended March 31, 2010 and March 31, 2009, respectively.

*(dollars in millions)*

| | Changes in Fair Value For the Three Months Ended March 31, 2010, for Items Measured at Fair Value Pursuant to the Fair Value Option Election | | | Changes in Fair Value For the Three Months Ended March 31, 2009, for Items Measured at Fair Value Pursuant to the Fair Value Option Election | | |
|---|---|---|---|---|---|---|
| | 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 | $ 7 | $ - | $ 7 | $ (168) | $ - | $ (168) |
| Investment securities | - | (3) | (3) | 5 | (103) | (98) |
| Loans, notes and mortgages | - | 28 | 28 | - | (412) | (412) |
| **Liabilities:** | | | | | | |
| Payables under repurchase agreements | 14 | - | 14 | 92 | - | 92 |
| Short-term borrowings | (44) | - | (44) | (16) | 6 | (10) |
| Other payables — interest and other | - | 31 | 31 | - | 392 | 392 |
| Long-term borrowings(1) | (101) | (67) | (168) | 2,104 | 7 | 2,111 |

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

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 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 was elected was primarily attributable to changes in borrower-specific credit risk for the three months ended March 31, 2010 and March 31, 2009.

For the three months ended March 31, 2010 and March 31, 2009, the aggregate fair value of loans, notes and mortgages for which the fair value option election has been made that were 90 days or more past due was $225 million and $346 million, respectively, and the aggregate fair value of loans, notes, and mortgages that were in non-accrual status was $650 million and $346 million, respectively. For the three months ended March 31, 2010 and March 31, 2009, the unpaid principal amount due exceeded the aggregate fair value of such loans, notes and mortgages that are 90 days or more past due and/or in non-accrual status by $735 million and $419 million, respectively.

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 gains for the three months ended March 31, 2010 and March 31, 2009 related to changes in Merrill Lynch's credit spreads, the majority of the (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 the widening of Merrill Lynch's credit spreads were gains of approximately $0.2 billion and $2.2 billion for the three months ended March 31, 2010 and March 31, 2009, respectively. 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 and secured borrowings issued by consolidated VIEs. The fair value of these borrowings is not materially affected 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, receivables under securities borrowed transactions, loans, notes, and mortgages and long-term borrowings for which the fair value option election has been made as of March 31, 2010 and December 31, 2009, respectively.

*(dollars in millions)*

| | Fair Value at March 31, 2010 | Principal Amount Due Upon Maturity | Difference |
|---|---|---|---|
| **Assets:** | | | |
| Receivables under resale agreements | $ 48,627 | $ 48,334 | $ 293 |
| Receivables under securities borrowed transactions | 3,233 | 3,233 | - |
| Loans, notes and mortgages | 4,113 | 6,417 | (2,304) |
| **Liabilities:** | | | |
| Long-term borrowings(1) | 46,099 | 52,729 | (6,630) |

*(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)*

| | Fair Value at December 31, 2009 | Principal Amount Due Upon Maturity | Difference |
|---|---|---|---|
| **Assets:** | | | |
| Receivables under resale agreements | $ 41,740 | $ 41,454 | $ 286 |
| Receivables under securities borrowed transactions | 2,888 | 2,888 | - |
| Loans, notes and mortgages | 4,649 | 7,236 | (2,587) |
| **Liabilities:** | | | |
| Long-term borrowings(1) | 47,040 | 50,543 | (3,503) |

*(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.*

**Note 5. Fair Value of Financial Instruments**

The fair values of financial 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.

The following disclosures represent financial instruments for which the ending balances at March 31, 2010 and December 31, 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, cash and securities segregated for regulatory purposes or deposited with clearing organizations, 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 interest rates.

**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 Merrill Lynch 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 its 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 Merrill Lynch debt with similar maturities. Merrill Lynch made the fair value option election for certain long-term borrowings, including structured notes. See Note 4 for additional information on long-term borrowings for which Merrill Lynch made the fair value option election.

The book and fair values of certain financial instruments at March 31, 2010 and December 31, 2009 were as follows:

*(dollars in millions)*

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | **Book Value** | **Fair Value** | **Book Value** | **Fair Value** |
| **Financial assets** | | | | |
| Loans, notes and mortgages(1) | $ 35,194 | $ 34,991 | $ 37,663 | $ 37,715 |
| **Financial liabilities** | | | | |
| Deposits | 13,473 | 13,473 | 15,187 | 15,187 |
| Long-term borrowings(2) | 145,805 | 154,020 | 154,951 | 162,645 |

*(1) Loans are presented net of allowance for loan losses. 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, option contracts, and other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

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 Merrill Lynch 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.

**Derivatives that Contain a Significant Financing Element**

In the ordinary course of trading activities, Merrill Lynch enters into certain transactions that are documented as derivatives where a significant cash investment is made by one party. Certain derivative instruments that contain a significant financing element at inception and where Merrill Lynch is deemed to be the borrower are included in financing activities in the Condensed Consolidated Statements of Cash Flows. The cash flows from all other derivative transactions that do not contain a significant financing element at inception are included in operating activities.

*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-rate interest 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 cash flow hedges are recorded in OCI until earnings are affected by the variability of cash flows of the hedged asset or liability. For cash flow hedges of commodity contracts, 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 ("net investment hedge"). 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 hedging instruments that are associated with the difference between the spot rate and the contracted forward rate are recorded in current period earnings in interest expense for the quarter ended March 31, 2010 and other revenues for the quarter ended March 31, 2009.

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 2010 and 2009 included the following:

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

*(dollars in millions)*

| | Account location | 2010 | 2009 |
|---|---|---|---|
| **For the three months ended March 31:** | | | |
| Gain/(loss) recognized in income on the derivative | Interest expense | $ (214) | $ (370) |
| Gain/(loss) recognized in income on the long-term borrowing[1] | Interest expense | $ 3 | $ 245 |
| Gain/(loss) recognized in income due to hedge ineffectiveness | Interest expense | $ (211) | $ (125) |
| **As of March 31, 2010 and December 31, 2009:** | | | |
| Carrying value of hedging derivatives | | | |
| | Trading assets | $ 3,665 | $ 3,362 |
| | Trading liabilities | $ 396 | $ 101 |
| Notional amount of hedging derivatives | | | |
| in an asset position | | $44,504 | $54,954 |
| in a liability position | | $ 7,542 | $ 4,770 |

*(1) Excludes the impact of the accretion of purchase accounting adjustments made to certain long-term borrowings in connection with the acquisition of Merrill Lynch by Bank of America.*

**Fair value hedges of commodity price risk on commodity inventory**

*(dollars in millions)*

| | Account location | 2010 | 2009 |
|---|---|---|---|
| **For the three months ended March 31:** | | | |
| Gain/(loss) recognized in income on the derivative | Principal transactions | $ 57 | $ 55 |
| Gain/(loss) recognized in income on the commodity inventory | Principal transactions | $ (61) | $ (57) |
| Gain/(loss) recognized in income due to hedge ineffectiveness | Principal transactions | $ (4) | $ (2) |
| **As of March 31, 2010 and December 31, 2009:** | | | |
| Carrying value of hedging derivatives | | | |
| | Trading assets | $117 | $ 78 |
| | Trading liabilities | $ 3 | $ 4 |
| Notional amount of hedging derivatives | | | |
| in an asset position | | $245 | $286 |
| in a liability position | | $ 5 | $ 34 |

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

*(dollars in millions)*

| | Account location | 2010 | 2009 |
|---|---|---|---|
| **For the three months ended March 31:** | | | |
| Gain/(loss) on the derivative deferred in equity | Accumulated other comprehensive income | $ 32 | $ 48 |
| Gain/(loss) reclassified into earnings in the current period | Principal transactions | $ 3 | $ 3 |
| Gain/(loss) recognized in income due to hedge ineffectiveness | Principal transactions | $ - | $ - |
| Amount that is expected to be reclassified into earnings in the next 12 months | Principal transactions | $ 31 | $ 15 |
| **As of March 31, 2010 and December 31, 2009:** | | | |
| Carrying value of hedging derivatives | | | |
| | Trading assets | $ 35 | $ 10 |
| | Trading liabilities | $ - | $ 5 |
| Notional amount of hedging derivatives | | | |
| in an asset position | | $118 | $ 92 |
| in a liability position | | $ 2 | $ 67 |

**Net investment hedges of foreign operations**

*(dollars in millions)*

| | Account location | 2010 | 2009 |
|---|---|---|---|
| **For the three months ended March 31:** | | | |
| Gain/(loss) on the derivative and non-derivative hedges deferred in equity | Accumulated other comprehensive income | $ 570 | $ 718 |
| Gain/(loss) recognized in income due to hedge ineffectiveness | Other revenue | $ - | $ (10) |
| Gain/(loss) recognized in income from the unused portion (time value) of the hedging derivative | Other revenue | $ - | $ (55) |
| | Interest expense | $ (37) | $ - |
| **As of March 31, 2010 and December 31, 2009:** | | | |
| Carrying value of hedging derivatives | Trading assets | $ 367 | $ 353 |
| | Trading liabilities | $ 227 | $ 277 |
| Carrying value of non-derivative hedges | Long-term borrowings | $ 564 | $ 598 |
| Notional amount of hedging derivatives | | | |
| in an asset position | | $12,669 | $16,531 |
| in a liability position | | $10,918 | $ 6,098 |

**Net Gains/Losses on non-trading derivatives not in hedge relationships**

*(dollars in millions)*

| | Account location | 2010 | 2009 |
|---|---|---|---|
| **For the three months ended March 31:** | | | |
| Interest rate risk | Interest expense | $ 56 | $(460) |
| Foreign currency risk | Other revenue | (2,694) | 784 |
| Credit risk | Other revenue | (12) | 69 |

The above amounts represent net gains/(losses) on derivatives that are not used for trading purposes and are not used in accounting 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 business 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 tables identify the primary risk for derivative instruments at March 31, 2010 and December 31, 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)*

| | As of March 31, 2010 | | | |
|---|---|---|---|---|
| | Contract/ Notional(1) | Trading Assets- Derivative Contracts | Contract/ Notional(1) | Trading Liabilities- Derivative Contracts |
| **Interest rate contracts** | | | | |
| Swaps | $ 9,004,196 | $ 462,365 | $ 8,762,765 | $ 458,545 |
| Futures and forwards | 2,263,752 | 3,036 | 2,332,899 | 3,158 |
| Written options | - | - | 1,537,443 | 44,197 |
| Purchased options | 1,520,074 | 44,743 | - | - |
| **Foreign exchange contracts** | | | | |
| Swaps | 94,877 | 10,247 | 104,391 | 12,780 |
| Spot, futures and forwards | 239,848 | 7,222 | 251,143 | 8,012 |
| Written options | - | - | 274,272 | 8,621 |
| Purchased options | 285,144 | 8,122 | - | - |
| **Equity contracts** | | | | |
| Swaps | 26,879 | 6,627 | 20,707 | 6,823 |
| Futures and forwards | 46,240 | 3,088 | 47,751 | 2,295 |
| Written options | - | - | 408,568 | 18,511 |
| Purchased options | 368,880 | 16,321 | - | - |
| **Commodity contracts** | | | | |
| Swaps | 55,457 | 8,573 | 45,485 | 8,031 |
| Futures and forwards | 222,983 | 10,202 | 211,998 | 9,430 |
| Written options | - | - | 64,861 | 4,717 |
| Purchased options | 59,788 | 4,492 | - | - |
| **Credit derivatives** | | | | |
| Purchased protection: | | | | |
| Credit default swaps | 644,967 | 41,806 | 355,983 | 12,254 |
| Total return swaps | 2,557 | 356 | 2,098 | 797 |
| Other credit derivatives | 7,018 | 24 | 5 | - |
| Written protection: | - | - | - | - |
| Credit default swaps | 371,112 | 11,967 | 654,422 | 36,559 |
| Total return swaps | 5,213 | 1,161 | 5,566 | 462 |
| Other credit derivatives | - | - | 5,886 | 82 |
| Gross derivative assets/liabilities | $15,218,985 | $ 640,352 | $15,086,243 | $ 635,274 |
| Less: Legally enforceable master netting | | (566,958) | | (566,958) |
| Less: Cash collateral applied | | (28,039) | | (32,202) |
| **Total derivative assets and liabilities** | | $ 45,355 | | $ 36,114 |

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

*(dollars in millions)*

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | Contract/ Notional(1) | Trading Assets- Derivative Contracts | Contract/ Notional(1) | Trading Liabilities- Derivative Contracts |
| **Interest rate contracts** | | | | |
| Swaps | $10,059,442 | $ 472,860 | $ 9,748,704 | $ 471,423 |
| Futures and forwards | 2,606,064 | 3,531 | 2,534,823 | 3,123 |
| Written options | - | - | 1,461,830 | 46,521 |
| Purchased options | 1,313,226 | 46,643 | - | - |
| **Foreign exchange contracts** | | | | |
| Swaps | 115,591 | 11,739 | 107,953 | 13,074 |
| Spot, futures and forwards | 208,226 | 8,470 | 223,151 | 8,832 |
| Written options | - | - | 264,836 | 10,859 |
| Purchased options | 266,026 | 10,375 | - | - |
| **Equity contracts** | | | | |
| Swaps | 17,637 | 1,186 | 16,123 | 1,354 |
| Futures and forwards | 41,821 | 2,999 | 33,844 | 2,165 |
| Written options | - | - | 250,233 | 18,761 |
| Purchased options | 240,650 | 15,596 | - | - |
| **Commodity contracts** | | | | |
| Swaps | 30,449 | 6,591 | 34,180 | 6,391 |
| Futures and forwards | 202,571 | 10,369 | 185,109 | 9,612 |
| Written options | - | - | 53,438 | 4,955 |
| Purchased options | 50,372 | 4,750 | - | - |
| **Credit derivatives** | | | | |
| Purchased protection: | | | | |
| Credit default swaps | 908,594 | 59,491 | 622,853 | 22,685 |
| Total return swaps | 2,921 | 366 | 1,644 | 358 |
| Other credit derivatives | 14,517 | 59 | - | - |
| Written protection: | - | - | - | - |
| Credit default swaps | 614,066 | 21,833 | 949,107 | 54,265 |
| Total return swaps | 5,173 | 1,563 | 7,336 | 925 |
| Other credit derivatives | - | - | 14,703 | 126 |
| Gross derivative assets/liabilities | $16,697,346 | $ 678,421 | $16,509,867 | $ 675,429 |
| Less: Legally enforceable master netting | | (602,157) | | (602,157) |
| Less: Cash collateral applied | | (26,682) | | (38,152) |
| **Total derivative assets and liabilities** | | $ 49,582 | | $ 35,120 |

*(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 derivatives 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 (expense)/profit. 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 months ended March 31, 2010 and March 31, 2009.

Non-trading related amounts include 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 March 31, 2010 | Principal Transactions | Commissions | Other Revenues(1) | Net Interest Profit/ (Expense) | Total |
|---|---|---|---|---|---|
| Interest rate risk | $ 767 | $ 18 | $ 6 | $ 84 | $ 875 |
| Foreign exchange risk | 87 | - | - | (1) | 86 |
| Equity risk | 493 | 775 | 36 | 195 | 1,499 |
| Commodity risk | 149 | - | (1) | (32) | 116 |
| Credit risk | 1,548 | 10 | 159 | 397 | 2,114 |
| **Total trading — related** | 3,044 | 803 | 200 | 643 | 4,690 |
| **Non-trading related** | 174 | 664 | 868 | (868) | 838 |
| **Total** | $ 3,218 | $ 1,467 | $ 1,068 | $ (225) | $5,528 |

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

*(dollars in millions)*

| For the Three Months Ended March 31, 2009 | Principal Transactions | Commissions | Other Revenues(1) | Net Interest Profit/(Expense) | Total |
|---|---|---|---|---|---|
| Interest rate risk | $ 1,362 | $ 13 | $ (2) | $ 203 | $1,576 |
| Foreign exchange risk | 190 | - | 1 | (12) | 179 |
| Equity risk | 826 | 753 | 24 | 92 | 1,695 |
| Commodity risk | 598 | - | 1 | (51) | 548 |
| Credit risk | 558 | 16 | (110) | 311 | 775 |
| **Total trading — related** | 3,534 | 782 | (86) | 543 | 4,773 |
| **Non-trading related** | 2,380 | 598 | 357 | 385 | 3,720 |
| **Total** | $ 5,914 | $ 1,380 | $ 271 | $ 928 | $8,493 |

*(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 relates to an asset, liability or equity security of a guaranteed party. Derivatives that meet the accounting definition of a guarantee 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.

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Merrill Lynch's derivatives that act as guarantees at March 31, 2010 and December 31, 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) |
|---|---|---|---|---|---|---|
| **At March 31, 2010:** | | | | | | |
| Derivative contracts: | | | | | | |
| Credit derivatives: | | | | | | |
| Investment grade(2) | $ 349,454 | $ 32,762 | $ 101,540 | $ 122,318 | $ 92,834 | $ 13,570 |
| Non-investment grade(2) | 686,859 | 61,883 | 200,604 | 215,213 | 209,159 | 23,451 |
| Total credit derivatives | 1,036,313 | 94,645 | 302,144 | 337,531 | 301,993 | 37,021 |
| Other derivatives | 1,532,512 | 476,426 | 364,370 | 235,114 | 456,602 | 65,747 |
| Total derivative contracts | $2,568,825 | $571,071 | $ 666,514 | $ 572,645 | $ 758,595 | $102,768 |
| **At December 31, 2009:** | | | | | | |
| Derivative contracts: | | | | | | |
| Credit derivatives: | | | | | | |
| Investment grade(2) | $ 520,782 | $ 44,552 | $ 133,089 | $ 216,562 | $ 126,579 | $ 17,255 |
| Non-investment grade(2) | 1,054,900 | 93,582 | 331,306 | 325,167 | 304,845 | 37,935 |
| Total credit derivatives | 1,575,682 | 138,134 | 464,395 | 541,729 | 431,424 | 55,190 |
| Other derivatives | 1,574,432 | 488,146 | 405,223 | 245,565 | 435,498 | 59,811 |
| Total derivative contracts | $3,150,114 | $626,280 | $ 869,618 | $ 787,294 | $ 866,922 | $115,001 |

*(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

March 31, 2010 and December 31, 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) |
|---|---|---|---|---|---|---|
| **At March 31, 2010:** | | | | | | |
| Credit derivatives purchased | $ 975,266 | $ 81,221 | $ 274,464 | $ 318,528 | $ 301,053 | $ 31,846 |
| Credit derivatives sold | 1,018,837 | 94,239 | 300,320 | 336,742 | 287,536 | 33,474 |
| **At December 31, 2009:** | | | | | | |
| Credit derivatives purchased | $1,506,782 | $130,297 | $ 432,550 | $ 511,298 | $ 432,637 | $ 49,225 |
| Credit derivatives sold | 1,555,077 | 135,686 | 463,129 | 540,713 | 415,549 | 50,609 |

*(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 March 31, 2010 and December 31, 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 March 31, 2010 and December 31, 2009, cash collateral received of $28.0 billion and $26.7 billion, respectively, and cash collateral paid of $32.2 billion and $38.2 billion, respectively, was netted against derivative assets and liabilities.

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 months ended March 31, 2010 and March 31, 2009, valuation adjustments of approximately $0.1 billion of gains and $0.7 billion of losses, respectively, were recognized in principal transactions for counterparty credit risk. At March 31, 2010 and December 31, 2009, the cumulative counterparty credit risk valuation adjustment that was reflected in derivative assets was $6.5 billion and $6.8 billion, respectively. In addition, the fair value of derivative liabilities is adjusted to reflect the impact of Merrill Lynch's credit quality. During the three months ended March 31, 2010 and March 31, 2009, valuation adjustments of approximately $0.1 billion and $0.9 billion, respectively were recognized as gains in principal transactions for changes in Merrill Lynch's credit risk. At March 31, 2010 and December 31, 2009, the cumulative credit risk valuation adjustment that was reflected in the derivative liabilities balance was $0.5 billion and $0.3 billion, respectively.

Monoline derivative credit exposure at March 31, 2010 had a notional value of $34.7 billion compared with $36.1 billion at December 31, 2009. Mark-to-market monoline derivative credit exposure was $9.9 billion at March 31, 2010 compared with $10.7 billion at December 31, 2009, driven by positive valuation adjustments on legacy assets and terminated monoline contracts. At March 31, 2010, the counterparty credit valuation adjustment related to monoline derivative exposure was $5.5 billion compared with $5.7 billion at December 31, 2009, which reduced Merrill Lynch's net mark-to-market exposure to $4.3 billion at March 31, 2010, of which 64% related to a single counterparty.

Bank of America has guaranteed the performance of Merrill Lynch on certain derivative transactions. The aggregate amount of such derivative liabilities was approximately $2.9 billion and $2.5 billion at March 31, 2010 and December 31, 2009, respectively.

*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's creditworthiness. At March 31, 2010 and December 31, 2009, Merrill Lynch posted collateral of $36.7 billion and

$42.8 billion, respectively, under derivative contracts that were in a liability position, of which $32.2 billion and $38.2 billion, respectively, 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 both March 31, 2010 and December 31, 2009, the amount of additional collateral and termination payments that would be required for such derivatives transactions and trading agreements was approximately $1.3 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 $0.7 billion and $0.6 billion of additional collateral at March 31, 2010 and December 31, 2009, respectively.

**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 March 31, 2010 and December 31, 2009, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $343 billion and $308 billion, respectively, and the fair value of the portion that had been sold or repledged was $283 billion and $245 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.

Additionally, Merrill Lynch 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.

Merrill Lynch pledges assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets and investment securities on 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 March 31, 2010 and December 31, 2009 are as follows:

*(dollars in millions)*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **Trading asset category** | | |
| Equities and convertible debentures | $ 10,554 | $ 7,647 |
| Corporate debt and preferred stock | 9,582 | 10,398 |
| U.S. Government and agencies | 2,137 | 1,455 |
| Mortgages, mortgage-backed, and asset-backed securities | 1,892 | 4,236 |
| Non-U.S. governments and agencies | 1,873 | 1,786 |
| Municipals and money markets | - | 8 |
| **Total** | $ 26,038 | $ 25,530 |

In certain cases, Merrill Lynch has transferred assets to consolidated VIEs where those restricted assets serve as collateral for the interests issued by the VIEs. These assets are disclosed on the Condensed Consolidated Balance Sheet as Assets of Consolidated VIEs. 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).

## 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 subsidiaries consist of:
  - Debt securities, including debt held-for-investment and liquidity and collateral management purposes that are classified as available-for-sale, 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 non-qualifying 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 three to five 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 non-qualifying investments are private equity investments and investments in real estate VIEs held by consolidated investment companies 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 March 31, 2010 and December 31, 2009 are as follows. The decrease in available-for-sale securities from December 31, 2009 primarily reflects the sale of approximately $13 billion of securities, approximately $11 billion of which were sold to Bank of America. The securities sold to Bank of America resulted in a gain of approximately $280 million during the quarter ended March 31, 2010.

*(dollars in millions)*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **Investment securities** | | |
| Available-for-sale[1] | $ 3,111 | $ 16,818 |
| Held-to-maturity | 250 | 246 |
| Non-qualifying[2] | 21,679 | 21,301 |
| **Total** | $ 25,040 | $ 38,365 |

*(1) The amount at December 31, 2009 includes $5.5 billion of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.*
*(2) Investments that are non-qualifying for Investment Accounting purposes, primarily equity investments, which includes Merrill Lynch's investment in BlackRock, Inc.*

For the three months ended March 31, 2010, other-than-temporary impairment charges related to non-agency mortgage-backed available-for-sale securities were $105 million, the credit-related portion of which was $86 million. There were no other-than-temporary impairments related to available-for-sale securities during the three months ended March 31, 2009. Refer to Note 1 for Merrill Lynch's accounting policy regarding other-than-temporary-impairment of investment securities.

Information regarding investment securities subject to Investment Accounting follows.

*(dollars in millions)*

| | March 31, 2010 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Available-for-Sale** | | | | |
| Mortgage-backed securities: | | | | |
| Agency collateralized mortgage obligations | $ 1,509 | $ 86 | $ - | $1,595 |
| Non-agency | 1,766 | 123 | (373) | 1,516 |
| **Total** | $ 3,275 | $ 209 | $ (373) | $3,111 |
| **Held-to-Maturity** | | | | |
| Corporate debt and municipal | $ 250 | $ - | $ - | $ 250 |
| **Total** | $ 3,525 | $ 209 | $ (373) | $3,361 |

*(dollars in millions)*

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Available-for-Sale** | | | | |
| Mortgage-backed securities: | | | | |
| Agency collateralized mortgage obligations | $ 14,775 | $ 449 | $ (11) | $15,213 |
| Non-agency | 1,952 | 154 | (501) | 1,605 |
| **Total Available-for-Sale Securities** | $ 16,727 | $ 603 | $ (512) | $16,818 |
| **Held-to-Maturity** | | | | |
| Corporate debt and municipal | $ 246 | $ - | $ - | $ 246 |
| **Total** | $ 16,973 | $ 603 | $ (512) | $17,064 |

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 as of December 31, 2009. 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 March 31, 2010.

*(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 |
| Agency collateralized mortgage obligations | $ 412 | $ - | $ - | $ - | $ 412 | $ - |
| Non-Agency | 249 | (76) | 688 | (297) | 937 | (373) |
| **Total** | $ 661 | $ (76) | $ 688 | $ (297) | $ 1,349 | $ (373) |

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 March 31, 2010 are as follows:

*(dollars in millions)*

| | Available-for-Sale | | Held-to-Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 223 | $ 156 | $ - | $ - |
| Due after one year through five years | 1,065 | 986 | - | - |
| Due after five years through ten years | 1,228 | 1,261 | 250 | 250 |
| Due after ten years | 759 | 708 | - | - |
| Total[(1)] | $ 3,275 | $3,111 | $ 250 | $250 |

*(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 months ended March 31, 2010 are as follows:

| *(dollars in millions)* | Three Months Ended March 31, 2010 |
| --- | --- |
| Proceeds | $ 13,427 |
| Gross realized gains | 346 |
| Gross realized losses | (2) |

**Note 9. Securitizations and Other Variable Interest Entities ("VIEs")**

Merrill Lynch utilizes VIEs in the ordinary course of business to support its own and its customers' financing and investing needs. Merrill Lynch securitizes loans and debt securities using VIEs as a source of funding and as a means of transferring the economic risk of the loans or debt securities to third parties. Merrill Lynch also administers, structures or invests in other VIEs including multi-seller conduits, municipal bond trusts, CDOs and other entities as described in more detail below.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. In accordance with new consolidation guidance effective January 1, 2010, Merrill Lynch is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. As a result of this change in accounting, Merrill Lynch consolidated or deconsolidated certain VIEs and former QSPEs on January 1, 2010 that were previously unconsolidated or consolidated. The net incremental impact of this accounting change on

Merrill Lynch's Condensed Consolidated Balance Sheet is set forth in the table below. The net effect of the accounting change is recorded as an adjustment to beginning retained earnings, net of tax.

*(dollars in millions)*

| | Ending Balance Sheet December 31, 2009 | Net Increase / (Decrease) | Opening Balance Sheet January 1, 2010 |
|---|---|---|---|
| **Assets** | | | |
| Trading assets, at fair value | $ 90,743 | $ 6,217 | $ 96,960 |
| Derivative assets | 49,582 | (2,413) | 47,169 |
| Investment securities | 32,840 | 1,093 | 33,933 |
| Loans, notes, and mortgages (net) | 37,663 | (333) | 37,330 |
| All other assets | 268,367 | 3,287 | 271,654 |
| **Total Assets** | $ 479,195 | $ 7,851 | $ 487,046 |
| **Liabilities** | | | |
| Short-term borrowings | $ 853 | $ 5,013 | $ 5,866 |
| Trading liabilities, at fair value | 30,340 | - | 30,340 |
| Derivative liabilities | 35,120 | (313) | 34,807 |
| Long-term borrowings | 151,399 | 3,067 | 154,466 |
| All other liabilities | 220,345 | 228 | 220,573 |
| **Total Liabilities** | 438,057 | 7,995 | 446,052 |
| Retained earnings (deficit) | 4,583 | (144) | 4,439 |
| All other stockholders' equity | 36,555 | - | 36,555 |
| **Total Stockholders' Equity** | 41,138 | (144) | 40,994 |
| **Total Liabilities and Stockholders' Equity** | $ 479,195 | $ 7,851 | $ 487,046 |

Certain tables below present the assets and liabilities of consolidated and unconsolidated VIEs if Merrill Lynch has continuing involvement with transferred assets or if Merrill Lynch otherwise has a variable interest in the VIE. For consolidated VIEs, these amounts are net of intercompany balances. The tables also present Merrill Lynch's exposure to loss resulting from its involvement with consolidated VIEs and unconsolidated VIEs in which Merrill Lynch holds a variable interest as of March 31, 2010 and December 31, 2009. Merrill Lynch's maximum exposure to loss is based on the unlikely event that all of the assets in the VIEs become worthless and incorporates not only potential losses associated with assets recorded on Merrill Lynch's Condensed Consolidated Balance Sheet but also potential losses associated with off-balance sheet commitments such as unfunded liquidity commitments and other contractual arrangements. Generally, Merrill Lynch's maximum exposure to loss does not include losses previously recognized.

Merrill Lynch invests in asset-backed securities issued by third party VIEs with which it has no other form of involvement. These securities are described in more detail in Note 8. In addition, Merrill Lynch uses VIEs such as trust preferred securities trusts in connection with its funding activities, as described in more detail in Note 12.

Except as described below, Merrill Lynch has not provided financial support to consolidated or unconsolidated VIEs that it was not contractually required to provide, nor does it intend to do so.

Loan VIEs

Merrill Lynch securitizes mortgage loans that it originates or purchases from third parties. In certain circumstances, Merrill Lynch has continuing involvement with the securitized loans as servicer of the loans. Merrill Lynch may also retain beneficial interests in the securitization vehicles including senior and subordinated securities, and the equity tranche. Except as described below, Merrill Lynch does not provide guarantees or recourse to the securitization vehicles other than standard representations and warranties.

Securitization activity for residential and commercial mortgages was not material for the three months ended March 31, 2010 and March 31, 2009.

The following table summarizes certain information related to Loan VIEs in which Merrill Lynch is either transferor, servicer or sponsor and holds a variable interest as of March 31, 2010 and December 31, 2009.

*(dollars in millions)*

| | Non-Agency | | | | | |
|---|---|---|---|---|---|---|
| | Prime | | Subprime | | Commercial Mortgage | |
| | March 31, 2010 | December 31, 2009 | March 31, 2010 | December 31, 2009 | March 31, 2010 | December 31, 2009 |
| **Unconsolidated VIEs:** | | | | | | |
| **Maximum loss exposure(1)(2)** | $ 25 | $ 99 | $ 53 | $ 1,143 | $ 110 | $ 101 |
| Senior securities held(3) | | | | | | |
| Trading assets | $ 2 | $ 3 | $ - | $ 10 | $ - | $ - |
| Investment securities | 7 | - | - | - | - | - |
| Subordinated securities held(3) | | | | | | |
| Trading assets | - | - | 16 | - | - | - |
| Investment securities | - | - | 26 | - | - | - |
| Residual interests held | 7 | 9 | 11 | 2 | 38 | 39 |
| **Total retained securities** | $ 16 | $ 12 | $ 53 | $ 12 | $ 38 | $ 39 |
| **Principal balance outstanding(4)** | $ 598 | $ 923 | $ 32,674 | $ 33,296 | $ 7,802 | $ 7,915 |
| **Consolidated VIEs:** | | | | | | |
| **Maximum loss exposure(1)** | $ 53 | $ 472 | $ 1,411 | $ 1,234 | $ - | $ - |
| Derivative contracts | $ 50 | $ 72 | $ 155 | $ 163 | $ - | $ - |
| Loans, notes, and mortgages | 106 | 436 | 2,628 | 1,746 | - | - |
| Other assets | 9 | 14 | 123 | 108 | - | - |
| **Total assets** | $ 165 | $ 522 | $ 2,906 | $ 2,017 | $ - | $ - |
| Long-term borrowings | $ - | $ 48 | $ 1,482 | $ 1,030 | $ - | $ - |
| Derivative contracts | - | - | - | 3 | - | - |
| Other liabilities | 112 | 3 | 13 | - | - | - |
| **Total liabilities** | $ 112 | $ 51 | $ 1,495 | $ 1,033 | $ - | $ - |

*(1) Maximum loss exposure excludes liability for representations and warranties.*
*(2) Maximum loss exposure at December 31, 2009 related to servicing assets that were transferred to a subsidiary of Bank of America in the first quarter of 2010.*
*(3) Substantially all of the securities were in Level 2 in the fair value hierarchy.*
*(4) Principal balance outstanding includes those loans that Merrill Lynch transferred and with which it has continuing involvement.*

In accordance with the new consolidation guidance, Merrill Lynch consolidates Loan VIEs in which it has a controlling financial interest. For loan securitizations, Merrill Lynch is considered to have a controlling financial interest (i.e., is the primary beneficiary) when it is the servicer of the loans and also holds a financial interest that could potentially be significant to the entity. If Merrill Lynch is not

the servicer of an entity or does not hold a financial interest that could be significant to the entity, Merrill Lynch does not have a controlling financial interest and does not consolidate the entity. Merrill Lynch does not have a controlling financial interest in and does not consolidate agency trusts unless Merrill Lynch holds all of the issued securities and has the unilateral right to liquidate the trust. Prior to 2010, most of the Loan VIEs met the definition of a QSPE and, as such, were not subject to consolidation.

Merrill Lynch sells mortgage loans to VIEs with various representations and warranties related to, among other things, the ownership of the loan, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, the process used in selecting the loans for inclusion in a transaction, the loan's compliance with any applicable loan criteria established by the buyer, and the loan's compliance with applicable local, state and federal laws. Under these representations and warranties, Merrill Lynch may be required to repurchase mortgage loans with the identified defects or indemnify or provide other recourse to the investor or insurer. In such cases, Merrill Lynch bears any subsequent credit loss on the mortgage loans. Merrill Lynch's representations and warranties are generally not subject to stated limits and extend over the life of the loan, however, most claims occur within the first few years. See Note 14.

Municipal Bond Securitizations

Merrill Lynch administers municipal bond trusts that hold highly-rated, long-term, fixed-rate municipal bonds, some of which are callable prior to maturity. The vast majority of the bonds are rated AAA or AA and some of the bonds benefit from insurance provided by monoline financial guarantors. The trusts obtain financing by issuing floating-rate trust certificates that reprice on a frequent basis to third party investors. Merrill Lynch may serve as remarketing agent and/or liquidity provider for the trusts. The floating-rate investors have the right to tender the certificates at specified dates, often with as little as seven days' notice. Should Merrill Lynch be unable to remarket the tendered certificates, it is generally obligated to purchase them at par under standby liquidity facilities. Merrill Lynch is not obligated to purchase the certificates under the standby liquidity facilities if the underlying bond's credit rating declines below investment grade or in the event of certain defaults or bankruptcy of the issuer and insurer.

In addition to standby liquidity facilities, Merrill Lynch provides default protection or credit enhancement to investors in securities issued by certain municipal bond trusts. Interest and principal payments on floating-rate certificates issued by these trusts are secured by an unconditional 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, Merrill Lynch will make any required payments to the holders of the floating-rate certificates.

Merrill Lynch or a customer of Merrill Lynch may hold the residual interest in the trust. If a customer holds the residual interest, that customer typically has the unilateral ability to liquidate the trust at any time, while Merrill Lynch typically has the ability to trigger the liquidation of that trust if the market value of the bonds held in the trust declines below a specified threshold. The weighted average remaining life of bonds held at March 31, 2010 was 9.8 years.

The following table summarizes certain information related to municipal bond trusts in which Merrill Lynch holds a variable interest as of March 31, 2010 and December 31, 2009.

*(dollars in millions)*

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Consolidated | Unconsolidated | Total | Consolidated | Unconsolidated | Total |
| **Maximum Loss Exposure** | $ 4,684 | $ 1,347 | $6,031 | $ 138 | $ 4,971 | $5,109 |
| On-balance sheet assets | | | | | | |
| Trading assets | $ 4,684 | $ 178 | $4,862 | $ 138 | $ 97 | $ 235 |
| **Total** | $ 4,684 | $ 178 | $4,862 | $ 138 | $ 97 | $ 235 |
| On-balance sheet liabilities | | | | | | |
| Derivative contracts | $ - | $ - | $ - | $ 2 | $ 287 | $ 289 |
| Short-term borrowings | 4,931 | - | 4,931 | - | - | - |
| **Total** | $ 4,931 | $ - | $4,931 | $ 2 | $ 287 | $ 289 |
| **Total assets of VIEs** | $ 4,684 | $ 1,418 | $6,102 | $ 138 | $ 5,264 | $5,402 |

In accordance with the new consolidation guidance, on January 1, 2010, Merrill Lynch consolidated $5.1 billion of municipal bond trusts in which it had a controlling financial interest. As transferor of assets into a trust, Merrill Lynch had the power to determine which assets would be held in the trust and to structure the liquidity facilities, default protection and credit enhancement, if applicable. In some instances, Merrill Lynch retained a residual interest in such trusts and had loss exposure that could potentially be significant to the trust through the residual interest, liquidity facilities and other arrangements. Merrill Lynch was also the remarketing agent, through which it has the power to direct the activities that most significantly impact economic performance. Accordingly, Merrill Lynch is the primary beneficiary of and consolidated these trusts. In other instances, one or more third party investor(s) hold(s) the residual interest and, through that interest, has the right to liquidate the trust. Merrill Lynch does not consolidate these trusts.

Prior to 2010, most of the municipal bond trusts were QSPEs and, as such, were not subject to consolidation by Merrill Lynch. Merrill Lynch consolidated those trusts that were not QSPEs if it held the residual interests or otherwise expected to absorb a majority of the variability created by changes in fair value of assets in the trusts. Merrill Lynch did not consolidate a trust if third party investors held the residual interest and Merrill Lynch was protected from loss in connection with its liquidity obligations.

In the three months ended March 31, 2010, Merrill Lynch was the transferor of assets into unconsolidated municipal bond trusts and received cash proceeds from new securitizations of $413 million as compared to none in the same period of 2009. At March 31, 2010 and December 31, 2009, the principal balance outstanding for unconsolidated municipal bond securitization trusts for which Merrill Lynch was the transferor was $1.4 billion and $5.3 billion, respectively.

Merrill Lynch's liquidity commitments to unconsolidated municipal bond trusts totalled $1.2 billion and $4.9 billion at March 31, 2010 and December 31, 2009, respectively. At March 31, 2010 and December 31, 2009, Merrill Lynch held $178 million and $161 million of floating-rate certificates, respectively, issued by unconsolidated municipal bond trusts in trading assets. At December 31, 2009, Merrill Lynch also held residual interests of $36 million. See Note 14.

Collateralized Debt Obligations (CDOs)

CDO vehicles hold diversified pools of fixed income securities, typically corporate debt or asset-backed securities, which they fund by issuing multiple tranches of debt and equity securities. Synthetic CDOs enter into a portfolio of credit default swaps to synthetically create exposure to fixed income securities. Collateralized Loan Obligations (CLOs) are a subset of CDOs which hold pools of loans, typically corporate loans or commercial mortgages. CDOs are typically managed by third party portfolio managers. Merrill Lynch transfers assets to these CDOs, holds securities issued by the CDOs, and may be a derivative counterparty to the CDOs, including credit default swap counterparty for synthetic CDOs. Merrill Lynch has also entered into total return swaps with certain CDOs whereby Merrill Lynch will absorb the economic returns generated by specified assets held by the CDO. Merrill Lynch receives fees for structuring CDOs and providing liquidity support for super senior tranches of securities issued by certain CDOs.

The following table summarizes certain information related to CDO vehicles in which Merrill Lynch held a variable interest as of March 31, 2010 and December 31, 2009.

*(dollars in millions)*

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Consolidated | Unconsolidated | Total | Consolidated | Unconsolidated | Total |
| **Maximum Loss Exposure** | $ 2,608 | $ 3,896 | $ 6,504 | $ 2,449 | $ 5,942 | $ 8,391 |
| On-balance sheet assets | | | | | | |
| Trading assets | $ 2,877 | $ 649 | $ 3,526 | $ 2,785 | $ 700 | $ 3,485 |
| Derivative contracts | 237 | 1,234 | 1,471 | - | 2,085 | 2,085 |
| Other assets | 3 | 147 | 150 | - | 166 | 166 |
| **Total** | $ 3,117 | $ 2,030 | $ 5,147 | $ 2,785 | $ 2,951 | $ 5,736 |
| On-balance sheet liabilities | | | | | | |
| Derivative contracts | $ - | $ 66 | $ 66 | $ - | $ 801 | $ 801 |
| Long-term borrowings | 3,183 | - | 3,183 | 2,753 | - | 2,753 |
| **Total** | $ 3,183 | $ 66 | $ 3,249 | $ 2,753 | $ 801 | $ 3,554 |
| **Total assets of VIEs** | $ 3,117 | $ 45,508 | $48,625 | $ 2,785 | $ 51,017 | $53,802 |

In accordance with the new consolidation guidance, on January 1, 2010, Merrill Lynch consolidated $220 million of CDOs in which it has a controlling financial interest. Merrill Lynch does not routinely serve as collateral manager for CDOs and therefore does not typically have the power to direct the activities that most significantly impact the economic performance of a CDO. However, following an event of default, if Merrill Lynch is a majority holder of senior securities issued by a CDO and acquires the power to manage the assets of the CDO, Merrill Lynch consolidates the CDO. Generally, the creditors of the consolidated CDOs have no recourse to the general credit of Merrill Lynch. Prior to 2010, Merrill Lynch evaluated whether it must consolidate a CDO based principally on a determination of which party was expected to absorb a majority of the credit risk created by the assets of the CDO. In most circumstances Merrill Lynch did not consolidate these entities because it did not absorb a majority of the economic risks and rewards of the vehicles.

At March 31, 2010, Merrill Lynch had $3.1 billion notional amount of super senior liquidity exposure to CDO vehicles. This amount includes $1.8 billion notional amount of liquidity support provided to certain synthetic CDOs, including $289 million to a consolidated CDO, in the form of unfunded lending commitments related to super senior securities. The lending commitments obligate Merrill Lynch to purchase the super senior CDO securities at par value if the CDOs need cash to make payments due under credit default swaps held by the CDOs. Merrill Lynch also had $1.3 billion

notional amount of liquidity exposure to non-VIE third parties that hold super senior cash positions on Merrill Lynch's behalf.

Liquidity-related commitments also include $1.4 billion notional amount of derivative contracts with unconsolidated VIEs, principally CDO vehicles, which hold non-super senior CDO debt securities. These derivatives are typically in the form of total return swaps which obligate Merrill Lynch to purchase the securities at the VIE's cost to acquire the securities, generally as a result of ratings downgrades. The underlying securities are senior securities and substantially all of Merrill Lynch's exposures are insured. Accordingly, Merrill Lynch's exposure to loss consists principally of counterparty risk to the insurers. These derivatives are included in the $1.5 billion notional amount of derivative contracts through which Merrill Lynch obtains funding from third party VIEs, discussed in Note 6.

Merrill Lynch's $4.5 billion of aggregate liquidity exposure to CDOs at March 31, 2010 is included in the above table to the extent that Merrill Lynch sponsored the CDO vehicle or the liquidity exposure to the CDO vehicle is more than insignificant as compared to total assets of the CDO vehicle. Liquidity exposure included in the table is reported net of previously recorded losses.

Merrill Lynch's maximum exposure to loss is significantly less than the total assets of the CDO vehicles in the table above because Merrill Lynch typically has exposure to only a portion of the total assets. Merrill Lynch has also purchased credit protection from some of the same CDO vehicles in which it invested, thus reducing net exposure to future loss.

Customer Vehicles

Customer vehicles primarily include credit-linked and equity-linked note vehicles, which are typically created on behalf of customers who wish to obtain exposure to, for example, a specific company or financial instrument. Credit-linked and equity-linked note vehicles issue notes which pay a return that is linked to the specific credit or equity risk. The vehicles purchase high-grade assets as collateral and enter into credit default swaps or equity derivatives to synthetically create the credit or equity risk required to pay the specified return on the notes issued by the vehicles.

The following table summarizes certain information related to customer vehicles in which Merrill Lynch holds a variable interest as of March 31, 2010 and December 31, 2009.

*(dollars in millions)*

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Consolidated | Unconsolidated | Total | Consolidated | Unconsolidated | Total |
| **Maximum Loss Exposure** | $ 3,809 | $ 3,468 | $ 7,277 | $ 277 | $ 7,681 | $ 7,958 |
| On-balance sheet assets | | | | | | |
| Trading assets | $ 2,377 | $ 127 | $ 2,504 | $ 183 | $ 243 | $ 426 |
| Derivative contracts | - | 950 | 950 | 78 | 3,354 | 3,432 |
| Loans, notes, and mortgages | - | - | - | - | 65 | 65 |
| Other assets | 2,378 | 16 | 2,394 | 16 | - | 16 |
| **Total** | $ 4,755 | $ 1,093 | $ 5,848 | $ 277 | $ 3,662 | $ 3,939 |
| On-balance sheet liabilities | | | | | | |
| Derivative contracts | $ - | $ 134 | $ 134 | $ - | $ 205 | $ 205 |
| Short-term borrowings | 25 | - | 25 | 22 | - | 22 |
| Long-term borrowings | 2,615 | - | 2,615 | 50 | 74 | 124 |
| Other liabilities | - | 204 | 204 | - | 681 | 681 |
| **Total** | $ 2,640 | $ 338 | $ 2,978 | $ 72 | $ 960 | $ 1,032 |
| **Total assets of VIEs** | $ 4,755 | $ 5,941 | $10,696 | $ 277 | $ 10,387 | $10,664 |

In accordance with the new consolidation guidance, on January 1, 2010, Merrill Lynch consolidated $5.4 billion of customer vehicles in which it had a controlling financial interest.

Merrill Lynch is typically the counterparty for the credit and equity derivatives, and it may invest in securities issued by the vehicles. Merrill Lynch may also enter into interest rate or foreign currency derivatives with the vehicles. In certain instances, Merrill Lynch has entered into derivative contracts, typically total return swaps, with vehicles which obligate Merrill Lynch to purchase securities held as collateral at the vehicle's cost, generally as a result of ratings downgrades. At March 31, 2010, the notional amount of such derivative contracts with unconsolidated vehicles was $150 million. This amount is included in the $1.5 billion notional amount of derivative contracts through which Merrill Lynch obtains funding from unconsolidated VIEs, described in Note 6. Merrill Lynch also had approximately $493 million of other liquidity commitments, including written put options and collateral value guarantees, with unconsolidated credit-linked and equity-linked note vehicles at March 31, 2010.

In accordance with the new consolidation guidance, Merrill Lynch consolidates these vehicles when it is considered to have a controlling financial interest. Merrill Lynch typically has control over the initial design of the vehicle and may also have the ability to replace the collateral assets. Merrill Lynch consolidates these vehicles if it also absorbs potentially significant gains or losses through derivative contracts or investments. Merrill Lynch does not consolidate a vehicle if a single investor controlled the initial design of the vehicle or if Merrill Lynch does not have a variable interest that could potentially be significant to the vehicle. Credit-linked and equity-linked note vehicles were generally not consolidated prior to 2010 because Merrill Lynch typically did not absorb a majority of the economic risks and rewards of the vehicles.

Real Estate and other VIEs

Real Estate and other VIEs primarily includes a real estate investment fund that is a VIE, investments in VIEs that hold investment property and certain hedge fund investment entities.

The following table summarizes certain information related to Real Estate and other VIEs in which Merrill Lynch holds a variable interest as of March 31, 2010 and December 31, 2009.

*(dollars in millions)*

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Consolidated | Unconsolidated | Total | Consolidated | Unconsolidated | Total |
| **Maximum Loss Exposure** | $ 2,114 | $ 2,483 | $4,597 | $ 1,342 | $ 278 | $1,620 |
| On-balance sheet assets(1) | | | | | | |
| Trading assets | $ 184 | $ - | $ 184 | $ 86 | $ - | $ 86 |
| Derivative contracts | - | 212 | 212 | - | 21 | 21 |
| Investment securities | 1,775 | 77 | 1,852 | - | - | - |
| Loans, notes, and mortgages | 638 | 2,224 | 2,862 | 313 | 257 | 570 |
| Other assets | 447 | 20 | 467 | 1,093 | - | 1,093 |
| **Total** | $ 3,044 | $ 2,533 | $5,577 | $ 1,492 | $ 278 | $1,770 |
| On-balance sheet liabilities | | | | | | |
| Derivative contracts | $ 42 | $ 7 | $ 49 | $ - | $ 127 | $ 127 |
| Long-term borrowings | 32 | 74 | 106 | 32 | - | 32 |
| Other liabilities | 1,026 | 4 | 1,030 | 78 | - | 78 |
| **Total** | $ 1,100 | $ 85 | $1,185 | $ 110 | $ 127 | $ 237 |
| **Total assets of VIEs(1)** | $ 3,044 | $ 6,584 | $9,628 | $ 1,492 | $ 776 | $2,268 |

*(1) In prior periods, unconsolidated real estate vehicles were generally considered VREs because they had sufficient equity to finance their operations when they were initially established. As such, most of these entities were not included in the December 31, 2009 unconsolidated information.*

In accordance with the new consolidation guidance, on January 1, 2010, Merrill Lynch consolidated $1.5 billion of real estate and other VIEs in which it has a controlling financial interest. Merrill Lynch has established a real estate investment fund designed to provide returns to clients through limited partnership holdings. Merrill Lynch is the general partner, making management decisions, and also has a limited partnership interest in the fund. In certain of these real estate funds, Merrill Lynch acts as investment advisor. In such capacity, Merrill Lynch provides these services for the benefit of clients. Such activities inherently involve risk to Merrill Lynch and investors, and in certain instances may result in loss. Although it is without any obligation or commitment to do so, Merrill Lynch anticipates providing more than an insignificant amount of support to the entity, and therefore considers the entity to be a VIE. The fund is consolidated by Merrill Lynch because it has a controlling financial interest though its general and limited partnership interests.

Merrill Lynch invests in real estate lending vehicles and establishes vehicles to hold real estate investments. In certain instances these entities do not have sufficient equity to finance operations and are therefore considered VIEs. Merrill Lynch consolidates these vehicles when it has decision-making power over the property held by the vehicle and absorbs potentially significant gains or losses through its equity or loan investment.

### Other Transactions

Prior to 2010, Merrill Lynch transferred pools of securities to certain independent third parties and provided financing for approximately 75 percent of the purchase price under asset-backed financing arrangements. At March 31, 2010 and December 31, 2009, Merrill Lynch's maximum loss exposure under these financing arrangements was $6.6 billion and $6.8 billion, respectively, substantially all of which was recorded as loans, notes and mortgages on Merrill Lynch's Condensed Consolidated Balance Sheet. All principal and interest payments have been received when due in accordance with their contractual terms. These arrangements are not included in the tables above because the purchasers are not VIEs.

## 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 March 31, 2010 and December 31, 2009, 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) | |
|---|---|---|---|---|
| | March 31, 2010 | December 31, 2009 | March 31, 2010(2)(3) | December 31, 2009 |
| **Consumer:** | | | | |
| Mortgages | $ 4,310 | $ 4,700 | $ 159 | $ 167 |
| Other | 8,662 | 8,969 | 20 | 20 |
| **Commercial and small- and middle-market business:** | | | | |
| Investment grade | 11,131 | 11,105 | 5,937 | 6,187 |
| Non-investment grade | 11,125 | 12,922 | 3,789 | 4,170 |
| | 35,228 | 37,696 | 9,905 | 10,544 |
| Allowance for loan losses | (34) | (33) | - | - |
| Reserve for lending-related commitments(4) | - | - | (674) | (825) |
| **Total, net** | $ 35,194 | $ 37,663 | $ 9,231 | $ 9,719 |

*(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 the counterparty may replace the commitment 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 $617 million of loans that, upon settlement of the commitment, will be classified in loans held for investment or 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)*

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009(1) |
|---|---|---|
| Allowance for loan losses, at beginning of period | $ 33 | $ - |
| Provision for loan losses | 1 | 12 |
| Charge-offs | (1) | - |
| Recoveries | - | 2 |
| Net (charge-offs) recoveries | (1) | 2 |
| Other | 1 | (4) |
| Allowance for loan losses, at end of period | $ 34 | $ 10 |

*(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.*

Consumer loans, substantially all of which are collateralized, consisted of approximately 141,000 individual loans at March 31, 2010. Commercial loans consisted of approximately 6,000 separate loans. The principal balance of non-accrual loans was $2.3 billion at March 31, 2010 and $2.8 billion at December 31, 2009. 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 $6.6 billion and $7.7 billion of loans held for sale at March 31, 2010 and December 31, 2009, respectively. Loans held for sale are loans that Merrill Lynch expects to sell prior to maturity. At March 31, 2010, such loans consisted of $3.3 billion of consumer loans, primarily residential mortgages and automobile loans, and $3.3 billion of commercial loans, approximately 2% of which were to investment grade counterparties. At December 31, 2009, such loans consisted of $3.6 billion of consumer loans, primarily residential mortgages, and $4.1 billion of commercial loans, approximately 9% 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 $3.1 billion and $3.2 billion at March 31, 2010 and December 31, 2009, respectively. The following tables provide information regarding Merrill Lynch's net credit default protection associated with its funded and unfunded commercial loans as of March 31, 2010:

**Net Credit Default Protection by Maturity Profile**

| | March 31, 2010 |
|---|---|
| Less than or equal to one year | 4% |
| Greater than one year and less than or equal to five years | 86 |
| Greater than five years | 10 |
| **Total net credit default protection** | 100% |

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

| Ratings[1] | March 31, 2010 Net Notional | Percent |
|---|---|---|
| AA | $ (465) | 14.8% |
| A | (1,127) | 35.9 |
| BBB | (659) | 21.0 |
| BB | (385) | 12.3 |
| B | (158) | 5.0 |
| CCC and below | (309) | 9.8 |
| NR | (39) | 1.2 |
| **Total net credit default protection** | $ (3,142) | 100.0% |

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

**Note 11. Goodwill and Intangible Assets**

### 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. Merrill Lynch's next annual impairment test date will be June 30, 2010.

The carrying amount of goodwill was $4.7 billion and $4.6 billion at March 31, 2010 and December 31, 2009, respectively. During the first quarter of 2010, goodwill increased by $83 million, reflecting the correction of a liability related to certain deferred compensation arrangements in place at the time of the acquisition of Merrill Lynch by Bank of America.

### Intangible Assets

Intangible assets with definite lives at March 31, 2010 and December 31, 2009 consisted primarily of value assigned to customer relationships. 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 $3.1 billion at both March 31, 2010 and December 31, 2009. Accumulated amortization of intangible assets amounted to $386 million and $309 million at March 31, 2010 and December 31, 2009, respectively. The carrying amounts of intangible assets with indefinite lives were $1.5 billion as of March 31, 2010 and December 31, 2009.

Amortization expense was $77 million and $113 million for the three months ended March 31, 2010 and March 31, 2009, respectively.

**Note 12. Borrowings and Deposits**

Prior to Merrill Lynch's acquisition by Bank of America, ML & Co. was the primary issuer 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. Bank of America has not assumed or guaranteed the long-term debt that was issued or guaranteed by ML & Co. or its subsidiaries prior to the acquisition of Merrill Lynch by Bank of America. Beginning late in the third quarter of 2009, in connection with the update or renewal of certain Merrill Lynch international securities offering programs, Bank of America agreed to guarantee debt securities, warrants and/or certificates issued by certain subsidiaries of ML & Co. on a going forward basis. All existing ML & Co. guarantees of securities issued by those same Merrill Lynch subsidiaries under various international securities offering programs will remain in full force and effect as long as those securities are outstanding, and Bank of America has not assumed any of those prior ML & Co. guarantees or otherwise guaranteed such securities. There were approximately $2.1 billion of securities guaranteed by Bank of America at March 31, 2010.

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 a $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. This credit line was renewed effective January 1, 2010 with a maturity date of January 1, 2011. 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. There were no outstanding borrowings against the line of credit at March 31, 2010.

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 March 31, 2010 and December 31, 2009, 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)*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Senior debt | $ 77,787 | $ 87,046 |
| Senior structured notes | 46,534 | 49,187 |
| Subordinated debt | 10,989 | 11,115 |
| Junior subordinated notes (related to trust preferred securities) | 3,557 | 3,552 |
| Other subsidiary financing | 1,771 | 969 |
| Debt issued by consolidated VIEs | 12,268 | 3,935 |
| Total | $ 152,906 | $ 155,804 |

Borrowings and deposits at March 31, 2010 and December 31, 2009, are presented below:

*(dollars in millions)*

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **Short-term borrowings** | | |
| Other unsecured short-term borrowings | $ 2,145 | $ 831 |
| Short-term debt issued by consolidated VIEs(1) | 4,956 | 22 |
| Total | $ 7,101 | $ 853 |
| **Long-term borrowings**(2) | | |
| Fixed-rate obligations(3) | $ 70,788 | $ 74,119 |
| Variable-rate obligations(4)(5) | 64,131 | 73,351 |
| Other obligations and Zero-coupon contingent convertible debt (LYONs®) | 17 | 16 |
| Long-term debt issued by consolidated VIEs(1) | 7,312 | 3,913 |
| Total | $ 142,248 | $ 151,399 |
| **Deposits** | | |
| Non-U.S. | $ 13,473 | $ 15,187 |

*(1) See Note 9 for additional information on debt issued by consolidated VIEs.*
*(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 long-term borrowings.

The weighted-average interest rates for borrowings at March 31, 2010 and December 31, 2009 (excluding structured products) were as follows:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Short-term borrowings | 1.02% | 2.04% |
| Long-term borrowings | 3.77 | 3.73 |
| Junior subordinated notes (related to trust preferred securities) | 6.93 | 6.93 |

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 $1.7 billion and $1.4 billion at March 31, 2010 and December 31, 2009, respectively.

**Long-Term Borrowings**

At March 31, 2010, long-term borrowings mature as follows:

| *(dollars in millions)* | | |
|---|---|---|
| Less than 1 year | $ 27,496 | 19% |
| 1 – 2 years | 20,837 | 15 |
| 2+ – 3 years | 16,356 | 12 |
| 3+ – 4 years | 21,832 | 15 |
| 4+ – 5 years | 13,563 | 10 |
| Greater than 5 years | 42,164 | 29 |
| Total | $142,248 | 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. However, Merrill Lynch believes that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

The maturity of certain structured notes whose coupon or repayment terms are linked to the performance of debt and equity securities, indices, currencies or commodities 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 did not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings or 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 Liquid Yield Option Notes or "LYONs".

See Note 12 to the Consolidated Financial Statements contained in the 2009 Annual Report for additional information on Borrowings.

**Note 13. Stockholders' Equity and Earnings Per Share**

**Preferred Equity**

As of March 31, 2010 and December 31, 2009 preferred stockholders' equity consisted of 12,000 shares of 9% non-voting mandatory convertible non-cumulative preferred stock, Series 2, par value $1.00 per share and liquidation preference of $100,000 per share and 5,000 shares of 9% non-voting mandatory convertible non-cumulative preferred stock, Series 3, par value $1.00 per share and liquidation preference of $100,000 per share. The convertible preferred stock is convertible into Bank of America 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.

**Earnings Per Share**

Earnings per share data is not provided for the three months ended March 31, 2010 and March 31, 2009 as Merrill Lynch was a wholly-owned subsidiary of Bank of America during those periods.

## 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.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, Merrill Lynch cannot state with confidence what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with applicable accounting guidance, Merrill Lynch establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable, although there may be an exposure to loss in excess of any amounts accrued. When loss contingencies are not both probable and estimable, Merrill Lynch does not establish reserves. As a litigation or regulatory matter develops, Merrill Lynch, in conjunction with its outside counsel handling the matter, if any, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and/or estimable. If, at the time of evaluation, the loss contingency related to a litigation or regulatory matter is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. Once the loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, Merrill Lynch will establish a reserve with respect to such loss contingency and continue to monitor the matter for further developments that could affect the amount of the reserve that has been previously established. Excluding fees paid to external legal service providers, litigation-related expenses of $62 million were recognized during the three months ended March 31, 2009. Such expenses for the three months ended March 31, 2010 were not material.

In some of the matters described in Part II, Item 1 of this Form 10-Q, including but not limited to the Lehman Brothers Holdings, Inc. matters, loss contingencies are not both probable and estimable in the view of management, and accordingly, reserves have not been established for those matters. However,

information is provided in Part II, Item I of this Form 10-Q or included in Note 14 to the Consolidated Financial Statements included in the 2009 Annual Report regarding the nature of the contingency and, where specified, the amount of the claim associated with the loss contingency. Based on current knowledge, management does not believe that loss contingencies arising from pending litigation and regulatory matters, including the litigation and regulatory matters described in Part II, Item I of this Form 10-Q, will have a material adverse effect on the consolidated financial position or liquidity of Merrill Lynch, but may be material to Merrill Lynch's results of operations for any particular reporting period.

**Commitments**

At March 31, 2010, 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 | $ 9,905 | $ 2,097 | $6,001 | $1,705 | $ 102 |
| Purchasing and other commitments | 6,192 | 2,836 | 1,613 | 717 | 1,026 |
| Operating leases | 3,325 | 721 | 1,222 | 678 | 704 |
| Commitments to enter into forward dated resale and securities borrowing agreements | 78,234 | 78,234 | - | - | - |
| Commitments to enter into forward dated repurchase and securities lending agreements | 89,908 | 89,908 | - | - | - |
| Total | $187,564 | $173,796 | $8,836 | $3,100 | $1,832 |

*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 either held by entities that apply the Broker-Dealer Guide or for which the fair value option was elected are accounted for at fair value.

*Purchasing and Other Commitments*

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity and principal investing activities, of $1.2 billion at March 31, 2010 and December 31, 2009, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, systems consulting, and other office-related services. At March 31, 2010 and December 31, 2009, minimum fee commitments over the remaining life of these agreements totaled $1.9 billion and $1.8 billion, respectively. Merrill Lynch entered into commitments to purchase loans of $2.6 billion, which, upon settlement of the commitment, will be included in trading assets, loans held for investment or loans held for sale at March 31, 2010. Such commitments totaled $2.2 billion at December 31, 2009. Other purchasing commitments amounted to $0.5 billion at March 31, 2010 and December 31, 2009, respectively.

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of March 31, 2010 would not have a material effect on the Condensed Consolidated Balance Sheet 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's guarantee arrangements and their expiration at March 31, 2010 are summarized as follows (see Note 6 for information related to derivative financial instruments within the scope of Guarantees Accounting):

*(dollars in millions)*

| | Expiration | | | | | |
|---|---|---|---|---|---|---|
| | Maximum Payout | Less than 1 year | 1 - 3 years | 3 - 5 years | Over 5 years | Carrying Value |
| Standby liquidity facilities | $ 1,198 | $ 550 | $ - | $ 619 | $ 29 | $ - |
| Residual value guarantees | 415 | - | 95 | 320 | - | - |
| Standby letters of credit and other guarantees | 25,951 | 792 | 193 | 54 | 24,912 | 249 |

*Standby Liquidity Facilities*

Standby liquidity facilities are primarily comprised of liquidity facilities provided to certain unconsolidated municipal bond securitization VIEs. In these arrangements, Merrill Lynch is required to fund these standby liquidity facilities if the fair value of the assets held by the VIE declines below par value and certain other contingent events take place. Any payments under the facilities are offset by economic hedges entered into by Merrill Lynch. Based upon historical activity, it is considered remote

that future payments would need to be made under this guarantee. 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, beginning in 2008. The final date of the ARS purchase program was January 15, 2010. At December 31, 2009, a liability of $24 million was recorded related to this guarantee. No liability was recorded as of March 31, 2010.

*Residual Value Guarantees*

At March 31, 2010, residual value guarantees of $415 million consist of amounts associated with 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 March 31, 2010, 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 $0.8 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 $24 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 $249 million at March 31, 2010.

In October 2009, BAI was acquired by Merrill Lynch. As a result, Merrill Lynch became the guarantor of a contract with a third party to provide clearing services that include underwriting margin loans to BAI's clients. This contract stipulates that Merrill Lynch will indemnify the third party for any losses that occur related to the margin loans made to BAI's clients. The maximum potential future payment under this indemnification was $700 million and $657 million at March 31, 2010 and December 31, 2009, respectively. Historically, any payments made under this indemnification have not been material. As these margin loans are highly collateralized by the securities held by the brokerage clients, Merrill Lynch has assessed the probability of making such payments in the future as remote.

See Note 14 to the Consolidated Financial Statements contained in the 2009 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. Effective January 1, 2009, the Bank of America Corporation Corporate Benefits Committee became the plan administrator for all of Merrill Lynch's employee benefit plans. Merrill Lynch continues as the plan sponsor and as such reserves the right to amend, modify or terminate any of its employee plans, programs, and practices for any reason at any time without prior notice to employees. Refer to Note 15 to the Consolidated Financial Statements contained in the 2009 Annual Report for a complete discussion of employee benefit plans.

### Defined Benefit Pension Plans

In 1988, Merrill Lynch purchased a group annuity contract that guarantees the payment of benefits vested under the terminated U.S. pension plan. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from actual experience and investment performance of the annuity assets. Under this agreement, Merrill Lynch contributed $120 million for the three months ended March 31, 2009, and made no contribution for the three months ended March 31, 2010. Additional contributions may be required in the future under this agreement.

Pension cost for the three months ended March 31, 2010 and March 31, 2009, for Merrill Lynch's defined benefit pension plans, included the following components:

*(dollars in millions)*

| | Three Months Ended March 31, 2010 | | | Three Months Ended March 31, 2009 | | |
|---|---|---|---|---|---|---|
| | U.S. Plans | Non-U.S. Plans | Total | U.S. Plans | Non-U.S. Plans | Total |
| Service cost | $ - | $ 7 | $ 7 | $ - | $ 6 | $ 6 |
| Interest cost | 25 | 20 | 45 | 25 | 17 | 42 |
| Expected return on plan assets | (35) | (22) | (57) | (37) | (17) | (54) |
| Total defined benefit pension cost | $ (10) | $ 5 | $ (5) | $ (12) | $ 6 | $ (6) |

For 2010, Merrill Lynch expects to contribute approximately $1 million and $77 million to its U.S. non-qualified pension plan and non-U.S. defined benefit pension plans, respectively.

### Postretirement Benefits Other Than Pensions

Other postretirement benefit cost for the three months ended March 31, 2010 and March 31, 2009 were $7 million and $4 million, respectively. Approximately 96% of the postretirement benefit cost components for the period relate to the U.S. postretirement plan.

## Note 16. Regulatory 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 and futures commission merchant, MLPF&S is subject to the uniform net capital requirements of the Securities Exchange Commission ("SEC") Rule 15c3-1, and Commodity Futures Trading Commission ("CFTC") Regulation 1.17. MLPF&S has elected to compute the minimum capital requirement in accordance with the "Alternative Net Capital Requirement" as permitted by SEC Rule 15c3-1. At March 31, 2010, MLPF&S's regulatory net capital as defined by Rule 15c3-1 was $6.5 billion and exceeded the minimum requirement of $673 million by $5.9 billion.

In accordance with the Alternative Net Capital Requirement, MLPF&S is required to maintain tentative net capital in excess of $1 billion, net capital in excess of $500 million, and notify the SEC in the event its tentative net capital is less than $5 billion. As of March 31, 2010, MLPF&S had tentative net capital and net capital in excess of the minimum and notification requirements.

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 March 31, 2010, MLI's financial resources were $18.4 billion, exceeding the minimum requirement by $1.2 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 March 31, 2010, MLJS's net capital was $1.5 billion, exceeding the minimum requirement by $0.9 billion.

**Banking Regulation**

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 March 31, 2010, MLIB's financial resources were $14.9 billion, exceeding the minimum requirement by $3.3 billion.

## 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 of our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 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 March 31, 2010, we owned approximately 34 percent of the economic interest of BlackRock, Inc. ("BlackRock"), one of the world's largest publicly traded investment management companies with approximately $3.4 trillion in assets under management at March 31, 2010.

### 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.

Pursuant to Accounting Standards Codification ("ASC") 280, *Segment Reporting* ("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, Merrill Lynch does not contain any identifiable operating segments. As a result, the financial information of Merrill Lynch is presented as a single segment.

As disclosed in Note 22 to the Consolidated Financial Statements contained in the 2009 Annual Report, Merrill Lynch adjusted previously reported 2009 quarterly amounts related to the valuation of certain long-term borrowings, primarily structured notes. Merrill Lynch also recorded revisions to certain purchase accounting adjustments made in connection with the acquisition of Merrill Lynch by Bank of America. In addition, Merrill Lynch's previously reported results for the first quarter of 2009 were adjusted to include the results of Banc of America Investment Services, Inc. ("BAI"), which was contributed by Bank of America to Merrill Lynch in October 2009, as if the contribution had occurred on January 1, 2009 (see "Executive Overview — Transactions with Bank of America — Acquisition of BAI from Bank of America"). The aggregate impact of the adjustments related to certain long-term borrowings, purchase accounting adjustments and BAI on net earnings for the first quarter of 2009 was an increase of $90 million.

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 for the quarter ended March 31, 2010 of $1.3 billion compared with net earnings of $3.8 billion for the quarter ended March 31, 2009. Revenues, net of interest expense ("net revenues") for the first quarter of 2010 were $7.5 billion compared with $10.3 billion in 2009. Pre-tax earnings were $1.9 billion in the first quarter of 2010 as compared with $5.4 billion for the first quarter of 2009.

The decline in net revenues and net earnings for the quarter ended March 31, 2010 primarily reflected lower net gains in the first quarter of 2010 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, primarily structured notes. Such net gains were $0.2 billion in the first quarter of 2010, a decline of $2.0 billion as compared with the $2.2 billion of net gains recorded in the prior year period. In addition, 2010's results reflected the absence of revenues from Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co., FSB ("MLBT-FSB"), which were sold to Bank of America in the third and fourth quarters of 2009, respectively (see "Transactions with Bank of America — Sale of U.S. Banks to Bank of America"). The lower net earnings recorded during the first quarter of 2010 also reflected higher compensation and benefits and other non-interest expenses as compared with the prior year.

Our net earnings applicable to our common shareholder for the first quarter of 2010 were $1.2 billion as compared with $3.7 billion for the first quarter of 2009.

### 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 the integration of certain trading activities with Bank of America and efforts to manage risk in a more effective and efficient manner at the consolidated Bank of America level. During the quarter ended March 31, 2010, such asset or liability transfers were not significant. During the quarter ended March 31, 2009, Merrill Lynch transferred approximately $47 billion each of assets and liabilities to Bank of America and Bank of America transferred approximately $16 billion of assets to Merrill Lynch. In the future, Merrill Lynch and Bank of America may continue to transfer certain assets and liabilities to (and from) each other.

In addition to these transfers, during the quarter ended March 31, 2010, Merrill Lynch sold approximately $11 billion of available-for-sale securities to Bank of America, which resulted in a gain of approximately $280 million.

During 2009, Merrill Lynch also sold two of its bank subsidiaries to Bank of America and acquired a broker-dealer subsidiary from Bank of America. These transactions are discussed further below.

*Sale of U.S. Banks to Bank of America*

During 2009, Merrill Lynch sold MLBUSA and MLBT-FSB to a subsidiary of Bank of America. In both transactions, Merrill Lynch sold the shares of each 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, and the sale of MLBT-FSB was completed on November 2, 2009. After each sale was completed, MLBUSA and MLBT-FSB were merged into Bank of America, N.A., a subsidiary of Bank of America.

*Acquisition of BAI from Bank of America*

In October 2009, Bank of America contributed the shares of BAI, one of Bank of America's wholly-owned broker-dealer subsidiaries, to ML & Co. Subsequent to the transfer, BAI was merged into Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a wholly-owned broker-dealer subsidiary of ML & Co. The net amount contributed by Bank of America to ML & Co. was equal to BAI's net book value of approximately $263 million. In accordance with ASC 805-10, *Business Combinations*, Merrill Lynch's results of operations for the year ended December 31, 2009 include the results of BAI as if the contribution from Bank of America had occurred on January 1, 2009. BAI's impact on Merrill Lynch's 2009 pre-tax earnings and net earnings was not material.

## Results Of Operations

*(dollars in millions)*

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | % Change between the Three Months Ended Mar. 31, 2010 and the Three Months Ended Mar. 31, 2009 |
|---|---|---|---|
| Revenues | | | |
| Principal transactions | $ 3,218 | $ 5,914 | (46)% |
| Commissions | 1,467 | 1,380 | 6 |
| Managed account and other fee-based revenues | 1,051 | 1,156 | (9) |
| Investment banking | 667 | 606 | 10 |
| Earnings from equity method investments | 281 | 40 | N/M |
| Other(1) | 1,068 | 271 | N/M |
| Subtotal | 7,752 | 9,367 | (17) |
| Interest and dividend revenues | 1,815 | 4,383 | (59) |
| Less interest expense | 2,040 | 3,455 | (41) |
| Net interest (expense)/profit | (225) | 928 | N/M |
| Revenues, net of interest expense | 7,527 | 10,295 | (27) |
| Non-interest expenses: | | | |
| Compensation and benefits | 3,844 | 3,278 | 17 |
| Communications and technology | 462 | 399 | 16 |
| Occupancy and related depreciation | 305 | 271 | 13 |
| Brokerage, clearing, and exchange fees | 280 | 272 | 3 |
| Advertising and market development | 85 | 106 | (20) |
| Professional fees | 144 | 102 | 41 |
| Office supplies and postage | 43 | 42 | 2 |
| Other | 431 | 451 | (4) |
| Total non-interest expenses | 5,594 | 4,921 | 14 |
| Pre-tax earnings | 1,933 | 5,374 | (64) |
| Income tax expense | 664 | 1,624 | (59) |
| Net earnings | $ 1,269 | $ 3,750 | (66) |
| Preferred stock dividends | 38 | 15 | N/M |
| Net earnings applicable to common stockholder | $ 1,231 | $ 3,735 | (67) |

*(1) 2010 amounts include other income and other-than-temporary impairment losses on available-for-sale debt securities. The other-than-temporary impairment losses were $86 million for the quarter ended March 31, 2010.*

*N/M = Not meaningful.*

### Quarterly Consolidated Results of Operations

Our net earnings for the quarter ended March 31, 2010 were $1.3 billion compared with net earnings of $3.8 billion for the quarter ended March 31, 2009. Net revenues for the first quarter of 2010 were $7.5 billion compared with $10.3 billion for the prior year period.

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 $3.2 billion for the quarter ended March 31, 2010 compared with $5.9 billion for the quarter ended March 31, 2009. The decrease in principal transactions revenues primarily reflected lower net gains associated with the widening of Merrill Lynch's credit spreads on the carrying value of certain of our long-term debt liabilities, primarily structured notes. Such net gains were $0.2 billion in the first quarter of 2010 as compared with $2.2 billion in the prior year period. In addition, lower net gains of approximately $0.9 billion were recorded in the first quarter of 2010 from the impact of the widening of Merrill Lynch's credit spreads on the value of certain derivative liabilities. Revenues from our rates and currencies business declined from the strong level of revenues that were recorded in the prior year. Revenues from rates and currencies for the first quarter of 2009 benefited from volatility in the interest rate markets, which led to wider spreads; a flight to safety to U.S. Treasuries and Agencies; and good customer flow. Revenues from commodity products declined, driven by lower revenues from natural

gas and energy products as a result of decreased price volatility. Equity trading revenues also declined, reflecting lower revenues from equity financing and services and from cash equity products. These decreases were partially offset by higher net revenues generated from our mortgage product business, as the results from the prior period reflected net write-downs on certain mortgage exposures, including credit valuation adjustments related to financial guarantors.

Net interest profit/(expense) 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/(expense) 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/(expense) 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/(expense) to fluctuate from period to period. Net interest expense was $225 million for the quarter ended March 31, 2010 as compared with net interest profit of $928 million for the quarter ended March 31, 2009. The decline in net interest revenues in 2010 included the impact from the absence of net interest revenues from MLBUSA and MLBT-FSB, which were sold to Bank of America during 2009.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds. Commissions revenues were $1.5 billion for the quarter ended March 31, 2010, an increase of 6% from the prior year period. The majority of the increase was attributable to our global wealth management activities, primarily reflecting increased mutual fund revenues.

Managed account 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 account and other fee-based revenues were $1.1 billion for the quarter ended March 31, 2010, a decrease of 9% from the prior year period. The decline was primarily due to lower servicing and other fees associated with MLBUSA and MLBT-FSB, which were sold to Bank of America during 2009. These declines were partially offset by higher fee-based revenues from our global wealth management activities, reflecting higher levels of fee-based assets as compared with the prior year.

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) advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were $667 million for the quarter ended March 31, 2010, an increase of 10% from the prior year period. Underwriting revenues increased 62% to $544 million, as improved market conditions contributed to higher revenues from both equity and fixed income underwriting transactions. Revenues from advisory services declined 54% to $123 million, reflecting a decline in merger and acquisition activity.

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 $281 million for the quarter ended March 31, 2010 compared with $40 million for the quarter ended March 31, 2009. The increase primarily reflected higher revenues from certain investments, including BlackRock, as well as higher revenues from investments in partnerships and alternative investment management companies. Refer to Note 8 to the Consolidated Financial Statements included in the 2009 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 $1.1 billion for the quarter ended March 31, 2010 compared with $271 million in the prior year period. The increase in other revenues was primarily associated with net increases in the fair value of certain private equity investments. The results for 2010 also

included gains of $340 million from the sale of certain available-for-sale securities, which included gains of $280 million associated with sales to Bank of America.

Compensation and benefits expenses were $3.8 billion for the quarter ended March 31, 2010, an increase of 17% from the prior year period. The increase reflected higher incentive-based compensation accruals, as well as a higher level of expense associated with stock-based compensation awards granted to retirement-eligible employees as compared with the prior year. These increases were partially offset by lower compensation costs as a result of reduced headcount levels, including the impact of the sales of MLBUSA and MLBT-FSB to Bank of America during 2009.

On April 8, 2010, the U.K. enacted into law a one-time employer payroll tax of 50% on bonuses awarded to employees of applicable banking entities between December 9, 2009 and April 5, 2010. The scope of the employees affected by the payroll tax is still subject to some uncertainty and the U.K. tax authorities intend to issue further interpretational guidance. The impact of this tax on our 2010 payroll tax expense is estimated to be approximately $366 million and will be included in our compensation and benefits expense for the quarter ending June 30, 2010.

Non-compensation expenses were $1.8 billion for the quarter ended March 31, 2010 and $1.6 billion in the prior year period. Communications and technology expenses were $462 million, an increase of 16%, primarily reflecting higher market data and systems costs. Advertising and market development costs were $85 million, down 20% primarily due to lower promotion and marketing expenses. Professional fees were $144 million, which increased 41% primarily due to higher legal and employee recruitment fees.

Income tax expense was $664 million for the quarter ended March 31, 2010 compared with $1.6 billion for the comparable period of 2009. The effective income tax rate was 34.4% for the first quarter of 2010 as compared with 30.2% for the first quarter of 2009. The increase in the effective tax rate was due primarily to the expiration of deferral provisions applicable to active finance income and permanent tax preferences (e.g., tax-exempt income) offsetting a lower percentage of pre-tax income.

Long-standing deferral provisions applicable to active finance income earned by certain non-U.S. subsidiaries expired for taxable years beginning on or after January 1, 2010. The impact of the expiration of these provisions, which is dependent upon the amount, composition and geographic mix of our 2010 earnings, resulted in additional income tax expense of $56 million during the first quarter of 2010. If these deferral provisions are re-enacted retroactively to January 1, 2010, this tax and any additional amounts recorded to date would be reversed. For more information on these provisions, refer to the 2009 Annual Report.

## 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 March 31, 2010. Refer to Note 14 to the Condensed Consolidated Financial Statements for further information.

| | | Expiration | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **Over 5 Years** |
| Standby liquidity facilities | $ 1,198 | $ 550 | $ - | $619 | $ 29 |
| Residual value guarantees | 415 | - | 95 | 320 | - |
| Standby letters of credit and other guarantees | 25,951 | 792 | 193 | 54 | 24,912 |

### Standby Liquidity Facilities

We provide standby liquidity facilities primarily to certain unconsolidated municipal bond securitization VIEs. In these arrangements, we are required to fund these standby liquidity facilities if

the fair value of the assets held by the VIE declines below par value and certain other contingent events take place. Any payments under the facilities are offset by economic hedges entered into by Merrill Lynch. 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, we agreed to purchase ARS at par from our retail clients, including individual, not-for-profit, and small business clients, beginning in 2008. The final date of the ARS purchase program was January 15, 2010. At December 31, 2009, a liability of $24 million was recorded related to this guarantee. No liability was recorded as of March 31, 2010.

**Residual Value Guarantees**

At March 31, 2010, residual value guarantees of $415 million consisted of amounts associated with certain power plant facilities.

**Standby Letters of Credit and Other Guarantees**

At March 31, 2010, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of $0.8 billion.

In connection with residential mortgage loan and other securitization transactions, we typically make representations and warranties about the underlying assets. If there is a material breach of such representations and warranties, we 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 $24 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 $249 million at March 31, 2010.

**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 generally 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 accounting definition of a guarantee and credit derivatives are included in Note 6 to the Condensed Consolidated Financial Statements.

**Involvement with VIEs**

We transact with VIEs in a variety of capacities, including those that we help establish as well as those initially established by third parties. We utilize VIEs in the ordinary course of business to support our own and our customers' financing and investing needs. Merrill Lynch securitizes loans and debt securities using VIEs as a source of funding and a means of transferring the economic risk of the loans or debt securities to third parties. We also administer, structure or invest in or enter into derivatives with other VIEs, including multi-seller conduits, municipal bond trusts, CDOs and other entities, as described in more detail below. Our involvement with VIEs can vary and we are required to continuously reassess prior consolidation and disclosure conclusions. Refer to Note 1 to the Condensed Consolidated Financial Statements for a discussion of our consolidation accounting policy and for information regarding new VIE accounting rules that became effective on January 1, 2010. Types of VIEs with which we have historically transacted include:

- **Municipal bond securitization VIEs:** VIEs that issue medium-term paper, purchase municipal bonds as collateral and purchase a guarantee to enhance the creditworthiness of the collateral.
- **Asset-backed securities VIEs:** VIEs 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.
- **CDOs:** VIEs that issue different classes of debt, from super senior to subordinated, and equity and purchase securities, including asset-backed securities collateralized by residential mortgages, commercial mortgages, auto leases and credit card receivables as well as corporate bonds.
- **Synthetic CDOs:** VIEs 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 VIEs:** VIEs 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.
- **Trust preferred security VIEs:** These VIEs 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 VIEs have funds legally available. The debt we issue into the VIE 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. 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.

**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 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. Bank of America's credit ratings and outlooks are opinions subject to ongoing review by the rating agencies and may change from time to time. The rating agencies regularly evaluate Bank of America and its securities, and their ratings of its long-term and short-term debt and other securities, including asset securitizations. These evaluations are based on a number of factors, including its financial strength as well as factors not entirely within its control, including conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that Bank of America will maintain its current ratings. During 2009, the rating agencies took numerous actions to adjust our credit ratings and outlooks, many of which were negative. The rating agencies have indicated that our credit ratings currently reflect their expectation that, if necessary, we would receive significant support from the U.S. government. In February 2010, Standard & Poor's affirmed our current credit ratings but revised the outlook to negative from stable, based on their belief that it is less certain whether the U.S. government would be willing to provide extraordinary support. 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, our capital position, and future regulatory and legislative initiatives. Management maintains an active dialogue with the rating agencies.

Bank of America has not assumed or guaranteed the long-term debt that was issued or guaranteed by ML & Co. or its subsidiaries prior to the acquisition of Merrill Lynch by Bank of America. Beginning late in the third quarter of 2009, in connection with the update or renewal of certain Merrill Lynch international securities offering programs, Bank of America agreed to guarantee debt securities, warrants and/or certificates issued by certain subsidiaries of ML & Co. on a going forward basis. All existing ML & Co. guarantees of securities issued by those same Merrill Lynch subsidiaries under various international securities offering programs will remain in full force and effect as long as those securities are outstanding, and Bank of America has not assumed any of those prior ML & Co. guarantees or otherwise guaranteed such securities. There were approximately $2.1 billion of securities guaranteed by Bank of America at March 31, 2010. In addition, Bank of America has guaranteed the performance of Merrill Lynch on certain derivative transactions. The aggregate amount of such derivative liabilities was approximately $2.9 billion at March 31, 2010.

The following table sets forth ML & Co.'s unsecured credit ratings as of May 5, 2010:

| 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- | BB | A-1 | Negative |

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 an amount related to the market value of the exposure. At March 31, 2010, the amount of additional collateral and termination payments that would be required for such derivatives transactions and trading agreements was approximately $1.3 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 $0.7 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 a $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. This credit line was renewed effective January 1, 2010 with a maturity date of January 1, 2011. 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. There were no outstanding borrowings against the line of credit at March 31, 2010.

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

Not required pursuant to Instruction H(2).

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

Merrill Lynch's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Merrill Lynch's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

In addition, no change in Merrill Lynch's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the first quarter of 2010 that has materially affected, or is reasonably likely to materially affect, Merrill Lynch's internal control over financial reporting.

## PART II — Other Information

**Item 1.** ***Legal Proceedings***

**Legal and Regulatory Matters**

The following information supplements the disclosure in Note 14 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Auction Rate Litigation

On March 31, 2010, the U.S. District Court for the Southern District of New York ("SDNY District Court") dismissed the second amended consolidated complaint with prejudice in *Burton v. Merrill Lynch & Co., Inc., et al.* On April 22, 2010, plaintiff Colin Wilson filed a notice of appeal from the order of the SDNY District Court dismissing the second amended consolidated complaint.

Bank of America Merger Matters

On April 9, 2010, the U.S. District Court for the Southern District of New York consolidated two purported class actions, *Iron Workers of Western Pennsylvania Pension Plan v. Bank of America Corp., et al.* and *Dornfest v. Bank of America Corp., et al* with the consolidated securities actions in the *In re Bank of America Securities, Derivative, and Employment Retirement Income Security Act (ERISA) Litigation*, and ruled that the plaintiffs in the two purported class actions may pursue those actions as individual actions, but not as class actions.

Illinois Funeral Directors Association Matters

In the *Fred C. Dames Funeral Homes, Inc., et al., v. Daniel W. Hynes, the Illinois Office of the Comptroller, et al.,* matter, the Plaintiffs filed additional counts on April 7, 2010, against the Illinois Comptroller, the Illinois Department of Financial and Professional Regulation Division of Insurance, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), Merrill Lynch Life Agency, Inc., Merrill Lynch Bank & Trust Co., FSB ("MLBTC") seeking declaratory relief with respect to payments made pursuant to the amended Consent Order, and seeking an accounting from MLBTC.

*In the Clancy-Gernon Funeral Home, Inc., et al. v. MLPF&S, et al.,* the Court granted MLPF&S's motion to consolidate and stay on April 14, 2010, and ordered the *Clancy-Gernon* action consolidated with the *Tipsword* action and extended the stay entered in *Tipsword* to the consolidated proceeding.

In re Initial Public Offering Securities Litigation

On March 2, 2010, the objectors withdrew their discretionary appeal to certification of the settlement class and filed an appeal of the order by the SDNY District Court approving the settlement.

Lehman Brothers Holdings, Inc. Litigation

Defendants' motion to dismiss the consolidated amended complaint was denied without prejudice on March 17, 2010, when plaintiffs advised the SDNY District Court that they would seek to file a third amended complaint.

Lyondell Litigation

On March 11, 2010, the U.S. Bankruptcy Court for the Southern District of New York approved the settlement in principle. Merrill Lynch's portion of the settlement was not material to Merrill Lynch's Condensed Consolidated Financial Statements. The settlement became effective on April 30, 2010.

MBIA Insurance Corporation CDO Litigation

On April 9, 2010, the New York Superior Court, New York County, issued an order granting the motion to dismiss as to the fraud, negligent misrepresentation, and rescission claims, and denying the motion to dismiss solely as to the breach of contract claim.

Subprime Mortgage-Related Litigation

*Connecticut Carpenters Pension Fund, et al. v. Merrill Lynch & Co., Inc., et al.; Iron Workers Local No. 25 Pension Fund v. Credit-Based Asset Servicing and Securitization LLC, et al.; Public Employees' Ret. System of Mississippi v. Merrill Lynch & Co. Inc. et al.; Wyoming State Treasurer v. Merrill Lynch & Co. Inc.*

On March 31, 2010, the SDNY District Court issued an order granting in part and denying in part the motion to dismiss the consolidated amended complaint.

Federal Home Loan Bank of San Francisco Litigation

On March 15, 2010, the Federal Home Loan Bank of San Francisco (FHLB San Francisco) filed a complaint entitled *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities Inc., et al.* in the Superior Court of the State of California, County of San Francisco against MLPF&S and other defendants. The complaint alleges violations of the California Corporate Securities Act, the Securities Act of 1933, the California Civil Code, and common law in connection with various offerings of mortgage-backed securities, and asserts, among other things, misstatements and omissions concerning the credit quality of the mortgage loans underlying the securities and the loan origination practices associated with those loans. The complaint seeks unspecified damages and rescission, among other relief.

Tribune PHONES Litigation

On March 5, 2010, an adversary proceeding, entitled *Wilmington Trust Company v. JP Morgan Chase Bank, N.A., et al.*, was filed in the U.S. Bankruptcy Court for the District of Delaware. This adversary proceeding, in which MLPF&S and MLCC, among others, were named as defendants, relates to the pending Chapter 11 cases in *In re Tribune Company, et al*. The Plaintiff in the adversary proceeding, Wilmington Trust Company ("Wilmington Trust"), is the indenture trustee for approximately $1.2 billion of Exchangeable Subordinated Debentures (known as "PHONES") issued by Tribune Company ("Tribune"). In its complaint, Wilmington Trust challenges certain financing transactions entered into among the defendants and Tribune and certain of its operating subsidiaries under certain credit agreements dated May 17, 2007 and December 20, 2007 (together, the "Credit Agreements"). The complaint alleges that the defendants were only willing to enter into the Credit Agreements if they could subordinate the PHONES to Tribune's indebtedness under the Credit Agreements. Wilmington Trust seeks to equitably subordinate the defendants' claims under the Credit Agreements to the PHONES; to transfer any liens securing defendants' claims under the Credit Agreements to Tribune's bankruptcy estate; and to disallow all claims of the defendants against the Tribune debtors until the PHONES are paid in full.

The complaint also asserts a claim for breach of fiduciary duty against Citibank, N.A. ("Citibank"), as former indenture trustee for the PHONES, in an unspecified amount. For allegedly aiding and abetting Citibank's alleged breach of fiduciary duty, Wilmington Trust seeks damages in an unspecified amount from each of the defendants, equitable subordination of the defendants' bankruptcy claims and the imposition of a constructive trust over the defendants' legal interests in Tribune and its subsidiaries.

The Tribune debtors filed a motion on March 18, 2010 which the Bankruptcy Court heard on April 13, 2010, seeking a determination that Wilmington Trust has violated the automatic stay by filing the complaint and to halt all further proceedings regarding the complaint.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Risk Factors” in Part I, Item 1A of Merrill Lynch’s Annual Report on Form 10-K for the year ended December 31, 2009, 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.

**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: May 7, 2010

**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 |

* *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 March 31, 2010 | Year Ended December 31, 2009 | Years Ended December 26, 2008 | Years Ended December 28, 2007 | Years Ended December 29, 2006 | Years Ended December 30, 2005 |
| Pre-tax earnings/(loss)(a) | $ 1,678 | $ 2,218 | $ (45,438) | $ (13,723) | $ 9,313 | $ 6,335 |
| Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries) | 2,107 | 11,063 | 29,641 | 51,683 | 35,719 | 21,764 |
| Pre-tax earnings/(loss) before fixed charges | 3,785 | 13,281 | (15,797) | 37,960 | 45,032 | 28,099 |
| Fixed charges: | | | | | | |
| Interest | 2,040 | 10,773 | 29,349 | 51,425 | 35,499 | 21,549 |
| Other(b) | 67 | 290 | 292 | 258 | 220 | 215 |
| Total fixed charges | 2,107 | 11,063 | 29,641 | 51,683 | 35,719 | 21,764 |
| Preferred stock dividend requirements | 58 | 126 | 4,356 | 401 | 259 | 99 |
| Total combined fixed charges and preferred stock dividends | $ 2,165 | $ 11,189 | $ 33,997 | $ 52,084 | $ 35,978 | $ 21,863 |
| **Ratio of earnings to fixed charges** | 1.80 | 1.20 | * | * | 1.26 | 1.29 |
| **Ratio of earnings to combined fixed charges and preferred stock dividends** | 1.75 | 1.19 | * | * | 1.25 | 1.29 |

*On January 1, 2009, Merrill Lynch (the "Predecessor Company") was acquired by 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. The Predecessor Company and Successor Company periods have been separated by a vertical line above to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting.*

(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 March 31, 2010 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: May 7, 2010

/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 March 31, 2010 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: May 7, 2010

/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 March 31, 2010 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: May 7, 2010

/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 March 31, 2010 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: May 7, 2010

/s/ ROBERT QUTUB
Robert Qutub
Chief Financial Officer