SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 29, 2000 | Commission file number 1-7182

Merrill Lynch & Co., Inc.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-2740599** **(I.R.S. Employer Identification No.)**
4 World Financial Center **New York, New York** **(Address of principal executive offices)**	**10080** **(Zip Code)**

Registrant's telephone number, including area code: (212) 449-1000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $1.33 1/3 and attached Rights to Purchase Series A Junior Preferred Stock	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Paris Stock Exchange; London Stock Exchange; and Tokyo Stock Exchange
Depositary Shares representing 1/400th share of 9% Cumulative Preferred Stock, Series A	New York Stock Exchange
S&P 500 Market Index Target-Term Securities ("MITTS Securities") due May 10, 2001; Technology MITTS Securities due August 15, 2001; Healthcare/Biotechnology Portfolio MITTS Securities due October 31, 2001; Nikkei 225 MITTS Securities due June 14, 2002; S&P 500 MITTS Securities due September 16, 2002; MITTS Securities based upon the Dow Jones Industrial Average (the "Dow Jones") due January 14, 2003; S&P 500 MITTS Securities due September 28, 2005; Top Ten Yield MITTS Securities due August 15, 2006; S&P 500 Inflation Adjusted MITTS Securities due September 24, 2007; and 6¼% STRYPES due July 1, 2001.	New York Stock Exchange
Nikkei 225 MITTS Securities due September 20, 2002; Major 8 European MITTS Securities due August 30, 2002; Major 11 International MITTS Securities due December 6, 2002; Russell 2000 MITTS Securities due September 30, 2004; Global MITTS Securities due December 22, 2004; S&P 500 MITTS Securities due July 1, 2005; Nikkei 225 MITTS Securities due September 21, 2005; Energy Select Sector SPDR Fund MITTS Securities due February 21, 2006; EuroFund MITTS Securities due February 28, 2006; S&P 500 MITTS Securities due March 27, 2006; Consumer Staples Select Sector SPDR Fund MITTS Securities due April 19, 2006; Select Sector SPDR Fund Growth Portfolio MITTS Securities due May 25, 2006; Major 11 International MITTS Securities due May 26, 2006; MITTS Securities based upon the Dow Jones due June 26, 2006; Russell 2000 MITTS Securities due July 21, 2006; Nikkei 225 MITTS Securities due August 4, 2006; S&P 500 MITTS Securities due August 4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; MTN, Series B, Stock-Linked Notes due November 28, 2003; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due April 19, 2004; MTN, Series B, 3.125% Callable Stock-Linked Notes due January 22, 2005; MTN, Series B, 1.5% Principal Protected Notes due December 15, 2005; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; MTN, Series B, 0.25% Callable and Exchangeable Portfolio-Linked Notes due April 27, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Oracle Corporation Indexed Callable Protected Growth Securities ("ProGroS	American Stock Exchange

Securities") due March 31, 2003; Telebrás Indexed Callable ProGroS Securities due May 19, 2005; Russell 2000 Index Call Warrants Expiring May 25, 2001; and Bond Index Notes, Domestic Master Series 1999A due December 23, 2002; Euro Currency Warrants due February 28, 2002; Callable MITTS Securities due October 5, 2007 based upon Semiconductor HOLDRS; Callable MITTS Securities due September 13, 2007 based upon Broadband HOLDRS; Callable Nasdaq-100 MITTS Securities due August 3, 2007; Callable MITTS Securities due August 3, 2007 based upon Biotech HOLDRS; Medium-Term Notes, Series B 2% Callable and Exchangeable Stock-Linked Notes due July 26, 2005 (Linked to the performance of the common stock of Johnson & Johnson); Medium-Term Notes, Series B 7% Stock-Linked Notes due July 8, 2002 (Linked to the performance of the common stock of The Gap, Inc.); Nikkei 225 MITTS Securities due March 30, 2007; Callable MITTS Securities due March 5, 2007 based upon Internet HOLDRS; Medium-Term Notes, Series B 0.50% Callable and Exchangeable Stock-Linked Notes due February 3, 2005 (Linked to the performance of a specified portfolio of common stocks); and Global MITTS Securities due December 22, 2004.

Securities registered pursuant to Section 12(g) of the Act:

S&P 500 Market Index Target-Term Securities ("MITTS Securities") due June 29, 2007; and
S&P 500 MITTS Securities due November 20, 2007.

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. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

As of the close of business on February 27, 2001, there were 830,446,397 shares of Common Stock and 4,202,895 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

As of the close of business on February 27, 2001, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately $52.3 billion.

Documents Incorporated By Reference: Portions of the Merrill Lynch & Co., Inc. 2000 Annual Report to Stockholders are incorporated by reference in Parts I-IV in this Form 10-K. Portions of the Merrill Lynch & Co., Inc. Proxy Statement for its 2001 Annual Meeting of Stockholders dated March 16, 2001 are incorporated by reference in Part III in this Form 10-K.

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PART I

Item 1. *Business*

Overview

Merrill Lynch & Co., Inc.,* a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, and related products and services on a global basis, including:

- securities brokerage, trading, and underwriting
- investment banking, strategic services, including mergers and acquisitions, and other corporate finance advisory activities
- asset management

- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange products
- securities clearance and settlement services
- equity, debt, foreign exchange, commodities and economic research
- banking, trust, and lending services, including mortgage lending and related services
- insurance sales and underwriting services
- investment advisory and related recordkeeping services

Merrill Lynch provides these products and services to a wide array of clients, including individual investors, small businesses, corporations, governments, governmental agencies, and financial institutions.

Merrill Lynch's business has three business segments: the Corporate and Institutional Client Group ("CICG"), the Private Client Group ("PCG") and Merrill Lynch Investment Managers ("MLIM"). Merrill Lynch provides financial services worldwide through various subsidiaries and affiliates that frequently participate in the facilitation and consummation of a single transaction. This organizational structure is designed to enhance the delivery of services to Merrill Lynch's diverse global client base and position it for worldwide growth. Merrill Lynch has organized its operations outside the United States into five regions:

Europe, Middle East, and Africa
Japan
Asia Pacific/Australia
Canada
Latin America

Merrill Lynch conducts its global business from various locations throughout the world. Its world headquarters facility is located at the World Financial Center in New York City and its other principal United States business and operational centers are in New Jersey, Colorado, Florida, and California. Merrill Lynch has a presence in 43 countries outside the United States, including offices in Buenos Aires, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Mexico City, Melbourne, Milan, Paris, Sao Paulo, Singapore, Sydney, Toronto, Tokyo and Zurich.

Merrill Lynch employed 72,000 people at the end of 2000.

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* Unless the context otherwise requires, the term "Merrill Lynch" means Merrill Lynch & Co., Inc. and includes the consolidated subsidiaries of Merrill Lynch & Co., Inc. The term "ML & Co." is used herein where appropriate to refer to Merrill Lynch & Co., Inc., the parent holding company.

At the end of 2000, total assets in client accounts or under management were approximately $1.7 trillion. In 2000, according to Thomson Financial Services Data, Merrill Lynch achieved the top ranking in U.S. debt and equity underwriting, and ranked fourth in U.S. completed and announced mergers and acquisitions. Merrill Lynch was the leading global debt and equity underwriter and ranked fifth in announced and third in completed non-U.S. mergers and acquisitions transactions.

Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December 2000, 1999, and 1998, including the amount of total revenue contributed by classes of similar services that accounted for 10% or more of its consolidated revenues in any one of these fiscal periods, as well as information with respect to Merrill Lynch's operations by segment and geographic area is set forth in Merrill Lynch's Consolidated Financial Statements and the Notes thereto in the Merrill Lynch & Co., Inc. 2000 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K.

Business Environment

The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous uncontrollable factors. These factors include economic conditions, monetary policies, the liquidity of global markets, international and regional political events, regulatory developments, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility of financial markets. While greater volatility increases risk, it may also increase order flow in businesses such as trading and brokerage. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and volumes.

The financial services industry continues to be affected by the intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, diminishing margins in many mature products and services, and competition from new entrants as well as established competitors using the Internet or other technology to establish or expand their businesses. The Gramm-Leach-Bliley Act, passed in 1999, which repealed U.S. laws that separated commercial banking, investment banking and insurance activities, together with changes to the industry resulting from previous reforms, has increased the number of companies competing for a similar customer base.

In addition to providing historical information, Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated financial performance, and other similar matters. A variety of factors, many of which are beyond its control, affect the operations, performance, business strategy, and results of Merrill Lynch and could cause actual results and experience to differ materially from the expectations and objectives expressed in these statements. These factors include, but are not limited to, the factors listed in the previous two paragraphs, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks and uncertainties detailed in Competition and Regulation below and in Management's Discussion and Analysis in the Annual Report. **Merrill Lynch undertakes no responsibility to update or revise any forward-looking statements.**

Description of Business Activities

The business activities of certain U.S. and non-U.S. Merrill Lynch subsidiaries comprising its three business segments are described below. Each subsidiary may provide products and services from some or all of these business segments. See Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements in the Annual Report for further information about Merrill Lynch's business activities and policies, its business segments, services, and the geographic markets within which it operates.

The Corporate and Institutional Client Group

The CICG businesses provide comprehensive investment banking, financing, and related products and services to corporations, institutional clients and sovereign governments throughout the world. These activities are conducted through a network of subsidiaries, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), Merrill Lynch International ("MLI"), and a number of other subsidiaries located in and outside the United States. CICG's activities predominately involve providing investment banking and other strategic mergers and acquisition advisory services; underwriting; trading, both as a broker and as a dealer, in equity securities, including common stock, preferred stock, american depositary receipts and other equity linked securities, debt securities, including investment grade, high yield, tax-exempt, asset backed, commercial paper and other short-term instruments, and derivative instruments; publishing and disseminating equity, debt, foreign exchange and economic research products and services; corporate lending, including syndicated and bridge financing; and providing various other capital markets services, including securities clearance activities.

CICG's operations in the United States are conducted primarily out of Merrill Lynch's headquarters in New York City and from offices located throughout the United States, including Chicago, Houston, Boston, San Francisco, Los Angeles, Palo Alto, and Menlo Park, California. Merrill Lynch's CICG activities outside the United States are conducted through MLI and many non-U.S., locally established affiliates strategically located throughout the world, and a network of offices, including representative and liaison offices, located in more than 30 countries outside the United States. This office network services corporate clients, sovereign governments, and major "money center" institutions, as well as thousands of regional institutions.

Investment Banking Activities:

Merrill Lynch is a leading global investment banking firm that participates in every aspect of investment banking for corporate, institutional, and governmental clients and acts in principal, agency, and advisory capacities. Advisory services include advice on strategic matters, including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring, leveraged buyouts, and defensive projects. Merrill Lynch provides a wide variety of financial services, including underwriting the sale of securities to the public, privately placing securities with investors and developing structured and derivative financings, including project financing, and mortgage and lease financing.

Merrill Lynch, either directly or through affiliates, provides advice, valuation services, and financing assistance, and engages in the underwriting and private placement of securities in connection with, among other things, acquisition transactions, including mergers, leveraged buyouts and other acquisition-related transactions. It has, from time to time, taken principal positions in transactions and has extended credit to clients in the form of senior and subordinated debt, as well as provided bridge financing on a select basis, syndicated loans and participated in credit lines backing commercial paper for certain corporate issuers. Before engaging in any of these financing activities, an analysis is performed to ascertain the underlying creditworthiness of the particular client and the liquidity of the market for securities that may be issued in connection with any such financings and to determine the likelihood of refinancing within a reasonable period. In addition, equity interests in the subject companies are from time to time acquired as part of, or in connection with, such activities.

Merrill Lynch is also engaged in the business of making private equity investments in companies and in private funds and sponsors and manages private equity funds that invest in equity and debt securities of various companies. The limited partners of the funds managed by Merrill Lynch affiliates are primarily corporate and institutional investors. Merrill Lynch, through MLPF&S, MLI, and its other subsidiaries, may underwrite, trade, invest, and make markets in certain securities of companies in which the Merrill Lynch managed funds have invested, and may also provide financial advisory services to these companies.

Brokerage, Dealer and Related Activities:

In the United States, MLPF&S is a broker for corporate, institutional and governmental clients, and is a dealer in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, futures, and options, including option contracts for the purchase and sale of various types of securities. Merrill Lynch, through MLPF&S, MLI, and various of its subsidiaries as described below, is a dealer in equity and fixed income securities of a significant number of U.S. and non-U.S. issuers, in U.S. and other sovereign government obligations, in U.S. municipal securities, and in mortgage-backed and asset-backed securities.

As an adjunct to its trading activities conducted by its subsidiaries, Merrill Lynch places its capital at risk by engaging in block positioning to facilitate transactions in large blocks of listed and over-the-counter securities and by engaging, from time to time, in arbitrage transactions for its own account. In its block positioning activities, securities are purchased, or are sold short for its own account, without having full commitments for their resale or covering purchase, thereby employing its capital to effect large transactions. Such positioning activities are undertaken after analyzing a given security's marketability, and any position taken typically is liquidated as soon as practicable. In addition, Merrill Lynch facilitates various trading strategies involving the purchase and sale of financial futures contracts and options and, in connection with this activity, it may establish positions for its own account and risk.

Merrill Lynch's U.S. broker-dealers, MLPF&S and ML & Co.'s subsidiary Herzog, Heine, Geduld, Inc., which was merged into a wholly-owned subsidiary of ML & Co. in July 2000, regularly make markets in approximately 11,000 equity securities. In addition, MLPF&S engages in dealer transactions in approximately 5,400 securities of non-U.S. issuers traded inthe over-the-counter markets. Outside the United States, MLI is a registered market maker in the equity securities of approximately 1600 non-U.S. corporations. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed, and corporate fixed-income securities.

Through its subsidiary, Merrill Lynch Government Securities Inc. ("MLGSI"), Merrill Lynch is a primary dealer in

obligations issued or guaranteed by the U.S. Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, including Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. It deals in mortgage-backed pass-through certificates issued by certain of these entities, and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers' transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York and regularly reports positions and activities to the Federal Reserve Bank of New York.

An integral part of its business involves entering into repurchase agreements whereby funds are obtained by the Merrill Lynch subsidiary engaging in the transaction pledging its own securities as collateral. The repurchase agreements provide financing for dealer inventory and serve as short-term investments for customers, which customers include certain Merrill Lynch affiliates. As part of its business as a dealer in governmental obligations, the Merrill Lynch affiliate also enters into reverse repurchase agreements whereby it provides funds against the pledge of collateral by customers. Such agreements provide the Merrill Lynch affiliate with needed collateral and provide its customers with temporary liquidity for their investments in U. S. Government and agency securities or other non-U.S. government securities.

Various non-U.S. Merrill Lynch subsidiaries act as dealers in certain securities issued or guaranteed by the governments of the countries where such subsidiaries are located.

Derivative Dealing Activities:

Merrill Lynch, through MLPF&S, MLI, Merrill Lynch Capital Services, Inc. ("MLCS") and Merrill Lynch Derivative Products AG ("MLDP") act as intermediaries and principals in a variety of interest rate, currency, and other over-the-counter derivative transactions. MLI engages in equity and credit derivatives business in the over-the-counter markets, and Merrill Lynch Capital Markets Bank Limited ("MLCMBL") is a credit intermediary and conducts part of Merrill Lynch's non-U.S. dollar swap activities. MLCS and MLDP are Merrill Lynch's primary interest rate and currency derivative product dealers. MLI is Merrill Lynch's primary credit and equity derivatives product dealer.

MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate and currency swaps, caps and floors, and options. MLCS maintains positions in interest-bearing securities, financial futures, and forward contracts to hedge its derivative exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies. MLCS also engages in certain commodity-related transactions as a principal, and is licensed as a power marketer by the Federal Energy Regulatory Commission. See "Significant Strategic Initiatives-*Acquisition and Divestiture* - sale of energy trading assets" for a discussion of Merrill Lynch's agreement to sell certain energy trading assets.

MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address the desire of certain swap customers to limit their trading to those dealers having the highest credit quality. MLDP has been assigned the Aaa, AAA, and AAA counterparty rating by the rating agencies, Moody's Investors Service, Inc., Standard & Poor's, and Fitch IBCA, Inc., respectively. Customers meeting certain credit criteria enter into swaps with MLDP and, in turn, MLDP enters into offsetting mirror swaps with MLCS. However, MLCS is required to provide MLDP with collateral to meet certain exposures MLDP may have to MLCS.

MLCMBL, an Irish bank with branch offices in Frankfurt, Johannesburg, Labuan (Malaysia), Milan, Rome and Tokyo, acts as a credit intermediary and conducts part of Merrill Lynch's non-dollar swap activities. It engages in foreign exchange, swap and other derivative transactions, in addition to its underwriting, lending and institutional sales activities.

Foreign Exchange Activities:

Merrill Lynch Global Foreign Exchange provides foreign exchange trading services to corporations and institutions in various countries through Merrill Lynch International Bank Limited ("MLIB Limited") and MLCMBL. Merrill Lynch Global Foreign Exchange has offices or agents in New York, London, Tokyo and Singapore.

Mortgage Dealing Activities:

Merrill Lynch Mortgage Capital Inc. ("MLMCI") is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing and syndicated commercial loans. MLMCI, through its CMO Passport® service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations, mortgage pass-through certificates, and asset-backed securities. As an integral part of its business, MLMCI enters into repurchase agreements

whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI's inventory and serve as short-term investments for MLMCI's customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing them with temporary liquidity. In addition, MLMCI provides to its clients short-term financing secured by performing and non-performing commercial real estate. MLMCI also makes proprietary equity investments in U.S. and non-U.S. companies owning performing, sub-performing and non-performing real estate and mortgages. Merrill Lynch Mortgage Lending, Inc. is a commercial mortgage conduit that makes, and purchases from lenders, commercial and multi-family mortgage loans and securitizes these loans for sale to investors.

Money Markets Activities:

Merrill Lynch, through various subsidiaries including Merrill Lynch Money Markets Inc. ("MLMMI"), provides a full range of origination, trading, and marketing services with respect to money market instruments such as commercial paper, bankers' acceptances, and institutional certificates of deposit. Merrill Lynch also provides services in connection with the origination of medium-term notes issued by U.S. and non-U.S. corporations and short-term and medium-term bank notes issued by financial institutions, and through MLPF&S and MLI, it trades and markets such notes. MLMMI is also a commercial paper dealer for U.S. and non-U.S. corporations and financial institutions. MLMMI also acts as a dealer for U.S. and non-U.S. financial institutions in the certificate of deposit and bankers' acceptance markets and in connection with the purchase of certificates of deposit from Federally insured depository institutions. Such instruments are resold to certain institutional customers such as banks, insurance companies, investment companies, pension plans, and state and local governments. MLMMI, in cooperation with MLPF&S, originates certificates of deposit issued by bank and thrift institutions that are sold to a broad range of individual investor clients of MLPF&S.

Merrill Lynch offers standby "backstop" lines of credit to U.S. corporate clients in connection with rated commercial paper programs. Merrill Lynch offers this service through its affiliates Merrill Lynch Capital Corporation and Merrill Lynch Bank USA ("MLBUSA"). Commercial paper backstop lines are used by an issuer of commercial paper to repay its outstanding commercial paper when it is not able or willing to issue new commercial paper as its outstanding paper matures. Although this "backstop" business has not been a major part of Merrill Lynch's business in the past, in 2000 Merrill Lynch increased the amount of its outstanding commercial paper backstop lines significantly in response to demand from its corporate underwriting and advisory clients.

Futures Business Activities:

Merrill Lynch's futures business activity is conducted through Merrill Lynch Futures Inc. ("MLF") and other subsidiaries. MLF holds memberships on all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States. Other Merrill Lynch subsidiaries also hold memberships on major commodity and financial futures exchanges and clearing associations outside the United States and may also carry positions in proprietary and customer accounts. All futures and futures options transactions are executed, cleared through and/or carried by MLF and other Merrill Lynch subsidiaries engaged in futures activities. In certain contracts, or on certain exchanges, third party brokers are utilized to execute and/or clear trades. As part of its brokerage activities, MLPF&S, as a futures commission merchant, introduces customers to MLF for the purchase and sale of futures contracts and options on futures contracts. MLPF&S and certain of its affiliates may also take proprietary market positions in futures and futures options in certain instances.

In early 2000, Merrill Lynch refocused its futures activities on financial futures and options, and discontinued its sales and floor execution activities for agricultural and metals futures and options contracts. In addition, Merrill Lynch transferred its energy futures business to ABN AMRO Incorporated.

Research Services:

The Global Securities Research & Economics Group provides equity, fixed-income and other research services on a global basis to Merrill Lynch's institutional and individual client sales forces and their customers. This group covers and distributes fundamental equity and fixed-income research, economic analyses, technical market and quantitative analyses, convertible securities research and investment strategy recommendations covering both equity and fixed-income markets.

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 26 countries cover approximately 3,500 companies, with approximately half of the staff now dedicated to non-U.S. research activities. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch's individual and institutional customers through their financial consultants and account

executives, and through various electronic means, including Merrill Lynch's websites.

Securities Clearing Services:

MLPF&S provides securities clearing services through its subsidiaries, Broadcort Capital Corp. ("BCC") and Merrill Lynch Professional Clearing Corp. ("MLPCC"). BCC provides these services to over 100 unaffiliated broker-dealers. While the introducing broker-dealer firm retains all sales functions with its customers, BCC services the customers' accounts and handles all settlement and credit aspects of transactions. MLPCC clears transactions for specialists and market-makers on various national and regional stock exchanges and clears commodities futures transactions for clients through a divisional clearing arrangement with MLF. In addition, MLPCC clears transactions of arbitrageurs, customers, and other professional trading entities. Merrill Lynch Canada Inc. provides trading and securities clearing services to thirteen unaffiliated Canadian securities dealers.

<u>The Private Client Group</u>

Through offices around the world, PCG provides products and services related to the accumulation and management of wealth, including, for example, brokerage, dealer and related activities; banking; retirement, investment and custody services; business financial services; insurance; trust services, mortgage lending and related activities.

Brokerage, Dealer and Related Activities:

In the United States, MLPF&S is a broker (i.e., agent) and a dealer (i.e., acts for its own account) for individual, corporate, institutional and governmental clients in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and a dealer in the purchase and sale of money market instruments, government securities, high-yield bonds, municipal securities, futures and options. In addition, MLPF&S acts as broker and/or mutual fund selected dealer in the purchase and sale of mutual funds.

MLPF&S has established commission rates or fixed charges for all brokerage services that it performs. For certain accounts, depending on account size and trading activity, however, MLPF&S's policy is to negotiate commissions based on economies of scale and the complexity of the particular trading transaction, and additionally, for its institutional customers, based on the competitive environment and trading opportunities.

MLPF&S offers to its clients Unlimited Advantage℠ , a non-discretionary brokerage service offering transaction and non-transaction services for an annual asset-based fee. Unlimited Advantage clients may receive a wide array of services, including Financial Consultant advice and guidance, Merrill Lynch research, no per-trade commissions on most transactions, a Cash Management Account® financial services program (the "CMA® account"), the CMA® Visa® Signature℠ program, and online bill payment. By year-end 2000, there were over 474,000 Unlimited Advantage accounts with aggregate client assets of approximately $83 billion, of which approximately $13 billion represented net new client assets in 2000.

Merrill Lynch Direct℠ is an award-winning, Internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct offers online equity and fixed income trading, mutual funds, access to Merrill Lynch research and a variety of online investing tools.

MLPF&S provides financing to clients, including margin lending and other extensions of credit. In a margin-based transaction, MLPF&S extends credit for a portion of the market value of the securities in the client's account up to the limit imposed by internal MLPF&S policies and applicable margin rules and regulations. Since MLPF&S may have financial exposure if a client fails to meet a margin call, any margin loan made by MLPF&S is collateralized by securities in the client's margin account. Financial reviews, margin procedures, and other credit standards have been implemented in an effort to limit any exposures resulting from this margin lending activity. Interest on margin loans is an important source of revenue for MLPF&S. To finance margin loans, MLPF&S uses funds on which it pays interest (including parent company borrowings), funds on which it does not pay interest (including its own capital), funds derived from clients' free credit balances to the extent permitted by regulations, and funds derived from securities loaned.

MLPF&S provides a wide range of client services, including trading in equity, fixed-income and other securities through its securities account services, such as its CMA® account. At the end of 2000, there were more than 2.5 million CMA accounts with aggregate assets of approximately $660 billion. MLPF&S also offers various investment advisory products, including Merrill Lynch Consults® , the Merrill Lynch Mutual Fund Advisor℠ program, the Merrill Lynch Mutual Fund Advisor Selects℠ program, and the Financial Foundation® report. Through Merrill Lynch Online® , clients can access their Merrill Lynch accounts, including account information, real time quotes, Merrill Lynch research and a variety of other investment information.

Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products on a global basis to private clients, including the International CMA account. At the end of 2000, there were more than 68,000 International CMA accounts with aggregate assets of approximately $36 billion. These services and products are made available through a network of offices located in 33 countries. The brokerage and other services provided by MLPF&S are offered on a global basis to private clients. In addition, in certain countries such as the United Kingdom, Japan, Canada and Australia, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services, and asset management services, are also offered globally to private clients, as described respectively below under "The Private Client Group - Trust, Mortgage Lending and Related Activities" and "Merrill Lynch Investment Managers." See also, "Strategic Initiatives - *Strategic Alliances*" for a discussion of Merrill Lynch and HSBC's alliance to create an online investment and banking company.

Banking:

MLBUSA and Merrill Lynch Bank & Trust Co. ("MLBT") (collectively, the "ML U.S. Banks") are state chartered depository institutions insured by the FDIC. Both banks offer certificates of deposit, transaction accounts and money market deposit accounts (including deposit accounts offered through the Merrill Lynch Banking Advantage℠ program for the CMA service, the Retirement Asset Savings Program℠ for certain Merrill Lynch retirement accounts, and a deposit account program offered for Merrill Lynch Direct accounts), and issue VISA® cards. MLBUSA also originates and purchases secured loans.

During 2000, Merrill Lynch expanded the products offered by the ML U.S. Banks. These products included new interest bearing bank deposits into which cash from certain Merrill Lynch client accounts, previously swept into money market mutual funds, is swept. The combined ML U.S. Banks' deposits have increased from approximately $6 billion in 1999 to approximately $55 billion by year-end 2000. The ML U.S. Banks' deposits primarily fund a high credit quality marketable investment securities portfolio held by them.

Benefits and Investment Solutions and Retirement and Education Savings Marketing:

Through its Benefits and Investment Solutions division, formerly known as Group Employee Services, MLPF&S ranked fourth in terms of participants and fifth in terms of assets among bundled service providers of 401(k) plans in the United States according to *Pensions & Investment* (*October 2, 2000*). MLPF&S provides a wide variety of retirement plan products, particularly benefits consulting, administration, investment, employee education, and communication services to 401(k) and other benefit plans. At the end of 2000, it provided these services to over 1,576 corporate sponsored 401(k) plans, representing over $106 billion in plan assets. During 2000, MLPF&S entered into a strategic alliance with BISYS Plan Services, L.P. to provide administrative services for approximately 5,000 defined contribution plans. During 2000, MLPF&S also sold its employee stock purchase plan servicing business to Computershare Trust Company, Inc.

MLPF&S provides custodial services to individual investors in connection with the investors' maintenance of Individual Retirement Accounts ("IRAs"), including IRAs established under Simplified Employee Pension and SIMPLE plans. At the end of 2000, approximately $183.1 billion in customer assets was in more than 2.7 million Merrill Lynch IRAs, which includes approximately 427,000 Roth and Education IRAs representing more than $4.4 billion in client assets. MLPF&S and its affiliates provide program management, including marketing, recordkeeping and other account services for three state sponsored college savings plans known as "529 Plans." By year-end 2000, approximately $400 million of client assets was invested in these separate 529 Plans.

Business Financial Services:

Merrill Lynch provides financing services to small and medium businesses in conjunction with the Working Capital Management Account℠ ("WCMA® account") through Merrill Lynch Business Financial Services Inc. ("MLBFS"). The WCMA® account combines business checking, borrowing, investment, and electronic funds transfer services into one account for participating business clients. At the end of 2000, there were more than 154,000 WCMA accounts that, in the aggregate, had investment assets of more than $122 billion.

In addition to providing qualifying clients with short-term working capital financing through the WCMA commercial line of credit, MLBFS offers assistance to business clients with their term lending, equipment, and other asset-based financing needs, as well as financing for owner-occupied commercial real estate. In 2000, MLBFS originated more than $2.2 billion in new commercial loans and, at the end of 2000, total outstanding loans held by MLBFS were more than $3.4 billion, of which approximately 97% were secured by tangible assets pledged by customers.

Merrill Lynch also provides business advisory services, including strategic services to middle market companies.

Insurance Activities:

Merrill Lynch's insurance services consist of the underwriting of life insurance and annuity products by Merrill Lynch Life Insurance Company ("MLLIC") and ML Life Insurance Company of New York ("ML Life") and of the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States and Canada.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, Puerto Rico, the District of Columbia, Guam, and the United States Virgin Islands. These products are marketed to MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 2000, MLLIC had approximately $15.1 billion of life insurance in force. At year-end 2000, MLLIC had annuity contracts in force of more than $10 billion in value.

ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities, and accident and health insurance in nine states; however, it does not presently underwrite accident and health insurance. At year-end 2000, ML Life had approximately $1.8 billion of life insurance in force, which amount included approximately $869 million reinsured from yearly renewable term insurance of an unaffiliated insurer. At year-end 2000, ML Life had annuity contracts in force of approximately $803 million in value.

Through agency agreements, licensed affiliate insurance agencies and other insurance agencies associated with MLPF&S sell life and health insurance and annuity products. A significant portion of these sales consists of products underwritten by MLLIC and ML Life.

Trust, Mortgage Lending and Related Activities:

Merrill Lynch provides personal trust, employee benefit trust, and custodial services to clients in the United States through four state-chartered trust institutions and a federally chartered savings bank. Trust services outside of the United States are provided by Merrill Lynch

Bank and Trust Company (Cayman) Limited ("MLBT Cayman").

Merrill Lynch Credit Corporation ("MLCC") offers a broad selection of real estate-based lending products enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate and fixed-rate mortgage loans throughout the United States, including the Equity Access® , Mortgage 100SM and PrimeFirst® mortgage programs. MLCC also offers securities-based non-purpose lending through its OmegaSM account, a personal line of credit using eligible securities as collateral that is accessible by VISA® card and by check. See "Significant Strategic Initiatives - *Outsourcing*" below for a discussion of MLCC's outsourcing arrangement with Cendant Mortgage Corporation.

MLIB Limited, a United Kingdom bank and licensed deposit taker under the United Kingdom Banking Act, provides collateralized lending, letter of credit and foreign exchange services to, and accepts deposits from, international private clients. It also has a global foreign exchange service, which is made available to institutional clients. In addition, it has a number of branch offices which house Financial Consultants, who refer business to the various Private Client Group account carriers outside of the United States.

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

In early 2000, Merrill Lynch ceased acting as a broker for the purchase and sale of futures contracts and options on such futures contracts for individual clients.

<u>Merrill Lynch Investment Managers</u>

During 2000, the various names used to conduct Merrill Lynch's asset management activities were rationalized and are now principally conducted through the Merrill Lynch Investment Managers ("MLIM") brand name. The principal subsidiaries engaged in these activities are Merrill Lynch Investment Managers LP ("MLIM LP") and Merrill Lynch Investment Managers Limited ("MLIM Ltd"). MLIM is one of the world's largest asset management organizations with total assets under management of approximately $557 billion at year-end 2000.

With portfolio managers located in the United States, the United Kingdom, Japan, Australia, Canada, Switzerland, Italy and Singapore, MLIM manages a wide variety of investment products. These range from money market funds and other forms of short-term fixed-income investments to long-term taxable and tax-exempt fixed-income funds or portfolios, along a broad spectrum of quality ratings and maturities. MLIM also manages a wide variety of equity and balanced funds or portfolios that invest in more than 60 markets globally. In 2000, MLIM began to offer a variety of alternative investment products.

MLIM offers a wide array of taxable fixed-income, tax-exempt fixed-income, equity and balanced open-ended mutual funds. In the United States, MLIM brand of mutual funds (except for its money-market funds) are generally offered pursuant to the Merrill Lynch Select PricingSM system, which allows investors four pricing alternatives. MLIM offers all of its brands of mutual funds to clients in the global markets through both the Merrill Lynch distribution network and through unaffiliated financial intermediaries. At the end of 2000, MLIM advised approximately $246 billion globally of open-ended mutual funds, unit investment trusts and other non-U.S. equivalent products.

MLIM provides separate account investment management services to a geographically diversified client base that includes pension funds, corporations, governments, supranational organizations, central banks and other institutions. Marketing offices in over 15 countries further support these services. At the end of 2000, the total assets under management of such services were approximately $261 billion. MLIM offers similarly structured separate account investment management services for individual clients and smaller institutions and corporations in the United States, the United Kingdom and globally. The total assets under management for these services were $45 billion at the end of 2000.

MLIM also offers through MLPF&S sponsorship the Defined Asset Funds® group of funds. These funds are unit investment trusts registered in the United States under the Investment Company Act of 1940 and offshore in the Republic of Ireland and the Cayman Islands under applicable regulations. Defined Asset Funds are passively managed investments in U.S. and non-U.S. equity securities, as well as, municipal, corporate, and U.S. Government and non-U.S. debt obligations. At the end of 2000, approximately $21.9 billion of client funds were invested in Defined Asset Funds worldwide.

MLIM's Alternative Investments Group structures and manages a variety of alternative investment products, including hedge funds, fund of funds, private equity, managed futures and exchange funds. These products are sold primarily to high net worth and institutional investors in the United States and offshore. MLIM developed its Alternative Investments Group over the course of 2000. Currently, the group consists of several business units supported by an integrated business organization providing investment and risk management, sales and marketing, operations, fund accounting and administration, technology interfaces and client reporting capabilities.

At the end of 2000, MLIM's Alternative Investments Group was acting as sponsor or trading manager of alternative investment products in which a total of approximately $5.7 billion of client capital was committed and approximately $4.5 billion was invested.

MLIM's Quantitative Advisers group manages a wide range of quantitative investment management products for a variety of different types of investors. The Quantitative Advisers group seeks to track the performance of an index or outperform an index using risk-controlled enhanced indexing and allocation strategies. The Quantitative Advisers group also manages the Merrill Lynch QA family of hedge funds, which are distributed primarily to high net worth individuals through Merrill Lynch's non-U.S. brokerage businesses, as well as through direct sales to institutions and other sophisticated investors in the United States. The Merrill Lynch QA hedge funds collectively held over $1 billion in assets as of the end of 2000. The Quantitative Advisers group also manages index mutual funds for individual investors and the Mercury QA brand of retail mutual funds, which pursue asset allocation strategies. At the end of 2000, the Quantitative Advisers group managed a total of approximately $31 billion.

During 2000, Merrill Lynch began using FDIC insured accounts at the ML U.S. Banks as the sweep feature for cash for certain Merrill Lynch client accounts rather than MLIM-managed taxable retail money market mutual funds. Primarily due to this change, MLIM taxable retail money market fund assets, at the end of 2000, were approximately $65 billion, which is approximately $45 billion less than they would have been without such change.

Significant Strategic Initiatives

Acquisition and Divestiture:

During 2000, significant strategic initiatives included the following transactions:

In July 2000, Herzog, Heine, Geduld, Inc., ("Herzog") a leading NASDAQ market maker, was merged into a wholly owned

subsidiary of ML & Co. Together with Herzog, Merrill Lynch now executes for approximately 475 broker-dealers and executes approximately 265 million shares of over-the-counter daily trading volume.

In January 2001, Merrill Lynch signed an agreement to sell certain energy trading assets to Allegheny Energy, Inc., a diversified energy company. A portion of the purchase price to be received by Merrill Lynch is a two percent equity interest in Allegheny Energy Supply Company, LLC, the power generation subsidiary of Allegheny.

Strategic Alliances:

Merrill Lynch initiated strategic alliances in the e-commerce area to enhance our delivery of information and products and services to our clients. Examples of these include:

In April 2000, Merrill Lynch and HSBC Holdings plc ("HSBC") formed, with equal ownership, the first global online investment and banking company, Merrill Lynch HSBC Ltd. The target market for Merrill Lynch HSBC is "mass affluent" investors outside the United States who prefer a self-directed approach to investing. Merrill Lynch HSBC launched services in Canada and Australia in 2000 and plans to launch similar services in the United Kingdom in 2001.

During 2000, Merrill Lynch collaborated with a variety of financial services and other firms to form the following entities: TheMarkets.com, a portal for institutional investors offering real-time equity research, news, market data and equity new issue information; BondBook LLC, an electronic-trading platform for U.S. investment grade and high-yield corporate and municipal bonds open to certain institutional participants; SecuritiesHub LLC, an information services company which hosts online portals, including BondHub and SyndicateHub, and facilitates access to research, new issue and general market information for dealers and institutional fixed income investors; MuniCenter/DebtCenter, an electronic trading platform primarily for secondary market trading in municipal securities; and SwapsWire, an interest rate derivatives electronic dealing network.

Outsourcing:

As part of Merrill Lynch's continuing efforts to focus on core capabilities and utilize outsourcing or other similar arrangements more efficiently to achieve service and profitability goals, Merrill Lynch entered into the following transactions:

In January 2001, MLCC entered into a long-term outsourcing arrangement with Cendant Mortgage Corporation ("Cendant"). Pursuant to this arrangement, Cendant will perform certain mortgage origination services for MLCC on a private-label basis in addition to certain mortgage servicing activities. MLCC will continue to market mortgages to Merrill Lynch clients through Merrill Lynch's financial consultants.

During 2000, MLPF&S entered into a strategic alliance with BISYS Plan Services, L.P. for the provision of administrative services for smaller 401(k) plans. MLPF&S also sold its employee stock purchase plan servicing business to Computershare Trust Company, Inc. In early 2001, MLIM outsourced accounting and administrative services it previously provided to certain mutual funds to State Street Bank and Trust Company.

Other initiatives:

In May 2000, CICG launched a new business called Merrill Lynch Securities Services Division ("SSD"). SSD was formed to both consolidate and expand the securities clearing, settlement, custody and financing services to Merrill Lynch businesses and clients.

Competition

All aspects of Merrill Lynch's business are intensely competitive, particularly underwriting, trading, and advisory activities, and have been affected by the entry of several new and non-traditional competitors such as commercial banks and insurance companies and Internet broker-dealers, and by the consolidation of others. Merrill Lynch competes for clients, market share, and human talent in every aspect of its business.

In the financial services industry, there is significant competition for qualified employees. Merrill Lynch faces competition for qualified employees from both traditional and non-traditional competitors, including commercial banks, insurance companies, on-line financial services providers, Internet-related businesses and private equity funds. Merrill Lynch's ability to compete effectively in its businesses is substantially dependent on its continuing ability to attract, retain and motivate qualified employees, including successful financial consultants and other revenue-producing personnel and other qualified employees.

Merrill Lynch competes directly on a global basis with other U.S. and non-U.S. trading, investment banking and financial advisory service firms, brokers and dealers in securities and futures. It also competes with commercial banks and their affiliates in these businesses, particularly in its derivatives and capital markets businesses. Many of Merrill Lynch's non-U.S. competitors may have competitive advantages in their home markets. Merrill Lynch's competitive position depends to an extent on prevailing worldwide economic conditions and U.S. and non-U.S. governmental policies.

Through its subsidiaries and affiliates, Merrill Lynch also competes for investment funds with mutual fund management companies, insurance companies, finance and investment advisory companies, banks, and trust companies and institutions. Merrill Lynch competes for individual and institutional clients on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation. Merrill Lynch's insurance businesses operate in highly competitive environments. Many insurance companies, both stock and mutual, are older and larger and have more substantial financial resources and larger agency relationships than do Merrill Lynch's insurance subsidiaries.

Merrill Lynch's businesses are highly dependent on the ability to timely process a large number of transactions across numerous and diverse markets in many currencies, at a time when transaction processes have become increasingly complex and are increasing in volume. The proper functioning of financial, control, accounting or other data processing systems is critical to Merrill Lynch's businesses and its ability to compete effectively.

Regulation

Certain aspects of Merrill Lynch's business, as with that of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. governmental agencies or regulatory bodies, securities exchanges, and central banks, each of which has been charged with the protection of the financial markets and the interests of those participating in those markets. These regulatory agencies in the United States include, among others, the Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), the Federal Deposit Insurance Corporation ("FDIC"), the Municipal Securities Rulemaking Board ("MSRB"), the New York State Banking Department ("NYSBD") and the Office of Thrift Supervision ("OTS"). In other areas of the world, these regulators include, in the United Kingdom, the Financial Services Authority ("FSA"), the Securities and Futures Authority ("SFA"), and the Investment Management Regulatory Organization ("IMRO"), and elsewhere, the Central Bank of Ireland, the Federal Banking Supervisory Authority in Germany, the Swiss Federal Banking Commission, the Japanese Financial Supervisory Agency, the Monetary Authority of Singapore, the Office of Superintendent of Financial Institutions in Canada, the Canadian Securities Administrators, the Securities Commission in Argentina, the Securities Commission in Brazil, the National Securities and Banking Commission in Mexico and the Securities and Futures Commission in Hong Kong, among many others.

Additional legislation and regulations and changes in rules promulgated by the SEC or other U.S. Federal and state governmental regulatory authorities and self-regulatory organizations and by non-U.S. government and governmental regulatory agencies may directly affect the manner of operation and profitability of Merrill Lynch.

United States Regulatory Oversight and Supervision:

MLPF&S and certain other subsidiaries of ML & Co. are registered as broker-dealers with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, such as the National Association of Securities Dealers, Inc. (the "NASD") and the securities exchanges of which each is a member. Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S, MLIM LP and MLIM Ltd, are registered as investment advisers with the SEC.

Merrill Lynch entities that are broker-dealers registered with the SEC and members of U.S. national securities exchanges are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Exchange Act") which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, they are required to maintain the minimum net capital deemed necessary to meet broker-dealers' continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of ML & Co. to withdraw capital from such broker-dealers. Additional information regarding certain net capital requirements is set forth in Note 13 to the Consolidated Financial Statements in the Annual Report.

Certain Merrill Lynch subsidiaries are also subject to the risk assessment rules adopted by the SEC under the Market Reform Act of 1990, which require, among other things, that certain broker-dealers maintain and preserve records and other information, describe risk management policies and procedures, and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operating condition of the broker-dealer.

Broker-dealers are also subject to other regulations covering the operations of their business, including sales and trading

practices, use of client funds and securities, and conduct of directors, officers, and employees. Broker-dealers are also subject to regulation by state securities administrators in those states where they do business. Violations of the stringent regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses, the imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion from the securities business of a firm, its officers or employees. The SEC and the national securities exchanges emphasize in particular the need for supervision and control by broker-dealers of their employees.

The SEC, various banking regulators, the Financial Accounting Standards Board, and Congress, among others, have launched a number of initiatives which have the effect of increasing regulation or requiring greater disclosure by financial institutions and requiring greater disclosure of financial instruments, including derivatives positions and activities. Merrill Lynch, along with certain other major U.S. securities firms, has implemented a voluntary oversight framework to address issues related to capital, management controls, and counterparty relationships arising out of the over-the-counter derivatives activities of unregulated affiliates of SEC-registered broker-dealers and CFTC-registered futures commission merchants. Merrill Lynch formed its Risk Oversight Committee as an extension of its risk management process to provide general oversight of risk management for all of its institutional trading activities and to monitor compliance with its commitments respecting this voluntary oversight initiative.

Merrill Lynch Investment Partners Inc. ("MLIP") and Merrill Lynch QA Advisers LLC are registered with the Commodity Futures Trading Commission as commodity pool operators and commodity trading advisors.

MLGSI is subject to regulation by the NASD and the Chicago Board of Trade and is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch's municipal finance professionals are subject to various trading and underwriting regulations of the MSRB. MLPF&S and MLF are registered futures commission merchants and regulated by the CFTC, the National Futures Association ("NFA"), and the commodity exchanges of which each is a member. The CFTC and the NFA impose net capital requirements on these companies. MLIP is registered with the CFTC as a commodity pool operator and a commodity trading advisor and is a member of the NFA in such capacities.

In December 2000, the Commodity Futures Modernization Act of 2000 ("CFMA") became law. CFMA provides, among other things, broad exemptions from the Commodity Exchange Act for over-the-counter derivatives and will permit futures trading on single-stocks and narrow-based stock indices in the United States. CFMA also provides for extensive relief for regulated futures exchanges and their participants and creates several categories of lesser regulated marketplaces. The enactment of the CFMA should simplify, and provide greater legal certainty to, the regulatory environment in which Merrill Lynch's over-the-counter derivatives businesses operate.

Merrill Lynch's banking and lending activities are supervised and regulated by a number of different Federal and state regulatory agencies. MLBT is regulated primarily by the State of New Jersey and by the FDIC.

MLBUSA is regulated primarily by the State of Utah and by the FDIC. MLBFS and MLCC are wholly owned subsidiaries of MLBUSA, and certain of their activities are regulated and subject to examination by the FDIC and the Utah Department of Financial Institutions. In addition to Utah and the FDIC, MLCC is also licensed or registered to conduct its lending activities in 35 other jurisdictions and MLBFS is licensed or registered in eight jurisdictions, subjecting each to regulation and examination by the appropriate authorities in those jurisdictions. Merrill Lynch's U.S. trust institutions are subject to regulation by the OTS in the case of the federal savings bank and by the bank regulatory agencies in the states where the state-chartered institutions are incorporated. In addition, the federal savings bank is an investment advisor subject to regulation by the SEC.

Merrill Lynch's insurance subsidiaries are subject to state insurance regulatory supervision. ML Life is subject to regulation and supervision by the New York State Insurance Department. MLLIC is subject to regulation and supervision by the Insurance Department of the State of Arkansas. Both MLLIC and ML Life are subject to similar regulation in the other states in which they are licensed.

Non-U.S. Regulatory Oversight and Supervision:

Merrill Lynch's business is also subject to extensive regulation by various non-U.S. governments, securities exchanges, central banks, and regulatory bodies, particularly in those countries where it has established an office. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate.

MLI and MLIB Limited are regulated in the United Kingdom by the FSA. MLCMBL, which engages in the derivatives business, is regulated by the Central Bank of Ireland and the NYSBD. Merrill Lynch's activities in Australia are regulated by the Australian Securities and Investment Commission or the Australian Prudential Regulation Authority, and its Hong Kong and

Singapore operations are regulated and supervised by the Hong Kong Securities and Futures Commission and The Monetary Authority of Singapore, respectively. Merrill Lynch's Japanese business is subject to the regulation of the Financial Supervisory Agency as well as other Japanese regulatory authorities. Merrill Lynch Phatra Securities is regulated primarily by the Securities and Exchange Commission of Thailand and the Stock Exchange of Thailand.

Merrill Lynch Canada is an investment dealer in Canada and is regulated under the laws of the Canadian provinces by securities commissions and by the Investment Dealers Association of Canada. It is also a member of all major Canadian exchanges and is subject to their rules and regulations.

The business of MLIM LP and MLIM Ltd is regulated by a number of non-U.S. regulatory agencies or bodies. Their activities in the United Kingdom are regulated by IMRO and the Personal Investment Authority and, in other jurisdictions, by local regulators.

Merrill Lynch's activities in Mexico, Brazil and Argentina are regulated by their respective Securities Commissions and exchanges as well as other regulatory authorities. Banco Merrill Lynch S.A. is also regulated by the Brazilian Central Bank.

Merrill Lynch's subsidiaries engaged in banking and trust activities outside the United States are regulated by various governmental entities in the particular jurisdiction where they are chartered, incorporated, and/or conduct their business activities. In addition to being regulated by the NYSBD, MLIB Limited is regulated by the FSA in respect of its banking activities (previously by the Bank of England) and The Monetary Authority of Singapore. Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking.

Item 2. *Properties*

Merrill Lynch has offices in various locations throughout the world. Other than those described below as being owned, substantially all offices of Merrill Lynch throughout the world are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is a brief description and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities support various Merrill Lynch segments, other than the property on King William Street in London referred to below, which is utilized solely by Merrill Lynch Investment Managers ("MLIM"). Information regarding Merrill Lynch's property lease commitments is set forth in Note 9 to the Consolidated Financial Statements under the caption *Leases* in the Annual Report.

Principal Facilities in the United States:

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in New York City. Separate Merrill Lynch affiliates lease both the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Merrill Lynch occupies the entire North Tower and approximately half of the South Tower. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower.

In New York City, MLPF&S also holds a lease for 662,000 square feet in lower Manhattan expiring in 2007. In 1998, Merrill Lynch began partial occupancy of a 760,000 square foot building at 222 Broadway, which was purchased by a subsidiary in 1997; as third party leases expire, Merrill Lynch intends to occupy the entire building. In New Jersey, Merrill Lynch affiliates own a 389,000 square foot hotel, conference and training center in Princeton, a 669,000 square foot office building in Plainsboro, and a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset. MLPF&S holds a 590,000 square foot lease at 101 Hudson Street in Jersey City. A Merrill Lynch affiliate commenced construction on facilities of 1,250,000 square feet on land owned by it in Hopewell, New Jersey which will consolidate existing operations and allow for future expansion. Initial operations commenced in the Fall of 2000. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings (a large portion of one of which is leased to a third party) and a 70-acre campus in Englewood, Colorado with two buildings.

Principal Facilities Outside the United States:

Merrill Lynch occupies approximately 970,000 square feet in 14 sites in London, including a lease of approximately 250,000 square feet at Ropemaker Place with a cancellation right in 2002, and a lease of approximately 140,000 square feet with an expiration date in 2014 on King William Street, where MLIM's operations in Europe, Middle East and Africa are headquartered. In 1998, Merrill Lynch purchased a freehold site in the City of London and is currently constructing a headquarters complex of approximately 580,000 square feet. The new headquarters (known as Merrill Lynch Financial Centre)

will replace the Ropemaker facility, and occupation is expected to begin in 2001.

Item 3. *Legal Proceedings*

ML & Co., certain of its subsidiaries, including MLPF&S, and other persons have been named as parties in various legal actions and arbitration proceedings arising in connection with the operation of ML & Co.'s businesses.

In the following shareholder derivative action ML & Co. is named as a nominal defendant because the action purports to be brought on behalf of ML & Co. and any recovery obtained by plaintiffs would be for the benefit of ML & Co.:

Miller v. Schreyer, et al., a consolidated derivative action instituted October 11, 1991 in the Supreme Court of the State of New York, New York County, alleges, among other things, breach of fiduciary duty against certain present or former ML & Co. directors, and against Transmark USA, Inc. and one of its principals in connection with securities trading transactions that occurred at year-end 1984, 1985, 1986, and 1988 between subsidiaries of ML & Co. and a subsidiary of Transmark USA, Inc., Guarantee Security Life Insurance Company, which was later liquidated. Damages in an unspecified amount are sought. Merrill Lynch has moved to dismiss the action, and is awaiting a decision on its motion.

Although the ultimate outcome of legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries as of March 14, 2001, cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements of Merrill Lynch included in the Annual Report, but may be material to Merrill Lynch's operating results for any particular period.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the 2000 fourth quarter.

EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

The following table sets forth the name, age, present title, principal occupation, and certain biographical information for the past five years for ML & Co.'s executive officers, all of whom have been elected by the ML & Co. Board of Directors and have been appointed as members of the Merrill Lynch Executive Management Committee. Unless otherwise indicated, the officers listed are of ML & Co. Under ML & Co.'s by-laws, elected officers are elected annually to hold office until their successors are elected and qualify or until their earlier resignation or removal.

David H. Komansky, 61

Chairman of the Board since April 1997; Chief Executive Officer since December 1996; President and Chief Operating Officer from January 1995 to April 1997.

Thomas W. Davis, 47

Executive Vice President and President of Corporate and Institutional Client Group since March 1998; Executive Vice President and Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998; Managing Director and Co-Head of Investment Banking Group from April 1995 to April 1997.

Edward L. Goldberg, 60

Executive Vice President of Operations Services Group since January 1999; Deputy Chairman of Merrill Lynch HSBC Ltd. since January 2001; Interim Chief Executive Officer of Merrill Lynch HSBC Ltd. from April 2000 to January 2001; Chairman of Securities Services Division since December 2000; Executive Vice President of Operations, Services and Technology from April 1991 to January 1999.

Stephen L. Hammerman, 63

Vice Chairman of the Board since April 1992; General Counsel since October 1984.

Jerome P. Kenney, 59

Executive Vice President of Corporate Strategy and Research since October 1990.

John A. McKinley, Jr., 43

Executive Vice President of Technology Group since January 2000; Head of the Technology Group since January 1999; Chief Technology Officer since October 1998; Senior Vice President of Technology Group from October 1998 to January 2000. Joined Merrill Lynch in October 1998. Prior to joining Merrill Lynch, Chief Technology and Information Officer of General Electric Capital Services from October 1995 to October 1998.

E. Stanley O'Neal, 49

Executive Vice President and President of U.S. Private Client Group since February 2000; Executive Vice President and Chief Financial Officer from March 1998 to February 2000; Executive Vice President and Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998; Managing Director and Head of Global Capital Markets Group from April 1995 to April 1997.

Thomas H. Patrick, 57

Executive Vice President and Chief Financial Officer since February 2000; Executive Vice President and Chairman of Special Advisory Services from March 1993 to February 2000.

Jeffrey M. Peek, 54

Executive Vice President, President of Merrill Lynch Investment Managers and President of MLIM LP since December 1997; Managing Director and Co- Head of Investment Banking Group from March 1997 to December 1997; Senior Vice President and Director of Global Securities Research & Economics from April 1995 to March 1997.

Winthrop H. Smith, Jr., 51

Executive Vice President and President of International Private Client Group since April 1997; Chairman of Merrill Lynch International Incorporated since April 1993; Executive Vice President of International from June 1992 to April 1997.

John L. Steffens, 59

Chairman of U.S. Private Client Group since February 2000; Vice Chairman of the Board since April 1997; President of U.S. Private Client Group from April 1997 to February 2000; Executive Vice President of Private Client Group from October 1990 to April 1997.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Information relating to the principal market in which the Registrant's Common Stock is traded, the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of Common Stock, and the frequency and amount of any cash dividends declared for the two most recent fiscal years, is set forth under the captions "Dividends Per Common Share" and "Stockholder Information" on page 88 of the Annual Report and such information is incorporated herein by reference.

Item 6. ***Selected Financial Data***

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table "Selected Financial Data" on page 27 of the Annual Report (excluding for this purpose the financial ratio, leverage, and employee information set forth under the headings "Financial Ratios" and "Employee Statistics"). Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 55 to 87 of the Annual Report.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 28 to 53 of the Annual Report under the caption "Management's Discussion and Analysis" and is incorporated herein by reference. All of such information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 55 to 87 of the Annual Report.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Quantitative and qualitative disclosure about market risk is set forth on pages 48 to 49 of the Annual Report under the caption "Management's Discussion and Analysis" and in Note 3 to the Consolidated Financial Statements, and is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data***

The Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Auditors thereon, are contained in the Annual Report on pages 54 to 87, and are incorporated herein by reference. In addition, the information on page 88 of the Annual Report under the caption "Quarterly Information" is incorporated herein by reference.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Information relating to Directors of the Registrant is set forth under the caption "Election of Directors" on pages 4 to 7 of ML & Co.'s Proxy Statement dated March 16, 2001 for its 2001 Annual Meeting of Stockholders (the "2001 Proxy Statement") and is incorporated herein by reference. Information relating to ML & Co.'s executive officers is set forth at the end of Part I of this Form 10-K under the caption "Executive Officers of Merrill Lynch & Co., Inc."

Item 11. ***Executive Compensation***

Information relating to ML & Co. executive officer and director compensation set forth on pages 17 to 27 of the 2001 Proxy Statement is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on page 16 of the 2001 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on page 15 of the 2001 Proxy Statement is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

Information regarding certain relationships and related transactions set forth under the caption "Certain Transactions" on page 27 of the 2001 Proxy Statement is incorporated herein by reference.

PART IV

Item 14. ***Exhibits, Financial Statement Schedule, and Reports on Form 8-K***

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed hereunder are listed on page F-1 hereof by reference to the corresponding page number in the Annual Report.

2. Financial Statement Schedule

The financial statement schedule required to be filed hereunder is listed on page F-1 hereof and the schedule included herewith appears on pages F-2 through F-6 hereof.

3. Exhibits

Certain of the following exhibits were previously filed as exhibits to other reports or registration statements filed by the Registrant and are incorporated herein by reference to such reports or registration statements as indicated parenthetically below by the appropriate report reference date or registration statement number. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K, and Registration Statements on Form S-3 are designated herein as "10-Q," "10-K," "8-K," and "S-3," respectively.

(3) Articles of Incorporation and By-Laws

(i)(a) Restated Certificate of Incorporation of ML & Co., effective as of April 28, 1998 (Exhibit (3)(i) to 10-Q for the quarter ended March 27, 1998 ("First Quarter 1998 10-Q")).

(b) Certificate of Designation of ML & Co. establishing the rights, preferences, privileges, qualifications, Restrictions, and limitations relating to the 9% Cumulative Preferred Stock, Series A, par value $1.00 per share, of ML &Co. (the "Preferred Stock") (filed as part of Exhibit 3(i) to First Quarter 1998 10-Q).

(c) Certificate of Designation dated December 17, 1987 for Series A Junior Preferred Stock (Exhibit 3(f) to S-3 (file No. 33-19975)).

(d) Certificate of Designation dated August 20, 1998 for Special Voting Stock, relating to ML & Co.'s Restated Certificate of Incorporation effective as of April 28, 1998 (Exhibit (3) to 10-Q for the quarter ended September 25, 1998 ("Third Quarter 1998 10-Q")).

*(ii) By-Laws of ML & Co., effective as of February 26, 2001.

(4) Instruments defining the rights of security holders, including indentures

ML & Co. hereby undertakes to furnish to the SEC, upon request, copies of any unfiled agreements defining the rights of holders of long-term debt securities of ML & Co., none of which authorize an amount of securities that exceed 10% of the total assets of ML & Co.

(i) Senior Indenture dated as of April 1, 1983, as amended and restated as of April 1, 1987 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (the "1983 Senior Indenture") and the Supplemental Indenture thereto dated as of March 15, 1990 (filed as Exhibit 4(i) to 1999 10-K for fiscal year ended December 29, 1999 ("1999 10-K")).

(ii) Sixth Supplemental Indenture dated as of October 25, 1993 to the 1983 Senior Indenture (filed as Exhibit 4(ii) to 1999 10-K).

(iii) Twelfth Supplemental Indenture to the 1983 Senior Indenture dated as of September 1, 1998 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (Exhibit 4(a) to 8-K dated October 21, 1998).

(iv) Senior Indenture dated as of October 1, 1993 between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (the "1993 Senior Indenture") (Exhibit 4(iv) to 10-K for fiscal year ended December 25,1998 ("1998 10-K")).

(v) First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (Exhibit 4(a) to 8-K dated July 2, 1998).

(vi) Form of certificate representing Preferred Stock of ML & Co. (Exhibit 4(d) to S-3 (file no. 33-55363)).

(vii) Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (filed as Exhibit (3)(i)(c) to 1999 10-K).

(viii) Deposit Agreement dated as of November 3, 1994 among ML & Co., Citibank, N.A. as Depositary, and the holders from time to time of the Depositary Receipts (filed as Exhibit (3)(i)(e) to 1999 10-K).

(ix) Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and ChaseMellon Shareholder Services, L.L.C. (Exhibit 4 to 8-K dated December 2, 1997).

(10) Material Contracts

(i) Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (filed as Exhibit 10(ii) to 1999 10-K).

(ii) ML & Co. Long-Term Incentive Compensation Plan, as amended through July 26, 1999 (Exhibit 10(i) to 10-Q for the quarter ended June 25, 1999 ("Second Quarter 1999 10-Q")).

(iii) ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to Second Quarter 1999 10-Q).

(iv) Written description of retirement programs for non-employee directors (pages 24 to 25 of ML & Co.'s Proxy Statement for the 2001 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 16, 2001).

(v) Form of Severance Agreement between ML & Co. and certain of its directors and executive officers (Exhibit 10(x) to 10-K for fiscal year ended December 29, 1995).

(vi) Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10 (viii) to 1998 10-K).

(vii) Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).

(viii) Written description of ML & Co.'s compensation policy for executive officers and directors (pages 17 to 19 and pages 24 to 25 of ML & Co.'s Proxy Statement for the 2001 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 16, 2001).

(ix) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).

(x) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).

(xi) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).

(xii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).

(xiii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).

(xiv) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).

(xv) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-59143)).

(xvi) ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 ("1996 10-K")).

(xvii) ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (filed as Exhibit 10(xix) to 1999 10-K).

(xviii) ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 1997 10-Q for the quarter ended March 28, 1997).

(xix) ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees, dated as of August 14, 1995 (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).

(xx) ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).

(xxi) ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to Third Quarter 1998 10-Q).

(xxii) ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (filed as Exhibit 10(xxiv) to 1999 10-K).

*(xxiii) ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees.

(xxiv) ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).

(xxv) ML & Co. Deferred Unit and Stock Unit Plan for Non-Employee Directors (Exhibit 10 to First Quarter 1998 10-Q).

(xxvi) ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended on July 26, 1999 (Exhibit 10(ii) to Second Quarter 1999 10-Q).

(xxvii) ML & Co. Long-Term Incentive Compensation Plan, as amended July 24, 2000 (Exhibit 10 to Third Quarter 2000 10-Q).

(xxviii) Executive Annuity Agreement dated as of January 27, 1997 by and between ML & Co. and David H. Komansky (Exhibit 10(xxxi) to 1996 10-K).

(xxix) Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees, and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10 (xxxii) to 1996 10-K).

(xxx) ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997 (the "Third Quarter 1997 10-Q")).

(xxxi) ML & Co. Program for the Deferral of Stock Option Gains for a Select Group of Eligible Employees (Exhibit 10(ii) to Third Quarter 1997 10-Q).

(xxxii) Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996, and 1997 (Exhibit 10.31 to 10-K for the fiscal year ended December 26, 1997 ("1997 10-K")).

(xxxiii) Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.32 to 1997 10-K).

*(11) Statement re computation of per share earnings.

*(12) Statement re computation of ratios.

*(13) Excerpt of 2000 Annual Report to Stockholders.

*(21) Subsidiaries of ML & Co.

*(23) Consent of Independent Auditors, Deloitte & Touche LLP.

*(99) Additional Exhibits.

(i) Opinion of Deloitte & Touche LLP with respect to the Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends, which is included in Exhibit 12.

(ii) Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Part II, Item 6.

(b): Reports on Form 8-K

The following Current Reports on Form 8-K were filed by the Registrant during the fourth quarter of 2000 with the Commission under the caption "Item 5. Other Events":

(i) Current Report on Form 8-K dated October 6, 2000 for the purpose of filing the form of Merrill Lynch & Co. Callable Market Index Target-Term Securities® due October 5, 2007.

(ii) Current Report on Form 8-K dated October 17, 2000 for the purpose of filing Merrill Lynch & Co.'s Preliminary Unaudited Earnings Summary for the three and nine-month periods ended September 29, 2000.

(iii) Current Report on Form 8-K dated November 1, 2000 for the purpose of filing Merrill Lynch & Co.'s Preliminary Unaudited Consolidated Balance Sheet as of September 29, 2000.

(iv) Current Report on Form 8-K dated November 20, 2000 for the purpose of filing the form of Merrill Lynch & Co. S&P 500 ® Market Index Target-Term Securities due November 20, 2007.

(v) Current Report on Form 8-K dated December 6, 2000 for the purpose of filing the form of Merrill Lynch & Co. Warrant Agreement for Euro Currency Warrants, expiring February 28, 2002.

**** Filed herewith***

MERRILL LYNCH & CO., INC.
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
ITEMS 14(A)(1) AND 14(A)(2)

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 2000 Annual Report to Stockholders, which are incorporated herein by reference.

Schedule 1

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

MERRILL LYNCH & CO., INC.

(Parent Company Only)

CONDENSED STATEMENTS OF EARNINGS
(dollars in millions)

Year Ended Last Friday in December

	2000	1999	1998
REVENUES			
Interest (principally from affiliates)	$ 5,314	$ 3,693	$ 4,476
Management service fees (from affiliates)	448	336	321
Other	16	20	109
Total Revenues	5,778	4,049	4,906
Interest Expense	5,401	4,094	4,942
Net Revenues	377	(45)	(36)
NON-INTEREST EXPENSES			
Compensation and benefits	435	323	236
Other	605	358	394
Total Non-Interest Expenses	1,040	681	630
EQUITY IN EARNINGS OF AFFILIATES	4,127	3,179	1,739
EARNINGS BEFORE INCOME TAXES	3,464	2,453	1,073
Income Tax Benefit	320	240	198
NET EARNINGS	$ 3,784	$ 2,693	$ 1,271
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	45	(268)	(75)
COMPREHENSIVE INCOME	$ 3,829	$ 2,425	$ 1,196
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 3,745	$ 2,654	$ 1,233

See Notes to Condensed Financial Statements.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)
CONDENSED BALANCE SHEETS
(dollars in millions, except per share amounts)

	December 29, 2000	*December 31,* 1999
ASSETS		
Cash and cash equivalents	$ 5	$ 379
Marketable investment securities	7,394	1,197
Loans to, receivables from and preference securities of affiliates	77,889	84,538
Investments in affiliates, at equity	21,435	11,240
Equipment and facilities (net of accumulated depreciation and amortization of $377 in 2000 and $330 in 1999)	175	210
Other receivables and assets	2,473	2,192
TOTAL ASSETS	$ 109,371	$ 99,756
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Commercial paper and other short-term borrowings	$ 12,978	$ 24,057
Loans from and payables to affiliates	4,453	5,981
Other liabilities and accrued interest	6,299	4,735
Long-term borrowings	67,337	51,979

Total Liabilities	**91,067**	**86,752**
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity	**425**	**425**
Common Stockholders' Equity:		
Shares exchangeable into common stock	**68**	**118**
Common stock, par value $1.33 1/3 per share; authorized: 1,000,000,000 shares;		
issued: 2000 - 962,533,498 shares; 1999 - 964,779,105 shares	**1,283**	**1,286**
Paid-in capital	**2,843**	**1,156**
Accumulated other comprehensive loss (net of tax)	**(345)**	**(390)**
Retained earnings	**16,156**	**12,887**
	20,005	**15,057**
Less: Treasury stock, at cost:		
2000-154,578,945 shares; 1999-212,278,192 shares	**1,273**	**1,835**
Employee stock transactions	**853**	**643**
Total Common Stockholders' Equity	**17,879**	**12,579**
Total Stockholders' Equity	**18,304**	**13,004**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 109,371**	**$ 99,756**

See Notes to Condensed Financial Statements.

Schedule 1

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

MERRILL LYNCH & CO., INC.

(Parent Company Only)

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in millions)

	Year Ended Last Friday in December		
	2000	**1999**	**1998**
Cash Flows from Operating Activities:			
Net Earnings	**$ 3,784**	**$ 2,693**	**$ 1,271**
Noncash items included in earnings:			
Equity in earnings of affiliates	**(4,127)**	**(3,179)**	**(1,739)**
Depreciation and amortization	**53**	**45**	**30**
Other	**(98)**	**20**	**(182)**
(Increase) decrease in			
Operating assets, net of operating liabilities	**956**	**314**	**(3)**
Dividends and partnership distributions from affiliates	**1,355**	**1,781**	**868**
Cash Provided by Operating Activities	**1,923**	**1,674**	**245**
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Loans to affiliates, net of payments	**5,648**	**(2,257)**	**774**
Sales of available-for-sale securities	**124**	**12**	**-**
Purchases of available-for-sale securities	**(6,315)**	**(1,198)**	**-**
Investments in affiliates, net of dispositions	**(7,178)**	**(4)**	**(436)**
Equipment and facilities	**(18)**	**(95)**	**(35)**
Cash (Used for) Provided by Investing Activities	**(7,739)**	**(3,542)**	**303**

Cash Flows from Financing Activities:

Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(11,079)	7,071	(13,621)
Issuance and resale of long-term borrowings	25,888	11,685	27,153
Maturities and repurchases of long-term borrowings	(9,507)	(16,092)	(13,933)
Common stock transactions	655	9	30
Dividends to shareholders	(515)	(426)	(364)
Cash Provided by (Used for) Financing Activities	**5,442**	**2,247**	**(735)**
Increase (Decrease) in Cash and Cash Equivalents	(374)	379	(187)
Cash and Cash Equivalents, beginning of year	379	-	187
Cash and Cash Equivalents, end of year	$ 5	$ 379	$ -

Supplemental Disclosures			
Cash paid for:			
Income taxes	$ 85	$ 261	$ 280
Interest	5,109	4,149	4,906

See Notes to Condensed Financial Statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

Note 1. Basis of Presentation

The condensed unconsolidated financial statements of Merrill Lynch & Co., Inc. ("ML & Co." or the "Parent Company") should be read in conjunction with the Consolidated Financial Statements of Merrill Lynch & Co., Inc. and subsidiaries (collectively, "Merrill Lynch") and the Notes thereto in the Merrill Lynch 2000 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation. Prior year amounts have also been restated to reflect the mergers of Herzog, Heine, Geduld, Inc. and Midland Walwyn with ML & Co. (see Note 2 to the Consolidated Financial Statements in the Annual Report), and the two-for-one common stock split (see Note 8 to the Consolidated Financial Statements in the Annual Report).

Investments in affiliates are accounted for in accordance with the equity method.

For information on the following, refer to the indicated Notes to the Consolidated Financial Statements within the Annual Report.

- Long-term borrowings (Note 5)
- Stockholders' equity (Note 8)
- Commitments and contingencies (Note 9)
- Employee incentive plans (Note 11)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations and investments in and loans to foreign subsidiaries. See Notes 5 and 6 to the Consolidated Financial Statements in the Annual Report, respectively, for additional information.

Note 2. Guarantees

ML & Co. issues guarantees of counterparty obligations in connection with certain activities of subsidiaries (see Note 9 to the Consolidated Financial Statements in the Annual Report for further information).

The Parent Company also guarantees certain obligations of subsidiaries, including obligations associated with foreign exchange forward contracts and interest rate swap transactions.

ML & Co. also guarantees obligations related to Trust Originated Preferred Securities℠ issued by subsidiaries (see Note 7 to the Consolidated Financial Statements in the Annual Report for further information).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 29, 2000 and December 31, 1999, and for each of the three years in the period ended December 29, 2000, and have issued our report thereon dated

February 26, 2001. Such consolidated financial statements and our report are included in your 2000 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch, listed in Item 14. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP
New York, New York
February 26, 2001

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 on the 16 th day of March, 2001.

Merrill Lynch & Co., Inc.
Registrant

ANDREA L. DULBERG — **/s/ Andrea L. Dulberg**
Andrea L. Dulberg
Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 16th day of March, 2001.

DAVID H. KOMANSKY — **/s/ David H. Komansky**
David H. Komansky
Director,
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

THOMAS H. PATRICK — **/s/ Thomas H. Patrick**
Thomas H. Patrick
Executive Vice President
Chief Financial Officer
(Principal Financial Officer)

AHMASS L. FAKAHANY — **/s/ Ahmass L. Fakahany**
Ahmass L. Fakahany
Senior Vice President

W.H. CLARK — **/s/ W. H. Clark**
W. H. Clark
Director

JILL K. CONWAY — **/s/ Jill K. Conway**
Jill K. Conway
Director

STEPHEN L. HAMMERMAN — **/s/ Stephen L. Hammerman**
Stephen L. Hammerman
Director

GEORGE B. HARVEY — **/s/ George B. Harvey**
George B. Harvey
Director

WILLIAM R. HOOVER — **/s/ William R. Hoover**
William R. Hoover
Director

ROBERT P. LUCIANO — **/s/ Robert P. Luciano**
Robert P. Luciano
Director

DAVID K. NEWBIGGING — **/s/ David K. Newbigging**
David K. Newbigging
Director

AULANA L. PETERS — **/s/ Aulana L. Peters**
Aulana L. Peters
Director

JOHN J. PHELAN, JR. — **/s/ John J. Phelan, Jr.**
John J. Phelan, Jr.
Director

/s/ John L. Steffens

and Controller		
(Principal Accounting Officer)	JOHN L. STEFFENS	**John L. Steffens**
		Director

EXHIBIT 3(II)

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BY-LAWS

OF

MERRILL LYNCH & CO., INC.

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Effective February 26, 2001

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BY-LAWS

OF

MERRILL LYNCH & CO., INC.

ARTICLE I.

OFFICES

Merrill Lynch & Co., Inc. (hereinafter called the "Corporation") may establish or discontinue, from time to time, such offices and places of business within or without the State of Delaware as the Board of Directors may deem proper for the conduct of the Corporation's business.

ARTICLE II.

MEETINGS OF STOCKHOLDERS

Section 1. Annual Meeting. The annual meeting of the holders of shares of such classes or series of stock as are entitled to notice thereof and to vote thereat pursuant to the provisions of the Certificate of Incorporation (hereinafter called the "Annual Meeting of Stockholders") for the purpose of electing directors and transacting such other business as may come before it shall be held in each year at such time, on such day and at such place, within or without the State of Delaware, as shall be designated by the Board of Directors.

Section 2. Special Meetings. In addition to such meetings as are provided for by law or by the Certificate of Incorporation, special meetings of the holders of any class or series or of all classes or series of the Corporation's stock may be called at any time by the Board of Directors pursuant to a resolution adopted by the affirmative vote of a majority of the entire

Board of Directors and may be held at such time, on such day and at such place, within or without the State of Delaware, as shall be designated by the Board of Directors.

Section 3. Notice of, and Business at, Meetings.

a. Notice. Except as otherwise provided by law, notice of each meeting of stockholders shall be given either by delivering a written notice personally or mailing a written notice to each stockholder of record entitled to vote thereat or by providing notice in such other form and by such other method as may be permitted by Delaware law. If mailed, the notice shall be directed to the stockholder in a postage-prepaid envelope at his address as it appears on the stock books of the Corporation unless, prior to the time of mailing, he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Notice of each meeting of

stockholders shall be in such form as is approved by the Board of Directors and shall state the purpose or purposes for which the meeting is called, the date and time when and the place where it is to be held, and shall be delivered personally or mailed not more than sixty (60) days and not less than ten (10) days before the day of the meeting. Except as otherwise provided by law, the business which may be transacted at any special meeting of stockholders shall consist of and be limited to the purpose or purposes so stated in such notice. The Secretary or an Assistant Secretary or the Transfer Agent of the Corporation shall, after giving such notice, make an affidavit stating that notice has been given, which shall be filed with the minutes of such meeting.

b. Business. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation who (i) is a stockholder of record on the date of the giving of the notice provided for in this Section 3(b) and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) complies with the notice procedures set forth in this Section 3(b).

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received by the Secretary of the Corporation not less than fifty (50) days prior to the date of the annual meeting of stockholders; provided, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 3(b), provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 3(b) shall be deemed to preclude discussion by any stockholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 4. Waiver of Notice. Whenever notice is required to be given under any provision of law or of the Certificate of Incorporation or the By-Laws, a waiver thereof in writing or by telegraph, cable or other form of recorded communication, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the person attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of stockholders need be specified in any waiver of notice unless so required by the Certificate of Incorporation.

Section 5. Organization. The Chairman of the Board shall act as chairman at all meetings of stockholders at which he is present, and as such chairman shall call such meetings of stockholders to order and preside thereat. If the Chairman of the Board shall be absent from any meeting of stockholders, the duties otherwise provided in this Section 5 of Article II to be performed by him at such meeting shall be performed at such meeting by the officer prescribed by Section 6 of Article V. The Secretary of the Corporation shall act as secretary at all meetings of the stockholders, but in his absence the chairman of the meeting may appoint any person present to act as secretary of the meeting.

Section 6. Inspectors of Election. a. The Chairman of the Board shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Chairman of the Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

b. The inspectors shall: (1) ascertain the number of shares outstanding and the voting power of each; (2) determine the shares represented at a meeting and the validity of proxies and ballots; (3) count all votes and ballots; (4) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (5) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The

inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

Section 7. Stockholders Entitled to Vote. The Board of Directors may fix a date not more than sixty (60) days nor less than ten (10) days prior to the date of any meeting of stockholders, as a record date for the determination of the stockholders entitled to notice of and to vote at such meeting and any adjournment thereof, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. No record date shall precede the date on which the Board of Directors establishes such record date. The Secretary shall prepare and make or cause to be prepared and made, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each such stockholder and the number of shares registered in the name of each such stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place, specified in the notice of the meeting, within the city where the meeting is to be held, or, if not so specified, at the place where the meeting is to be held. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and subject to the inspection of any stockholder who may be present.

Section 8. Quorum and Adjournment. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the shares of stock entitled to vote at the meeting present in person or by proxy without regard to class or series shall constitute a quorum at all meetings of the stockholders. In the absence of a quorum, the holders of a majority of such shares of stock present in person or by proxy may adjourn any meeting, from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present, any business may be transacted which might have been transacted at the meeting as originally called. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned, provided that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, then a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. Order of Business. The order of business at all meetings of stockholders shall be as determined by the chairman of the meeting.

Section 10. Vote of Stockholders. Except as otherwise required by law or by the Certificate of Incorporation or by the By-Laws, all action by stockholders shall be taken at a stockholders' meeting. Every stockholder of record, as determined pursuant to Section 7 of this Article II, and who is entitled to vote, shall, except as otherwise expressly provided in the Certificate of Incorporation with respect to any class or series of the Corporation's capital stock, be entitled at every meeting of the stockholders to one vote for every share of stock standing in his name on the books of

the Corporation. Every stockholder entitled to vote may authorize another person or persons to act for him by proxy duly appointed by an instrument in writing, subscribed by such stockholder and executed not more than three (3) years prior to the meeting, unless the instrument provides for a longer period. The attendance at any meeting of stockholders of a stockholder who may theretofore have given a proxy shall not have the effect of revoking such proxy. Election of directors shall be by written ballot but, unless otherwise provided by law, no vote on any question upon which a vote of the stockholders may be taken need be by ballot unless the chairman of the meeting shall determine that it shall be by ballot or the holders of a majority of the shares of stock present in person or by proxy and entitled to participate in such vote shall so demand. In a vote by ballot each ballot shall state the number of shares voted and the name of the stockholder or proxy voting. Except as otherwise provided in Sections 14 and 15 of Article III or by the Certificate of Incorporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Except as otherwise provided by law or by the Certificate of Incorporation, the affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject shall be the act of the stockholders.

Section 11. Shares Entitled to More or Less than One Vote. If any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any share, on any matter, every reference in the By-Laws to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

ARTICLE III.

BOARD OF DIRECTORS

Section 1. Election and Term. Except as otherwise provided by law or by the Certificate of Incorporation, and subject to the provisions of Sections 13, 14 and 15 of this Article III, directors shall be elected at the Annual Meeting of Stockholders to serve until the Annual Meeting of Stockholders in the third year following their election and until their successors are elected and qualify or until their earlier resignation or removal.

Section 2. Qualification. No one shall be a director who is not the owner of shares of Common Stock of the Corporation. Acceptance of the office of director may be expressed orally or in writing.

Section 3. Number. The number of directors may be fixed from time to time by resolution of the Board of Directors but shall not be less than three (3) nor more than thirty (30).

Section 4. General Powers. The business, properties and affairs of the Corporation shall be managed by, or under the direction of, the Board of Directors, which, without limiting the generality of the foregoing, shall have power to elect and appoint officers of the Corporation, to appoint and direct agents, to grant general or

limited authority to officers, employees and agents of the Corporation to make, execute and deliver contracts and other instruments and documents in the name and on behalf of the Corporation and over its seal, without specific authority in each case, and, by resolution adopted by a majority of the whole Board of Directors, to appoint committees of the Board of Directors in addition to those appointed pursuant to Article IV hereof, the membership of which may consist of one or more directors, and which may advise the Board of Directors with respect to any matters relating to the conduct of the Corporation's business. The Board of Directors may designate one or more directors as alternate members of any committee, including those appointed pursuant to Article IV hereof, who may replace any absent or disqualified member at any meeting of the committee. In addition, the Board of Directors may exercise all the powers of the Corporation and do all lawful acts and things which are not reserved to the stockholders by law or by the Certificate of Incorporation.

Section 5. Place of Meetings. Meetings of the Board of Directors may be held at any place, within or without the State of Delaware, from time to time designated by the Board of Directors.

Section 6. Organization Meeting. A newly elected Board of Directors shall meet and organize, and also may transact any other business which might be transacted at a regular meeting thereof, as soon as practicable after each Annual Meeting of Stockholders, at the place at which such meeting of stockholders took place, without notice of such meeting, provided a majority of the whole Board of Directors is present. If such a majority is not present, such organization meeting may be held at any other time or place which may be specified in a notice given in the manner provided in Section 8 of this Article III for special meetings of the Board of Directors, or in a waiver of notice thereof.

Section 7. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times as may be determined by resolution of the Board of Directors and no notice shall be required for any regular meeting. Except as otherwise provided by law, any business may be transacted at any regular meeting of the Board of Directors.

Section 8. Special Meetings; Notice and Waiver of Notice. Special meetings of the Board of Directors shall be called by the Secretary on the request of the Chairman of the Board, the President or a Vice Chairman of the Board, or on the request in writing of any three other directors stating the purpose or purposes of such meeting. Notice of any special meeting shall be in form approved by the Chairman of the Board, the President or a Vice Chairman of the Board, as the case may be. Notices of special meetings shall be mailed to each director, addressed to him at his residence or usual place of business, not later than two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable or other form of recorded communication or be delivered personally or by telephone, not later than the day before such day of meeting. Notice of any meeting of the Board of Directors need not be given to any director if he shall sign a written waiver thereof either before or after the time stated therein, or if he shall attend a meeting, except when he attends such meeting for the express purpose of objecting, at

the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in any notice or written waiver of notice unless so required by the Certificate of Incorporation or by the By-Laws. Unless limited by law, by the Certificate of Incorporation or by the By-Laws, any and all business may be transacted at any special meeting.

Section 9. Organization of Meetings. The Chairman of the Board shall preside at all meetings of the Board of Directors at which he is present. If the Chairman of the Board shall be absent from any meeting of the Board of Directors, the duties otherwise provided in this Section 9 of Article III to be performed by him at such meeting shall be performed at such meeting by the officer prescribed by Section 6 of Article V. If no such officer is present at such meeting, one of the directors present shall be chosen by the members of the Board of Directors present to preside at such meeting. The Secretary of the Corporation shall act as the secretary at all meetings of the Board of Directors, and in his absence a temporary secretary shall be appointed by the chairman of the meeting.

Section 10. Quorum and Manner of Acting. Except as otherwise provided by Section 6 of this Article III, at every meeting of the Board of Directors one-third (1/3) of the total number of directors constituting the whole Board of Directors shall constitute a quorum but in no event shall a quorum be constituted by less than two (2) directors. Except as otherwise provided by law or by the Certificate of Incorporation, or by Section 15 of this Article III, or by Section 1 or Section 8 of Article IV, or by Section 3 of Article V, or by Article IX, the act of a majority of the directors present at any such meeting, at which a quorum is present, shall be the act of the Board of Directors. In the absence of a quorum, a majority of the directors present may adjourn any meeting, from time to time, until a quorum is present. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned. Members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by a member of the Board of Directors in a meeting pursuant to this Section 10 of Article III shall constitute his presence in person at such meeting.

Section 11. Voting. On any question on which the Board of Directors shall vote, the names of those voting and their votes shall be entered in the minutes of the meeting if any member of the Board of Directors so requests at the time.

Section 12. Action without a Meeting. Except as otherwise provided by law or by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the committee.

Section 13. Resignations. Any director may resign at any time upon written notice of resignation to the Corporation. Any resignation shall be effective immediately unless a date certain is specified for it to take effect, in which event it shall be effective upon such date, and acceptance of any resignation shall not be necessary to make it effective, irrespective of whether the resignation is tendered subject to such acceptance.

Section 14. Removal of Directors. Subject to the rights of the holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the Common Stock) then outstanding, (i) any director, or the entire Board of Directors, may be removed from office at any time, but only for cause, by the affirmative vote of the holders of record of outstanding shares representing at least 80% of the voting power of all the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class, and (ii) any director may be removed from office at any time, but only for cause, by the affirmative vote of a majority of the entire Board of Directors.

Section 15. Vacancies. Subject to the rights of the holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the Common Stock) then outstanding, any vacancies in the Board of Directors for any reason, including by reason of any increase in the number of directors, shall, if occurring prior to the expiration of the term of office of the class in which such vacancy occurs, be filled only by the Board of Directors, acting by the affirmative vote of a majority of the remaining directors then in office, although less than a quorum, and any directors so elected shall hold office until the next election of the class for which such directors have been elected and until their successors are elected and qualify.

Section 16. Directors' Compensation. Any and all directors may receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV.

COMMITTEES

Section 1. Constitution and Powers. The Board of Directors may, by resolution adopted by affirmative vote of a majority of the whole Board of Directors, appoint one or more committees of the Board of Directors, which committees shall have such powers and duties as the Board of Directors shall properly determine. Unless otherwise provided by the Board of Directors, no such other committee of the Board of Directors shall be composed of fewer than two (2) directors.

Section 2. Place of Meetings. Meetings of any committee of the Board of Directors may be held at any place, within or without the State of Delaware, from time to time designated by the Board of Directors or such committee.

Section 3. Meetings; Notice and Waiver of Notice. Regular meetings of any committee of the Board of Directors shall be held at such times as may be determined by resolution either of the Board of Directors or of such committee and no notice shall be required for any regular meeting. Special meetings of any committee shall be called by the secretary thereof upon request of any two members thereof. Notice of any special meeting of any committee shall be in form approved by the Chairman of the Board, the President or a Vice Chairman of the Board, as the case may be. Notices of special meetings shall be mailed to each member, addressed to him at his residence or usual place of business, not later than two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable or any other form of recorded communication, or be delivered personally or by telephone, not later than the day before such day of meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee, need be specified in any notice or written waiver of notice unless so required by the Certificate of Incorporation or the By-Laws. Notices of any such meeting need not be given to any member of any committee, however, if waived by him as provided in Section 8 of Article III, and the provisions of such Section 8 with respect to waiver of notice of meetings of the Board of Directors shall apply to meetings of any committee as well.

Section 4. Organization of Meetings. The most senior officer of the Corporation present, if any be members of the committee, and, if not, the director present who has served the longest as a director, except as otherwise expressly provided by the Board of Directors or the committee, shall preside at all meetings of any committee. The Secretary of the Corporation, except as otherwise expressly provided by the Board of Directors, shall act as secretary at all meetings of any committee and in his absence a temporary secretary shall be appointed by the chairman of the meeting.

Section 5. Quorum and Manner of Acting. One-third (1/3) of the members of any committee then in office shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present, shall be the act of such committee. In the absence of a quorum, a majority of the members of any committee present, or, if two or fewer members shall be present, any member of the committee present or the Secretary, may adjourn any meeting, from time to time, until a quorum is present. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned. The provisions of Section 10 of Article III with respect to participation in a meeting of a committee of the Board of Directors and the provisions of Section 12 of Article III with respect to action taken by a committee of the Board of Directors without a meeting shall apply to participation in meetings of and action taken by any committee.

Section 6. Voting. On any question on which any committee shall vote, the names of those voting and their votes shall be entered in the minutes of the meeting if any member of such committee so requests.

Section 7. Records. All committees shall keep minutes of their acts and proceedings, which shall be submitted at the next regular meeting of the Board of Directors unless sooner submitted at an organization or special meeting of the Board of Directors, and any action taken by the Board of Directors with respect thereto shall be entered in the minutes of the Board of Directors.

Section 8. Vacancies. Any vacancy among the appointed members or alternate members of any committee of the Board of Directors may be filled by affirmative vote of a majority of the whole Board of Directors.

Section 9. Members' Compensation. Members of all committees may receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any member of any committee from serving the Corporation in any other capacity and receiving compensation therefor.

Section 10. Emergency Management Committee. In the event that a quorum of the Board of Directors cannot readily be convened as a result of emergency conditions following a catastrophe or disaster, then all the powers and duties vested in the Board of Directors shall vest automatically in an Emergency Management Committee which shall consist of all readily available members of the Board of Directors and which Committee shall have and may exercise all of the powers of the Board of Directors in the management of the business and affairs of the Corporation. Two members shall constitute a quorum. Other provisions of these By-Laws notwithstanding, the Emergency Management Committee shall call a meeting of the Board of Directors as soon as circumstances permit, for the purpose of filling vacancies on the Board of Directors and its committees and to take such other action as may be appropriate; and if the Emergency Management Committee determines that less than a majority of the members of the Board of Directors are available for service, the Emergency Management Committee shall, as soon as practicable, issue a call for a special meeting of stockholders for the election of directors. The powers of the Emergency Management Committee shall terminate upon the convening of the meeting of the Board of Directors above prescribed at which a majority of the members thereof shall be present, or upon the convening of the above prescribed meeting of stockholders, whichever first shall occur.

ARTICLE V.

THE OFFICERS

Section 1. Officers - Qualifications. The elected officers of the Corporation shall be a Chairman of the Board, a Secretary and a Treasurer and may also include one or more Vice Chairmen of the Board, a President, one or more Executive Vice

Presidents, one or more Senior Vice Presidents and one or more Vice Presidents. The elected officers shall be elected by the Board of Directors. The Chairman of the Board, the President and each Vice Chairman of the Board, shall be selected from the directors. Assistant Secretaries, Assistant Treasurers and such other officers as may be deemed necessary or appropriate may be appointed by the Board of Directors or may be appointed pursuant to Section 6 of this Article V.

Section 2. Term of Office; Vacancies. So far as is practicable, all elected officers shall be elected at the organization meeting of the Board of Directors in each year, and except as otherwise provided in Sections 3 and 4, and subject to the provisions of Section 6, of this Article V, shall hold office until the organization meeting of the Board of Directors in the next subsequent year and until their respective successors are elected and qualify or until their earlier resignation or removal. All appointed officers shall hold office during the pleasure of the Board of Directors and the Chairman of the Board. If any vacancy shall occur in any office, the Board of Directors may elect or appoint a successor to fill such vacancy for the remainder of the term.

Section 3. Removal of Elected Officers. Any elected officer may be removed at any time, either for or without cause, by affirmative vote of a majority of the whole Board of Directors, at any regular meeting or at any special meeting called for the purpose and, in the case of any officer not more senior than a Senior Vice President, by affirmative vote of a majority of the whole committee of the Board of Directors so empowered at any regular meeting or at any special meeting called for the purpose.

Section 4. Resignations. Any officer may resign at any time, upon written notice of resignation to the Corporation. Any resignation shall be effective immediately unless a date certain is specified for it to take effect, in which event it shall be effective upon such date, and acceptance of any resignation shall not be necessary to make it effective, irrespective of whether the resignation is tendered subject to such acceptance.

Section 5. Officers Holding More Than One Office. Any officer may hold two or more offices the duties of which can be consistently performed by the same person.

Section 6. The Chairman of the Board. The Chairman of the Board shall be the chief executive officer of the Corporation. He shall direct, coordinate and control the Corporation's business and activities and its operating expenses and capital expenditures, and shall have general authority to exercise all the powers necessary for the chief executive officer of the Corporation, all in accordance with basic policies established by and subject to the control of the Board of Directors. He shall be responsible for the employment or appointment of employees, agents and officers (except officers to be elected by the Board of Directors pursuant to Section 1 of this Article V) as may be required for the conduct of the business and the attainment of the objectives of the Corporation, and shall have authority to fix compensation as provided in Section 15 of this Article V. He shall have authority to suspend or to remove any employee, agent or appointed officer of the Corporation and to suspend

for cause any elected officer of the Corporation and, in the case of the suspension for cause of any such elected officer, to recommend to the Board of Directors what further action should be taken. He shall have general authority to execute bonds, deeds and contracts in the name and on behalf of the Corporation. As provided in Section 5 of Article II, he shall act as chairman at all meetings of the stockholders at which he is present, and, as provided in Section 9 of Article III, he shall preside at all meetings of the Board of Directors at which he is present. In the absence of the Chairman of the Board, his duties shall be performed and his authority may be exercised by the President, and, in the absence of the Chairman of the Board and the President, such duties shall be performed and such authority may be exercised by such officer as may have been designated by the most senior officer of the Corporation who has made any such designation, with the right reserved to the Board of Directors to make the designation or supersede any designation so made.

Section 7. The President. The President, if any, shall be the chief operating officer of the Corporation. He shall implement the general directives, plans and policies formulated by the Chairman of the Board pursuant to the By-Laws, in general shall have authority to exercise all powers delegated to him by the Chairman of the Board and shall establish operating and administrative plans and policies and direct and coordinate the Corporation's organizational components, within the scope of the authority delegated to him by the Board of Directors or the Chairman of the Board. He shall have general authority to execute bonds, deeds and contracts in the name and on behalf of the Corporation and responsibility for the employment or appointment of such employees, agents and officers (except officers to be elected by the Board of Directors pursuant to Section 1 of this Article V) as may be required to carry on the operations of the business and authority to fix compensation of such employees, agents and officers as provided in Section 15 of this Article V. He shall have authority to suspend or to remove any employee or agent of the Corporation (other than officers). As provided in Section 6 of this Article V, in the absence of the Chairman of the Board, the President shall perform all the duties and exercise the authority of the Chairman of the Board. In the absence of the President, his duties shall be performed and his authority may be exercised by the Chairman of the Board. In the absence of the President and the Chairman of the Board, the duties of the President shall be performed and his authority may be exercised by such officer as may have been designated by the most senior officer of the Corporation who has made any such designation, with the right reserved to the Board of Directors to make the designation or supersede any designation so made.

Section 8. The Vice Chairmen of the Board. The several Vice Chairmen of the Board, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board or the President.

Section 9. The Executive Vice Presidents. The several Executive Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board or the President.

Section 10. The Senior Vice Presidents. The several Senior Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board, the President, any Vice Chairman of the Board or any Executive Vice President.

Section 11. The Vice Presidents. The several Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board, the President, any Vice Chairman of the Board or any Executive Vice President.

Section 12. The Secretary. The Secretary shall attend to the giving of notice of all meetings of stockholders and of the Board of Directors and committees thereof, and, as provided in Section 5 of Article II and Section 9 of Article III, shall keep minutes of all proceedings at meetings of the stockholders and of the Board of Directors at which he is present, as well as of all proceedings at all meetings of committees of the Board of Directors at which he has served as secretary, and where some other person has served as secretary thereto, the Secretary shall maintain custody of the minutes of such proceedings. As provided in Section 2 of Article VII, he shall have charge of the corporate seal and shall have authority to attest any and all instruments or writings to which the same may be affixed. He shall keep and account for all books, documents, papers and records of the Corporation, except those for which some other officer or agent is properly accountable. He shall generally perform all the duties usually appertaining to the office of secretary of a corporation. In the absence of the Secretary, such person as shall be designated by the Chairman of the Board shall perform his duties.

Section 13. The Treasurer. The Treasurer shall have the care and custody of all the funds of the Corporation and shall deposit the same in such banks or other depositories as the Board of Directors or any officer or officers, or any officer and agent jointly, thereunto duly authorized by the Board of Directors, shall, from time to time, direct or approve. Except as otherwise provided by the Board of Directors or in the Corporation's plan of organization, the Treasurer shall keep a full and accurate account of all moneys received and paid on account of the Corporation, shall render a statement of accounts whenever the Board of Directors shall require, shall perform all other necessary acts and duties in connection with the administration of the financial affairs of the Corporation and shall generally perform all the duties usually appertaining to the office of the treasurer of a corporation. Whenever required by the Board of Directors, the Treasurer shall give bonds for the faithful discharge of the duties of that office in such sums and with such sureties as the Board of Directors shall approve. In the absence of the Treasurer, such person as shall be designated by the President shall perform such duties.

Section 14. Additional Duties and Authority. In addition to the foregoing specifically enumerated duties and authority, the several officers of the Corporation shall perform such other duties and may exercise such further authority as the Board of Directors may, from time to time, determine, or as may be assigned to them by any superior officer.

Section 15. Compensation. Except as fixed or controlled by the Board of Directors or otherwise, compensation of all officers and employees shall be fixed by the Chairman of the Board, or by the President within the limits approved by the Chairman of the Board, or by other officers of the Corporation exercising authority granted to them under the plan of organization of the Corporation.

ARTICLE VI.

STOCK AND TRANSFERS OF STOCK

Section 1. Stock Certificates. The capital stock of the Corporation shall be represented by certificates signed by, or in the name of the Corporation by, the Chairman of the Board, the President or a Vice Chairman of the Board, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer, and sealed with the seal of the Corporation. If such stock certificate is countersigned by a Transfer Agent other than the Corporation or its employee or by a Registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile, engraved or printed. Such seal may be a facsimile, engraved or printed. In case any such officer, Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, Transfer Agent or Registrar before such certificate is issued by the Corporation, it may nevertheless be issued by the Corporation with the same effect as if such officer, Transfer Agent or Registrar had not ceased to be such at the date of its issue. The certificates representing the capital stock of the Corporation shall be in such form as shall be approved by the Board of Directors.

Section 2. Transfers of Stock. Transfers of stock shall be made on the books of the Corporation by the person named in the certificate, or by an attorney lawfully constituted in writing, and upon surrender and cancellation of a certificate or certificates for a like number of shares of the same class or series of stock, duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and with such proof of the authenticity of the signatures as the Corporation or its agents may reasonably require and with all required stock transfer tax stamps affixed thereto and canceled or accompanied by sufficient funds to pay such taxes.

Section 3. Lost Certificates. In case any certificate of stock shall be lost, stolen or destroyed, the Board of Directors, in its discretion, or any officer or officers thereunto duly authorized by the Board of Directors, may authorize the issue of a substitute certificate in place of the certificate so lost, stolen or destroyed; provided, however, that, in each such case, the applicant for a substitute certificate shall furnish evidence to the Corporation, which it determines in its discretion is satisfactory, of the loss, theft or destruction of such certificate and of the ownership thereof, and also such security or indemnity as may be required by it.

Section 4. Determination of Holders of Record for Certain Purposes. In order to determine the stockholders or other holders of securities entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to

exercise any rights in respect of any change, conversion or exchange of capital stock or other securities or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, not more than sixty (60) days prior to the date of payment of such dividend or other distribution or allotment of such rights or the date when any such rights in respect of any change, conversion or exchange of stock or securities may be exercised, and in such case only holders of record on the date so fixed shall be entitled to receive payment of such dividend or other distribution or to receive such allotment of rights, or to exercise such rights, notwithstanding any transfer of any stock or other securities on the books of the Corporation after any such record date fixed as aforesaid. No record date shall precede the date on which the Board of Directors establishes such record date.

ARTICLE VII.

CORPORATE SEAL

Section 1. Seal. The seal of the Corporation shall be in the form of a circle and shall bear the name of the Corporation and in the center of the circle the words "Corporate Seal, Delaware" and the figures "1973".

Section 2. Affixing and Attesting. The seal of the Corporation shall be in the custody of the Secretary, who shall have power to affix it to the proper corporate instruments and documents, and who shall attest it. In his absence, it may be affixed and attested by an Assistant Secretary, or by the Treasurer or an Assistant Treasurer or by any other person or persons as may be designated by the Board of Directors.

ARTICLE VIII.

MISCELLANEOUS

Section 1. Fiscal Year. The fiscal year of the Corporation shall end on the last Friday of December in each year and the succeeding fiscal year shall begin on the day next succeeding the last day of the preceding fiscal year.

Section 2. Signatures on Negotiable Instruments. All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officers or agents and in such manner as, from time to time, may be prescribed by resolution (whether general or special) of the Board of Directors, or may be prescribed by any officer or officers, or any officer and agent jointly, thereunto duly authorized by the Board of Directors.

Section 3. References to Article and Section Numbers and to the By-Laws and the Certificate of Incorporation. Whenever in the By-Laws reference is made to an Article or Section number, such reference is to the number of an Article or Section of the By-Laws. Whenever in the By-Laws reference is made to the By-Laws, such reference is to these By-Laws of the Corporation, as amended, and whenever reference is made to the Certificate of Incorporation, such reference is to the Certificate of Incorporation of the Corporation, as amended, including all documents deemed by the General Corporation Law of the State of Delaware to constitute a part thereof.

ARTICLE IX.

AMENDMENTS

The By-Laws may be altered, amended or repealed at any Annual Meeting of Stockholders, or at any special meeting of holders of shares of stock entitled to vote thereon, provided that in the case of a special meeting notice of such proposed alteration, amendment or repeal be included in the notice of meeting, by a vote of the holders of a majority of the shares of stock present in person or by proxy at the meeting and entitled to vote thereon, or (except as otherwise expressly provided in any By-Law adopted by the stockholders) by the Board of Directors at any valid meeting by affirmative vote of a majority of the whole Board of Directors.

EXHIBIT 10(XXIII)

MERRILL LYNCH & CO., INC.

2001 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF OCTOBER 5, 2000

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

MERRILL LYNCH & CO., INC.
2001 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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MERRILL LYNCH & CO., INC.
2001 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 Purpose and Intent.

The purpose of the Plan is to encourage the employees who are integral to the success of the business of the Company to continue their employment by providing them with flexibility in meeting their future income needs. This Plan is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and all decisions concerning who is to be considered a member of that select group and how this Plan shall be administered and interpreted shall be consistent with this intention.

1.2 Definitions.

For the purpose of the Plan, the following terms shall have the meanings indicated.

"Account" means the notional account established on the books and records of ML & Co. for each Participant to record the Participant's interest under the Plan.

"Account Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted in accordance with Section 3.4 to reflect the performance of the Participant's Selected Benchmark Return Options, the Annual Charge, the Debit Balance, (if any) any adjustments in the event of a Capital Call Default, and any payments made from the Account under Article V to the Participant prior to that date.

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 2001, and payable after January 1, 2001, as a result of the Participant's production credit level, or such other similar items of compensation as the Administrator shall designate as "Adjusted Compensation" for purposes of this Plan.

"Administrator" means the Head of Human Resources of ML & Co., or his or her functional successor, or any other person or committee designated as Administrator of the Plan by the Administrator or the MDCC.

"Affiliate" means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

"Annual Charge" means the charge to a Participant's Account provided for in

Section 3.4(g).

"Applicable Federal Rate" means the applicable federal rate for short-term (0-3 years) obligations of the United States Treasury as determined initially in the month of closing of ML Ventures and thereafter in January of each subsequent year.

"Available Balance" means amounts in a Participant's Account that are indexed to Benchmark Return Options with daily liquidity after the Account's Debit Balance has been reduced to zero.

"Average Leveraged Principal Amount" means, for each Participant, for any period, the sum of the Leveraged Principal Amounts outstanding at the end of each day in the period divided by the number of days in such period.

"Benchmark Return Options" means such investment vehicles as the Administrator may from time to time designate for the purpose of indexing Accounts hereunder. In the event a Benchmark Return Option ceases to exist or is no longer to be a Benchmark Return Option, the Administrator may designate a substitute Benchmark Return Option for such discontinued option.

"Board of Directors" means the Board of Directors of ML & Co.

"Capital Call" means the periodic demands for funds from a Participant's Account that will be equal to and occur simultaneously with capital calls made by private equity funds (including ML Ventures) chosen as a return option by the Participant.

"Capital Call Default" means that there is an insufficient Liquid Balance in the Participant's Account to fund a Capital Call.

"Capital Demand Default Adjustment" means the negative adjustment described in Section 3.4 in the number of "units" (including units acquired by "Leverage") attributed to a Private Equity Fund Return Options that will be the result of a Capital Call Default.

"Cash Compensation" means (1) (for VICP eligible employees) salary in the reference year plus VICP earned in the reference year and paid in January or February of the next calendar year or (2) (for Financial Consultants and other employees receiving Adjusted Compensation) base salary plus Adjusted Compensation paid in the reference year.

"Code" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

"Company" means ML & Co. and all of its Affiliates.

"Compensation" means, as relevant, a Participant's Adjusted Compensation, Variable Incentive Compensation and/or Sign-On Bonus, or such other items or items of compensation as the Administrator, in his or her sole discretion, may specify in a particular instance.

"Debit Balance" means, as of any date, the dollar amount, if any, representing each of: (1) the aggregate Annual Charge, accrued in accordance with Section 3.4(g)(i); and (2) any Leveraged Principal Amount (together with any pro rata Interest Amounts determined in accordance with Section 3.4(g)(ii), if applicable), as reduced by any distributions recorded from ML Ventures Units recorded in a Participant's Account in accordance with Section 3.4(e).

"Deferral Percentage" means the percentage (which, unless the Administrator, in his or her sole discretion, determines otherwise, shall be in whole percentage increments and not more than 90%) specified by the Participant to be the percentage of each payment of Compensation he or she wishes to defer under the Plan.

"Deferred Amounts" means, except as provided in Section 5.6, the amounts of Compensation actually deferred by the Participant under this Plan.

"Election Year" means the 2000 calendar year.

"Eligible Compensation" means (1) for persons eligible for the Variable Incentive Compensation Program or other similar programs: (A) a Participant's 1999 base earnings plus (B) any cash bonus awarded in early 2000, and (2) for persons ineligible for such bonus programs, a Participant's 1999 Adjusted Compensation.

"Eligible Employee" means an employee eligible to defer amounts under this Plan, as determined under Section 2.1 hereof.

"ERISA" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

"Fiscal Month" means the monthly period used by ML & Co. for financial accounting purposes.

"Fiscal Year" means the annual period used by ML & Co. for financial accounting purposes.

"Full-Time Domestic Employee" means a full-time employee of the Company paid from the Company's domestic based payroll (other than any U.S. citizen or "green card" holder who is employed outside the United States).

"Full-Time Expatriate Employee" means a U.S. citizen or "green card" holder employed by the Company outside the United States and selected by the Administrator as eligible to participate in the Plan (subject to the other eligibility criteria).

"Initial Leveraged Amount" means the initial dollar amount by which a Participant's deferral into ML Ventures Units is leveraged as determined in accordance with Section 3.4(c).

"Interest" means the hypothetical interest accruing on a Participant's Average Leveraged Principal Amount at the Applicable Federal Rate.

"Interest Amounts" means, for any Participant, as of any date, the amount of Interest that has accrued to such date on such Participant's Average Leveraged Principal Amount, from the date on which a Participant's Leveraged Principal Amount is established, or from the most recent date that Interest Amounts were added to the Leveraged Principal Amount.

"Leveraged or Unleveraged Distributions" means the distributions to a Participant's Account attributable to the leveraged or unleveraged portion (as the case may be) of a Participant's ML Ventures Units.

"Leverage-Eligible Participants" means persons who (1) are accredited investors within the meaning of the Securities Act of 1933, and (2) received Cash Compensation of at least $250,000 in 1999, and (3) received Cash Compensation of at least $200,000 in 1998 and otherwise qualify, in accordance with standards determined by the Administrator, to select a ML Ventures Return Option on a leverage basis.

"Leveraged Principal Amount" means a Participant's Initial Leveraged Amount, if any, as adjusted to reflect the addition of Interest Amounts (or any pro rata Interest Amounts).

"Leverage Percentage" means the percentage of leverage chosen by a Leverage-Eligible Participant, which percentage shall not exceed 200%.

"Liquid Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, not including amounts that represent future commitments to Private Equity Funds, including ML Ventures, adjusted (either up or down) to reflect: (1) the performance of the Participant's Mutual Fund Return Balances as provided in Section 3.4(f); (2) distributions with respect to ML Ventures Units made in accordance with Section 3.4(d); (3) reduction of any Debit Balance as provided in Section 3.4(e); and (4) any payments to the Participant under Article V hereof.

"Maximum Deferral" means the whole dollar amount specified by the Participant to be the amount of Compensation he or she elects to be deferred under the Plan.

"MDCC" means the Management Development and Compensation Committee of the Board of Directors.

"ML & Co." means Merrill Lynch & Co., Inc.

"ML Ventures Return Option" means the option of indexing returns hereunder to the performance of a ML Ventures limited partnership, on a leveraged or unleveraged basis.

"ML Ventures Units" means the record-keeping units credited to the Accounts of Participants who have chosen the ML Ventures Return Option.

"Mutual Fund Return Options" means the mutual funds chosen as Benchmark Return Options by the Administrator.

"Net Asset Value" means, with respect to each Benchmark Return Option that is a mutual fund or other commingled investment vehicle for which such values are determined in the normal course of business, the net asset value, on the date in question, of the vehicle for which such value is being determined.

"Participant" means an Eligible Employee who has elected to defer Compensation under the Plan.

"Plan" means this Merrill Lynch & Co., Inc. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 2001.

"Private Fund Return Option(s)" means one or more private funds that are chosen by the Administrator to be offered - with such limitations as may be required - to eligible Participants as Benchmark Return Options.

"Private Fund Unit(s)" means the record-keeping units credited to the Accounts of Participants who have chosen one or more Private Fund Return Options.

"Retirement" means a Participant's (i) termination of employment with the Company for reasons other than for cause on or after the Participant's 65th birthday, or (ii) resignation on or after the Participant's 55th birthday if the Participant has at least 10 years of service, or (iii) resignation at any age with the express approval of the Administrator, which will be granted only if the termination is found by the Administrator to be in, or not contrary to, the best interests of the Company.

"Remaining Deferred Amounts" means the product of a Participant's Deferred Amounts times a fraction equal to the number of remaining installment payments divided by the total number of installment payments.

"Selected Benchmark Return Option" means a Benchmark Return Option selected by the Participant in accordance with Section 3.4.

"Sign-On Bonus" means a single-sum amount paid or payable to a new Eligible Employee during the Plan Year upon commencement of employment, in addition to base pay and other Compensation, to induce him or her to become an employee of the Company, or any similar item of compensation as the Administrator shall designate as "Sign-On Bonus" for purposes of this Plan.

"Undistributed Deferred Amounts" means, as of any date on which the Annual Charge is determined, a Participant's Deferred Amounts (exclusive of any appreciation or depreciation) minus, for each distribution to a Participant prior to such date, an amount equal to the product of the Deferred Amounts and a fraction the numerator of which is the amount of such distribution and the denominator of which is the combined Net Asset Value (prior to distribution) of the Participant's Account as of the date of the relevant distribution.

"Variable Incentive Compensation" means the variable incentive compensation or office manager incentive compensation that is paid in cash to certain employees of the Company generally in January or February of the Plan Year with respect to the prior Fiscal Year, which for purposes of this Plan is considered earned during the Plan Year regardless of when it is actually paid to the Participant, or such other similar items of compensation as the Administrator shall designate as "Variable Incentive Compensation" for purposes of this Plan.

"401(k) Plan" means the Merrill Lynch & Co., Inc. 401(k) Savings & Investment Plan.

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) General Rule. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least $250,000 of Eligible Compensation for the year prior to the Election Year, and (iii) has attained the title of Vice President or higher.

(b) Individuals First Employed During Election Year or Plan Year. Subject to the approval of the Administrator in his or her sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation, together, if applicable, with the amount of any Variable Incentive Compensation that will be payable to such individual in the next annual bonus cycle pursuant to a written bonus guarantee, is greater than $250,000, and he or she is employed as or is to be nominated for the title of Vice President or higher at the first opportunity following his or her commencement of employment with the Company.

(c) Disqualifying Factors. An individual shall not be an Eligible Employee if either (i) as of the deadline for submission of elections specified in Section 3.1(a), the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process, or (ii)

within 13 months prior to the deadline for submission of elections specified in Section 3.1(a), the individual has made a hardship withdrawal of Elective 401(k) Deferrals as defined under the 401(k) Plan.

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Article V shall be made by submitting to the Administrator such forms as the Administrator may prescribe in whatever manner that the Administrator directs. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he or she may designate for the purpose by no later than October 27 of the Election Year (or such later date as the Administrator, in his or her sole discretion, may specify in any particular instance) or, in the event such date is not a business day, the immediately preceding business day; provided, however, that the Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

(b) Irrevocability of Deferral Election. Except as provided in Sections 3.5 and 5.5, an election to defer the receipt of any Compensation made under Section 3.1(a) is irrevocable once submitted to the Administrator or his or her designee. The Administrator's acceptance of an election to defer Compensation shall not, however, affect the contingent nature of such Compensation under the plan or program under which such Compensation is payable.

(c) Application of Election. The Participant's Deferral Percentage will be applied to each payment of Compensation to which the Participant's deferral election applies, provided that the aggregate of the Participant's Deferred Amounts shall not exceed the Participant's Maximum Deferral. If a Participant has made deferral elections with respect to more than one category of Compensation, this Section 3.1(c) shall be applied separately with respect to each such category.

3.2 Crediting to Accounts.

(a) Initial Deferrals. A Participant's Deferred Amounts will be credited to the Participant's Account as soon as practicable (but in no event later than the end of the following month) after the last day of the Fiscal Month during which such Deferred Amounts would, but for deferral, have been paid and will be accounted for in accordance with Section 3.4. No interest will accrue, nor will any adjustment be made to an Account, for the period until the Deferred Amounts are credited.

(b) ML Ventures and other Private Return Options. Upon the closing of any ML Ventures or Private Return Option, a Participant's Account will be credited with a number of units determined by dividing by $1,000 the sum of the following: (1) the portion of the Account Balance that the Participant has elected to allocate to the ML Ventures Return Option or such other Private Return Option, as of the day prior to the closing date; and (in the case of ML Ventures only) (2) the Participant's Initial Leveraged Amount (computed in accordance with Section 3.4(c)).

3.3 Minimum Requirements for Deferral.

(a) Minimum Requirements. Notwithstanding any other provision of this Plan, no deferral will be effected under this Plan with respect to a Participant if:

(i) the Participant is not an Eligible Employee as of December 31, 2000,

(ii) the Participant's election as applied to the Participant's Variable Incentive Compensation (determined by substituting the Election Year for the Plan Year) or Adjusted Compensation (determined by substituting the Fiscal Year immediately prior to the Fiscal Year ending in the Election Year for the Fiscal Year ending in the Plan Year) would have resulted in an annual deferral of less than $15,000, or

(iii) the greater of (A) the sum of (1) the "Medicare wages" amount listed on the Participant's W-2 form for the Plan Year, and (2) any Compensation that is accelerated which the Participant may receive in December of the Election Year which would have been payable in the Plan Year in the absence of the action of the Company to accelerate the payment, or (B) the Participant's Eligible Compensation for the Plan Year, is less than $250,000;

provided, that any Participant who first becomes an employee of the Company during the Plan Year shall not be required to satisfy conditions (i) and (ii). Condition (ii) does not require a Participant's elections to result in an actual deferral of at least $15,000.

(b) Failure to Meet Requirements. If the requirements of Section 3.3(a)(i) or (ii) are not met by a Participant to whom such requirements are applicable, such Participant's Deferred Amounts, if any, will be paid to such Participant, without adjustment to reflect the performance of any Selected Benchmark Return Option, as soon as practicable after it has been determined that the requirements have not been met. If the requirements of Section 3.3(a)(iii) are not met by a Participant, the greater of such Participant's Deferred Amounts or Account Balance will be paid to such Participant as soon as practicable after it has been determined that the requirements have not been met.

3.4 Return Options; Adjustment of Accounts.

(a) Selection of ML Ventures Return Option or Private Fund Return Options. In any year that a ML Ventures partnership or other Private Fund partnership is offered as a return option, eligible Participants may select the ML Ventures Return Option (and designate any Leverage Percentage) or select a Private Fund Return Option. Participants should be aware that once the closing of the relevant fund has occurred, Participants will not be able to change their elections. Participants should also be aware that in the event of a Capital Call Default, for certain Private Equity Funds, Including ML Ventures, they may be penalized by having their Accounts adjusted downward in accordance with Section 3.4 (d).

(b) Selection of Mutual Fund Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select the percentage of the Participant's Account to be adjusted to reflect the performance of Mutual Fund Return Options, for use when a Participant's Account has a Liquid Balance. All elections shall be in multiples of 1%. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than 12 times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

(c) Selection of the ML Ventures Leverage Percentage by Eligible Participants. Prior to the closing of the offering of an ML Ventures partnership, Leverage-Eligible Participants who select the ML Ventures Return Option on a leveraged basis must choose their Leverage Percentage, in accordance with standards determined by the Administrator, by submitting such forms as the Administrator shall prescribe. Prior to the closing of an ML Ventures partnership, the Administrator will determine each Leverage-Eligible Participant's Initial Leveraged Amount by applying such Participant's Leverage Percentage to the dollar value of the portion of the Participant's Account Balance allocated to the ML Ventures Return Option. The Initial Leveraged Amount will be recorded as the Leveraged Principal Amount, to which amount Interest Amounts will be added annually in accordance with Section 3.4(e).

(d) Adjustments of ML Ventures and other Private Fund Return Options.

(i) Whenever a distribution is paid on an actual unit of an ML Ventures partnership or other Private Equity Fund Return Option, an amount equal to such per unit distribution times the number of units in the Participant's Account will first be applied against any Debit Balance, as provided in Section 3.4(e), and then, if any portion of such distribution remains after the Debit Balance is reduced to zero, be credited to the Participant's Account to be indexed to the Mutual Fund Return Option(s) chosen by the Participant.

(ii) In the event of a Capital Call Default, a Participant's notional investment in the relevant fund will be capped. If this occurs, the number of units represented by the return option (including, in the case of ML Ventures, any leveraged units) will be adjusted downward to reflect a smaller investment and resulting lower leverage.

(iii) The ML Ventures Units and the Debit Balance will also be adjusted in accordance with Section 5.2 hereof in the event of a Participant's termination.

(e) Adjustment of Debit Balance. Any Debit Balance shall be reduced as soon as possible by any distributions relating to ML Ventures Units. Reductions of the Debit Balance, as provided in the foregoing sentence, shall be applied first to reduce the Debit Balance attributable to accrued Annual Charges and then, after all such accrued Annual Charges have been satisfied, to reduce any Leveraged Principal Amount. As of the last day of each Fiscal Year, Interest Amounts computed by the Administrator shall be added to the Leveraged Principal Amount. If on any date the Leveraged Principal Amount would be discharged completely as a result of distributions or chargeoffs, Interest Amounts will be computed though such date and added to the Leveraged Principal Amount as of such date.

(f) Adjustment of Mutual Fund Return Balances. While the Participant's Balances do not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Balances attributable to Mutual Fund Return Options shall be adjusted to reflect credits or debits relating to distributions with respect to the ML Ventures Units or chargeoffs against the Debit Balance and to reflect the investment experience of the Participant's Mutual Fund Return Options in the same manner as if investments or dispositions in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions or credits or debits by the ML II System shall control the timing and pricing of the notional investments in the Participant's Mutual Fund Return Options in accordance with the rules of operation of the ML II System and its

requirements for placing corresponding investment orders, as if orders to make corresponding investments or dispositions were actually to be made, except that in connection with the crediting of Deferred Amounts or distributions to the Participant's Account and distributions from or debits to the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Mutual Fund Return Option shall be valued using the Net Asset Value of the Mutual Fund Return Option as of the relevant day; *provided*, that, in valuing a Mutual Fund Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with such transactions; *provided, further*, that, if there are no such transactions effected through the ML II System on the relevant day, the value of the security shall be:

(i) if the security is listed for trading on one or more national securities exchanges, the average of the high and low sale prices for that day on the principal exchange for such security, or if such security is not traded on such principal exchange on that day, the average of the high and low sales prices on such exchange on the first day prior thereto on which such security was so traded;

(ii) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter market, the average of the highest and lowest bid prices for such security on the relevant day; or

(iii) if neither clause (i) nor (ii) applies, the value determined by the Administrator by whatever means he considers appropriate in his or her sole discretion.

All debits and charges against the Account shall be applied as a *pro rata* reduction of the portion of the Account Balance indexed to each of the Participant's Mutual Fund Return Options.

(g) Annual Charge. As of the last day of each Fiscal Year or such earlier day in December as the Administrator shall determine, an Annual Charge of 2.0% of the Participant's Deferred Amounts (exclusive of any appreciation or depreciation determined under Section 3.4 (f)) shall be applied to reduce the Account Balance.

(i) In the event that all or any portion of the Account Balance is indexed to a Benchmark Return Option with less than daily liquidity, the Annual Charge will accrue as a Debit Balance and be paid out of future amounts credited to the Account Balance.

(ii) In the event that the Participant elects to have the Account Balance paid in installments, the Annual Charge will be charged on the Remaining Deferred Amounts after giving effect to the installment payments.

(iii) In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date upon which the Annual Charge is assessed, a *pro rata* Annual Charge will be deducted from amounts to be paid to the Participant to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a *pro rata* reduction of the portion of the

Account Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(f) will be followed.

(h) Rollover Option. In the discretion of the Administrator or a designee, additional Benchmark Return Options, including Return Options with less than daily liquidity, may be offered to all Participants under the Plan or to a more limited group of Participants. In such event, Participants will be allowed, in such manner as the Administrator shall determine, to elect that all or a portion of Account Balances be indexed to such Benchmark Return Options.

(i) With respect to Benchmark Return Options that do not provide daily liquidity: (A) payments under Article V will be made in accordance with a Participant's election at the time of the Participant's original deferral, with any adjustments required for the more limited liquidity of such Return Option; (B) Participants may be limited in their ability to elect, change or continue their Benchmark Return Options in accordance with such terms and conditions as the Administrator or a designee may determine; and (C) the Annual Charge shall be accrued and paid, when possible, upon liquidation of all or any portion of the Benchmark Return Option, provided that no payment shall be made to a Participant under Article V hereof until all accrued Annual Charges have been paid.

(ii) In the event that such limited liquidity options include future ML Ventures Partnerships, the designated amounts shall be credited to such Participant, accounted for, adjusted and paid out to such Participant in accordance with the terms and conditions of this Plan as they related to the ML Ventures Return Option.

3.5 Rescission of Deferral Election.

(a) Prior to December 1, 2000. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 2000, and (ii) if the Administrator, in his or her sole discretion and upon evidence of such basis that he or she finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 27, 2000 and November 30, 2000), agrees to the rescission of the election. In the event that the Administrator agrees to the rescission, the Deferred Amounts, if any, credited to the Participant's Account will be paid to the Participant as soon as practicable thereafter, subject to reduction for any applicable withholding taxes.

(b) Adverse Tax Determination. Notwithstanding the provisions of Section 3.5(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his or her sole discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in (i) hereof that he or she finds persuasive, to rescind the election. Upon such rescission, the Account Balance, including any adjustment for performance of the Selected Benchmark Return Options, will be paid to the Participant as soon as practicable, and no additional amounts will be deferred pursuant to this Plan.

(c) Rescission For Amounts Not Yet Earned. Upon the Participant's written request, the Administrator may in his or her sole discretion terminate any deferral elections made hereunder with respect to Compensation not yet earned and no further amounts will be deferred. In addition, in the event a Participant receives a hardship withdrawal under the 401(k) Plan, the Administrator shall, as of the date the Participant's Elective 401(k) Deferrals (as defined in the 401(k) Plan) are suspended under the 401(k) Plan as a result of such hardship withdrawal, terminate the Participant's deferrals under this Plan in accordance with the preceding sentence, as if the Participant had

requested rescission in writing. In each case, amounts previously deferred will continue to be governed by the terms of this Plan.

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

4.2 Non-Assignability.

The Participant's right or the right of any other person to the Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Plan, by written will, or by the laws of descent and distribution.

4.3 Effect of Deferral on Benefits Under Pension and Welfare Benefit Plans.

The effect of deferral on pension and welfare benefit plans in which the Participant may participate will depend upon the provisions of each such plan, as amended from time to time.

ARTICLE V

PAYMENT OF ACCOUNT

5.1 Manner of Payment.

(a) Regular Payment Elections. A Participant's Account Balance will be paid by the Company, as elected by the Participant at the time of his or her deferral election, either in a single payment to be made, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by the Participant after the end of 2001, or (iii) in any month in the calendar year following the Participant's Retirement; provided that, if a Participant's election would result in payment (in the case
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of a single payment) or commencement of payment (in the case of installment payments) after the Participant's 70th birthday, then, notwithstanding the Participant's elections, the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's 70th birthday unless the Participant continues to be an active full time employee at such time, in which case the Company will pay, or commence

payment of, the Participant's Account Balance in the month following the Participant's cessation of active service (to the extent payment has not already been made or commenced). The amount of each annual installment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made). In the event that immediately prior to the lump sum payment or the initial installment payment, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such payment shall be adjusted, if necessary, for the liquidity restraints of the Benchmark Return Option and, in the case of an election of 11 or more installment payments commencing upon Retirement or a date certain coincident with Retirement, shall be delayed until such Account Balance is fully liquid.

(b) Modified Installment Payments. In lieu of one of the regular payment elections provided for in Section 5.1(a), a Participant may elect to receive the Account Balance in at least 11 but no more than 15 annual installment payments ("modified installment payments"), such modified installment payments to commence on the last business day in March in the year following the Participant's Retirement or death (the "Initial Payment Date"), provided that, in the event that immediately prior to the initial payment of such installment payments, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such initial payment shall be delayed until such Account Balance is fully liquid. The modified installment payments shall be computed in accordance with last sentence of Section 5.1(a) and will in all other respects be treated like regular installment payments under the Plan. By electing modified installment payments, the Participant agrees that at any time prior to the last day of February immediately preceding a Participant's Initial Payment Date (the "Determination Date"), ML & Co. shall have the right, without the consent of the Participant or any beneficiary, to change the Participant's method of payment to 11 annuitized payments ("annuitized payments"), in the event that, in the sole discretion of the Administrator, it is determined that such a change is necessary or appropriate in order to preserve the intended state tax benefits of the modified installment payments to the Participant or any beneficiary. In the event that the Administrator determines that annuitized payments shall be made, the amount of the annuitized payments will be determined by applying the Discount Rate, as defined below, to the Account Balance as of the Determination Date to create a stream of 11 equal annual payments. If annuitized payments are to be made, then the Account Balance shall cease to be adjusted pursuant to Section 3.4 as of the Determination Date (except that a pro rata Annual Charge will be deducted from the Account Balance prior to calculation of the annuitized payments to cover the fraction of the Fiscal Year preceding the Determination Date) and the Company's only obligation to the Participant shall be to make the annuitized payments when due. As used herein, Discount Rate shall mean ML & Co.'s then-applicable after-tax cost of borrowing and is defined as (A) x (B), where (A) is equal to 1 minus ML & Co.'s then-effective tax rate, expressed as a decimal, and (B) is equal to the sum of: (i) the annual yield on the then-current 5-year U.S. Treasury Note, and (ii) a spread (which will not be less than 0.10%) indicative of ML & Co.'s borrowing cost for transactions of similar structure and average maturity to the annuity, as determined by ML & Co.

5.2 Termination of Employment.

(a) Death or Retirement. Upon a Participant's death, Career Retirement (as defined in the ML & Co. Long-Term Incentive Compensation Plans) or Retirement prior to payment, the Account Balance will be paid, in accordance with the Participant's elections and as provided in Section 5.1(a) or (b), as applicable, to the Participant or to the Participant's beneficiary (in the event of death); provided, however, that (1) in the event that the Participant enters into competition with the business

of Merrill Lynch, he or she will not be eligible for Retirement treatment under this Section 5.2 (a) and (2) in the event that a beneficiary of the Participant's Account is the Participant's estate or is otherwise not a natural person, then (i) if the Participant has elected a regular payment election pursuant to Section 5.1(a), the applicable portion of the Account Balance will be paid in a single payment to such beneficiary notwithstanding any election of installment payments, and (ii) if the Participant has elected modified installment payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be payable as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the Participant's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

(b) Other Termination of Employment - Forfeiture of Leverage.

(1) If the Participant's employment terminates at any time for any other reason than those described in Section 5.2 (a), then, notwithstanding the Participant's elections hereunder, any Available Balance will be paid to the Participant, as soon as practicable, in a single payment if the Account Balance is fully liquid, or as available, as soon thereafter as is practicable, notwithstanding the Participant's elections hereunder.

(2) In the event that a Participant's employment terminates at any time for any reason other than death, disability or Retirement, such Participant will forfeit all rights to the unvested leveraged portion of such Participant's ML Ventures Units, including any future Leveraged Distributions, unless the Administrator, in his or her sole discretion, determines that such forfeiture would be detrimental to Merrill Lynch; provided, however, that such forfeiture will not occur: if (a) the Participant is terminated by ML & Co. as the result of a reduction in staff, (b) the Participant delivers to ML & Co. a release of claims (in a form approved by the Administrator and counsel) he or she may have against the corporation or any of its subsidiaries, and (3) such Participant complies with the terms of such release. In the event of such forfeiture, the Participant's Account Balance and Debit Balance will be restated, as of the date of termination, to reflect what such balances would have been had the Participant selected no leverage under Section 3.4(c). To the extent necessary, the Participant's Account Balance will also be adjusted, as of the date of the termination, to credit the Participant with the amount of any Unleveraged Distributions that were previously applied to the repayment of the Leveraged Principal Amount and any Interest Amounts and, to the extent necessary, any Leveraged Distributions paid out to the Participant will be restated as a Debit Balance. Leveraged and Unleveraged Distributions shall be deemed to have been applied and distributed proportionately. All calculations hereunder shall be made by the Administrator and shall be final and conclusive.

(c) Leave of Absence, Transfer or Disability. The Participant's employment will not be considered as terminated if the Participant (1) is on an approved leave of absence; (2) transfers or is transferred but remains in the employ of the Company or an unconsolidated affiliate; or (3) is eligible to receive disability payments under the ML & Co. Basic Long-Term Disability Plan.

(d) Discretion to Alter Payment Date. Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any

reason, the Administrator may, in his or her sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments; provided that no such direction that adversely affects the rights of the
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Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary.

5.3 Withholding of Taxes.

ML & Co. will deduct or withhold from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

5.4 Beneficiary.

(a) Designation of Beneficiary. The Participant may designate, in a writing delivered to the Administrator or his or her designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) Change in Beneficiary. The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his or her designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke prior such designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Plan only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) Default Beneficiary. In the event that a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. Basic Group Life Insurance Plan (the "Life Insurance Plan"). However, if an unmarried Participant does not have coverage in effect under the Life Insurance Plan, or the Participant has assigned his or her death benefit under the Life Insurance Plan, any amounts payable to the Participant's beneficiary under the Plan will be paid to the Participant's estate.

(d) If the Beneficiary Dies During Payment. If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant dies, but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated; provided, however,
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that if the beneficiary was receiving modified installment payments or annuitized payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be paid as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the beneficiary's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he or she may, in his or her sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his or her sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his or her sole discretion to be immediate and substantial.

5.6 Domestic Relations Orders.

Notwithstanding the Participant's elections hereunder, ML & Co. will pay to, or to the Participant for the benefit of, the Participant's spouse or former spouse the portion of the Participant's Account Balance specified in a valid court order entered in a domestic relations proceeding involving the Participant's divorce or legal separation. Such payment will be made net of any amounts the Company may be required to withhold under applicable federal, state or local law. After such payment, references herein to the Participant's "Deferred Amounts" (including, without limitation, for purposes of determining the Annual Charge applicable to any remaining Account Balance) shall mean the Participant's original Deferred Amounts times an amount equal to one minus a fraction, the numerator of which is the gross amount (prior to withholding) paid pursuant to the order, and the denominator of which is the Participant's Account Balance immediately prior to payment.

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

The Administrator has full power and authority to interpret, construe and administer this Plan so as to ensure that it provides deferred compensation for the Participants as members of a select group of management or highly compensated employees within the meaning of Title I of ERISA. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his or her willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

6.2 Rabbi Trust

Creation of Trust. The Administrator shall create a Grantor Trust to hold assets representing the amounts deferred under this Plan on such terms and conditions as the Administrator shall approve. The trustee of the Rabbi Trust shall be a party unaffiliated with the Company.

6.3 Payments on Behalf of an Incompetent.

If the Administrator finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balance may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

6.4 No Right of Set-Off.

Unless specifically authorized by a Participant, the Company shall have no right of set-off with respect to any Participant's Account Balances or Account under the Plan and unless so authorized, the Company shall not withhold any sums owed to a Participant under the Plan.

6.5 Corporate Books and Records Controlling.

The books and records of the Company will be controlling in the event that a question arises hereunder concerning the amount of Adjusted Compensation, Incentive Compensation, Sign-On Bonus, Eligible Compensation, the Deferred Amounts, the Account Balance, the designation of a beneficiary, or any other matters.

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Plan and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

7.2 Headings Are Not Controlling.

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

7.3 Governing Law.

To the extent not preempted by applicable U.S. Federal law, this Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

7.4 Amendment and Termination.

ML & Co., through the Administrator, reserves the right to amend or terminate this Plan at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance (as reduced by the Annual Charge, the Debit Balance or the Leveraged

Principal Amount and Interest thereon, as set forth in Section 3.4) as of the date of such amendment or termination.

EXHIBIT 11

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON SHARE
(in millions, except per share amounts)

	YEAR ENDED LAST FRIDAY IN DECEMBER				
	2000 (52 weeks)	1999 (53 weeks)	1998 (52 weeks)	1997 (52 weeks)	1996 (52 weeks)
NET EARNINGS	$ 3,784	$ 2,693	$ 1,271	$ 1,928	$ 1,674
Preferred stock dividends	39	39	38	39	46
Net earnings applicable to common stockholders	$ 3,745	$ 2,654	$ 1,233	$ 1,889	$ 1,628
WEIGHTED-AVERAGE BASIC SHARES OUTSTANDING	798.3	754.7	728.9	698.3	710.5
Effect of dilutive instruments:					
Employee stock options	68.2	55.7	58.4	59.5	43.9
FCCAAP shares	29.6	31.9	33.1	41.1	39.1
Restricted units	15.3	11.1	9.8	10.5	9.5
ESPP shares	-	0.1	0.1	0.1	0.1
Convertible debt	-	-	-	0.3	1.3
DILUTIVE POTENTIAL COMMON SHARES	113.1	98.8	101.4	111.5	93.9
TOTAL WEIGHTED-AVERAGE DILUTED SHARES	911.4	853.5	830.3	809.8	804.4
BASIC EARNINGS PER SHARE	$ 4.69	$ 3.52	$ 1.69	$ 2.70	$ 2.29
DILUTED EARNINGS PER SHARE	$ 4.11	$ 3.11	$ 1.49	$ 2.33	$ 2.03

Note: Prior period amounts have been restated to reflect the merger with Herzog, Heine, Geduld, Inc. as required under pooling-of-interests accounting and the 2-for-1 common stock split paid on August 31, 2000.

Basic and diluted earnings per share are based on actual numbers before rounding.

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)

	Year Ended Last Friday in December				
	2000	1999	1998	1997	1996
	(52 weeks)	(53 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
Pre-tax earnings	$ 5,717	$ 4,206	$ 2,120	$ 3,102	2,671
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	18,307	13,235	17,237	15,128	11,605
Pre-tax earnings before fixed charges	24,024	17,441	19,357	18,230	14,276
Fixed charges:					
Interest	18,052	12,987	17,014	14,938	11,426
Other (a)	465	451	354	240	187
Total fixed charges	18,517	13,438	17,368	15,178	11,613
Preferred stock dividends	55	56	58	62	74
Total combined fixed charges and preferred stock dividends	$ 18,572	$ 13,494	$ 17,426	$ 15,240	$ 11,687
Ratio of earnings to fixed charges	1.30	1.30	1.11	1.20	1.23
Ratio of earnings to combined fixed charges and preferred stock dividends	1.29	1.29	1.11	1.20	1.22

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

Note: Prior period amounts have been restated to reflect the merger with Herzog, Heine, Geduld, Inc. as required under pooling-of-interests accounting.

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Selected Financial Data

(dollars in millions, except per share amounts)

					Year Ended Last Friday in December
	2000	**1999**	**1998**	**1997**	**1996**
Operating Results					
Total Revenues	$ 44,872	$ 35,340	$ 34,837	$ 31,469	$ 25,348
Less Interest Expense	18,085	13,019	17,038	14,957	11,435
Net Revenues	26,787	22,321	17,799	16,512	13,913
Non-Interest Expenses	21,070	18,115	15,679	13,410	11,242
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	5,717	4,206	2,120	3,102	2,671
Income Tax Expense	1,738	1,319	725	1,127	997
Dividends on Preferred Securities Issued by Subsidiaries	195	194	124	47	–
Net Earnings	$ 3,784	$ 2,693	$ 1,271	$ 1,928	$ 1,674

Net Earnings Applicable to Common Stockholders [a]	$ 3,745	$ 2,654	$ 1,233	$ 1,889	$ 1,628
Financial Position					
Total Assets	$407,200	$309,850	$286,446	$298,057	$218,168
Short-Term Borrowings [b]	$186,714	$115,409	$ 98,655	$123,946	$103,370
Long-Term Borrowings	$ 70,223	$ 54,043	$ 57,599	$ 43,176	$ 26,234
Preferred Securities Issued by Subsidiaries	$ 2,714	$ 2,725	$ 2,627	$ 627	$ 327
Total Stockholders' Equity	$ 18,304	$ 13,004	$ 10,264	$ 8,663	$ 7,197
Common Share Data [c]					
(in thousands, except per share amounts)					
Earnings Per Share:					
Basic	$ 4.69	$ 3.52	$ 1.69	$ 2.70	$ 2.29
Diluted	$ 4.11	$ 3.11	$ 1.49	$ 2.33	$ 2.03
Weighted-Average Shares Outstanding:					
Basic	798,273	754,672	728,929	698,300	710,499
Diluted	911,416	853,499	830,276	809,819	804,392
Shares Outstanding at Year End [d]	807,955	752,501	729,981	696,611	682,807
Shares Repurchased [e]	–	–	–	26,602	73,212
Average Share Repurchase Price	–	–	–	$ 24.46	$ 15.65
Book Value Per Share	$ 21.95	$ 16.49	$ 13.31	$ 11.69	$ 9.55
Dividends Paid Per Share	$ 0.61	$ 0.53	$ 0.46	$ 0.38	$ 0.29
Financial Ratios					
Pre-tax Profit Margin [f]	21.3%	18.8%	11.9%	18.8%	19.2%
Profit Margin [g]	14.1%	12.1%	7.1%	11.7%	12.0%
Common Dividend Payout Ratio	13.0%	15.1%	27.2%	14.1%	12.7%
Return on Average Assets	1.1%	0.9%	0.4%	0.7%	0.7%
Return on Average Common Stockholders' Equity	24.2%	23.8%	13.4%	25.9%	26.5%
Average Leverage [h]	19.0x	21.5x	29.9x	34.9x	32.8x
Average Adjusted Leverage [i]	11.7x	13.8x	18.7x	20.8x	19.3x
Other Statistics (dollars in billions)					
Full-Time Employees:					
U.S.	51,800	49,700	47,900	46,600	42,700
Non-U.S.	20,200	18,200	17,300	13,900	10,500
Total	72,000	67,900	65,200	60,500	53,200
Financial Consultants and Other Investment Professionals	21,200	19,500	18,600	17,000	16,100
Client Assets	$ 1,681	$ 1,696	$ 1,446	$ 1,229	$ 860

(a) *Net earnings less preferred stock dividends.*
(b) *Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Demand and time deposits.*
(c) *All share and per share data have been restated for the two-for-one common stock split paid in August (see Note 8 to the Consolidated Financial Statements).*
(d) *Does not include 4,654, 8,019, 9,012, 9,436, and 8,268 shares exchangeable into common stock (see Note 8 to the Consolidated Financial Statements) at year-end 2000, 1999, 1998, 1997, and 1996, respectively. Also does not include 6,155 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1996 which are not considered outstanding for accounting purposes.*
(e) *Does not include shares either (i) owned by employees and used to pay for the exercise of stock options or (ii) stock withheld from employee stock option exercises to pay associated taxes.*
(f) *Earnings before income taxes and dividends on preferred securities issued by subsidiaries to Net revenues.*
(g) *Net earnings to Net revenues.*
(h) *Average Total assets to average Total stockholders' equity and Preferred securities issued by subsidiaries.*
(i) *Average Total assets less average (i) Receivables under resale agreements and securities borrowed transactions, and (ii) Marketable investment securities, to average Total stockholders' equity and Preferred securities issued by subsidiaries.*

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Management's Discussion and Analysis

Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries and affiliates, "Merrill Lynch") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, and related services worldwide. The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous uncontrollable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, regulatory developments, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility of financial markets. While greater volatility may increase risk, it may also increase order flow and revenues in businesses such as trading and brokerage. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and volumes.

The financial services industry continues to be affected by the intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions and competition from new entrants as well as established competitors using the Internet or other technology to establish or expand their businesses, and diminishing margins in many mature products and services. The Gramm-Leach-Bliley Act, passed in 1999, which repealed U.S. laws that separated commercial banking, investment banking and insurance activities, together with changes to the industry resulting from previous reforms, has increased the number of companies competing for a similar customer base.

In addition to providing historical information, Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated financial performance, and other similar matters. A variety of factors, many of which are beyond its control, affect the operations, performance, business strategy, and results of Merrill Lynch and could cause actual results and experience to differ materially from the expectations and objectives expressed in these statements. These factors include, but are not limited to, the factors listed in the previous two paragraphs, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks detailed in Merrill Lynch's Form 10-K and in the following sections.

Merrill Lynch undertakes no responsibility to update or revise any forward-looking statements.

Business Environment

After a record-breaking 1999 and a strong start in 2000, global financial markets slowed during the latter part of the year, particularly in equities. Investors tended to avoid the turbulent stock markets in the second half of the year, as technology stocks fell, and the Nasdaq posted its weakest performance since 1971. Initial public offerings ("IPOs"), which reached unprecedented volumes in 1999 due to extremely high customer demand, declined later in 2000 when investors lost confidence in companies without a history of profits. After raising interest rates a total of six times since June of 1999, the Federal Reserve kept rates constant throughout the second half of 2000, and then lowered the federal funds rate by a full point in January of 2001. A weak euro and rising energy prices, combined with a declining Nasdaq, caused dips in most major markets outside the United States, as evidenced by a decline in the Dow Jones World Stock Index, excluding the United States. Although global stock and bond issuance declined 9%, investment banks earned

record underwriting fees, due to several large IPOs in the first half of the year.

The yield on the 10-year Treasury note fell to 5.11% at the end of 2000 from 6.44% at the end of 1999, and the yield on the 30-year bond dropped to 5.46% from 6.48%, as investors drove up the prices of government securities in an attempt to avoid losses in the stock market. A growing U.S. budget surplus allowed the Treasury to begin to buy back outstanding bonds, further increasing demand for outstanding issues and causing bond prices to rise, despite three interest rate hikes in the first half of 2000. Due to slower growth in corporate earnings and higher rates of default, high-grade corporate and high-yield bonds performed poorly in 2000. Credit spreads widened significantly throughout the year, as the spread between yields on Treasuries and corporate bonds reached its highest point in over ten years. In Europe, inflationary pressures led the European Central Bank to raise short-term rates six times in 2000.

U.S. equity markets which, during 1999, experienced extraordinary gains that were led by an unprecedented demand for communications and technology stocks, delivered disappointing results in 2000, as the devaluation of many of these same stocks caused indices to fall. Prices of telecommunications, media, and technology stocks, collectively known as TMT stocks, which soared in 1999, decreased as a result of concerns over corporate profits. After achieving an all-time high in March of 2000, the Nasdaq declined 39.3% in 2000, erasing almost all of the gains achieved in 1999. In 2000, the Dow Jones Industrial Average and S&P 500 declined 6.2% and 10.1%, respectively, due to widespread market corrections as growth in the U.S. gross domestic product fell to its lowest level in five years.

Global equity indices reflected the weak performance of U.S. equity indices. The Dow Jones World Stock Index, excluding the United States, was down

17.4% from the end of 1999. Rising oil prices and global interest rates, combined with a 6.3% decline in the value of the euro against the U.S. dollar, led to a downturn in global equity markets. Deflation of TMT stocks had the greatest impact in Europe, as well as Taiwan, Korea, and Japan. The decline in these stocks was partly offset by gains in Europe's financial services, banking, and pharmaceutical sectors. Due to political uncertainty and stalled corporate restructuring in Japan, the Nikkei 225 index fell 27.2% in yen terms and 34.8% in U.S. dollar terms for the year, the sharpest decline since 1990. Emerging markets suffered the most, especially in Asia, where five stock markets declined by 30% or more, amidst rising U.S. interest rates and high oil prices throughout most of the year. Latin American markets also performed poorly, led by Argentina, where there was weak economic growth, high borrowing costs, and a 24.3% stock market decline for the year.

Global underwriting volume, after reaching record levels in the first quarter of 2000, declined significantly by the end of the year. Total global stock and bond issuances were off 9% in 2000 at $3.0 trillion. Equity and equity-linked issues in the United States totaled $282 billion during 2000, surpassing the previous record of $214 billion set in 1999. Domestic IPOs surged to a record $73 billion during the year, a 15% increase from the record 1999 levels, driven by a strong first half of 2000. Widespread concern surrounding credit risk and quality led to a 12% decline in global debt issuances during 2000.

Strategic advisory activities reached record levels in 2000, reflecting a continuation of the high level of merger and acquisition activity experienced during 1999. Companies continued to seek strategic alliances to increase earnings, in particular by combining Old Economy blue chip companies with New Economy, Internet-based companies. Additionally, in the United States, companies rushed to enter into deals before the anticipated elimination of pooling-of-interests accounting treatment. Announced mergers and acquisitions in the United States increased over 16% from 1999 to a record $1.8 trillion, while global deals advanced 6% to $3.5 trillion. After a record-setting 1999, European announced merger and acquisition levels were down 7%, as telecommunications industry deals slowed substantially.

Merrill Lynch continually evaluates its businesses for profitability and performance under varying market conditions and, in light of the evolving conditions in its competitive environment, for alignment with its long-term strategic objectives. Maintaining long-term client relationships, closely monitoring costs and risks, diversifying revenue sources, and expanding strategically all contribute to mitigating the effects of volatility on Merrill Lynch's business as a whole.

Results of Operations

(dollars in millions, except per share amounts)

	2000	**1999**	**1998**
Total revenues	$ 44,872	$ 35,340	$ 34,837
Net revenues	26,787	22,321	17,799
Earnings before income taxes and dividends on preferred securities issued by subsidiaries	5,717	4,206	2,120
Net earnings	3,784	2,693	1,271
Earnings per common share:			
Basic	4.69	3.52	1.69
Diluted	4.11	3.11	1.49
Return on average common stockholders' equity	24.2%	23.8%	13.4%
Pre-tax profit margin	21.3	18.8	11.9

Merrill Lynch reported record net earnings of $3.8 billion for 2000, or $4.11 per diluted share, with a return on average

common stockholders' equity of 24.2% and a pre-tax profit margin of 21.3%. These results represent a 41% increase in net earnings and a 20% increase in net revenues from 1999 and reflect record net revenues in every category and region. Net earnings in 1999 were $2.7 billion, or $3.11 per diluted share. Return on average common stockholders' equity for 1999 was 23.8% and the pre-tax profit margin was 18.8%. In 1998, Merrill Lynch reported net earnings of $1.3 billion, or $1.49 per diluted share, which included a $288 million after-tax provision for costs related to staff reductions. Excluding the staff reduction provision, 1998 net earnings were $1.6 billion, or $1.83 per diluted share. On the same basis, return on average common stockholders' equity was 16.3% and the pre-tax profit margin was 14.3% in 1998.

The following charts illustrate the change in the composition of net revenues by category from 1996 to 2000.

The following discussion provides details of operating performance for each of Merrill Lynch's business segments, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Certain prior year amounts have been restated to conform with the current year presentation. For further information, see Note 2 to the Consolidated Financial Statements.

Business Segments

Merrill Lynch reports its results in three business segments: Corporate and Institutional Client Group ("CICG"), Private Client Group ("PCG"), and Merrill Lynch

Investment Managers (“MLIM”). CICG provides investment banking and capital market services to corporate, institutional, and governmental clients throughout the world. PCG provides wealth management services and products to individuals, small- to mid-size businesses and employee benefit plan clients globally. MLIM provides investment management services to a wide variety of retail and institutional clients.

The following chart illustrates Merrill Lynch’s net revenues by segment for 2000.

Certain MLIM and CICG products are distributed by PCG distribution channels, and to a limited extent, certain MLIM products are distributed through the distribution capabilities of CICG. Costs and revenues associated with these intersegment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue sharing agreements for shared activities are in place and the results of each segment reflect the agreed-upon portion of these activities. The following segment operating results, which exclude certain corporate items, represent the information that is relied upon by management in its decision-making processes. Restatements occur to reflect reallocations of revenues and expenses which result from changes in Merrill Lynch’s business strategy and structure (see Note 14 to the Consolidated Financial Statements for further information).

CORPORATE AND INSTITUTIONAL CLIENT GROUP

CICG provides investment banking and strategic merger and acquisition advisory services, as well as equity, debt and capital markets trading services to its clients around the world. CICG raises capital for its clients through securities underwriting, private placements, and loan syndications. CICG trades securities, currencies, and other products and enters into over-the-counter derivative contracts to satisfy customer demand for these instruments. With more than 2,000 equity research, sales, trading, and capital markets professionals and equity trading and distribution activities in over 30 countries, Merrill Lynch has one of the largest equity trading and underwriting operations of any firm in the world. Through its expertise in government and corporate debt trading, CICG is also the leader in global distribution of new issue and secondary debt securities. CICG’s client-focused strategy provides investors with opportunities to

diversify their portfolios, manage risk, and enhance returns by tailoring investments and structuring derivatives to meet clients’ customized needs.

CICG continued to make progress on several strategic initiatives throughout the year. The merger with Herzog, Heine, Geduld, Inc. (“Herzog”), a leading Nasdaq market-maker, was completed during the third quarter of 2000, and as a result of the integration, internalization of Nasdaq order execution is increasing. For further information, see Note 2 to the Consolidated Financial Statements. As part of the expansion of its private equity business, Merrill Lynch launched, with partners, a $300 million venture capital fund to invest primarily in mobile Internet ventures and technologies in Europe and North America. In addition, Merrill Lynch joined with other financial firms to establish TheMarkets.com, a portal for institutional investors offering equity research, equity new issue information, and news and market data, as well as BondBook LLC, an electronic bond trading system. CICG continued to leverage technology more broadly to extend leadership, and expand services to clients in key markets. MLX MarketEdge was launched in Europe, delivering an equity trading platform for retail broker-dealers. The application provides electronic access to about 15,000 European and U.S. stocks with immediate execution. In 2000, CICG transferred its listed energy futures and options execution business and, in January 2001, announced an agreement to sell certain energy-trading assets. This transaction is expected to close in the first quarter of 2001. These sales are part of a focus on the reallocation of firm resources towards businesses where Merrill Lynch can generate the greatest returns.

In May 2000, CICG launched a new business initiative – Merrill Lynch Securities Services Division – to both consolidate and expand the securities clearing, settlement, custody, and financing businesses. The new division was created to meet the expanding demand for global clearing and settlement services, as increased worldwide trading volumes and structural changes in markets place a greater premium on efficiency and scale in back-office processing functions.

In 1999, CICG formed the Direct Markets e-business group to develop integrated, electronically-delivered products and services for CICG clients worldwide, including research, analytics, investment information, underwriting, trading, and post-trade reporting. In late 1999, Direct Markets introduced iDeal℠, a new software platform for offering all types of debt and equity securities that is designed to increase the efficiency of the underwriting process, enhance the dissemination of information, and broaden distribution. Merrill Lynch’s iDeal platform was named best online site for equity and debt new issues by *Euromoney*. A strategic alliance with Multex.com was formed in December 1999 to co-develop global research and information web sites for Merrill Lynch clients, and to develop technology that will offer clients expanded market data and news, as well as interactive investor conference calls to give customers real-time access to Merrill Lynch’s research analysts. CICG has also invested in electronic trading and market systems.

CICG’S RESULTS OF OPERATIONS

(dollars in millions)	**2000**	**1999**	**1998**
Commissions	$ 2,415	$ 2,034	$ 1,764
Principal transactions and net interest profit	5,954	4,309	1,757
Investment banking	3,399	2,952	2,746
Other revenues	777	497	494
Total net revenues	$ 12,545	$ 9,792	$ 6,761
Pre-tax earnings	$ 3,881	$ 2,698	$ 1,046
Pre-tax profit margin	30.9%	27.6%	15.5%
Total full-time employees	15,300	14,000	13,400

In 2000, CICG's pre-tax earnings were a record $3.9 billion, up 44% from 1999, with a pre-tax pro fit margin of 30.9%, up more than 3 percentage points from 27.6% in 1999. CICG's net revenues increased 28% from 1999 to $12.5 billion, due primarily to an outstanding performance in equity trading and origination, and record strategic advisory fees. In 1999, pre-tax earnings and net revenues rose 158% and 45%, respectively, from 1998, due to significantly improved market conditions and lower expense ratios. In 1998, the highly volatile global markets, particularly in the latter half of the year, negatively impacted financial markets, especially debt markets.

Client Facilitation and Trading

COMMISSIONS revenues advanced 19% in 2000 to $2.4 billion, primarily due to increased trading volume in global equity markets. In 1999, commissions revenues rose 15% to $2.0 billion, as a result of increased volume of listed and over-the-counter securities transactions.

PRINCIPAL TRANSACTIONS AND NET INTEREST PROFIT

(dollars in millions)	2000	1999	1998
Equities and equity derivatives	$ 3,634	$ 2,223	$ 1,444
Debt and debt derivatives	2,320	2,086	313
Total	$ 5,954	$ 4,309	$ 1,757

Trading of over-the-counter equity, debt, and derivative instruments and related hedging and financing activities generate both principal transactions revenues and net interest and dividend revenues. In assessing the profitability of its client facilitation and trading activities, Merrill Lynch aggregates net interest and principal transactions revenues. For financial reporting

purposes, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues and dividends and interest are recorded in net interest profit. Changes in the composition of trading inventories and hedge positions can cause the recognition of principal transactions and net interest revenues to fluctuate.

Principal transactions and net interest pro fit was $6.0 billion in 2000, up 38% from 1999. Equities and equity derivatives net trading revenues advanced 63% from 1999 to $3.6 billion, due to significantly higher revenues from both U.S. and non-U.S. equities, as well as portfolio trading. The increase in revenues was largely a result of increased trading volumes in global markets, as well as higher dividend revenues. In addition, equity-related net interest rose due to increased stock loan and other secured financing activity. Debt and debt derivatives net trading revenues were $2.3 billion, up 11% from 1999, primarily due to increased global derivative trading, partially offset by lower trading revenue in investment-grade and emerging market debt. High-yield secondary trading declined in 2000 due to widening credit spreads and a reduction in liquidity. Net interest related to debt trading also declined as a result of higher funding costs.

In 1999, principal transactions and net interest pro fit increased $2.6 billion from 1998 due to signi ficantly improved global market conditions. Equities and equity derivatives net trading revenues advanced 54% from 1998 to $2.2 billion due to significantly higher revenues from both U.S. and non-U.S. equities, as well as convertibles, benefiting from improved market conditions. Debt and debt derivatives net trading revenues were $2.1 billion, up sharply from 1998, when revenues suffered from significant illiquidity in global debt markets, an unprecedented sharp widening of credit spreads, and counter-party credit losses.

INVESTMENT BANKING

(dollars in millions)	2000	1999	1998
Debt underwriting	$ 410	$ 427	$ 656
Equity underwriting	1,630	1,256	1,019
Strategic advisory services	1,359	1,269	1,071
Total	$ 3,399	$ 2,952	$ 2,746

Underwriting revenues were $2.0 billion, up 21% from 1999, due to increased equity and equity-linked underwriting revenues, which were partly offset by lower corporate bond and high-yield underwriting revenues. Merrill Lynch retained its position as the leading underwriter of total debt and equity securities for the 12th consecutive year globally and for the 13th consecutive year in the United States. Merrill Lynch's underwriting market share information based on transaction value follows:

	2000		1999		1998	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
Global proceeds						
Debt and equity	12.5%	1	12.6%	1	13.3%	1
Debt	12.1	1	12.5	1	12.8	1
Equity and equity-linked	15.2	2	12.4	3	13.1	3
U.S. proceeds						
Debt and equity	14.8%	1	15.7%	1	15.1%	1
Debt	14.8	1	15.8	1	14.6	1
Equity and equity-linked	14.6	3	12.3	4	15.7	1

Source: Thomson Financial Securities Data statistics based on full credit to book manager.

Strategic Advisory Services fees rose 7% in 2000 to a record $1.4 billion, benefiting from higher levels of merger and acquisition activity. Merrill Lynch's merger and acquisition market share information based on transaction value follows:

	2000		1999		1998	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
Completed transactions						
Global	32.3%	3	21.7%	4	24.7%	2
U.S.	30.1	3	22.3	4	32.8	1
Announced transactions						
Global	22.3%	4	34.5%	2	25.0%	3
U.S.	27.9	4	29.7	3	31.5	2

Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.

OTHER REVENUES include investment gains and losses and partnership distributions. Other revenues increased 56% to $777 million in 2000, and remained virtually unchanged in 1999 compared with 1998.

PRIVATE CLIENT GROUP

PCG provides a choice of wealth management services that assist clients around the world in building financial assets and enhancing returns in relation to risk tolerance and investment objectives. In 2000, PCG made significant progress in developing a full range of services to provide clients with access to Merrill Lynch products with a choice of multiple platforms to access these services.

In the United States, PCG offers its clients a choice of traditional commission-based investment accounts, and a variety of asset-priced investment services, as well as self-directed online accounts, many of which include access to Merrill Lynch's award-winning research. Outside of the United States, Merrill

Lynch continues to expand its services to provide clients with a similar choice of wealth management services. As part of this expansion, in April 2000 Merrill Lynch formed a 50/50-owned corporation with HSBC Holdings plc ("HSBC") to create the first global online investment and banking services company, serving individual self-directed customers outside the United States. This is a key element in PCG's strategy to offer clients the widest possible choice of services to suit their investment needs. Merrill Lynch HSBC launched online integrated investment and banking services in Canada and Australia during 2000. These services include world-class research, which was also introduced in the United Kingdom as a prelude to the full U.K. launch in 2001.

PCG provides a wide range of fee-based products and services, including Unlimited Advantage[SM], a U.S. fee-based, brokerage service introduced in 1999. Unlimited Advantage attracted $13 billion of net new money in 2000, bringing total assets to $83 billion at the end of the year, up 31% from the 1999 year-end. Total assets in asset-priced accounts increased 24% to $209 billion in 2000.

Client assets in Merrill Lynch Direct[SM], the online investing service for self-directed investors introduced in 1999, grew to $3 billion at the end of 2000, including $1 billion of net new money. Over 850,000 clients now have online access to their Merrill Lynch accounts through either Merrill Lynch OnLine or Merrill Lynch Direct. Merrill Lynch's online platforms continued to garner many awards throughout the year. Merrill Lynch Direct was named as one of the "Best Online Brokers of 2000" by *Money* magazine, and was praised as one of the "best values of all surveyed brokers" by *BusinessWeek*. Merrill Lynch's platform of choice strategy for retail investors was named as the top brokerage by *SmartMoney* magazine in two of three categories in its "Best Broker" survey.

PCG provides a wide range of other products, including retail brokerage, asset and liability management, retail and private banking, trust and generational planning services, and insurance products. Outside the United States, PCG's products and services also include private banking services, which provide high-net-worth individuals with a host of products and services to meet their financial objectives, including investing and borrowing strategies, investment management, trust and personal holding company services, and currency management. PCG products and services are provided to individual investors, corporations, and institutions through various distribution networks, including approximately 20,200 Financial Consultants in over 1,000 Private Client offices in 34 countries.

Financial Consultants and other investment professionals work with individual investors, small- and medium-sized businesses, and other organizations to address clients' financial concerns by matching the numerous proprietary and third-party products offered by Merrill Lynch with the clients ' customized needs. These products include:

- The Cash Management Account® ("CMA") for individuals, and Working Capital Management Account SM ("WCMA® ") for small- and mid-sized businesses, which encompass securities transactions, money sweeps, electronic funds-transfer capabilities, debit card access, and many other financial management features.
- A global array of mutual fund portfolios in over 100 mutual fund families covering a wide cross section of industries and regions of the world.
- Various advisory services with pricing alternatives, including Merrill Lynch Consults®, Merrill Lynch Mutual Fund Advisor SM , and Global Funds AdvisorSM .
- Other services provided include mortgages and other consumer loans, margin lending, commercial financing, annuity and life insurance products, trust and other estate planning techniques, and advisory and administrative activities for defined contribution, defined benefit, and various stock plans.

In mid-2000, cash inflows of certain CMA and other types of accounts were redirected from taxable money market funds that are included in assets under management and are not on the Consolidated Balance Sheets, to bank deposits at Merrill Lynch's U.S. banks. As a result, U.S. bank deposits included in *Demand and time deposits* on the Consolidated Balance Sheets

grew to $55 billion from $6 billion at the end of 1999. These deposits were primarily invested in high quality marketable investment securities. For further information, see Note 4 to the Consolidated Financial Statements.

During 2000, PCG took several actions to reallocate and focus the use of resources in its businesses. PCG entered into a long-term outsourcing arrangement for certain mortgage origination services of Merrill Lynch Credit Corporation with Cendant Mortgage Corporation effective in 2001, sold the Employee Stock Purchase Plan servicing business to Computer-share Ltd., and entered into an agreement to outsource the administrative services for smaller U.S. 401(k) plans to BISYS Plan Services, L.P. However, Merrill Lynch will continue to offer and fund mortgages for clients and provide structuring and advice for 401(k) plans, thereby retaining those elements of these businesses where it believes it can add the most value. Additionally, Merrill Lynch sold its Puerto Rico retail brokerage business to Santander Securities Corporation.

PCG'S RESULTS OF OPERATIONS

(dollars in millions)	**2000**	**1999**	**1998**
Commissions	$ 4,397	$ 4,132	$ 3,990
Principal transactions and new issue revenues	2,119	2,105	1,944
Asset management and portfolio service fees	3,781	3,075	2,679
Net interest profit	1,653	1,183	884
Other revenues	145	124	84
Total net revenues	$ 12,095	$ 10,619	$ 9,581
Pre-tax earnings	$ 1,617	$ 1,386	$ 1,566
Pre-tax profit margin	13.4%	13.1%	16.3%
Total full-time employees	46,800	44,900	42,500
Total Financial Consultants	20,200	18,600	17,800

Pre-tax earnings for PCG were a record $1.6 billion, up 17% from $1.4 billion in 1999. Net revenues were $12.1 billion, up 14% from 1999. In 1999, pre-tax earnings declined 11% and net revenues rose 11%. The 2000 pre-tax profit margin was 13.4%, compared with 13.1% in 1999, and 16.3% in 1998. The profitability of the PCG business in 2000 was driven by strong results outside the United States in the first quarter of 2000 and significantly reduced expenses in the United States in the second half of 2000. PCG's 2000 expenses include a $70 million charge for compensation and benefits expenses related to staff reductions. Net revenues increased 11% in 1999 compared with 1998 due to increased trading volume and growth in assets in asset-priced accounts. Higher technology and advertising expenses in 1999 caused pre-tax earnings to decline 11% from 1998.

COMMISSIONS revenues increased 6% to a record $4.4 billion in 2000, as a result of increased mutual fund commissions. This increase was partly offset by a decline in listed securities commissions due to weaker market conditions in the second half of the year, as well as a shift in revenue to portfolio service fees as assets have moved from traditional transaction-priced accounts to asset-priced services. Commissions revenues increased 4% in 1999 to $4.1 billion as increased volume led to higher revenues from global listed and over-the-counter securities transactions.

PRINCIPAL TRANSACTIONS AND NEW ISSUE REVENUES remained virtually unchanged from 1999. In 1999, principal transactions and new issue revenues rose 8% from 1998 to $2.1 billion due to increased trading volumes as a result of favorable market conditions. PCG's principal transactions revenues primarily represent realized bid-offer revenues in over-the-counter equity securities, government bonds, and municipal securities.

ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES which include asset management, portfolio service, account, and other fees, reached a record $3.8 billion, an increase of 23% from 1999. The increase was largely due to a rise in portfolio fees, as assets shifted to asset-priced accounts, such as Unlimited Advantage and Merrill Lynch Consults, during the year.

The value of assets in Private Client accounts at year-end 2000, 1999, and 1998 is summarized as follows:

(dollars in billions)	2000	1999	1998
Assets in Private Client accounts			
U.S.	$ 1,337	$ 1,338	$ 1,164
Non-U.S.	140	137	98
Total	$ 1,477	$ 1,475	$ 1,262
Assets in asset-priced accounts	$ 209	$ 168	$ 95

An analysis of the change in assets in Private Client accounts from year-end 1999 to year-end 2000 is detailed below:

(dollars in billions)		Net changes due to		
	Year-end 1999	New Money	Asset Depreciation	Year-end 2000
Assets in Private Client accounts	$ 1,475	$ 150	$ (148)	$ 1,477

Despite declines in all major equity markets, total assets in U.S. Private Client accounts remained essentially unchanged from the end of 1999, with net new money inflows of $119 billion during the year. Outside the United States, assets in Private Client accounts were $140 billion, with $31 billion of net new money inflows during the year.

NET INTEREST PROFIT was $1.7 billion, up 40% from $1.2 billion in 1999. Growth in deposits and the related investment portfolios at Merrill Lynch's U.S. banks is primarily responsible for the increase in net interest. Additionally, higher average security-based and other customer-lending balances in 2000 generated an increase in net interest. In 1999, net interest profit increased 34%, principally due to higher interest revenue from customer-lending activities.

OTHER REVENUES increased 17% in 2000, from $124 million to $145 million, and increased 48% in 1999.

MERRILL LYNCH INVESTMENT MANAGERS

MLIM is one of the world's largest investment managers, with $557 billion in assets under management. MLIM offers an extremely wide range of investment products, ranging from short-term fixed income portfolios to medium- and long-duration fixed income funds, as well as active, passive, and quantitative equity and balanced products that cover virtually every market in the world. These products are available in a wide variety of forms including mutual funds or their equivalent, closed end funds, unit investment trusts, and segregated portfolios. During 1999 and continuing into 2000, MLIM added to its traditional core of active investment capabilities with the formation of Merrill Lynch Quantitative Advisers, a management unit offering products that utilize quantitative techniques designed to provide consistent and high investment returns. Product breadth was further enhanced during 2000 by the development of private equity fund-of-funds and hedge fund capabilities. These businesses won significant new clients in 2000. MLIM provides investment management services to a diverse global clientele of institutions, including pension plans and corporations; high-net-worth individuals; mutual funds; and other investment vehicles. MLIM markets its services through the PCG distribution channel and both CICG and third-party distribution networks.

MLIM made progress during 2000 by substantially improving worldwide investment performance. On an overall basis, 69% of total assets under management had investment results during 2000 that either met or exceeded a relevant benchmark. This improvement is evidenced in 78% of MLIM's worldwide retail mutual fund assets exceeding the applicable industry median, and 61% of total institutional assets under management exceeding their benchmark during 2000. In the U.S. equity mutual fund market, 73% of MLIM assets performed above median in 2000, while nearly 50% of the assets were in first quartile funds.

This improved investment performance was accompanied by continued investment in people, expansion of product range, and further business integration. During 2000, MLIM rebranded its business into a single global organization by uniting Merrill Lynch Asset Management and Merrill Lynch Mercury Asset Management under the MLIM brand name. In the United States, MLIM offers its products through the Merrill Lynch distribution network under the MLIM brand name and Merrill Lynch Mercury products are offered for sale through other financial intermediaries. Outside the United States, MLIM-branded products are available through both the Merrill Lynch distribution network and other financial intermediaries.

Global Finance recognized the growing success and strength of MLIM by naming it "Best Asset Management Bank" in 2000.

As part of the firmwide effort to reallocate resources towards businesses which add the most value, MLIM outsourced certain fund accounting and daily pricing services for Merrill Lynch's U.S. retail mutual funds to State Street Bank and Trust Company, beginning January 1, 2001.

MLIM'S RESULTS OF OPERATIONS

(dollars in millions)	**2000**	**1999**	**1998**
Commissions	$ 389	$ 383	$ 350
Asset management fees	1,892	1,664	1,514
Other revenues	203	198	128
Total net revenues	$ 2,484	$ 2,245	$ 1,992
Pre-tax earnings	$ 537	$ 482	$ 427
Pre-tax profit margin	21.6%	21.5%	21.4%
Total full-time employees	4,200	3,500	3,200

Pre-tax earnings for MLIM were $537 million in 2000, up 11% from $482 million in 1999. Results in 1999 include a $71 million pre-tax investment gain on the sale of an interest in the Royal Bank of Scotland. After adjusting for the gain, pre-tax earnings increased from 1999 by 31%. On the same basis, net revenues increased 15% from 1999 to $2.5 billion, and the pre-tax profit margin in 2000 was 21.6%, compared with an adjusted 19.1% in 1999, and 21.4% in 1998. The 2000 results also reflect revenue gains from a shift in product mix in U.S. equity mutual funds and U.K. institutional services. Pre-tax earnings declined 4% and net revenues increased 8% on an adjusted basis in 1999.

COMMISSIONS revenues were relatively unchanged in 2000. In 1999, commissions revenues rose 9% to $383 million due to increased mutual fund sales.

ASSET MANAGEMENT FEES advanced 14% in 2000 to a record $1.9 billion as a result of higher management and performance fees. The increase in 1999 was due to a 9% rise in assets under management.

MLIM's assets under management for each of the last three years were comprised of the following:

(dollars in billions)	**2000**	**1999**	**1998**
Assets under management			
Retail(1)	$ 251	$ 300	$ 288
Institutional	261	255	221
Private accounts(2)	45	39	35
Total	$ 557	$ 594	$ 544

(1) *Net of outflows of $36 billion of money market funds which transferred to bank deposits at Merrill Lynch's U.S. banks in* 2000.

(2) *Represents segregated portfolios for individuals, small corporations, and institutions.*

At year-end 2000, assets under management totaled $557 billion, a 6% decline from 1999. Excluding the impact of net out flows of client cash balances to Merrill Lynch's U.S. banks from money market funds, assets under management remained essentially unchanged from 1999. MLIM has attracted positive net new money for 5 consecutive quarters, including $33 billion in 2000, despite volatile markets in the second half of the year.

An analysis of the change in assets under management from year-end 1999 to year-end 2000 is as follows:

(dollars in billions)

		Net changes due to			
	Year-end 1999	**New Money**	**Other(1)**	**Asset Depreciation(2)**	**Year-end 2000**
Assets under management	$ 594	$ 33	$ (25)	$ (45)	$ 557

(1) *Includes reinvested dividends of* $11 *billion and net outflows of $36 billion of retail money market funds which transferred to bank deposits at Merrill Lynch's U.S. banks.*

(2) *Includes* $(17) *billion impact of foreign exchange, primarily due to the decline in value of the British pound against the U.S. dollar.*

OTHER REVENUES rose 3% to $203 million in 2000. The increase was due to higher net interest, offset by lower investment gains. Other revenues in 1999 increased by 55%, due to the pre-tax gain on the sale of an interest in the Royal Bank of Scotland.

Global Operations

Merrill Lynch's non-U.S. operations are organized into five geographic regions:

- Europe, Middle East and Africa,
- Japan,
- Asia Pacific/Australia,

- Canada, and
- Latin America.

The following charts illustrate the change in the composition of Merrill Lynch 's net revenues by geographic region from 1996 to 2000.

The following summary of regional operating results excludes all items included in the corporate segment. For further information see Note 14 to the Consolidated Financial Statements.

EUROPE, MIDDLE EAST AND AFRICA

(dollars in millions)	**2000**	**1999**	**1998**
Net revenues	$ 4,989	$ 4,181	$ 2,783
Pre-tax earnings	1,468	1,106	311
Total full-time employees	8,800	7,600	7,200

Merrill Lynch operates in Europe, the Middle East and Africa as a dealer in a wide array of equity and debt products, and also provides investment management, investment banking, private banking, and research services. This region is poised for accelerated growth due to changes in demographics, the growth of an equity culture, and the development of the Euroland economy. In line with its strategy of becoming a global leader with a strong local presence in key markets, Merrill Lynch now has 47 offices in 21 countries in the region. In addition, Merrill Lynch HSBC, a 50/50-owned corporation formed earlier this year, which is headquartered in London, is combining HSBC's world-class banking with Merrill Lynch 's world-renowned research capabilities and investment expertise, to offer online investment and banking services to individual, self-directed customers. A free research service was launched in the U.K. in December in advance of expanded service in 2001.

As a result of the December 1997 acquisition of Mercury Asset Management, Merrill Lynch has preeminent investment management capabilities in this region. As part of the integration of the investment management business, Mercury Asset Management began to operate under the MLIM brand during the year.

All of the region's businesses performed well in 2000, with notable contributions from equity markets and investment banking. Merrill Lynch participated in several landmark transactions during the year, including lead manager for South Africa's first private sector bond issue, lead role in the largest U.S. dollar-denominated bond deal at that time, and joint book runner in the largest accelerated equity book-building offering worldwide. Merrill Lynch has established itself as the leading equities house in the region, and was named "Equity House of the Year" by *The Banker*. This year was particularly successful in investment banking, as Merrill Lynch participated in a number of top deals in the region, and won seven categories in *Corporate Finance* magazine's "Deals of the Year 2000" survey, including "Best M&A Takeover." In addition, Merrill Lynch was named by the Reuters/Tempest Emerging Markets Survey as winner in the "Best Broker," "Best Investment Bank," and "Best Broker Execution" categories.

In 2000, net revenues for the region increased 19% from 1999, primarily due to strong equity trading and advisory revenues. Pre-tax earnings increased 33% from 1999 to $1.5 billion, primarily due to increased revenues.

In 1999, net revenues for the region were up 50%, primarily due to higher investment banking and equity and debt trading revenues, as market conditions stabilized compared with the second half of 1998. The increase in pre-tax earnings was mainly attributable to significantly higher revenues, resulting primarily from investment banking activities and the lower 1998 debt trading results.

JAPAN

(dollars in millions)	**2000**	**1999**	**1998**
Net revenues	$ 1,410	$ 1,075	$ 592
Pre-tax earnings	271	(6)	(123)
Total full-time employees	3,500	3,200	2,900

Merrill Lynch continued to enhance its presence in the region with the successful alignment of its various businesses in Japan. The firm now provides an integrated range of PCG, MLIM, and CICG products and services to individual, institutional, and corporate clients. In a difficult market environment during 2000, CICG and PCG distributed several equity public offerings through Merrill Lynch Japan Securities ("MLJS"), and launched eleven proprietary debt product offerings. Developing synergies between MLIM and PCG resulted in the successful introduction and distribution of six new MLIM funds.

The region's CICG business, which operates under the name Merrill Lynch Japan ("MLJ"), continued to improve its performance in 2000, with record revenues in its equity and advisory businesses. Merrill Lynch has significantly expanded its origination activities and presence in Japan, including involvement in the NTT Communications Corporation privatization. Merrill Lynch ranked No.2 in Japanese announced M&A, according to Thomson Financial Securities Data.

The development of Merrill Lynch's Private Client business in Japan in 2000 continued to be adversely impacted by the difficult market environment. Nevertheless, total client accounts surpassed 100,000, an increase of over 50% from 1999. MLJS introduced variable annuities and securities-based lending products for the first time in the region. In addition, the Japanese versions of the CMA account and Merrill Lynch OnLine were introduced. In March 2001, Merrill Lynch intends to combine MLJS with its institutional group, MLJ, which will facilitate further operating efficiencies.

MLIM, one of the leading institutional money managers in Japan, continued to be adversely affected by the difficult market environment. MLIM has introduced a range of products including index funds, alternative investments, and unit investment trusts. MLIM is one of the few foreign asset management companies in the country with both institutional and retail businesses. During 2000, the business added 18 new institutional clients and $1.8 billion in net new money. In addition, MLIM Japan was selected as the "Best Japanese Equity Fund Manager" by leading pension plan sponsors.

Net revenues in the Japan region were up 31% from 1999, reflecting improved equity and debt trading revenues and increased asset management fees. Pre-tax earnings reached $271 million in 2000, up sharply from 1999.

Net revenues in the Japan region in 1999 were 82% higher than 1998. These higher revenues were partially offset by a full year of fixed expenses and higher production-related compensation costs associated with MLJS.

ASIA PACIFIC/AUSTRALIA

(dollars in millions)	**2000**	**1999**	**1998**
Net revenues	$ 1,259	$ 1,074	$ 554
Pre-tax earnings	226	194	(212)
Total full-time employees	2,700	2,500	2,300

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific/Australia region, and offers a

full range of PCG, MLIM, and CICG products. Merrill Lynch operates from offices in the People's Republic of China, Hong Kong (a special administrative region of China), Singapore, Taiwan, South Korea, Thailand, Malaysia, Indonesia, India, the Philippines and Australia. Merrill Lynch has an established trading presence and exchange memberships in all major financial markets in the region. The Private Client business operates 16 offices, including two in the Western United States, offering investment services and wealth management products to its clients. MLIM operates 11 offices offering a diverse mix of investment management products and services to institutional and retail clients.

During 2000, Private Client opened offices in Seoul, Korea and Kaohsiung, Taiwan, and MLIM restructured its business in Thailand with the sale of its asset management unit. Additionally, Merrill Lynch HSBC, the global online investment services and banking company, launched its services in Australia in December of 2000.

The region had another record year in 2000, with record revenues in CICG, PCG, and MLIM. Merrill Lynch participated in some of the largest deals ever for the Asia Pacific/Australia region, including sole book-runner on the largest ever convertible bond offering, joint lead on the largest ever simultaneous equity placement and exchangeable bond offering, and joint sell-side advisor on the largest ever M&A transaction. *IFR* magazine awarded Merrill Lynch both "Asian Equity-Linked Deal of the Year" and "Asian Equity-Linked House of the Year," and *Institutional Investor* magazine named Merrill Lynch No.1 in Asian Equity and Fixed Income Research for the second year in a row.

Net revenues in the region grew 17% in 2000 to $1.3 billion. The increase resulted from strong revenues in equity markets and record Private Client revenues, as well as higher advisory fees. Pre-tax earnings rose 16% in 2000 to $226 million.

In 1999, net revenues in the region were up $520 million from 1998 due to strong revenues from equities and equity derivatives and record Private Client revenues, as well as increased asset management fees. Pre-tax earnings rose to $194 million.

CANADA

(dollars in millions)	**2000**	**1999**	**1998**
Net revenues	$ 823	$ 629	$ 642
Pre-tax earnings	153	50	9
Total full-time employees	4,000	3,700	3,700

In 2000, Merrill Lynch solidified its position in Canada as a premier, full service securities firm, providing an integrated range of PCG, CICG, and MLIM products and services to individual and institutional clients as well as corporate and government issuers.

Merrill Lynch's Private Client Network made significant progress in 2000, ranking as one of the top three in Canada with a team of more than 1,200 Financial Consultants. PCG continued to grow as client assets increased to $34 billion. During the year, Merrill Lynch embarked on a wealth management strategy focusing on high-net-worth clients. In December, Merrill Lynch HSBC, the global online investment services and banking company, launched its services in Canada.

In CICG, equity markets performed well, as a result of event-driven transactions and customer volume. Reuters, in its 2000 Survey, ranked Merrill Lynch Canada No.1 in the following categories: “Best Broker Research” according to corporations, and “Best Broker Product and Service” according to fund managers. In recognition of the debt markets business, *Euromoney* magazine awarded Merrill Lynch Canada “The Best Foreign Bond House.” Investment banking generated notable improvement in performance.

MLIM offers a full range of investment solutions for both retail and institutional investors. Assets under management increased 15% from the end of 1999 to $6 billion. During the year, MLIM consolidated its Atlas family of mutual funds into the Merrill Lynch Funds group, resulting in nearly $3 billion in combined assets.

Net revenues in the region increased 31% in 2000 to $823 million, as equity markets improved substantially in the region. Pre-tax earnings more than tripled to $153 million in 2000, primarily due to improved profitability in CICG and improved margins in PCG.

Net revenues for the region in 1999 were down slightly from 1998. Pre-tax earnings increased significantly from 1998, primarily due to costs incurred in 1998 due to the Midland Walwyn merger.

LATIN AMERICA

(dollars in millions)	**2000**	**1999**	**1998**
Net revenues	$ 720	$ 615	$ 412
Pre-tax earnings	169	124	(69)
Total full-time employees	1,200	1,200	1,200

Merrill Lynch provides various brokerage and investment services, including financial planning, investment banking, research, and asset management to Latin American clients.

The economies of the Latin American countries were on a recovery track through the first half of 2000, as the volatility stemming from the first quarter 1999 Brazilian currency devalu-

ation had substantially subsided. In the latter part of 2000, despite higher oil prices that favored certain Latin American economies, the downturn in the United States and other global stock markets dampened the pace of the region’s economic recovery.

In January of 2000, Merrill Lynch executed a $1.1 billion secondary offering for Grupo Televisa, signifying the return of Latin American issuers to the equity markets, after a two-year absence. This equity offering was one of the largest non-privatization offerings by a corporate issuer in the region. Also in January, Merrill Lynch advised and executed a $3.3 billion exchange offer for an Argentine energy company. The innovative structure of the deal earned Merrill Lynch the title of “Best Foreign M&A House of the Year” in *Euromoney*’s Awards of Excellence issue. In August, Merrill Lynch executed a $4.3 billion secondary offering for a Brazilian company, the largest ever equity offering in Latin America and one of the largest privatizations in emerging markets history. Merrill Lynch continues to receive high honors in numerous categories, including “Best Equity House in Latin America” by *LatinFinance* and *Global Finance*, first place in *Institutional Investor*’s 2000 Latin America Research Team for the fourth consecutive year, and first place in *LatinFinance*’s 2000 Latin Research Olympics.

Net revenues for the region increased 17% from 1999 due to the gain on the sale of the Puerto Rico retail brokerage business to Santander Securities Corporation and higher commissions revenues. Pre-tax earnings advanced 36% from 1999 to $169 million.

Net revenues in 1999 increased 49% from 1998 as trading and investment banking revenues were negatively impacted by volatile global markets throughout most of 1998. Pre-tax earnings for 1999 rose $193 million from 1998 due to significantly improved performance by the debt markets group.

Non-Interest Expenses

Merrill Lynch’s non-interest expenses are summarized as follows:

(dollars in millions)	**2000**	**1999**	**1998**
Compensation and benefits	$ 13,730	$ 11,337	$ 9,308
Non-compensation expenses:			
Communications and technology	2,320	2,053	1,758
Occupancy and related depreciation	1,006	953	881
Advertising and market development	939	783	690
Brokerage, clearing, and exchange fees	893	779	764
Professional fees	637	571	559
Goodwill amortization	217	227	227
Provision for costs related to staff reductions	–	–	430
Other	1,328	1,412	1,062
Total non-compensation expenses	$ 7,340	$ 6,778	$ 6,371

Total non-interest expenses	$ 21,070	$ 18,115	$ 15,679
Compensation and benefits as a percentage of net revenues	51.3%	50.8%	52.3%
Non-compensation expenses as a percentage of net revenues	27.4	30.4	33.4(1)
Full-time employees	72,000	67,900	65,200

(1) *Excluding provision for costs related to staff reductions.*

(1) Excluding provision for costs related to staff reductions.

Non-interest expenses were $21.1 billion in 2000, compared with $18.1 billion in 1999. The largest expense category, compensation and benefits, was up 21% from 1999 due to higher incentive and production-related compensation, resulting primarily from increased revenues. Also included in this

category is PCG's $70 million charge related to staff reductions. An increase in the number of employees compared with year-end 1999 also contributed to this increase. Compensation and benefits were 51.3% of net revenues for 2000, relatively unchanged from 1999. Non-compensation expenses were 27.4% of net revenues, a three percentage point improvement from 1999.

Communications and technology expense rose 13% in 2000 to $2.3 billion due to higher technology-related depreciation and systems consulting, as well as increased expenses related to market data services. Occupancy and related depreciation increased 6% to $1.0 billion.

Advertising and market development expense was $939 million, up 20% from 1999 due to higher travel expenses and sales promotion costs associated with increased business activity. Brokerage, clearing, and exchange fees were $893 million, an increase of 15% from 1999 due to higher execution and clearing costs as a result of increased transaction volumes. Professional fees rose 12% to $637 million, partly as a result of higher employment service fees. Goodwill amortization was substantially unchanged at $217 million for the year, and other expenses declined 6% from 1999.

Non-interest expenses in 1999 were up 16% compared with 1998. In the 1998 third quarter, Merrill Lynch recorded a $430 million ($288 million after-tax) provision for costs related to staff reductions aimed at reducing fixed and semi-fixed costs and resizing certain debt trading businesses. The staff reduction provision covered primarily severance costs, as well as costs to terminate long-term contracts and leases related to personnel reductions and resized businesses (see Note 2 to the Consolidated Financial Statements).

Compensation and benefits rose 22% in 1999 due to higher levels of incentive compensation as a result of significantly higher profit and business volume compared with 1998. Communications and technology expense advanced 17% in 1999, primarily due to higher technology-related depreciation and communication maintenance and support, partly related to strategic online initiatives implemented during 1999. Occupancy and related depreciation increased 8% as a result of continued global expansion. Advertising and market development expense rose 13% from 1998, because of increased costs related to new advertising campaigns, particularly those related to Unlimited Advantage and online initiatives. Brokerage, clearing, and exchange fees, professional fees, and goodwill amortization remained virtually unchanged from 1998. Other expenses rose 33% partially due to higher provisions related to various business, operational, and legal matters.

Income Taxes

Merrill Lynch's 2000 income tax provision was $1.7 billion, representing a 30.4% effective tax rate compared with 31.4% in 1999, and 34.2% in 1998. The decline in both the 2000 and 1999 effective tax rates was primarily attributable to an increase in lower-taxed non-U.S. income and additional tax-advantaged financing. Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assessed its ability to realize deferred tax assets primarily based on a strong earnings history and the absence of negative evidence as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes.* During the last 10 years, average pre-tax earnings were $2.6 billion. Accordingly, management believes that it is more likely than not that deferred tax assets, net of the related valuation allowance, will be realized (see Note 12 to the Consolidated Financial Statements).

Balance Sheet

Overview

Management continually monitors and evaluates on a daily basis the level and composition of the balance sheet.

The following charts illustrate the composition of the balance sheets at December 29, 2000 and December 31, 1999.

In 2000, average total assets were $354 billion, up 18% from $300 billion in 1999. Average total liabilities in 2000 increased 17% to $335 billion from $286 billion in 1999, and average equity capital increased 31% to $19 billion during 2000. The major components of the increase in average total assets and liabilities are summarized as follows:

(dollars in millions)	**Increase**	**Change**
Average assets		
Marketable investment securities	$ 19,146	303%
Customer receivables	12,577	26
Receivables from brokers and dealers	9,566	96
Trading assets	8,833	9
Loans, notes and mortgages	4,084	44
Average liabilities		
Demand and time deposits	$ 20,084	139%
Long-term borrowings	8,141	15
Trading liabilities	6,436	10
Commercial paper and other short-term borrowings	5,555	41
Customer payables	5,511	25

Average balances in 2000 were higher compared with 1999, primarily resulting from increases in marketable investment securities, receivables, demand and time deposits, and long-term borrowings. The discussion that follows analyzes the changes in year-end financial statement balances of major asset and liability categories.

Trading-Related Assets and Liabilities

Trading-related balances primarily consist of trading assets (including securities pledged as collateral) and liabilities, receivables under resale agreements and securities borrowed transactions, payables under repurchase agreements and securities loaned transactions, and certain receivable/payable balances that result from trading activities. At December 29, 2000 total trading-related assets and liabilities were $276 billion and $197 billion, respectively.

Although trading-related balances comprise a significant portion of the balance sheet, the magnitude of these balances does not necessarily convey a sense of the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following sections (see Note 3 to the Consolidated Financial Statements for descriptions of market and credit risks).

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related receivables by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies.

TRADING ASSETS AND LIABILITIES

Trading inventory principally represents securities purchased ("long" positions), securities sold but not yet purchased ("short" positions), and the fair value of derivative contracts (see Note 1 to the Consolidated Financial Statements). These

positions are primarily the result of market-making, hedging, and proprietary activities.

Merrill Lynch acts as a market-maker in a wide range of securities, resulting in a significant amount of trading inventory to facilitate customer transaction flow. To a lesser degree, Merrill Lynch also maintains proprietary trading inventory in seeking to profit from existing or projected market opportunities.

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

Trading assets, including securities pledged as collateral, at year-end 2000 were up 4% from year-end 1999, and trading liabilities increased 2% to $68.9 billion.

RESALE/REPURCHASE AGREEMENTS AND
SECURITIES BORROWED/LOANED TRANSACTIONS

Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a significant portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. These transactions are typically short-term in nature with a significant portion entered into on an overnight or open basis. Resale and repurchase agreements entered into on a term basis typically mature within 90 days.

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

Receivables under resale agreements and securities borrowed transactions and payables under repurchase agreements and securities loaned transactions in 2000 increased 15% and 44% from year-end 1999, respectively, as a result of higher matched-book activity.

OTHER TRADING-RELATED RECEIVABLES AND PAYABLES

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

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

Trading-related receivables at year-end 2000 were up $5 billion from 1999, and trading-related payables declined $11 billion from year-end 1999, primarily due to changes in broker-dealer balances.

Non-Trading Assets

INVESTMENTS

Marketable investment securities, including those held for liquidity management purposes, consist of highly liquid debt and equity securities. Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities, and venture capital investments, including technology investments, such as Electronic Communications Networks ("ECNs"), and investments to hedge deferred compensation liabilities (see Note 4 to the Consolidated Financial Statements). Investments grew from $17.7 billion at year-end 1999 to $58.2 billion at year-end 2000, mainly as a result of growth in *Marketable investment securities*, which was funded by increased bank deposits at Merrill Lynch's U.S. banks (see the *Non-Trading Liabilities – Borrowings* section for further information).

LOANS, NOTES, AND MORTGAGES

Merrill Lynch's portfolio of loans, notes, and mortgages includes mortgage loans on residences, working capital loans to small-

and medium-sized businesses, and syndicated loans. Merrill Lynch generally maintains collateral on these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees. Loans, notes, and mortgages rose $6.3 billion in 2000 to $17.5 billion due to increased consumer lending activities. Merrill Lynch maintained collateral of $14.1 billion at December 29, 2000 to reduce related default risk.

OTHER

Other non-trading assets, which include cash and cash equivalents, goodwill (related primarily to the Mercury acquisition), equipment and facilities, and other assets, increased $11.3 billion from year-end 1999 levels. This increase is primarily due to increased cash equivalent balances at Merrill Lynch's U.S. banks.

Non-Trading Liabilities

BORROWINGS

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

Commercial paper decreased from $24.2 billion at year-end 1999 to $14.0 billion at year-end 2000. *Demand and time deposits* increased $50.0 billion in 2000 as a result of higher customer deposits in U.S. banking subsidiaries which resulted from the redirection of cash inflows of certain CMA and other types of accounts from taxable money market funds to bank deposits. Outstanding long-term borrowings increased to $70.2 billion at December 29, 2000 from $54.0 billion at December 31, 1999. Major components of the change in long-term borrowings for 2000 and 1999 follow:

(dollars in billions)	2000	1999
Beginning of year	$ 54.0	$ 57.6
Issuances	33.7	15.6
Maturities	(15.7)	(18.6)
Other	(1.8)	(.6)
End of year(1)	$ 70.2	$ 54.0
Average maturity in years of long-term borrowings, when measured to:		
Maturity	3.6	4.8
Earlier of the call or put date	3.0	4.2

(1) At year-end *2000 and 1999 , $48.8 and $45.0 billion, respectively, of long-term borrowings had maturity dates beyond one year.*

OTHER

Other non-trading liabilities, which include liabilities of insurance subsidiaries and other payables, increased slightly from year-end 1999 levels.

Preferred Securities Issued by Subsidiaries

Preferred securities issued by subsidiaries consist primarily of Trust Originated Preferred Securities SM ("TOPrS"SM) (see Note 7 to the Consolidated Financial Statements for further information). TOPrS proceeds are utilized as part of general balance sheet funding (see the *Capital Adequacy and Liquidity* section for more information). Preferred securities issued by subsidiaries declined $11 million during 2000 as a result of foreign exchange-related fluctuations related to a yen-denominated TOPrS issuance.

Stockholders' Equity

Stockholders' equity at December 29, 2000 increased 41% to $18.3 billion from $13.0 billion at year-end 1999. The 2000 increase primarily resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

In the third quarter of 2000, Merrill Lynch's Board of Directors declared a two-for-one stock split effected in the form of a 100% stock dividend. The par value of the stock remained at $1.33 1/3 per share. Accordingly, adjustments from paid-in capital to common stock and shares exchangeable into common stock were made to preserve the par value of the post-split shares. In addition, as a result of the merger with Herzog, after giving effect to the stock split, Merrill Lynch issued 17.1 million shares of common stock. All share and per share data have been restated for the effect of the stock split and the merger.

At December 29, 2000, total common shares outstanding, excluding shares exchangeable into common stock, were 808.0 million, 7% higher than the 752.5 million shares outstanding at December 31, 1999. The increase was attributable principally to employee stock grants and option exercises.

Total shares exchangeable into common stock at year-end 2000, issued in connection with the Midland Walwyn merger, were 4.7 million, compared with 8.0 million at year-end 1999.

There were no common stock repurchases during 2000. In 1998, Merrill Lynch rescinded its share repurchase authority in order to facilitate pooling-of-interests accounting.

Capital Adequacy and Liquidity

The primary objectives of Merrill Lynch's capital structure and funding policies are to:

- Ensure sufficient equity capital to absorb losses,
- Support the business strategies, and
- Assure liquidity at all times, across market cycles, and through periods of financial stress.

Capital Adequacy

At December 29, 2000, Merrill Lynch's equity capital was comprised of $17.9 billion in common equity, $425 million in preferred stock, and $2.7 billion of TOPrS.

Merrill Lynch continually reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, as well as the regulatory and legal capital requirements of its subsidiaries. Merrill Lynch uses statistically based risk models, developed in conjunction with risk management practices, to estimate potential losses arising from market and credit risks. Equity capital needs are determined based on these models, which dynamically capture changes in risk profile. Merrill Lynch also assesses the need for equity capital to support business risks, such as process risk, that may not be adequately measured through these risk models, as well as the potential use of equity capital to support growth. Merrill Lynch determines the appropriateness of its equity capital composition, which includes common stock, preferred stock, and TOPrS, taking into account the perpetual nature of its preferred stock and TOPrS. Based on these analyses and criteria, management believes that Merrill Lynch's equity capital base of $21.0 billion is adequate.

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 13 to the Consolidated Financial Statements for further information). Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making affiliated investments.

Merrill Lynch's leverage ratios were as follows:

	Leverage Ratio(1)	Adjusted Leverage Ratio(2)
Year-end		
December 29, 2000	19.4x	11.6x
December 31, 1999	19.7x	12.7x
Average(3)		
Year ended December 29, 2000	19.0x	11.7x
Year ended December 31, 1999	21.5x	13.8x

(1) *Total assets to Total stockholders' equity and Preferred securities issued by subsidiaries.*

(2) *Total assets less (a) Receivables under resale agreements and securities borrowed transactions,(b) Marketable investment securities to Total stockholders' equity and Preferred securities issued by subsidiaries.*

(3) *Computed using month-end balances.*

An asset-to-equity leverage ratio does not reflect the risk profile of assets, hedging strategies, or off-balance sheet exposures. Thus, Merrill Lynch does not rely on overall leverage ratios to assess risk-based capital adequacy.

Liquidity

Liquidity risk occurs when there are timing differences between cash inflows from the businesses and cash outflows for business needs and maturing debt obligations. Merrill Lynch's liquidity policy is to maintain alternative funding sources such that all unsecured debt obligations maturing within one year can be repaid when due without issuing new unsecured debt or liquidating business assets. Primary alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, and secured bank loans, which require pledging unhy-pothecated marketable securities held for trading or liquidity purposes. Other funding sources include liquidating cash equivalents; securitizing loan assets; and drawing on a committed, senior, unsecured bank credit facility that, at December 29, 2000, totaled $8 billion and was not drawn upon. Merrill Lynch maintains a contingency funding plan, which outlines actions that would be taken in the event of a severe funding disruption.

Merrill Lynch regularly reviews the level and mix of its assets and liabilities to assess its ability to conduct core business activities without issuing new unsecured debt or drawing upon its bank credit facilities. The mix of assets and liabilities provides flexibility in managing liquidity since a significant portion of assets turn over frequently and are typically match-funded with liabilities having similar maturities and cash flow characteristics. At December 29, 2000, a significant portion of Merrill Lynch's assets was considered readily marketable by management.

Merrill Lynch typically concentrates its unsecured, general-purpose funding at the ML & Co. level, except where tax regulations, time zone differences, or other business considerations make this impractical. The benefits of this strategy are enhanced control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries.

Merrill Lynch strives to expand and diversify its funding programs, markets, and investor and creditor base. Merrill Lynch benefits by distributing a significant portion of its liabilities and equity through its own sales force to a large, diversified global client base. Available funding sources include:

- repurchase agreements and securities loaned transactions,
- U.S., Canadian, Euro, Japanese, and Australian commercial paper programs,
- letters of credit,
- master notes,
- deposits at Merrill Lynch's banking subsidiaries,
- bank loans,

- long-term debt,
- TOPrS,
- preferred stock, and
- common stock.

Commercial paper represented 3% and 8% of total assets at year-end 2000 and 1999, respectively. Merrill Lynch maintains strict concentration standards for commercial paper and other short-term borrowings, including limits for any single investor.

Deposits at Merrill Lynch's banking subsidiaries have increased from $17.6 billion at year-end 1999 to $67.6 billion at year-end 2000, including $54.9 billion at Merrill Lynch's U.S. banks. The additional deposits were primarily invested in high quality marketable investment securities (see the *Non-Trading Liabilities – Borrowings* section for further information).

In addition to equity capital sources, Merrill Lynch views long-term debt as a stable funding source for its core balance sheet assets. Long-term, less liquid assets are fully funded with long-term sources of capital, which include the non-current portion of long-term debt, TOPrS, preferred stock, and common equity. Generally, trading and other current assets are financed with a combination of short-term funding, long-term debt, and equity capital.

As part of an overall liquidity management strategy, Merrill Lynch's insurance subsidiaries regularly review the funding requirements of their contractual obligations for in-force, fixed-rate life insurance and annuity contracts as well as expected future acquisition and maintenance expenses for all contracts. The insurance subsidiaries develop and market primarily variable life insurance and variable annuity products. These products are not subject to the interest rate, asset/liability matching, or credit risks attributable to fixed-rate products, thereby reducing the insurance subsidiaries' risk profile and liquidity demands. At December 29, 2000, approximately 80% of invested assets of insurance subsidiaries were considered liquid by management.

ASSET AND LIABILITY MANAGEMENT

The relationship between assets and liabilities is managed on a consolidated basis across businesses and subsidiaries. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to minimize interest rate risk. Merrill Lynch also enters into currency swaps, to ensure that foreign-currency denominated assets are funded with like-currency denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Merrill Lynch uses swaps for asset and liability management to reduce its interest expense and effective borrowing rate. For further information, see Note 6 to the Consolidated Financial Statements.

CREDIT RATINGS

The cost and availability of unsecured financing generally are dependent on credit ratings. Merrill Lynch's senior long-term debt, preferred stock, and TOPrS were rated by several recognized credit rating agencies at December 29, 2000 as follows:

Rating Agency	Senior Debt Ratings	Preferred Stock and TOPrS Ratings
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated
Fitch	AA	AA–
Moody's Investors Service, Inc.	Aa3	aa3
Rating and Investment Information, Inc. (1)	AA	A+
Standard & Poor's Ratings Services	AA–	A

(1) *Located in Japan.*

Approximately $84.9 billion of indebtedness at December 29, 2000 is considered senior indebtedness as defined under various indentures.

Capital Projects and Expenditures

Merrill Lynch continually prepares for the future by expanding its operations and investing in new technology to improve service to clients. To support business expansion, for example, Merrill Lynch is building a new European headquarters in London, for approximately $620 million; approximately $420 million has been spent to date.

Merrill Lynch has a long-term capital commitment of up to $600 million to Merrill Lynch HSBC, the 50/50-owned corporation created to provide global online investment and banking services. At December 29, 2000, $522 million of the total commitment was unfunded. The timing of the funding of this commitment will be determined by the Board of Directors of Merrill Lynch HSBC, which has equal representation from Merrill Lynch and HSBC. Merrill Lynch expects the commitment to be funded over a five year period.

Risk Management

Risk Management Philosophy

Risk-taking is an integral part of Merrill Lynch's core business activities. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks. These risks include market, credit, liquidity, process, and other risks that are material and require comprehensive controls and management. The responsibility and accountability for these risks remain primarily with the businesses.

The Corporate Risk Management ("CRM") group ensures that these risks are properly identified, monitored, and managed throughout the firm. To accomplish this, CRM has established a risk management process, which includes:

- A formal risk governance organization that defines the oversight process and its components.
- A regular review of the entire risk management process by the Audit Committee of the Board of Directors.
- Clearly defined risk management policies and procedures supported by the most appropriate and advanced analytic tools available.
- Communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight.
- Clearly articulated risk tolerance levels as defined by the Executive Management Committee ("EMC") that are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management process, combined with CRM's personnel and analytic infrastructure, works to ensure that Merrill Lynch's risk tolerance is well-defined and understood by the firm's risk-takers as well as by its executive management. Other groups, including Audit, Finance, and Treasury, work with CRM to establish this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of CRM is to make certain that risk-related losses occur within acceptable, predefined levels.

Risk Governance Structure

Merrill Lynch's risk governance structure is comprised of the Audit Committee, the EMC, the Risk Oversight Committee ("ROC"), the Risk Policy Group ("RPG"), the business units, CRM, and various corporate governance committees. The roles of these respective groups are as follows:

The Audit Committee is comprised entirely of external directors and has authorized the ROC to establish Merrill Lynch's risk management policies.

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

The ROC, comprised of senior business and control managers and chaired by the Head of CRM, oversees Merrill Lynch's risks and ensures that the business units create and implement processes to identify, measure, and monitor their risks. The ROC also assists the EMC in determining risk tolerance levels for the firm's business units and monitors the activities of Merrill Lynch's corporate governance committees, reporting significant issues and transactions to the EMC and the Audit Committee.

The RPG is a working group of the ROC comprised of control managers and is chaired by the Head of CRM. The RPG reviews various risk-related issues and reports to the ROC.

Various other governance committees exist to create policy, review activity, and ensure that new and existing business initiatives remain within established risk tolerance levels. These committees include the New Product Review Committee, Debt and Equity Capital Commitment Committees, Real Estate Capital Commitment Committee, Credit Policy Committee, Reserve Committee, Special Transactions Review Committee, and the Structured Products Committee. Representatives of the principal independent control functions participate as voting members of these committees.

Risk Framework

CRM's chief monitoring and risk measurement tool is Merrill Lynch's Risk Framework ("Framework"). The Framework defines and communicates Merrill Lynch's risk tolerance and raises exceptions for certain areas of risk concentration. Exceptions and violations are reported and investigated at pre-defined and appropriate levels of management. The Framework and its limits have been approved by the EMC and the risk parameters that define the Framework have been reviewed by the Audit Committee. The EMC reviews the Framework annually and approves any material changes. The ROC reports all substantive Framework changes to the Audit Committee.

The Framework establishes aggregate and broad risk limits for Merrill Lynch. Market risk limits are intended to constrain exposure to specific classes and factors of market risk and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and tenor of exposure to individual counterparties, types of counterparties, countries, and financing collateral. The Framework has been established for CICG, PCG, MLIM, and Treasury. Each business is responsible for ensuring that its risk activities adhere to the limits established under the Framework. Individual Frameworks are continually refined to increase the granularity and scope of risk coverage.

Corporate Risk Management

CRM is an independent control function responsible for Merrill Lynch's risk management process. The head of CRM reports directly to the Chief Financial Officer, chairs the ROC and RPG, and is a member of the EMC. CRM manages Merrill Lynch's market and credit risks. Market risk is defined to be the potential change in value of trading instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, and/or other risks. Credit risks are defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. CRM also provides Merrill Lynch with an overview of its risk for various aggregate portfolios and develops the systems and analytics to conduct all risk management functions. CRM is organized into the following four groups:

The **CICG Market Risk Group** is responsible for defining the products and markets in which CICG will transact and take risk. Moreover, it is responsible for identifying the risks to which CICG businesses will be exposed in these approved products and markets. The CICG Market Risk group also establishes the Framework market risk limits against which risk concentrations are monitored and controlled. Within the Group is a dedicated, separate quantitative unit that evaluates the efficacy of trading and risk models through stressing and testing the mathematical models used by various control and business units.

The **Credit Risk Group** assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firmwide credit risk appetite within Framework limits. The Group reviews and monitors specific transactions as well as portfolio and other credit risk concentrations. It is also responsible for ongoing credit quality and limit compliance, and the Group works with the business units of Merrill Lynch to manage and mitigate credit risk. A specialist unit that focuses on early problem asset identification and management is also part of the Credit Risk Group.

The **Portfolio Risk Group** has a variety of firmwide responsibilities including integrating market, credit and business risks through firmwide stress and event analysis, enhancing the internal attribution of economic capital to business units, and conducting country risk and rating assessments. The Group also has a Process Risk team that specifically focuses on the implementation of the firmwide process risk management program. In addition, the Portfolio Risk Group oversees the proprietary market risk taken within the Merrill Lynch Treasury function, PCG and MLIM.

The **Risk Infrastructure Group** provides CRM with the analytic, technological, and policy support necessary to quantify and monitor firmwide market, credit and portfolio risk.

Efficacy

CRM continuously reviews and refines its risk processes and methodologies. The overall effectiveness and responsiveness of CRM can be seen on a broader level when analyzing weekly net trading revenues over time. CRM policies and procedures for monitoring and controlling risk combined with the businesses' focus on customer order-flow driven revenues have helped Merrill Lynch to reduce earnings volatility within its portfolios. While no guarantee can be given regarding future earnings volatility, CRM continues to work on policies and procedures that assist the firm in measuring and monitoring its risks. A graph of Merrill Lynch's weekly trading revenues for 2000 follows:

Market Risk

Merrill Lynch uses a variety of quantitative metrics to assess the risk of its positions and portfolios. In particular, CRM quanti fies the sensitivities of Merrill Lynch's present portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's present portfolios would have incurred throughout the historical period. From these distributions, CRM derives a number of useful risk statistics including VaR. VaR is an estimate of the amount that Merrill Lynch's present portfolios could lose with a speci fied degree of confidence, over a given time interval. The VaR statistic for a particular risk category represents the amount that Merrill Lynch's present portfolios could lose due to past market movements in that specific risk category.

The VaR for Merrill Lynch's overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. CRM believes that the tabulated risk measures provide some guidance as to the amount Merrill Lynch could lose in future periods and it works continuously to improve its measurement and the methodology of its VaR. However, like all statistical measures, especially those that rely heavily on historical data, VaR needs to be interpreted with a clear understanding of its assumptions and limitations.

In the Merrill Lynch VaR system, CRM uses a historical simulation approach to estimate value-at-risk using a 99% con fidence level and a two-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical biweekly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level VaR. The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products, e.g., options. The table that follows presents Merrill Lynch's VaR for trading instruments at year-end 2000 and 1999 and the 2000 average VaR. Additionally, high and low VaR is presented based on an overall aggregate basis.

(dollars in millions)

	Year-end 2000	**Year-end 1999**	**Daily Average 2000**	**High 2000**	**Low 2000**
Trading value-at-risk (1)					
Interest rate and credit spread	$ 81	$ 111	$ 85	$ 146	$ 47
Equity	77	34	50	30	31
Commodity	9	12	10	9	16
Currency	14	11	14	14	12
Volatility	34	53	55	81	32
	215	221	214	280	138
Diversification benefit	(116)	(69)	(109)	(133)	(70)
Overall (2)	$ 99	$ 152	$ 105	$ 147	$ 68

(1) *Based on a 99% confidence level and a two-week holding period.*

(2) *Overall VaR using a 95% confidence level and a one-day holding period was $20 million and $19 million at year-end 2000 and 1999, respectively.*

During 2000, overall VaR declined due to a reduction in interest and credit spread VaR and increased diversi fication benefits that offset an increase in equity-related VaR.

Merrill Lynch's energy trading business, for which VaR has severe limitations as a risk measure, has been excluded from the table above. Shortly after year-end 2000, Merrill Lynch entered into an agreement to sell certain energy-trading assets. This asset sale is subject to satisfaction of certain conditions and is expected to close at the end of the first quarter of 2001.

The following table presents Merrill Lynch's VaR for non-trading instruments (excluding U.S. banks):

(dollars in millions)

	Year-end 2000	Year-end 1999	Quarterly Average 2000
Non-trading value-at-risk(1)			
Interest rate and credit spread	$ 67	$ 20	$ 52
Currency	23	52	28
Equity	47	26	29
Volatility	3	1	8
	140	99	117
Diversification benefit	(44)	(35)	(44)
Overall	$ 96	$ 64	$ 73

(1) *Based on a 99% confidence level and a two-week holding period.*

Non-trading VaR increased during 2000 due to increases in interest rate and credit spread risk and equity risk, primarily due to an increase in marketable investment securities held for liquidity purposes. These increases were partially offset by a decrease in currency risk.

In addition to the amounts reported in the accompanying table, non-trading interest rate VaR associated with Merrill Lynch's TOPrS at year-end 2000 and 1999 was $138 million and $102 million, respectively. TOPrS, which are fixed-rate perpetual preferred securities, are considered a component of Merrill Lynch's equity capital and, therefore, the associated interest rate sensitivity is not hedged.

During 2000, client funds in certain CMA and other types of accounts were redirected from taxable money market funds to bank deposits at Merrill Lynch's U.S. banks. This increase in deposits was invested in high quality marketable investment securities. The overall VaR for the U.S. banks, driven largely by these securities and based on a 99% confidence level and a two-week holding period, was $191 million at year-end 2000.

Credit Risk

Merrill Lynch's Credit Risk Group uses a variety of methodologies to set limits on exposure resulting from a counterparty or issuer failing to perform on its contractual obligations. The Group performs analysis in the context of industrial, regional and global economic trends and incorporates portfolio and concentration effects when determining risk appetite. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, sub-product type and tenor to maturity. Credit risk mitigation tech- niques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default insurance. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view toward early problem identification and protection against unacceptable credit-related losses.

In 2000, the Credit Risk Group introduced enhanced methods to assist in the management of Merrill Lynch's credit risk. The Credit Framework now includes increased product and tenor granularity, and the Group has made enhancements to Merrill Lynch's internal credit rating and counterparty review process.

Credit risk and exposure that originates from Merrill Lynch's retail customer business is monitored constantly by CRM. Exposures include credit risks for mortgages, home equity lines of credit, margin accounts and working capital lines that Merrill Lynch maintains with certain small business clients. These exposures are collateralized in accordance with regulatory requirements governing such activities.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its derivative counterparties as soon as possible. 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 on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure.

In addition, to reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of $4.1 billion of collateral) of trading derivatives in a gain position by maturity at December 29, 2000. (The following table is inclusive of credit exposure from derivative transactions only and does not include other credit exposures, which may be material.)

(dollars in millions)

	Years to Maturity					
Credit Rating(1)	**0-3**	**3-5**	**5-7**	**Over 7**	**Cross-Maturity Netting**(2)	**Total**
AAA	$ 710	$ 327	$ 350	$ 920	$ (698)	$ 1,609
AA+/AA	4,027	803	658	907	(374)	6,021

AA–	2,206	1,147	498	833	(2,243)	2,441
A+/A	1,803	790	236	680	(678)	2,831
A–	2,582	538	309	678	(419)	3,688
BBB	1,981	311	173	485	(203)	2,747
BB+	726	106	169	171	(335)	837
Other	693	578	233	153	(309)	1,348
Total	$ 14,728	$ 4,600	$ 2,626	$ 4,827	$ (5,259)	$ 21,522

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

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

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

Process Risk

Process Risk Management is an evolving risk management discipline. Merrill Lynch de fines process risk as the risk of loss resulting from inadequate controls or business disruption relating to people, internal processes, systems, or external events. Examples of process risks faced by the firm include systems failure, human error, fraud, major fire, or other disasters.

Merrill Lynch manages process risks in many ways including maintaining strong corporate principles of value, appropriately training employees, maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring risk events, employing experienced personnel, maintaining certain backup facilities, conducting internal audits, and emphasizing the importance of management oversight. In addition, Merrill Lynch has established a process risk management group within CRM to focus on further enhancing the management of these risks.

This Group manages a firmwide process risk management framework and has developed policies and procedures aimed at establishing a consistent approach to identify, monitor, and manage process risks across all business lines. Within this framework, the Group has created business line steering committees to coordinate process risk management efforts. The Group uses a variety of risk management tools and techniques to reinforce the firm’s strong risk management culture. These include summarizing and monitoring process-risk-related losses on a regular basis, developing risk indicators to facilitate proactive risk management capabilities, and self-assessments to identify risks, corresponding controls, and measure improvement.

Other Risks

Liquidity risks arise in the course of Merrill Lynch ’s general funding activities and in the management of its balance sheet. This risk includes both being unable to raise funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at a reasonable price. For further information on how Merrill Lynch manages liquidity risk, see the *Capital Adequacy and Liquidity* section.

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

Non-Investment Grade Holdings and Highly Leveraged Transactions

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

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

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

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

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

Trading Exposures

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2000 and 1999:

(dollars in millions)	2000	1999
Trading assets:		
Cash instruments	$ 5,227	$ 5,630
Derivatives	3,982	4,033
Trading liabilities – cash instruments	(1,087)	(997)
Collateral on derivative assets	(1,796)	(1,344)
Net trading asset exposure	$ 6,326	$ 7,322

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 29, 2000, the carrying value of such debt and equity securities totaled $43 million, of which 64% resulted from Merrill Lynch's market-making activities in such securities. This compared with $47 million at December 31, 1999, of which 70% related to market-making activities. Also included are distressed bank loans totaling $122 million and $86 million at year-end 2000 and 1999, respectively.

Non-Trading Exposures

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2000 and 1999:

(dollars in millions)	2000	1999
Marketable investment securities	$ 199	$ 58
Investments of insurance subsidiaries	136	108
Loans (net of allowance for loan losses)(1) :		
Bridge loans	524	68
Other loans(2)	2,741	1,331
Other investments:		
Partnership interests(3)	993	1,368
Other equity investments(4)	284	369

(1) *Increases since December 31, 1999 are primarily due to new loans to several telecommunications companies.*
(2) *Represents outstanding loans to 135 and 115 companies at year-end 2000 and 1999, respectively.*
(3) *Includes $504 million and $599 million in investments at year-end 2000 and 1999, respectively, related to deferred compensation plans, for which the default risk of the investments rests with the participating employees.*
(4) *Includes investments in 98 and 62 enterprises at year-end 1999 and 2000 , respectively.*

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 2000 and 1999:

(dollars in millions)	2000	1999
Additional commitments to invest in partnerships	$ 467	$ 200
Unutilized revolving lines of credit and other lending commitments	3,664 (1)	2,462

(1) *Subsequent to year-end 2000, the commitments were reduced by $1.0 billion.*

At December 29, 2000, the largest industry exposure was to the financial services sector, which accounted for 31% of total non-investment grade positions and highly leveraged transactions.

Litigation

Certain actions have been filed against Merrill Lynch in connection with Merrill Lynch 's business activities. Although the ultimate outcome of legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results for any particular period.

Recent Developments

New Accounting Pronouncements

In fiscal 2001, Merrill Lynch adopted the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). SFAS No.133 requires Merrill Lynch to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If the derivative qualifies for hedge accounting, depending on the nature of the hedge accounting relationship, changes in the fair value of the derivative will either be offset by the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recorded in other comprehensive income until the hedged item is recognized in earnings. Any portion of the derivative hedging instrument deemed "ineffective" under SFAS No. 133 will be immediately recognized in earnings. Derivatives that do not qualify for hedge accounting must be recorded at fair value, with changes in value reported in earnings.

Prior to the adoption of SFAS No. 133, the majority of Merrill Lynch 's derivatives were recognized at fair value in trading assets and liabilities, as they are entered into in a dealing capacity. However, Merrill Lynch also enters into derivatives to hedge its exposures relating to non-trading assets and liabilities, some of which, depending on the nature of the derivative and the related hedged item, were not carried at fair value. The new standard primarily impacts the accounting for derivatives used to hedge borrowings.

On adoption of SFAS No. 133, all existing hedge relationships were designated anew. The impact of adoption was not material.

In September 2000, the Financial Accounting Standards Board released SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, a replacement of SFAS No. 125. Merrill Lynch has adopted those provisions of the statement that are required to be adopted as of December 29, 2000. These provisions relate primarily to the accounting and disclosures for collateral received or pledged in secured borrowing transactions. Other provisions of the statement are not required to be adopted until the second quarter of 2001. These provisions provide new guidance for determining whether a transfer of assets should be accounted for as a sale or a secured borrowing, and also change the accounting for certain securities lending transactions. Under the new provisions, Merrill Lynch will be required to recognize certain securities lending transactions on the Consolidated Balance Sheet in which Merrill Lynch acts as securities lender and receives securities (rather than cash) as collateral. Merrill Lynch is currently evaluating the impact of adoption.

Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in this Annual Report. The consolidated financial statements and notes are prepared in accordance with generally accepted accounting principles in the United States of America. Other financial data included in the Annual Report are consistent with those in the financial statements.

Management recognizes the importance of safeguarding Merrill Lynch's assets and integrity. Therefore, Management devotes considerable attention to understanding the risks of its businesses, promoting the highest standards of ethical conduct, exercising responsible stewardship over Merrill Lynch's assets, and presenting fair financial statements.

Merrill Lynch regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, and other opportunities for improvement are implemented when cost effective.

The framework of internal control includes policies, procedures, and organizational structures that are overseen by a predominantly independent Board of Directors. Several committees of the Board actively participate in setting policy and monitoring controls, including overseeing Merrill Lynch's compliance with acceptable business standards and ethics in accordance with the committees' written charters of responsibilities and duties. The Audit Committee, which consists of four independent directors, monitors and oversees internal accounting controls and audit functions, and the performance and independence of our independent auditors. It also recommends overall policies regarding risk management. The Finance Committee, which consists of four independent directors, reviews significant financial issues and funding requirements. It also reviews and recommends overall policies regarding financial commitments, including acquisitions, divestitures and proprietary investments. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the performance of Merrill Lynch's employees with an emphasis on ethical business behavior.

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards.

Corporate Audit reports directly to the Audit Committee, providing independent appraisals of Merrill Lynch's internal accounting controls and compliance with established policies and procedures.

The Finance Division establishes accounting policies and procedures, measures and monitors financial risk, and prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks.

The Office of the General Counsel serves in a counseling and advisory role to Management. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; and provides support in connection with the execution of various transactions.

The independent auditors, Deloitte & Touche LLP, perform annual audits of Merrill Lynch's financial statements in accordance with generally accepted auditing standards. The independent auditors openly discuss with the Audit Committee their views on the quality of the financial statements and related disclosures and the adequacy of Merrill Lynch's internal accounting controls. Quarterly review reports on the interim financial statements are also issued by Deloitte & Touche LLP. Merrill Lynch's independent auditors are appointed each year by the Audit Committee and are given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, the Board of Directors, and committees of the Board.

David H. Komansky
Chairman of the Board and
Chief Executive Officer

Thomas H. Patrick
Executive Vice President and
Chief Financial Officer

Independent Auditors' Report

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 29, 2000 and December 31, 1999 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 29, 2000. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 29, 2000 and December 31, 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2000 in conformity with accounting principles generally accepted in the United States of America.

New York, New York
February 26, 2001

Consolidated Statements of Earnings

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December		
	2000	**1999**	**1998**
	(52 weeks)	*(53 weeks)*	*(52 weeks)*
Net Revenues			
Commissions	$ 6,977	$ 6,355	$ 5,814
Principal transactions	5,995	4,752	2,850
Investment banking			
Underwriting	2,668	2,301	2,162
Strategic advisory	1,381	1,313	1,103
Asset management and portfolio service fees	5,688	4,753	4,202
Other	967	746	650
	23,676	20,220	16,781
Interest and dividend revenues	21,196	15,120	18,056
Less interest expense	18,085	13,019	17,038
Net interest profit	3,111	2,101	1,018
Total Net Revenues	26,787	22,321	17,799
Non-Interest Expenses			
Compensation and benefits	13,730	11,337	9,308
Communications and technology	2,320	2,053	1,758
Occupancy and related depreciation	1,006	953	881
Advertising and market development	939	783	690
Brokerage, clearing, and exchange fees	893	779	764
Professional fees	637	571	559
Goodwill amortization	217	227	227
Provision for costs related to staff reductions	–	–	430
Other	1,328	1,412	1,062
Total Non-Interest Expenses	21,070	18,115	15,679
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	5,717	4,206	2,120
Income Tax Expense	1,738	1,319	725
Dividends on Preferred Securities Issued by Subsidiaries	195	194	124
Net Earnings	$ 3,784	$ 2,693	$ 1,271
Net Earnings Applicable to Common Stockholders	$ 3,745	$ 2,654	$ 1,233
Earnings Per Common Share			
Basic	$ 4.69	$ 3.52	$ 1.69
Diluted	$ 4.11	$ 3.11	$ 1.49

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	December 29, 2000	December 31, 1999
Assets		
Cash and cash equivalents	$ 23,205	$ 12,155
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	6,092	6,078
Receivables under resale agreements and securities borrowed transactions	114,581	99,280
Marketable investment securities	49,251	10,145
Trading assets, at fair value		
Equities and convertible debentures	20,232	23,674
Corporate debt and preferred stock	17,377	20,348
Contractual agreements	20,361	22,701
U.S. Government and agencies	17,519	15,376
Mortgages, mortgage-backed, and asset-backed	8,225	7,394
Non-U.S. governments and agencies	5,009	4,892
Municipals and money markets	2,791	2,429
	91,514	96,814
Securities pledged as collateral	9,097	–
Other receivables		
Customers *(net of allowance for doubtful accounts of $68 in 2000 and $55 in 1999)*	41,613	40,034
Brokers and dealers	26,421	9,204
Interest and other	8,879	7,513
	76,913	56,751
Investments of insurance subsidiaries	4,002	4,096
Loans, notes, and mortgages *(net of allowance for loan losses of $176 in 2000 and $146 in 1999)*	17,472	11,188
Other investments	4,938	3,415
Equipment and facilities *(net of accumulated depreciation and amortization of $4,658 in 2000 and $4,079 in 1999)*	3,444	3,140
Goodwill *(net of accumulated amortization of $720 in 2000 and $543 in 1999)*	4,407	4,952
Other assets	2,284	1,836
Total Assets	$ 407,200	$ 309,850

	December 29, 2000	December 31, 1999
Liabilities		

Payables under repurchase agreements and securities loaned transactions	$ 103,883	$ 72,211
Commercial paper and other short-term borrowings	15,183	25,596
Demand and time deposits	67,648	17,602
Trading liabilities, at fair value		
Contractual agreements	21,587	27,030
Equities and convertible debentures	18,535	19,714
U.S. Government and agencies	14,466	10,816
Non-U.S. governments and agencies	7,135	6,311
Corporate debt, municipals and preferred stock	7,134	3,405
	68,857	67,276
Other payables		
Customers	24,762	23,166
Brokers and dealers	9,514	11,439
Interest and other	22,204	18,702
	56,480	53,307
Liabilities of insurance subsidiaries	3,908	4,086
Long-term borrowings	70,223	54,043
Total Liabilities	386,182	294,121
Preferred Securities Issued by Subsidiaries	2,714	2,725
Stockholders' Equity		
Preferred Stockholders' Equity *(42,500 shares issued, liquidation preference $10,000 per share)*	425	425
Common Stockholders' Equity		
Shares exchangeable into common stock	68	118
Common stock *(par value $1.33 1/3 per share; authorized: 1,000,000,000 shares; issued: 2000 – 962,533,498 shares, 1999 – 964,779,105 shares)*	1,283	1,286
Paid-in capital	2,843	1,156
Accumulated other comprehensive loss *(net of tax)*	(345)	(390)
Retained earnings	16,156	12,887
	20,005	15,057
Less: Treasury stock, at cost *(2000 – 154,578,945 shares; 1999 – 212,278,192 shares)*	1,273	1,835
Employee stock transactions	853	643
Total Common Stockholders' Equity	17,879	12,579
Total Stockholders' Equity	18,304	13,004
Total Liabilities, Preferred Securities Issued by Subsidiaries, and Stockholders' Equity	$ 407,200	$ 309,850

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in millions)

	Year Ended Last Friday in December		
	2000	**1999**	**1998**
Preferred Stockholders' Equity			

9% Cumulative Preferred Stock, Series A			
Balance, beginning and end of year	$ 425	$ 425	$ 425
Common Stockholders' Equity			
Shares Exchangeable into Common Stock			
Balance, beginning of year	118	133	133
Net activity	–	–	10
Exchanges	(50)	(15)	(10)
Balance, end of year	68	118	133
Common Stock			
Balance, beginning of year	1,286	1,286	1,286
Shares retired	(3)	–	–
Balance, end of year	1,283	1,286	1,286
Paid-in Capital			
Balance, beginning of year	1,156	711	284
Issuance of stock:			
To employees	1,686	440	430
Other	16	5	(3)
Shares retired	(15)	–	–
Balance, end of year	2,843	1,156	711
Accumulated Other Comprehensive Loss			
Foreign Currency Translation Adjustment (net of tax)			
Balance, beginning of year	(302)	(138)	(85)
Translation adjustment	(7)	(164)	(53)
Balance, end of year	(309)	(302)	(138)
Net Unrealized Gains (Losses) on Investment Securities			
Available-for-Sale (net of tax)			
Balance, beginning of year	(88)	16	38
Net unrealized gains (losses) on investment securities available-for-sale	110	(223)	(60)
Other adjustments[a]	(58)	119	38
Balance, end of year	(36)	(88)	16
Balance, end of year	$ (345)	$ (390)	$ (122)

(a) *Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes.*

	Year Ended Last Friday in December 2000	1999	1998
Retained Earnings			
Balance, beginning of year	$ 12,887	$ 10,620	$ 9,713
Net earnings	3,784	2,693	1,271
Cash dividends declared:			
9% Cumulative Preferred stock	(39)	(39)	(38)
Common stock	(476)	(387)	(326)
Balance, end of year	16,156	12,887	10,620
Treasury Stock, at cost			
Balance, beginning of year	(1,835)	(2,113)	(2,684)
Issued out of treasury *(net of reacquisitions)*:			

Employees	544	267	551
Other	–	11	20
Shares retired	18	–	–
Balance, end of year	(1,273)	(1,835)	(2,113)
Employee Stock Transactions			
Balance, beginning of year	(643)	(676)	(446)
Net issuance of employee stock grants	(709)	(380)	(599)
Amortization of employee stock grants	510	407	359
Repayment of employee loans	–	6	10
Other	(11)	–	–
Balance, end of year	(853)	(643)	(676)
Total Common Stockholders' Equity	17,879	12,579	9,839
Total Stockholders' Equity	$ 18,304	$ 13,004	$ 10,264

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(dollars in millions)

	Year Ended Last Friday in December		
	2000	**1999**	**1998**
Net earnings	$ 3,784	$ 2,693	$ 1,271
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment:			
Foreign currency translation gains/(losses)	127	(116)	(131)
Income tax (expense) benefit	(134)	(48)	78
Total	(7)	(164)	(53)
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	236	(229)	(10)
Reclassification adjustment for (gains) losses included in net earnings	(126)	6	(50)
Net unrealized gains (losses) on investment securities	110	(223)	(60)
Adjustments for:			
Policyholder liabilities	(15)	35	16
Deferred policy acquisition costs	(20)	35	4
Income tax (expense) benefit	(23)	49	18
Total	52	(104)	(22)
Total Other Comprehensive Income (Loss)	45	(268)	(75)
Comprehensive Income	$ 3,829	$ 2,425	$ 1,196

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(dollars in millions)

	Year Ended Last Friday in December		
	2000	**1999**	**1998**
Cash Flows from Operating Activities			
Net Earnings	$ 3,784	$ 2,693	$ 1,271
Noncash items included in earnings:			
Depreciation and amortization	846	723	589
Policyholder reserves	193	205	227
Goodwill amortization	217	227	227
Amortization of stock-based compensation	510	407	359
Other	(21)	510	(153)
(Increase) decrease in operating assets [a] :			
Trading assets and securities pledged as collateral	(4,236)	4,153	6,358
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(14)	690	(1,340)
Receivables under resale agreements and securities borrowed transactions	(15,301)	(11,159)	20,119
Customer receivables	(1,607)	(10,371)	(2,165)
Brokers and dealers receivables	(17,217)	(296)	(3,701)
Other	(1,159)	1,096	125
Increase (decrease) in operating liabilities [a] :			
Trading liabilities	1,581	3,538	(7,488)
Payables under repurchase agreements and securities loaned transactions	31,672	4,696	(12,197)
Customer payables	1,596	624	3,922
Brokers and dealers payables	(1,925)	3,531	3,672
Other	2,385	(387)	1,012
Cash Provided by Operating Activities	1,304	880	10,837
Cash Flows from Investing Activities			
Proceeds from (payments for):			
Maturities of available-for-sale securities	10,643	4,155	3,983
Sales of available-for-sale securities	7,036	3,071	3,426
Purchases of available-for-sale securities	(57,822)	(11,802)	(8,676)
Maturities of held-to-maturity securities	822	995	831
Purchases of held-to-maturity securities	(634)	(1,015)	(877)
Loans, notes, and mortgages	(6,303)	(3,541)	(3,405)
Acquisitions, net of cash acquired	–	(20)	(5,235)
Sales of subsidiaries, net of cash disposed	–	–	202
Other investments and other assets	(587)	(856)	(1,400)
Equipment and facilities	(1,150)	(1,090)	(1,236)
Cash Used for Investing Activities	(47,995)	(10,103)	(12,387)
Cash Flows from Financing Activities			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(10,413)	6,917	(15,662)
Demand and time deposits	50,046	5,141	2,568
Issuance and resale of long-term borrowings	33,687	15,601	29,280
Maturities and repurchases of long-term borrowings	(15,719)	(18,600)	(15,842)
Issuance of subsidiaries' preferred securities	–	98	2,000
Issuance of treasury stock	658	212	195
Other common and preferred stock transactions	(3)	(203)	(165)
Dividends	(515)	(426)	(364)
Cash Provided by Financing Activities	57,741	8,740	2,010
Increase (decrease) in cash and cash equivalents	11,050	(483)	460
Cash and cash equivalents, beginning of year	12,155	12,638	12,178
Cash and cash equivalents, end of year	$ 23,205	$ 12,155	$ 12,638

(a) *Net of effects of acquisitions and divestitures.*

Supplemental Disclosures

Cash paid for:

Income taxes	$ 641	$ 669	$ 586
Interest	17,311	13,125	17,089

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Description of Business

Merrill Lynch & Co., Inc. ("ML & Co.") provides investment, financing, insurance, and related services to individuals and institutions on a global basis through its broker, dealer, banking, insurance, and other financial services subsidiaries. Its principal subsidiaries include:

- Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities;
- Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity derivatives;
- Merrill Lynch Government Securities Inc. ("MLGSI"), a dealer in U.S. Government securities;
- Merrill Lynch Capital Services, Inc., a dealer in interest rate, currency, and credit derivatives;
- Merrill Lynch Investment Managers, LP, a U.S.-based asset management company;
- Merrill Lynch Investment Managers Limited, a U.K.-based asset management company;
- Merrill Lynch Bank USA ("MLBUSA"), a U.S.-based FDIC insured bank;
- Merrill Lynch Bank & Trust Co. ("MLB&T"), a U.S.-based FDIC insured bank;
- Merrill Lynch International Bank Limited, a U.K.-based bank; and
- Merrill Lynch Capital Markets Bank Limited, an Ireland-based bank.

Services provided to clients by ML & Co. and subsidiaries (collectively, "Merrill Lynch") include:

- securities brokerage, trading, and underwriting;
- investment banking, strategic services, including mergers and acquisitions, and other corporate finance advisory activities;
- asset management;
- origination, brokerage and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange traded products;
- securities clearance and settlement services;
- equity, debt, foreign exchange, commodities and economic research;
- banking, trust, and lending services, including mortgage lending and related services;
- insurance sales and underwriting services; and
- investment advisory and related recordkeeping services.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Merrill Lynch and are presented in accordance with accounting principles generally accepted in the United States of America and prevailing industry practices. All material intercompany transactions and balances have been eliminated.

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation. Prior year amounts have been restated to reflect the 2000 merger of Herzog, Heine, Geduld, Inc. ("Herzog") with Merrill Lynch, which has been accounted for as a pooling-of-interests (see Note 2 for further information). In addition, the Consolidated Balance Sheets reflect the adoption of Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." SFAS No. 140 eliminates the requirement to report collateral received from certain repurchase agreement and securities lending transactions. SFAS No. 140 also requires the

reclassification of certain pledged assets and disclosures regarding collateral for the December 29, 2000 Consolidated Balance Sheet, but does not require comparative information for periods prior to December 29, 2000.

The Consolidated Financial Statements are presented in U.S. dollars. Many non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency, net of hedging gains or losses and related tax effects, are reported in stockholders' equity as a component of *Accumulated other comprehensive loss*. All other translation adjustments are included in earnings.

In presenting the Consolidated Financial Statements, management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of goodwill, the realization of deferred tax assets and recovery of insurance deferred acquisition costs, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from those estimates.

Merrill Lynch defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of 90 days or less, other than those used for trading purposes. For purposes of the Consolidated Statements of Cash Flows, cash flows from trading derivatives are classified in operating activities.

At December 29, 2000 and December 31, 1999, substantially all financial instrument assets and the majority of financial instrument liabilities are carried at fair value or amounts that approximate fair value. Fair values of financial instruments are disclosed in Note 6.

Trading Activities

Merrill Lynch's trading activities consist primarily of securities brokerage, trading, and underwriting; derivatives dealing and brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or for hedging other trading inventory.

SECURITIES

Trading securities and other cash instruments (e.g., loans held for trading purposes) are 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"). Changes in fair value (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.

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

DERIVATIVES

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument or index such as a future, forward, swap, or option contract, or other financial instrument 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 are often referred to as off-balance-sheet instruments since neither their notional amounts nor the underlying instruments are reflected on the balance sheet; however, the fair values of trading derivatives are recorded in trading assets and liabilities. Derivatives are reported separately as assets and liabilities unless a legal right of setoff exists under a master netting agreement enforceable at law. Balances related to swap and forward transactions and foreign currency options are included in *Contractual agreements* on the Consolidated Balance Sheets. All other derivative balances are recorded in the related trading asset or liability caption. The fair value of equity options purchased, for example, is recorded in the *Equities and convertible debentures* trading asset caption.

Changes in fair values of derivatives are recorded as principal transactions revenues in the current period. Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts that would be received from or paid to a third party in settlement of these instruments. These amounts are determined using pricing models based on the present value of estimated future cash flows employing mid-market valuations with appropriate adjustments. These adjustments are integral components

of the mark-to-market process and relate to credit quality and concentration, market liquidity, and exposure close-out costs associated with unmatched positions. Adjustments are also made for administrative costs incurred to service periodic cash flows and to maintain hedges over the life of the contract. A portion of income related to long-term contracts is recognized as the related administrative costs are incurred.

New, complex instruments may have immature or limited markets. The precision of the pricing model for a complex product, which involves multiple variables and assumptions, will evolve over time. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

SECURITIES FINANCING TRANSACTIONS

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers (i.e., matched-book), finance firm inventory positions, and obtain securities for settlement. Merrill Lynch also engages in securities financing for customers through margin lending (see *Customer Transactions*).

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. 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 valued daily, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Substantially all repurchase and resale activities are transacted under master netting 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 Consolidated Balance Sheets.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. 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. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, such receivables and payables with the same counterparty are not set off on the Consolidated Balance Sheets.

On the Consolidated Balance Sheet as of December 29, 2000, all firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are classified as securities pledged as collateral as required by SFAS No. 140, which does not require the restatement of prior years presented for comparison. As of December 31, 1999 such balances are included as trading assets.

Interest rate swaps may be used to modify the interest rate characteristics of long-term resale and repurchase agreements. These swaps are accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to interest expense or revenue. (See the *Non-trading Derivatives* section for additional information on accounting policy for non-trading derivatives).

Investment Banking and Advisory Services

Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition.

Customer Transactions

Customer securities and commodities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheets.

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Financial consultant compensation and benefits expense is accrued in the same period as revenue is recognized.

Mutual fund distribution fee revenues are accrued as earned, and redemption fee revenues are recognized upon receipt. Certain compensation costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition.

Investing Activities

Merrill Lynch's non-broker-dealer subsidiaries hold debt and equity investments, which are primarily classified as available-for-sale.

Debt and marketable equity securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of *Accumulated other comprehensive loss*, net of applicable income taxes and other related items.

Debt securities that Merrill Lynch has the positive intent and ability to hold to maturity are classified as held-to-maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. The amortization of premiums or accretion of discounts and any unrealized losses deemed other than temporary are included in current period earnings.

Debt and marketable equity securities purchased principally for the purpose of resale in the near-term are classified as trading investments and are reported at fair value. Unrealized gains or losses on these investments are included in current period earnings.

Restricted equity investment securities or equity investment securities without available market quotations held by non-broker-dealer subsidiaries are reported at the lower of cost or estimated net realizable value. Restricted equity investment securities held by broker-dealer subsidiaries are recorded at management's best estimate of fair value. Adjustments in carrying values are included in current period earnings.

Realized gains and losses on investments are included in current period earnings. The cost basis of each investment sold is specifically identified for purposes of computing realized gains and losses.

Derivative contracts may be used to modify interest rate characteristics of available-for-sale securities. Merrill Lynch also uses derivatives to manage the currency exposure arising from investments in non-U.S. subsidiaries (see *Basis of Presentation* for accounting policy for these investments). Unrealized gains and losses on these derivatives are reported net of tax in stockholders' equity as a component of *Accumulated other comprehensive loss*, along with unrealized gains and losses from the hedged items (see *Non-trading Derivatives* section for additional information on accounting policy for non-trading derivatives).

Lending and Related Activities

Merrill Lynch's lending and related activities include loan originations, syndications, securitizations, and servicing. Merrill Lynch also engages in secondary market loan trading and margin lending (see *Trading Activities* and *Customer Transactions*, respectively).

Loans held for investment purposes, including consumer and small business loans, are carried at their principal amount outstanding. The allowance for loan losses is established through provisions that are based on management's assessment of the collectibility of the loan portfolio. Loans are charged off against the allowance for loan losses when management determines that collection of principal is unlikely.

Loans held for sale, which include certain residential mortgage and home equity loans, are reported at the lower of cost (less allowance for loan losses) or estimated fair value determined on a portfolio basis. Mortgage servicing assets and residual interests in mortgage loans underlying Real Estate Mortgage Investment Conduits and revolving trusts are (1) recognized upon sales of loans when servicing is retained, and (2) amortized into income in proportion to, and over the estimated life of, net servicing income. Mortgage servicing assets are initially recognized based upon an allocation of the loan's original cost, in proportion to the resulting asset's fair value, subsequently measured using the present value of future cash flows, periodically evaluated for impairment, and included in *Other assets* on the Consolidated Balance Sheets. Residual interests are categorized as available-for-sale and reported in *Other investments* on the Consolidated Balance Sheets (see *Investing Activities*).

Merrill Lynch securitizes commercial and residential mortgage and home equity loans, government and corporate bonds, and lease and trade receivables. Merrill Lynch may retain an interest in the securitized assets in the form of residual interests, one or more subordinated tranches, and/or servicing rights. The gain or loss on sale of the receivables is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, if any, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. Where quotes are unavailable for retained interests, Merrill Lynch generally estimates fair value based on the present value of expected future cash flows using management's best estimates of the key assumptions, including credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests in securitized receivables were not material at December 29, 2000. In 2000, cash proceeds from securitizations totaled $26.3 billion.

Borrowing Activities

Merrill Lynch's unsecured general-purpose funding is principally obtained from commercial paper and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

Merrill Lynch uses derivatives to manage the interest rate, currency, equity, and other risk exposures of its borrowings. Derivatives that hedge the interest rate risk on borrowings are

generally accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to the related interest expense. Unrealized gains and losses on other derivatives hedging borrowings are recognized currently (see *Non-trading Derivatives* section for additional information).

Non-Trading Derivatives

As part of its overall risk management strategy, Merrill Lynch uses derivatives to manage its market risk exposures arising from non-trading assets and liabilities. These exposures include interest rate, currency, equity and other risks. Derivatives used for hedging borrowings and other non-trading assets and liabilities must be effective at reducing the risk being managed and be designated as a hedge at inception.

Realized gains and losses on early terminations of derivatives are deferred over the remaining lives of the hedged assets or liabilities. At December 29, 2000 and December 31, 1999, there were $6 million and $27 million, respectively, in deferred gains relating to terminated derivative contracts.

Insurance Activities

Insurance liabilities are future benefits payable under annuity and interest-sensitive life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale. Liabilities for unpaid claims consist of the mortality benefit for reported claims and an estimate of unreported claims based upon prior experience.

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when combined, are equal to the adjustment that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of *Accumulated other comprehensive loss*, net of applicable income taxes.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred, to the extent deemed recoverable, and amortized over the estimated lives of the contracts in proportion to the estimated gross profit for each group of contracts.

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with Merrill Lynch's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of Merrill Lynch.

Stock-Based Compensation

Merrill Lynch accounts for stock-based compensation in accordance with the intrinsic value-based method in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," rather than the fair value-based method in SFAS No. 123, "Accounting for Stock-Based Compensation." Compensation expense for stock options is not recognized since Merrill Lynch grants stock options without any intrinsic value. Compensation expense related to other stock-based compensation plans is recognized over the vesting period. For certain stock-based compensation grants, the unamortized portion of the grant value is reflected as a reduction of stockholders' equity in *Employee stock transactions* on the Consolidated Balance Sheets.

Goodwill

Goodwill, which represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition, is amortized on a straight-line basis. Goodwill associated with the purchase of the Mercury Asset Management Group is amortized over 30 years. Goodwill related to other acquisitions is amortized over periods generally not exceeding 15 years.

Merrill Lynch periodically assesses the recoverability of goodwill by comparing expected undiscounted future cash flows from the underlying business operation with recorded goodwill balances. If such assessments indicate that the undiscounted future cash flows are not sufficient to recover the related carrying value, the assets are adjusted to fair values.

Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

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

useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the *Occupancy and related depreciation* expense category was depreciation and amortization of $235 million, $207 million, and $193 million in 2000, 1999, and 1998, respectively. Depreciation and amortization recognized in the *Communications and technology* expense category was $611 million, $516 million, and $396 million for 2000, 1999, and 1998, respectively.

Costs incurred in the development of internal-use software are amortized over the useful life of the developed software, generally not exceeding three years.

Income Taxes

ML & Co. and certain of its wholly-owned subsidiaries file a consolidated U.S. federal income tax return.

Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Note 2. Other Significant Events

New Accounting Pronouncements

In fiscal 2001, Merrill Lynch adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No.133 requires Merrill Lynch to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. If the derivative qualifies for hedge accounting, depending on the nature of the hedge accounting relationship, changes in the fair value of the derivative will either be offset by the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the derivative hedging instrument will be immediately recognized in earnings. Derivatives that do not qualify for hedge accounting must be recorded at fair value, with changes in value reported in earnings.

Prior to the adoption of SFAS No. 133, the majority of Merrill Lynch's derivatives were recognized at fair value in trading assets and liabilities, as they are entered into in a dealing capacity. However, Merrill Lynch also enters into derivatives to hedge its exposures relating to non-trading assets and liabilities, some of which, depending on the nature of the derivative and the related hedged item, were not carried at fair value. The new standard primarily impacts the accounting for derivatives used to hedge borrowings.

On adoption of SFAS No. 133, all existing hedge relationships were designated anew. The impact of adoption was not material.

Mergers, Acquisitions, and Divestitures

In July 2000, Merrill Lynch acquired Herzog, a leading Nasdaq market-maker, through an exchange offer followed by a merger of a wholly-owned subsidiary of Merrill Lynch & Co., Inc., with and into Herzog. Pursuant to the offer and the merger, each Herzog shareholder, after giving effect to the two-for-one common stock split, was entitled to receive 283.75502 shares of ML & Co. common stock for each share held. A total of 17,100,602 shares of ML & Co. common stock were issued in connection with this transaction. In addition, as specified in the merger agreement, Herzog treasury shares (2,449,090 shares of ML & Co. common stock) were cancelled and retired upon consummation of the merger.

The merger has been accounted for as a pooling-of-interests, and accordingly, prior period financial statements and footnotes have been restated to reflect the results of operations, financial position, and cash flows as if Merrill Lynch and Herzog had always been combined. The effect of combining Herzog into the results of operations, financial positions, and cash flows of Merrill Lynch was not material.

In August 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn Inc. ("Midland"), a Canadian broker-dealer, in a share exchange. Each Midland shareholder received either 0.48 shares of ML & Co. common stock or 0.48 exchangeable shares of Merrill Lynch & Co., Canada Ltd. for every Midland share held (see Note 8). The merger was accounted for as a pooling-of-interests.

During 1998, Merrill Lynch acquired Howard Johnson & Co., a U.S. employee benefits consulting firm and a majority interest in a non-U.S. investment bank in transactions accounted for as purchases. Aggregate consideration of $92 million was paid, and goodwill of $56 million was recorded in connection with these acquisitions. In addition, Merrill Lynch sold a U.S. residential real estate services subsidiary and a New York Stock Exchange specialist subsidiary, recognizing pre-tax gains totaling $138 million.

For acquisitions accounted for as purchases, the operating results of acquired companies are included in Merrill Lynch's results of operations commencing with the acquisition date.

Provision for Costs Related to Staff Reductions

During the 1998 third quarter, Merrill Lynch recognized a $430 million provision for costs related to staff reductions ($288 million after-tax). The provision covered primarily severance costs, but also included costs to terminate long-term contracts and leases related to personnel reductions and resized businesses. The staff reduction program included reductions, through termination and attrition, of approximately 3,400 personnel, or about 5% of the global workforce.

At December 31, 1999 the remaining liability was $54 million, which primarily represented severance payments for personnel receiving periodic payments. All staff reductions were fully completed during 1999.

Note 3. Trading and Related Activities

As part of its trading activities, Merrill Lynch provides to clients brokerage, dealing, financing, and underwriting services for a broad range of products. While trading activities are primarily generated by client order flow, Merrill Lynch also takes selective proprietary positions based on expectations of future market movements and conditions. Merrill Lynch's trading strategies rely on the integrated management of its client-driven and proprietary positions, along with the related hedging and financing.

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate.

Certain trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures that are described in *Management's Discussion and Analysis (unaudited) – Risk Management* .

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

Merrill Lynch seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. Merrill Lynch uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by Merrill Lynch.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Interest rate swap agreements used by Merrill Lynch include caps, collars, floors, basis swaps, and leveraged swaps. Interest rate caps and floors provide the purchaser protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Basis swaps are a type of interest rate swap agreement where variable rates are received and paid, but are based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month LIBOR (London Interbank Offered Rate). Merrill Lynch's exposure to interest rate risk resulting from these leverage factors is typically hedged with other financial instruments.

CURRENCY RISK

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to over 70 currencies, including the euro, Japanese yen, German mark, Swiss franc, British pound, and Italian lira. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward market is not available or where the end-user needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

EQUITY PRICE RISK

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by Merrill Lynch to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on

changes in the market price of that stock, basket of stocks, or stock index.

CREDIT SPREAD RISK

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality, i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the *Credit Risk* section.

COMMODITY PRICE AND OTHER RISKS

Merrill Lynch views its commodity contracts as financial instruments since they are generally settled in cash and not by delivery of the underlying commodity. Commodity price risk results from the possibility that the price of the underlying commodity may rise or fall. Cash flows from commodity contracts are based on the difference between an agreed-upon fixed price and a price that varies with changes in a specified commodity price or index. Commodity contracts held by Merrill Lynch principally relate to energy, precious metals, and base metals.

Merrill Lynch is also a party to financial instruments that contain risks not correlated to typical financial risks. Securities or derivatives, for example, may be linked to the occurrence of certain weather conditions or natural catastrophes. Merrill Lynch generally mitigates the risk associated with these transactions by entering into offsetting derivative transactions.

Credit Risk

Merrill Lynch is exposed to risk of loss if an issuer or a counter-party fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose Merrill Lynch to default risk. Credit risk arising from changes in credit spreads was previously discussed in the *Market Risk* section.

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. For further information, see *Management's Discussion and Analysis (unaudited) – Risk Management –Credit Risk.*

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

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

CONCENTRATIONS OF CREDIT RISK

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

At December 29, 2000, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to $23.8 billion and $17.0 billion at December 29, 2000 and December 31, 1999, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 29, 2000 and December 31, 1999 totaled $62.8 billion and $43.8 billion, respectively.

At December 29, 2000, Merrill Lynch had concentrations of credit risk with other counterparties, the largest of which was

a corporate counterparty rated AAA by recognized credit rating agencies. Total unsecured exposure to this counterparty was $1,884 million, or 0.5% of total assets.

Merrill Lynch's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and investment companies. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Within these regions, sovereign governments and financial institutions represent the most significant concentrations.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties. *See Management's Discussion and Analysis (unaudited) – Non-Investment Grade Holdings and Highly Leveraged Transactions* for further information.

Trading Derivatives

Merrill Lynch's trading derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

The fair values of derivatives used in trading activities at year-end 2000 and 1999 follow:

(dollars in millions)	December 29, 2000		December 31, 1999	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	$17,283	$18,819	$19,984	$24,204
Forward contracts	1,580	1,335	2,232	2,385
Options[(a)]	6,759	10,587	5,785	7,823

(a) *Due to cross-product netting under master netting agreements, the majority of the firm's FX options are included in forward contracts.*

The following table presents the average fair values of Merrill Lynch's trading derivatives for 2000 and 1999, calculated using month-end balances:

(dollars in millions)	Average Fair Value			
	2000		1999	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	$17,347	$19,196	$16,724	$20,575
Forward contracts	2,039	1,885	2,030	2,127
Options[(a)]	7,132	10,367	7,358	8,333

(a) *Due to cross-product netting under master netting agreements, the majority of the firm's FX options are included in forward contracts.*

The notional or contractual amounts of derivatives provide only a measure of involvement in these types of transactions and represent neither the amounts subject to the various types of market risk nor the future cash requirements under these instruments.

The notional or contractual amounts of derivatives used for trading purposes by type of risk follow:

(dollars in billions)	Risk			
	Interest Rate[(1)(2)]	Currency[(3)]	Equity Price	Commodity and other
December 29, 2000				
Swap agreements	$2,970	$ 51	$ 17	$ 31
Forward contracts	132	165	1	1
Futures contracts	273	3	17	-
Options purchased	48	92	63	5
Options written	59	60	67	1
December 31, 1999				
Swap agreements	$2,470	$ 175	$ 27	$ 3
Forward contracts	94	153	3	1
Futures contracts	224	3	12	3
Options purchased	216	102	53	2
Options written	270	71	53	4

(1) *Certain derivatives subject to interest rate risk are also exposed to the credit-spread risk of the underlying financial instrument.*
(2) *Forward contracts subject to interest rate risk principally represent "To Be Announced" mortgage pools that bear interest rate as well as principal prepayment risk.*
(3) *Included in the currency risk category are certain contracts that are also subject to interest rate risk.*

Most of Merrill Lynch's trading derivative transactions are relatively short-term in duration with a weighted-average maturity of approximately 3.4 years at December 29, 2000 and 2.9 years at December 31, 1999. For trading derivatives outstanding at December 29, 2000, the following table presents

the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

(dollars in billions)	2001	2002	2003	2004	After 2004	Total
Swap agreements	$ 634	$466	$381	$283	$1,305	$3,069
Forward contracts	218	80	1	–	–	299

Futures contracts	122	86	28	22	35	293
Options purchased	102	47	14	16	29	208
Options written	84	67	5	15	16	187
Total	$1,160	$746	$429	$336	$1,385	$4,056

The notional or contractual values of derivatives do not represent default risk exposure. Default risk is limited to the current cost of replacing derivative contracts in a gain position. Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of accounting loss is generally limited to a one-day net positive change in market value. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk.

Merrill Lynch attempts to enter into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties, as soon as possible. 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 on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure.

To reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 29, 2000, such collateral amounted to $4.1 billion. In addition to obtaining collateral, Merrill Lynch attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract. See *Management's Discussion and Analysis (unaudited) – Risk Management – Credit Risk* for further information on credit risk related to derivatives.

Securities Financing Transactions

Merrill Lynch enters into secured borrowing and lending transactions to finance trading inventory positions, obtain securities for settlement, and meet customers' needs (see *Management's Discussion and Analysis (unaudited) – Balance Sheet* for further information). Outstanding receivables and payables under resale and repurchase agreements and securities borrowed and loaned transactions at year-end 2000 and 1999 are as follows:

(dollars in millions)	2000	1999
Receivables under:		
Resale agreements	$ 79,240	$ 56,841
Securities borrowed transactions	35,341	42,439
Total	$ 114,581	$ 99,280
Payables under:		
Repurchase agreements	$ 89,901	$ 64,955
Securities loaned transactions	13,982	7,256
Total	$ 103,883	$ 72,211

Under these agreements and transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements Merrill Lynch is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions. At December 29, 2000, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $217 billion, and the fair value of the portion that has been sold or repledged was $161 billion.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are classified as securities pledged as collateral on the Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at year-end 2000 are as follows:

(dollars in millions)	2000
Trading asset category	
Equities and convertible debentures	$ 657
Corporate debt and preferred stock	3,039
U.S. Government and agencies	11,048
Mortgages, mortgage-backed, and asset-backed	5,876
Non-U.S. governments and agencies	1,643
Municipals and money markets	550
Total	$ 22,813

Merrill Lynch hedges interest rate risk exposures in long-dated resale and repurchase agreements (see Note 6).

Note 4. Investments

Merrill Lynch has several broad categories of investments on its Consolidated Balance Sheets, including *Marketable investment securities, Investments of* *insurance subsidiaries*, and *Other investments*.

Marketable investment securities consist of highly liquid debt and equity securities, including those held for liquidity management purposes. Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities. Certain merchant banking investments are subject to restrictions that may limit Merrill Lynch's ability to realize its investment until such restrictions expire.

Marketable investment securities and certain investments of insurance subsidiaries and other investments are classified as available-for-sale, held-to-maturity, or trading as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 29, 2000 and December 31, 1999 are as follows:

(dollars in millions)	2000	1999
Marketable investment securities		
Available-for-sale	$ 48,483	$ 9,484
Held-to-maturity	136	362
Trading	632	299
Total	$ 49,251	$ 10,145
Investments of insurance subsidiaries		
Available-for-sale	$ 2,382	$ 2,499
Trading	25	22
Non-qualifying(1)(2)	1,595	1,575
Total	$ 4,002	$ 4,096
Other investments		
Available-for-sale	$ 1,746	$ 494
Held-to-maturity	693	312
Non-qualifying(1)(3)	2,499	2,609
Total	$ 4,938	$ 3,415

(1) *Non-qualifying for SFAS No. 115 purposes.*
(2) *Primarily consists of insurance policy loans.*
(3) *Includes merchant banking investments and investments hedging deferred compensation liabilities.*

Information regarding investment securities subject to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," follows:

(dollars in millions)	December 29, 2000				December 31, 1999			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale								
Corporate debt	$ 4,298	$ 24	$ (53)	$ 4,269	$ 4,976	$ 10	$ (178)	$ 4,808
U.S. Government and agencies	5,384	177	(3)	5,558	974	1	(18)	957
Municipals	1,838	44	(39)	1,843	2,120	7	(5)	2,122
Mortgage- and asset-backed securities	35,698	277	(241)	35,734	3,808	16	(26)	3,798
Other debt securities	4,629	16	(9)	4,636	293	–	(6)	287
Total debt securities	51,847	538	(345)	52,040	12,171	34	(233)	11,972
Equity securities	616	12	(57)	571	528	12	(35)	505
Total	$ 52,463	$ 550	$ (402)	$ 52,611	$ 12,699	$ 46	$ (268)	$ 12,477

(dollars in millions)	December 29, 2000				December 31, 1999			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity								
U.S. Government and agencies	$ 229	$ –	$ –	$ 229	$ 405	$ 17	$ –	$ 422
Municipals	225	20	(2)	243	66	12	(51)	27
Mortgage- and asset-backed securities	54	–	–	54	68	–	(1)	67
Other debt securities	321	56	–	377	135	–	–	135
Total	$ 829	$ 76	$ (2)	$ 903	$ 674	$ 29	$ (52)	$ 651

The amortized cost and estimated fair value of debt securities at December 29, 2000, by contractual maturity, for available-for-sale and held-to-maturity investments follow:

(dollars in millions)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 7,087	$ 7,084	$ 29	$ 29
Due after one year through five years	2,522	2,662	229	234
Due after five years through ten years	4,410	4,471	13	20
Due after ten years	2,130	2,089	504	566
	16,149	16,306	775	849
Mortgage- and asset-backed securities	35,698	35,734	54	54
Total(1)	$ 51,847	$ 52,040	$ 829	$ 903

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

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

(dollars in millions)	**2000**	**1999**	**1998**
Proceeds	$7,036	$3,071	$3,426
Gross realized gains	247	22	74
Gross realized losses	(121)	(28)	(27)

Net unrealized gains (losses) from investment securities classified as trading included in the 2000, 1999, and 1998 Consolidated Statements of Earnings were $(22) million, $46 million, and $6 million, respectively.

Merrill Lynch hedges interest rate risk exposures on certain investments (see Note 6 for further information).

Note 5. Borrowings

Merrill Lynch issues U.S. and non-U.S. dollar-denominated debt instruments with both variable and fixed interest rates, primarily at the ML & Co. level. These borrowing activities may create exposure to market risk, most notably interest rate and currency risk. Merrill Lynch typically uses derivatives to better match the interest rate and currency characteristics of assets and liabilities, thereby reducing risk exposures. Derivatives used most frequently include swap agreements that:

- convert fixed-rate interest payments into variable payments,
- change the underlying interest rate basis or reset frequency, and
- convert non-U.S. dollar payments into U.S. dollars.

Merrill Lynch also issues debt whose repayment terms are linked to the performance of an index (e.g., S&P 500), basket of securities, or an individual security. The contingent components of these indexed debt obligations are hedged with derivatives (see Note 6 for further information).

Borrowings at December 29, 2000 and December 31, 1999 are presented below:

(dollars in millions)	**2000**	**1999**
Commercial paper and other short-term borrowings		
Commercial paper	$ 14,022	$ 24,198
Other	1,161	1,398
Total	$ 15,183	$ 25,596
Demand and time deposits		
Demand	$ 3,539	$ 3,498
Time	64,109	14,104
Total	$ 67,648	$ 17,602
Long-term borrowings		

Fixed-rate obligations:[1]		
U.S. dollar-denominated	$ 12,680	$ 13,183
Non-U.S. dollar-denominated	1,723	1,287
Variable-rate obligations:[2][3]		
U.S. dollar-denominated	2,809	3,338
Non-U.S. dollar-denominated	2,089	2,046
Medium-term notes:[3][4]		
U.S. dollar-denominated	37,483	22,166
Non-U.S. dollar-denominated	13,439	12,023
Total	$ 70,223	$ 54,043

(1) *At December 29, 2000, U.S. dollar-denominated fixed-rate obligations are due between 2001 and 2028 at interest rates ranging from 6.0% to 10.0%; non-U.S. dollar-denominated fixed-rate obligations are due 2001 to 2007 at interest rates ranging from 4.3% to 7.9%.*
(2) *Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.*
(3) *Included are various equity-linked or other indexed instruments.*
(4) *The medium-term note program provides for issuances that may bear fixed or variable interest rates and may have maturities that range up to 30 years from the date of issue.*

Long-term borrowings at December 29, 2000, based on their contractual terms, mature as follows:

(dollars in millions)	
2001	$21,386
2002	14,101
2003	10,667
2004	4,304
2005	4,168
2006 and thereafter	15,597
Total	$70,223

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Management believes, however, that a significant portion of such borrowings may remain outstanding beyond their earliest redemption date.

The effective weighted-average interest rates for borrowings, which include the impact of hedges, at December 29, 2000 and December 31, 1999 were:

	2000	**1999**
Commercial paper and other short-term borrowings	6.43%	5.94%
Demand and time deposits	5.71	4.34
Long-term borrowings	6.65	6.14

Borrowing Facilities

Merrill Lynch has obtained a committed, senior unsecured revolving credit facility aggregating $8 billion under an agreement with a bank. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 29, 2000, this credit facility was not drawn upon.

The credit quality, amounts, and terms of this credit facility are continually monitored and modified as warranted by business conditions. Under the existing agreement, the credit facility will mature in May 2001. At maturity, Merrill Lynch may convert amounts borrowed, if any, into term loans that would mature in two years.

Note 6. Fair Value Information and Non-Trading Derivatives

Fair Value Information

The following information is presented to help the reader gain an understanding of the relationship between the amounts reported in Merrill Lynch's financial statements and the related fair values. Specific accounting policies are discussed in Note 1.

At December 29, 2000, $371 billion or 91% of Merrill Lynch's total assets and $298 billion or 77% of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 31, 1999, $281 billion, or 91%, of Merrill Lynch's total assets and $224 billion, or 76%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate such values. Financial instruments that are carried at fair value include cash and cash equivalents, cash segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, available-for-sale and trading securities included in marketable investment securities, certain investments of insurance subsidiaries and certain other investments (see Notes 3 and 4 for information related to these instruments).

Financial instruments recorded at amounts that approximate fair value include receivables under resale agreements and securities borrowed transactions, receivables, payables under repurchase agreements and securities loaned, commercial paper and other short-term borrowings, demand and time deposits, and other payables. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

The following table shows financial instruments with carrying values that differ from their fair values.

(dollars in millions)	**Assets**	**Liabilities**

	Carrying Value	Fair Value	Carrying Value	Fair Value
December 29, 2000				
Held-to-maturity investments	$ 829	$ 903		
Merchant banking and other financial instruments (1)	2,499	2,668		
Loans, notes, and mortgages	17,472	17,531		
Long-term borrowings			$ 70,223	$ 71,023
Non-trading derivatives	1,930	2,951	1,512	1,814
December 31, 1999				
Held-to-maturity investments	$ 674	$ 651		
Merchant banking and other financial instruments (1)	2,609	2,921		
Loans, notes, and mortgages	11,188	11,212		
Long-term borrowings			$ 54,043	$ 53,641
Non-trading derivatives	1,220	1,514	2,191	2,669

(1) *Merchant banking equity investments are non-qualifying for SFAS No. 115 purposes.*

Fair value for merchant banking equity investments, including partnership interests (both included in *Other investments* on the Consolidated Balance Sheets), is estimated using a number of methods, including earnings multiples, cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., consent of other investors) that may limit Merrill Lynch’s ability to realize currently the estimated fair value. Accordingly, Merrill Lynch’s current estimate of fair value and the ultimate realization on these instruments may differ.

Fair value for loans made in connection with merchant banking activities, consisting primarily of senior and subordinated debt, is estimated using discounted cash flows. Merrill Lynch’s estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch’s variable-rate loan receivables, carrying value approximates fair value.

The fair values of long-term borrowings and related hedges are estimated using current market prices and pricing models.

The fair value of outstanding third party guarantees was $25 million and $41 million at December 29, 2000 and December 31, 1999, respectively.

Non-Trading Derivatives

The notional or contractual amounts of non-trading derivatives used to hedge market risk exposures on non-trading assets and liabilities at December 29, 2000 and December 31, 1999 follow:

(dollars in billions)	2000	1999
Borrowings:		
Interest rate risk (1)	$40	$44
Currency risk	1	1
Equity risk	11	3
Investment securities (2)	22	11
Resale and repurchase agreements (2)	11	6
Customer loans (2)	8	6
Investments in non-U.S. subsidiaries (3)	4	3
Other	5	3

(1) *Includes $8 billion and $10 billion of instruments that also hedge currency risk and $3 billion and $4 billion of instruments that also hedge equity risk at year-end 2000 and 1999, respectively.*
(2) *Primarily hedging interest rate risk.*
(3) *Hedging currency risk.*

The combined fair value of hedged items and related derivative hedges approximates their combined carrying value at year-end 2000 and 1999. Most of these derivatives are entered into with Merrill Lynch’s derivative dealer subsidiaries. These derivatives are entered into in order to hedge interest rate, currency, and equity risks in the normal course of trading activities and have been appropriately match-transacted with third parties.

Note 7. Preferred Securities Issued by Subsidiaries

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, primarily consist of perpetual trust-issued preferred securities.

Trust Originated Preferred Securities[SM] (“TOPrS”[SM]) are issued to investors by trusts created by Merrill Lynch. Using the issuance proceeds, the trusts purchase Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extend loans to ML & Co. and one or more subsidiaries of ML & Co. The trusts and partnerships are consolidated subsidiaries of Merrill Lynch. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPrS to the extent that the trusts have funds legally available.This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co.

The table below presents data related to the issuance of TOPrS by Merrill Lynch Capital Trust I, II, III, IV, and V. All TOPrS issued have a liquidation value of $25 per security, have a perpetual life, and can be redeemed at the option of the trusts, in whole or in part, at the liquidation value on or after their respective optional redemption dates. Distributions are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

(dollars in millions)

TOPrS	Annual Distribution Rate	Issue Date	Optional Redemption Date	Liquidation Value
I	7.75%	Dec. 1996	Dec. 2006	$ 275
II	8.00	Feb. 1997	Mar. 2007	300
III	7.00	Jan. 1998	Mar. 2008	750
IV	7.12	Jun. 1998	Jun. 2008	400
V	7.28	Nov. 1998	Sep. 2008	850
Other[(1)]	2.70	Jul. 1999	Jun. 2004	87
				$ 2,662

(1) *Represents Yen-denominated TOPrS issued by Merrill Lynch Yen TOPrS Trust I.*

In addition, $52 million of preferred securities of other subsidiaries were outstanding at year-end 2000 and 1999.

Note 8. Stockholders' Equity and Earnings Per Share

Preferred Equity

ML & Co. is authorized to issue 25,000,000 shares of undesignated preferred stock, $1.00 par value per share. All shares of currently outstanding preferred stock constitute one and the same class that have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

9% CUMULATIVE PREFERRED STOCK, SERIES A

ML & Co. has issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, liquidation preference value of $10,000 per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of $425 million, all of which was outstanding at year-end 2000, 1999, and 1998.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly when declared by the authority of the Board of Directors. The 9% Preferred Stock is perpetual and redeemable on or after December 30, 2004 at the option of ML & Co., in whole or in part, at a redemption price equal to $10,000 per share, plus accrued

and unpaid dividends (whether or not declared) to the date fixed for redemption.

Common Stock

In 2000, the Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. The par value of the common stock remained at $1.33 $^1/_3$ per share. Accordingly, a transfer from Paid-in capital to Common stock and Exchangeable shares of $680 million was made to preserve the par value of the post-split shares. All share and per share data have been restated for the effect of the split. Dividends paid on common stock were $0.61, $0.53, and $0.46 per share in 2000, 1999, and 1998, respectively.

In 2000, as specified in the merger agreement with Herzog, 2,449,090 shares of ML & Co. common stock were cancelled and retired upon consummation of the merger (see Note 2). In addition, ML & Co. issued 203,483 shares of common stock to certain employees in connection with employee incentive plans, thereby increasing issued shares to 962,533,498.

In 1999, ML & Co. issued 350,394 shares of common stock to certain employees in connection with employee incentive plans, thereby increasing issued shares to 964,779,105.

The following table summarizes the activity in outstanding common stock for 2000, 1999, and 1998:

	2000	1999	1998
Common stock			
Balance, beginning of year	964,779,105	964,428,711	964,373,379
Shares issued	203,483	350,394	55,332
Shares retired	(2,449,090)	–	–
Balance, end of year	962,533,498	964,779,105	964,428,711
Treasury shares			
Balance, beginning of year	(212,278,192)	(234,447,670)	(267,762,453)
Shares issued:			
To employees[(1)(2)]	51,885,837	21,176,646	31,848,313
Share exchanges	3,364,320	992,832	650,918
Acquisition	–	–	815,552

Shares retired	2,449,090	–	–
Balance, end of year	(154,578,945)	(212,278,192)	(234,447,670)
Common stock outstanding, end of year	807,954,553	752,500,913	729,981,041

(1) *Net of reacquisitions from employees of 1,139,116, 1,037,982, and 1,431,574 in 2000, 1999, and 1998, respectively.*

(2) *See Note 11 for a description of employee incentive plans.*

Shares Exchangeable into Common Stock

In 1998, Merrill Lynch & Co., Canada Ltd. issued 9,662,448 Exchangeable Shares in connection with Merrill Lynch's merger with Midland (see Note 2). Holders of Exchangeable Shares have dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares may be exchanged at any time, at the option of the holder, on a one-for-one basis for ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

During 2000 and 1999, 3,364,320 and 992,832 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 2000, 4,654,378 Exchangeable Shares were outstanding, compared with 8,018,698 at year-end 1999.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 29, 2000 and December 31, 1999 are as follows:

(dollars in millions)	2000	1999
Foreign currency translation adjustment		
Unrealized (losses), net of gains	$(230)	$(357)
Income taxes	(79)	55
Total	(309)	(302)
Unrealized gains (losses) on investment securities available-for-sale		
Unrealized (losses), net of gains	(57)	(167)
Adjustments for:		
Policyholder liabilities	(18)	(3)
Deferred policy acquisition costs	15	35
Income taxes	24	47
Total	(36)	(88)
Total accumulated other comprehensive loss	$(345)	$(390)

Stockholder Rights Plan

In 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock 10 days following the earlier of: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co., or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase

1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire in 2007, and are redeemable at the option of a majority of the directors of ML & Co. at $.01 per Right at any time until the 10th day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(dollars in millions, except share amounts)	2000	1999	1998
Net earnings	$ 3,784	$ 2,693	$ 1,271
Preferred stock dividends	39	39	38

Net earnings applicable to common stockholders	$ 3,745	$ 2,654	$ 1,233
(shares in thousands)			
Weighted-average basic shares outstanding(1)	798,273	754,672	728,929
Effect of dilutive instruments (2)			
Employee stock options	68,190	55,701	58,369
FCCAAP shares	29,637	31,894	33,096
Restricted units	15,251	11,138	9,790
ESPP shares	65	94	92
Dilutive potential common shares	113,143	98,827	101,347
Diluted shares(3)	911,416	853,499	830,276
Basic EPS	$ 4.69	$ 3.52	$ 1.69
Diluted EPS	4.11	3.11	1.49

(1) *Includes shares exchangeable into common stock.*

(2) *See Note 11 for a description of these instruments and issuances subsequent to December 29, 2000.*

(3) *At year-end 2000, 1999, and 1998, there were 1,456, 3,150, and 972 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations.*

Note 9. Commitments and Contingencies

Litigation

As of December 29, 2000, Merrill Lynch has been named as parties in various actions, some of which involve claims for substantial amounts. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results for any particular period.

Lending and Guarantees

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking, corporate finance, and loan syndication transactions. Customers 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. Merrill Lynch also issues various guarantees to counterparties in connection with certain leasing, securitization, and other transactions. These commitments and guarantees 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 or guarantees are issued, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and market conditions.

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

At December 29, 2000 and December 31, 1999, Merrill Lynch had the following commitments and guarantees:

(dollars in millions)	**2000**	**1999**
Commitments to extend credit	$28,925	$14,871
Third-party guarantees	687	1,459

The increase in commitments to extend credit relates to higher syndicated loan commitments and commercial paper backup lines of credit offered to institutional clients as well as increases in other commitments to extend credit.

Leases

Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2025. Merrill

Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

At December 29, 2000, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year are as follows:

(dollars in millions)	**WFC(1)**	**Other**	**Total**
2001	$ 145	$ 380	$ 525
2002	150	319	469
2003	158	275	433
2004	179	231	410
2005	179	200	379
2006 and thereafter	1,385	720	2,105

Total	$	2,196 $	2,125 $	4,321

(1) *World Financial Center Headquarters.*

The minimum rental commitments shown above have not been reduced by $674 million of minimum sublease rentals to be received in the future under noncancellable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

Net rent expense for each of the last three years is presented below:

(dollars in millions)		2000		1999		1998
Rent expense	$	636	$	589	$	541
Sublease revenue		(108)		(101)		(111)
Net rent expense	$	528	$	488	$	430

Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 29, 2000 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch had commitments at December 29, 2000 and December 31, 1999 to enter into resale and repurchase agreements as follows:

(dollars in millions)		2000		1999
Resale agreements	$	2,803	$	850
Repurchase agreements		3,504		1,624

Merrill Lynch also obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated $1,241 million and $1,486 million at December 29, 2000 and December 31, 1999, respectively.

In connection with merchant banking activities, Merrill Lynch has committed to purchase $670 million and $252 million of partnership interests at December 29, 2000 and December 31, 1999, respectively.

Merrill Lynch has entered into agreements with providers of market data, communications, and systems consulting services. At December 29, 2000 minimum fee commitments over the remaining life of these agreements aggregated $331 million.

Merrill Lynch has a long-term capital commitment of up to $600 million to Merrill Lynch HSBC, the 50/50-owned corporation created to provide global online investment and banking services to individual self-directed customers outside the United States. At December 29, 2000, $522 million of the total commitment remains unfunded. The timing of the funding of this commitment will be determined by the Board of Directors of Merrill Lynch HSBC, which has equal representation from Merrill Lynch and HSBC Holdings, plc (“HSBC”).

Note 10. Employee Benefit Plans

Merrill Lynch provides retirement and other postemployment benefits to its employees worldwide through defined contribution and defined benefit pension plans and other postretirement benefit plans. Merrill Lynch reserves the right to amend or terminate these plans at any time.

In 1999, Merrill Lynch changed its measurement date for both its defined benefit pension and other postretirement benefit plans from year-end to September quarter-end. Prior period information has not been restated since the impact of the change is not material.

Defined Contribution Pension Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan (“RAP”), the Employee Stock Ownership Plan (“ESOP”), and the 401(k) Savings & Investment Plan (“401K”). The RAP, ESOP, and 401K cover substantially all U.S. employees who have met service requirements.

Merrill Lynch established the RAP and the ESOP, collectively known as the “Retirement Program,” for the benefit of employees with a minimum of one year of service. A separate retirement account is maintained for each participant.

In 1989, the ESOP trust purchased from Merrill Lynch 95.7 million shares of ML & Co. common stock with residual funds from a terminated defined benefit pension plan (“Reversion Shares”) and loan proceeds from a subsidiary of Merrill Lynch (“Leveraged Shares”).

Merrill Lynch credited a participant’s account and recorded pension expense under the Retirement Program based on years of service and eligible compensation. This expense was funded

by quarterly allocations of Leveraged and Reversion Shares and, when necessary, cash, to participants’ accounts based on a specified formula. Leveraged and Reversion Shares were released in accordance with the terms of the ESOP. Reversion Shares were allocated to participants’ accounts over a period of eight years, ending in 1997. Leveraged Shares were allocated to participants’ accounts as principal was repaid on the loan to the ESOP, which matured in 1999. Principal and interest on the loan were payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. At December

31, 1999, all Reversion and Leveraged Shares had been allocated.

Additional information on ESOP activity follows:

(dollars in millions)	2000	1999	1998
Compensation costs funded with ESOP shares	$–	$49	$49
Dividends used for debt service (1)	–	2	7

(1) *Dividends on all Leveraged Shares were used for debt service on the ESOP loan through April 1, 1999. Dividends on unallocated Leveraged Shares only were used for this purpose through the end of the 1999 third quarter, when the loan was repaid.*

Employees can participate in the 401K by contributing, on a tax-deferred basis, up to 15% of their eligible compensation, but not more than the maximum annual amount allowed by law. Effective January 1, 2000, Merrill Lynch's contributions are equal to one-half of the first 6% of each participant's eligible compensation contributed to the 401K, up to a maximum of two thousand dollars annually. Previously, Merrill Lynch's contributions were equal to one-half of the first 4%, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 11).

Merrill Lynch also sponsors various non-U.S. defined contribution plans. The costs of benefits under the RAP, 401K, and non-U.S. plans are expensed during the related service period.

Defined Benefit Pension Plans

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 2000 and 1999, a substantial portion of the assets supporting the annuity contract was invested in U.S. Government and agencies securities. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of the annuity assets. Merrill Lynch also maintains supplemental defined benefit plans for certain U.S. employees.

Employees of certain non-U.S. subsidiaries participate in various local defined benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. Merrill Lynch's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 29, 2000 and September 24, 1999 and the amounts recognized in the Consolidated Balance Sheets at year-end 2000 and 1999:

(dollars in millions)	2000	1999
Projected benefit obligations		
Balance, beginning of year	$ 1,987	$ 2,090
Service cost	45	49
Interest cost	127	114
Net actuarial gain	(156)	(170)
Benefits paid	(89)	(68)
Other	(44)	(28)
Balance, end of period	1,870	1,987
Fair value of plan assets		
Balance, beginning of year	2,216	2,410
Actual return on plan assets	247	(156)
Contributions	41	55
Benefits paid	(89)	(68)
Other	(36)	(25)
Balance, end of period	2,379	2,216
Funded status	509	229
Unrecognized net actuarial gains	(343)	(103)
Unrecognized prior service benefit	(1)	(1)
Unrecognized net transition obligation	1	2
Fourth quarter activity, net	10	11
Net amount recognized	$ 176	$ 138
Assets	$ 258	$ 265
Liabilities	(82)	(127)
Net amount recognized	$ 176	$ 138

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $118 million, $111 million, and $61 million, respectively, as of September 29, 2000, and $119 million, $103 million, and $57 million, respectively, as of September 24, 1999. These plans primarily represent U.S. supplemental plans not subject to ERISA or non-U.S. plans where funding strategies vary due to legal requirements and local practices.

The actuarial assumptions used in calculating the projected benefit obligation at September 29, 2000 and September 24, 1999 are as follows:

	2000	1999
Discount rate	7.1%	6.5%
Rate of compensation increase	4.4	4.0
Expected rate of return on plan assets	7.7	6.7

Pension cost included the following components:

(dollars in millions)	2000	1999	1998
Defined contribution plan cost	$ 244	$ 234	$ 177
Defined benefit plans			
Service cost for benefits earned during the year	45	49	54
Interest cost on projected benefit obligations	127	114	122
Expected return on plan assets	(150)	(136)	(141)
Amortization of unrecognized items and other	(14)	–	7
Total defined benefit plan cost	8	27	42
Total pension cost	$ 252	$ 261	$ 219

Postretirement Benefits Other Than Pensions

Merrill Lynch provides health and life insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care component is contributory, with certain retiree contributions adjusted periodically; the life insurance component of the plan is noncontributory. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 29, 2000, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 29, 2000 and September 24, 1999, and the amounts recognized in the Consolidated Balance Sheets at year-end 2000 and 1999:

(dollars in millions)	2000	1999
Accumulated benefit obligations		
Balance, beginning of year	$ 194	$ 214
Service cost	7	9
Interest cost	14	14
Net actuarial gain	(11)	(33)
Benefits paid	(9)	(8)
Other	4	(2)
Balance, end of period	199	194
Fair value of plan assets		
Balance, beginning of year	–	–
Contributions	8	8
Benefits paid	(8)	(8)
Balance, end of period	–	–
Funded status	(199)	(194)
Unrecognized net actuarial gain	(47)	(37)
Unrecognized prior service cost	4	–
Fourth quarter activity, net	2	2
Accrued benefit liabilities	$ (240)	$ (229)

The actuarial assumptions used in calculating the postretirement accumulated benefit obligations at September 29, 2000 and September 24, 1999 are as follows:

	2000	1999
Discount rate	7.5%	7.5%
Health care cost trend rates[(1)]		
Initial	7.9	8.4
2012 and thereafter	5.0	5.0

(1) *Assumed to decrease gradually until 2012 and remain constant thereafter.*

Other postretirement benefits cost included the following components:

(dollars in millions)	2000	1999	1998
Service cost	$ 7	$ 9	$ 8
Interest cost	14	14	13
Other	–	(4)	–
Total other postretirement benefits cost	$21	$19	$21

The assumed health care cost trend rate has a significant effect on the amounts reported for the postretirement health care plans. A one percent change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)	1% Increase		1% Decrease	
	2000	1999	2000	1999
Effect on:				
Other postretirement benefits cost	$ 4	$ 5	$ (3)	$ (4)
Accumulated benefit obligation	31	29	(25)	(24)

Postemployment Benefits

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by U.S. state and federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized $117 million, $33 million, and $439 million in 2000, 1999, and 1998, respectively, of postemployment benefits expense, which included severance costs for terminated employees of $96 million, $26 million, and $424 million in 2000, 1999, and 1998, respectively. The severance costs for 1998 include amounts related to the staff reduction provision (see Note 2). Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 29, 2000 since future severance costs are not estimable.

Note 11. Employee Incentive Plans

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase shares. The total compensation cost recognized in earnings for stock-based compensation plans for 2000, 1999, and 1998 was $633 million, $463 million, and $453 million, respectively. Merrill Lynch also sponsors deferred cash compensation plans for eligible employees.

Long-Term Incentive Compensation Plans ("LTIC Plans") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Nonqualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ECAP provides for the issuance of Restricted Shares, as well as Performance Shares. As of December 29, 2000, no instruments other than Restricted Shares, Restricted Units, Nonqualified Stock Options, and Performance Options had been granted.

RESTRICTED SHARES AND UNITS

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock. Awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period, and such shares and units are subject to forfeiture during the vesting period, generally three years, for grants under LTIC Plans or the restricted period for grants under ECAP.

The activity for Restricted Shares and Units under these plans during 2000 and 1999 follows:

	LTIC Plans		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
Authorized for issuance at:			
December 29, 2000	560,000,000	N/A	104,800,000
December 31, 1999	480,000,000	N/A	104,800,000
Available for issuance at:[(1)]			
December 29, 2000	80,562,524	N/A	4,013,790
December 31, 1999	77,277,102	N/A	5,779,680
Outstanding, end of 1998	27,432,236	21,717,778	7,637,220
Granted – 1999	363,570	10,024,566	415,800
Paid, forfeited, or released from contingencies	(1,555,506)	(6,577,460)	(391,426)

Outstanding, end of 1999	26,240,300	25,164,884	7,661,594
Granted – 2000	209,313	17,746,449	18,927
Paid, forfeited, or released from contingencies	(7,790,512)	(7,925,185)	(7,303,458)
Outstanding, end of 2000[(2)]	18,659,101	34,986,148	377,063

(1) *Includes shares reserved for issuance upon the exercise of stock options.*

(2) *In 2001, 1,094,579 and 8,173,179 Restricted Shares and Units under LTIC Plans, respectively, were granted to eligible employees.*

The weighted-average fair value per share or unit for 2000, 1999, and 1998 grants follows:

	2000	**1999**	**1998**
LTIC Plans			
Restricted Shares	$45.09	$37.90	$32.98
Restricted Units	46.52	37.49	32.39
ECAP Restricted Shares	52.67	42.68	40.89

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares and units are granted to employees and non-employee directors. The table below summarizes information related to restricted shares and units for these other plans:

	Restricted Shares	**Restricted Units**
Authorized for Issuance at:		
December 29, 2000	12,600,000	N/A
December 31, 1999	12,600,000	N/A
Outstanding at:		
December 29, 2000	278,177	43,190
December 31, 1999	539,818	75,872

Nonqualified Stock Options

Nonqualified Stock Options granted under LTIC Plans in 1989 through 1995 generally become exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 through 2000 generally are exercisable over five years. Beginning in 2001, new option grants become exercisable after approximately six months. The exercise price of these options is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Nonqualified Stock Options expire ten years after their grant date.

The activity for Nonqualified Stock Options under LTIC Plans for 2000, 1999, and 1998 follows:

	Options Outstanding	**Weighted Average Exercise Price**
Outstanding, beginning of 1998	138,901,852	$11.39
Granted – 1998	24,239,978	31.38
Exercised	(15,937,656)	7.91
Forfeited	(1,416,606)	22.44
Outstanding, end of 1998	145,787,568	14.99
Granted – 1999	59,849,880	36.00
Exercised	(14,970,240)	8.95
Forfeited	(5,636,320)	31.94
Outstanding, end of 1999	185,030,888	27.99
Granted – 2000	39,839,546	43.83
Exercised	(35,672,581)	15.47
Forfeited	(5,116,248)	34.47
Outstanding, end of 2000[(1)]	184,081,605	27.48

(1) *In January 2001, 33,835,900 Nonqualified Stock Options were granted to eligible employees.*

At year-end 2000, 1999, and 1998, options exercisable under LTIC Plans were 92,776,119, 83,568,708, and 77,621,230 respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2000.

	Options Outstanding			**Options Exercisable**	
Exercise Price	**Number Outstanding**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Life (Years)**[(1)]	**Number Exercisable**	**Weighted-Average Exercise Price**

$ 2.50 – $10.99	37,613,593	$ 8.20	2.56	37,613,593	$ 8.20
$ 11.00 – $25.99	39,054,053	25.95	5.63	27,362,506	16.66
$ 26.00 – $35.99	21,450,066	31.03	7.08	8,208,189	31.18
$ 36.00 – $42.99	47,583,047	36.17	8.19	19,479,276	36.17
$ 43.00 – $53.99	38,380,846	43.84	9.19	112,555	44.77
	184,081,605			92,776,119	

(1) *Based on original contractual life of ten years.*

The weighted-average fair value of options granted in 2000, 1999, and 1998 was $18.05, $12.39, and $10.72 per option, respectively. Fair value is estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted-average assumptions:

	2000	**1999**	**1998**
Risk-free interest rate	6.73%	4.67%	5.81%
Expected life	5 yrs.	5 yrs.	6 yrs.
Expected volatility	40.64%	40.89%	28.10%
Dividend yield	1.23%	1.33%	1.28%

See *Pro Forma Compensation Expense* in the following *Employee Stock Purchase Plans* section for additional information.

Employee Stock Purchase Plans ("ESPP")

ESPP plans allow eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 100,600,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 2000, 1999, and 1998 follows:

	2000	**1999**	**1998**
Available, beginning of year	9,227,642	11,980,190	14,502,686
Purchased through plan	(2,431,628)	(2,752,548)	(2,522,496)
Available, end of year	6,796,014	9,227,642	11,980,190

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2000, 1999, and 1998 was $7.30, $6.25, and $5.66 per right, respectively.

PRO FORMA COMPENSATION EXPENSE

No compensation expense has been recognized for Merrill Lynch's grants of stock options under LTIC Plans or ESPP purchase rights (see Note 1 for accounting policy). Pro forma compensation expense associated with option grants is recognized over the vesting period. Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of $348 million, $291 million, and $95 million for 2000, 1999, and 1998, respectively, resulting in pro forma net earnings and earnings per share as follows:

(dollars in millions, except per share amounts)	**2000**	**1999**	**1998**
Net earnings			
As reported	$3,784	$2,693	$1,271
Pro forma	3,436	2,402	1,176
Earnings per share			
As reported:			
Basic	$ 4.69	$ 3.52	$ 1.69
Diluted	4.11	3.11	1.49
Pro forma:			
Basic	4.26	3.13	1.56
Diluted	3.73	2.77	1.37

Financial Consultant Capital Accumulation Award Plans ("FCCAAP")

Under FCCAAP, eligible employees in Merrill Lynch's Private Client Group are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The award is generally payable ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. FCCAAP may also provide for the issuance of Restricted Shares that vest ten years from the date of the original award and carry voting and dividend rights. Only shares of common stock held as treasury stock may be issued under FCCAAP.

At December 29, 2000, shares subject to outstanding awards totaled 55,578,853, while 30,704,809 shares were available for issuance through future awards. The fair value of awards granted under FCCAAP during 2000, 1999, and 1998 was $41.55, $35.72, and $33.97 per award, respectively.

Incentive Equity Purchase Plan ("IEPP")

IEPP allowed selected employees to purchase shares of ML & Co. common stock ("Book Value Shares") at a price equal to book value per common share.

Book Value Shares, which otherwise may not be resold, may be sold back to Merrill Lynch at book value or exchanged at any time for a specified number of freely transferable common shares. Book Value Shares outstanding under IEPP were 3,244,000 at December 29, 2000. In 1995, IEPP was amended to reduce the authorized shares to zero and prohibit the reuse of any surrendered shares. No further offerings will be made under this plan.

Merrill Lynch Investment Certificate Program ("MLICP")

Under MLICP, eligible employees in Merrill Lynch's Private Client Group are issued investment certificates based on their performance. The certificates mature ten years from the date issued and are payable in cash if certain performance criteria are achieved and the employee is continuously employed for the ten-year period, with certain exceptions. The certificates bear interest commencing with the date on which the performance requirements are achieved. As of year-end 2000 and 1999, $473 million and $409 million, respectively, were accrued under this plan.

OTHER DEFERRED COMPENSATION PLANS

Merrill Lynch sponsors other deferred compensation plans in which eligible employees may participate. Generally, contributions to the plans are made on a tax-deferred basis by participants. Contributions are invested by Merrill Lynch in mutual funds and other funds sponsored by Merrill Lynch, and the plans may include a leverage feature. The plans' investments and the amounts accrued by Merrill Lynch under the plans are both included in the Consolidated Balance Sheets. Plan investments totaled $1.1 billion and $1.2 billion, respectively, at December 29, 2000 and December 31, 1999. Accrued liabilities at year-end 2000 and 1999 were $1.0 billion.

Note 12. Income Taxes

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)	2000	1999	1998
U.S. federal			
Current	$ 861	$ 816	$ 683
Deferred	41	(80)	(180)
U.S. state and local			
Current	101	(23)	107
Deferred	29	(42)	10
Non-U.S.			
Current	574	617	412
Deferred	132	31	(307)
Total	$ 1,738	$ 1,319	$ 725

The corporate statutory tax rate was 35.0% for the three years presented. A reconciliation of statutory U.S. federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

(dollars in millions)	2000	1999	1998
U.S. federal income tax at statutory rate	$ 2,001	$ 1,472	$ 742
U.S. state and local income taxes, net(1)	85	(40)	78
Non-U.S. operations	(194)	(80)	(71)
Tax-exempt interest	(62)	(64)	(51)
Dividends received deduction	(37)	(28)	(30)
Other, net	(55)	59	57
Income tax expense	$ 1,738	$ 1,319	$ 725

(1) *Includes adjustments to prior year accruals.*

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Balance Sheets. These temporary differences result in taxable or deductibleamounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

(dollars in millions)	2000	1999	1998
Deferred tax assets			
Deferred compensation	$ 1,078	$ 1,020	$ 679
Valuation and other reserves(1)	546	783	1,227
Employee benefits	187	185	120
Other	559	621	375
Gross deferred tax assets	2,370	2,609	2,401
Valuation allowances(2)	(41)	(82)	(42)
Total deferred tax assets	2,329	2,527	2,359
Deferred tax liabilities			

Lease transactions	202	143	148
Employee benefits	81	74	64
Other	364	296	208
Total deferred tax liabilities	647	513	420
Net deferred tax assets	$ 1,682	$ 2,014	$ 1,939

(1) *Primarily related to Trading assets and Other payables.*

(2) *Related to net operating loss carryforwards not expected to be realized.*

At December 29, 2000, Merrill Lynch had U.S. net operating loss carryforwards of approximately $200 million and non-U.S. net operating loss carryforwards of $1.0 billion. The U.S. amounts are primarily state carryforwards expiring in various years after 2007 and the non-U.S. amounts are primarily Japanese and U.K. carryforwards expiring in various years after 2004.

Income tax benefits of $800 million, $281 million, and $336 million were allocated to stockholders' equity related to employee compensation transactions for 2000, 1999, and 1998, respectively.

Earnings before income taxes included approximately $2,293 million, $1,447 million, and $44 million of earnings attributable to non-U.S. subsidiaries for 2000, 1999, and 1998, respectively. Cumulative undistributed earnings of non-U.S. subsidiaries were approximately $3.7 billion at December 29, 2000. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested in Merrill Lynch's non-U.S. operations. It is not practicable to determine the amount of additional tax that may be payable in the event these earnings are repatriated.

Note 13. Regulatory Requirements and Dividend Restrictions

Certain U.S. and non-U.S. Subsidiaries are subject to various securities, banking and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch's principal regulated subsidiaries are discussed below.

Securities Regulation

MLPF&S, a U.S. registered broker-dealer, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 29, 2000, MLPF&S's regulatory net capital of $2,898 million was approximately 12% of aggregate debit items, and its regulatory net capital in excess of the minimum required was $2,420 million.

MLI, a U.K. registered broker-dealer, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At December 29, 2000, MLI's financial resources were $4,708 million, exceeding the minimum requirement by $883 million.

MLGSI, a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 29, 2000, MLGSI's liquid capital of $1,468 million was 271% of its total market and credit risk, and liquid capital in excess of the minimum required was $818 million.

Banking Regulation

Two of the direct subsidiaries of ML & Co., MLBUSA, an FDIC-insured Utah chartered depository institution, and MLB&T, an FDIC-insured New Jersey chartered depository institution, are each subject to certain minimum aggregate capital requirements under applicable federal banking laws. Among other things, Part 325 of the FDIC regulations establishes levels of Risk Based Capital ("RBC") each institution must maintain. RBC is defined as the ratios of (i) Tier I capital or Total capital to (ii) risk-weighted assets, as those terms are defined in the FDIC regulations. As of December 29, 2000, MLBUSA had a Tier I RBC ratio of 10.60% and a total RBC ratio of 10.79% and MLB&T had a Tier I RBC ratio of 10.26% and a total RBC ratio of 10.28%. At December 29, 2000 MLBUSA had Tier I capital of $3,017 million and MLB&T had Tier I capital of $841 million.

MLBUSA and MLB&T have each entered into a synthetic securitization of specified reference portfolios of asset-backed securities ("ABS") owned by each institution totaling in aggregate up to $20 billion. These ABS are AAA-rated and all are further insured as to principal and interest payments by a AAA-rated insurer. The synthetic securitization has allowed MLBUSA and MLB&T to reduce the credit risk on the respective reference portfolios by means of credit default swaps with a bankruptcy-remote special purpose vehicle ("SPV"). In turn, the SPV has issued a $20 million credit linked note to an unaffiliated buyer. These transactions have resulted in reductions in each institution's risk-weighted assets. MLBUSA has retained a first risk of loss equity tranche in this transaction of $1 million.

As a result of this transaction, MLBUSA has been able to reduce risk-weighted assets by $5,949 million at December 29, 2000, thereby increasing its Tier I and Total RBC ratios by 183 basis points and 186 basis points, respectively. MLB&T has been able to reduce risk-weighted assets by $2,815 million at December 29, 2000, thereby increasing its Tier I and Total RBC ratios by 262 basis points and 263 basis points, respectively. These structures have not resulted in a material change in the distribution or concentration of risk in the retained portfolio.

Insurance Regulation

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 29, 2000, $497 million, representing 84% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Other

Approximately 80 other subsidiaries are subject to regulatory and other requirements of the jurisdictions in which they operate. These regulatory restrictions may limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 29, 2000, restricted net assets of these subsidiaries were $5.6 billion.

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 29, 2000, this minimum capital requirement was $354 million.

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (1) ML & Co.'s obligation to make payments on its preferred stock and TOPrS, and (2) the governing provisions of the Delaware General Corporation Law.

Note 14. Segment and Geographic Information

Segment Information

In reporting to management during 2000, Merrill Lynch's operating results were categorized into three business segments: the Corporate and Institutional Client Group ("CICG"), the Private Client Group ("PCG") and Merrill Lynch Investment Managers ("MLIM"). Prior period amounts have been restated to conform to the 2000 presentation. For information on each segment's activities, see *Management's Discussion and Analysis (unaudited) – Business Segments* .

The principal methodology used in preparing the segment results in the table that follows is:

- Revenues and expenses are assigned to segments where directly attributable.
- Principal transaction and investment banking revenues and related costs resulting from the client activities of PCG are allocated among CICG and PCG based on production credits, share counts, trade counts, and other measures which estimate relative value.
- Revenues and expenses related to certain retail money market funds comprising an average of $111 billion, $118 billion and $107 billion in assets under management in 2000, 1999 and 1998, respectively are assigned to PCG.
- The 401(k) business is reported as a 50/50 joint venture between MLIM and PCG.
- Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if MLIM and PCG were unrelated entities.
- Interest (cost of carry) is allocated based on management's assessment of the relative risk of segment assets and liabilities.
- Goodwill amortization, Mercury financing costs, and the staff reduction provision are not attributed to segments because management excludes these items from segment operating results in evaluating segment performance. The elimination of intersegment revenues and expenses is also included in Corporate items (including intersegment eliminations).
- Residual revenues and expenses (i.e., those related to overhead and support units) are attributed to segments based on specific methodologies (e.g., headcount, square footage, intersegment agreements).

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated amounts:

(dollars in millions)

	CICG	PCG	MLIM	Corporate Items (including intersegment eliminations)	Total
2000					
Non-interest revenues	$ 11,054	$ 10,442	$ 2,415	$ (235)(1)	$ 23,676
Net interest revenue (2)	1,491	1,653	69	(102)(3)	3,111
Net revenues	12,545	12,095	2,484	(337)	26,787
Non-interest expenses	8,664	10,478	1,947	(19)(4)	21,070
Earnings (loss) before income taxes	$ 3,881	$ 1,617	$ 537	$ (318)	$ 5,717
Year-end total assets	$ 281,976	$ 118,390	$ 2,427	$ 4,407	$ 407,200
1999					
Non-interest revenues	$ 8,755	$ 9,436	$ 2,223	$ (194)(1)	$ 20,220
Net interest revenue (2)	1,037	1,183	22	(141)(3)	2,101
Net revenues	9,792	10,619	2,245	(335)	22,321
Non-interest expenses	7,094	9,233	1,763	25(4)	18,115
Earnings (loss) before income taxes	$ 2,698	$ 1,386	$ 482	$ (360)	$ 4,206
Year-end total assets	$ 246,984	$ 55,641	$ 2,273	$ 4,952	$ 309,850
1998					
Non-interest revenues	$ 6,412	$ 8,697	$ 1,962	$ (290)(1)	$ 16,781
Net interest revenue (2)	349	884	30	(245)(3)	1,018
Net revenues	6,761	9,581	1,992	(535)	17,799
Non-interest expenses, excluding staff reduction provision	5,715	8,015	1,565	(46)(4)	15,249
Provision for costs related to staff reductions	–	–	–	430(5)	430

Earnings (loss) before income taxes	$ 1,046	$ 1,566	$ 427	$ (919)	$ 2,120
Year-end total assets	$ 235,476	$ 43,699	$ 1,907	$ 5,364	$ 286,446

(1)*Includes the elimination of intersegment revenues and, in 2000, 33% of the loss on the HSBC joint venture.*
(2)*Management views interest income net of interest expense in evaluating results.*
(3)*Represents Mercury financing costs.*
(4)*Represents goodwill amortization of $217, $227, and $227 net of elimination of intersegment expenses and other corporate items of $236, $202, and $273 for 2000, 1999, and 1998, respectively.*
(5)*Had this amount been allocated to segments, $259, $88, and $83 would have been allocated to CICG, PCG, and MLIM, respectively.*

Geographic Information

Merrill Lynch operates in both U.S. and non-U.S. markets. Merrill Lynch's non-U.S. business activities are conducted through offices in five regions:

- Europe, Middle East and Africa,
- Japan,
- Asia Pacific/Australia,
- Canada, and
- Latin America.

For further information on activities in these regions, see *Management's Discussion and Analysis (unaudited) –Global Operations.*

The principal methodology used in preparing the geographic data in the table that follows is:

- Commissions revenues are recorded based on client location,
- Trading revenues are principally recorded based on the location of the trader,
- Investment banking revenues are recorded based on the location of the client,
- Asset management and portfolio service fees are recorded based on the location of the client,
- Earnings before income taxes include the allocation of certain shared expenses among regions, and
- Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated amounts.

(dollars in millions)	2000	1999	1998
Net revenues			
Europe, Middle East and Africa	$ 4,989	$ 4,181	$ 2,783
Japan	1,410	1,075	592
Asia Pacific/Australia	1,259	1,074	554
Canada	823	629	642
Latin America	720	615	412
Total Non-U.S.	9,201	7,574	4,983
U.S.	17,699	14,888	13,061
Corporate	(113)	(141)	(245)
Total	$ 26,787	$ 22,321	$ 17,799
Earnings before income taxes			
Europe, Middle East and Africa	$ 1,468	$ 1,106	$ 311
Japan	271	(6)	(123)
Asia Pacific/Australia	226	194	(212)
Canada	153	50	9
Latin America	169	124	(69)
Total Non-U.S.	2,287	1,468	(84)
U.S.	3,748	3,098	3,123
Corporate	(318)	(360)	(919)
Total	$ 5,717	$ 4,206	$ 2,120

Supplemental Financial Information (unaudited)

Quarterly Information

The unaudited quarterly results of operations of Merrill Lynch for 2000 and 1999 are prepared in conformity with U.S. generally accepted accounting principles and reflect all adjustments (which consist of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

(dollars in millions, except per share amounts)	For the Quarter Ended							
	Dec. 29, 2000	Sept. 29, 2000	June 30, 2000	Mar. 31, 2000	Dec. 31, 1999	Sept. 24, 1999	June 25, 1999	Mar. 26, 1999

Total Revenues	$ 11,663	$ 10,853	$ 11,050	$ 11,306	$ 9,419	$ 8,497	$ 8,748	$ 8,676
Interest Expense	5,395	4,704	4,204	3,782	3,376	3,145	3,193	3,305
Net Revenues	6,268	6,149	6,846	7,524	6,043	5,352	5,555	5,371
Non-Interest Expenses	4,960	4,838	5,433	5,839	4,836	4,448	4,485	4,346
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	1,308	1,311	1,413	1,685	1,207	904	1,070	1,025
Income Tax Expense	382	378	443	535	366	276	326	351
Dividends on Preferred Securities Issued by Subsidiaries	49	48	49	49	48	49	48	49
Net Earnings	$ 877	$ 885	$ 921	$ 1,101	$ 793	$ 579	$ 696	$ 625
Earnings Per Common Share:								
Basic	$ 1.07	$ 1.09	$ 1.15	$ 1.40	$ 1.03	$ 0.75	$ 0.91	$ 0.83
Diluted	0.93	0.94	1.01	1.24	0.91	0.67	0.80	0.73

Dividends Per Common Share

(declared and paid)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2000	$.14	$.15	$.16	$.16
1999	.12	.14	.14	.14

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (a) ML & Co.'s obligation to make payments on its preferred stock and subsidiaries' preferred securities, and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Note 13 to the *Consolidated Financial Statements*).

Stockholder Information

Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below.

(at calendar period-end)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
2000	$ 57.59	$ 36.31	$ 61.16	$ 42.25	$ 74.63	$ 56.81	$ 73.50	$ 54.75
1999	47.25	32.81	51.25	33.03	40.72	31.00	44.22	31.19

The approximate number of holders of record of ML & Co. common stock as of February 27, 2001 was 15,128. As of February 27, 2001, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was $62.70.

EXHIBIT 21

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 27, 2001 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	State or Jurisdiction of Entity
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated/1/	Delaware
Broadcort Capital Corp.	Delaware
Merrill Lynch Life Agency Inc./2/	Washington
Merrill Lynch Professional Clearing Corp./3/	Delaware
Merrill Lynch Bank & Trust Co.	New Jersey
Merrill Lynch Capital Services, Inc.	Delaware
Merrill Lynch Government Securities, Inc.	Delaware
Merrill Lynch Money Markets Inc.	Delaware
Merrill Lynch Group, Inc.	Delaware
Merrill Lynch Investment Managers Group Limited/4/	England
Merrill Lynch Investment Managers Holdings Limited	England
Merrill Lynch Investment Managers, L.P./5/	Delaware
Merrill Lynch Capital Partners, Inc.	Delaware
Merrill Lynch Futures Inc.	Delaware
Merrill Lynch Insurance Group, Inc.	Delaware
Merrill Lynch Life Insurance Company	Arkansas
ML Life Insurance Company of New York	New York
Merrill Lynch International Finance Corporation	New York
Merrill Lynch International Bank Limited	England
Merrill Lynch Bank (Suisse) S.A.	Switzerland
Merrill Lynch Group Holdings Limited	Ireland
Merrill Lynch Capital Markets Bank Limited	Ireland
Merrill Lynch Mortgage Capital Inc.	Delaware
Merrill Lynch Trust Company/6/	New Jersey
Merrill Lynch Investment Partners Inc.	Delaware
MLDP Holdings, Inc./7/	Delaware
Merrill Lynch Derivative Products AG	Switzerland
ML IBK Positions, Inc.	Delaware

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/1/ MLPF&S also conducts business as "Merrill Lynch & Co."

/2/ Similarly named affiliates and subsidiaries that engage in the sale of life insurance and annuity products are incorporated in various other jurisdictions.

/3/ The preferred stock of the corporation is owned by an unaffiliated group of investors.

/4/ Held through several intermediate holding companies.

/5/ Merrill Lynch Investment Managers, L.P. is a limited partnership whose general partner is Princeton Services, Inc. and whose limited partner is ML & Co.

/6/ Similarly named affiliates and subsidiaries that provide trust and custodial services are incorporated in various other jurisdictions.

/7/ Merrill Lynch Group, Inc. owns 100% of this corporation's outstanding common voting stock. 100% of the outstanding preferred voting stock is held by outside parties.

Merrill Lynch Capital Corporation	Delaware
ML Leasing Equipment Corp./8/	Delaware
Merrill Lynch Canada Holdings Company	Nova Scotia
Merrill Lynch Canada Finance Company	Nova Scotia
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Canada Inc.	Canada
Merrill Lynch Bank USA	Utah
Merrill Lynch Business Financial Services Inc.	Delaware
Merrill Lynch Credit Corporation	Delaware
Merrill Lynch International Incorporated	Delaware
Merrill Lynch (Australasia) Pty Limited	New South Wales
Merrill Lynch Finance (Australia) Pty Limited	Australia
Merrill Lynch International (Australia) Limited/9/	New South Wales
Merrill Lynch International Bank (Edge Act Corporation)	United States

Merrill Lynch International Holdings Inc.	Delaware
Merrill Lynch Bank and Trust Company (Cayman) Limited	Cayman Islands, British West Indies
Merrill Lynch Capital Markets AG	Switzerland
Merrill Lynch Europe PLC	England
Merrill Lynch Holdings Limited	England
Merrill Lynch International/10/	England
Merrill Lynch, Pierce, Fenner & Smith (Brokers & Dealers) Limited	England
Merrill Lynch Capital Markets Espana S.A. S.V.B.	Spain
Merrill Lynch (Singapore) Pte. Ltd./11/	Singapore
Merrill Lynch South Africa (Pty) Ltd./12/	South Africa
Merrill Lynch Mexico, S.A. de C.V., Casa de Bolsa	Mexico
Merrill Lynch S.A. Sociedad de Bolsa	Argentina
Banco Merrill Lynch S.A.	Brazil
Merrill Lynch S.A.	Luxembourg
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France S.A.	France
Merrill Lynch Finance S.A.	France
Merrill Lynch Capital Markets (France) S.A.	France
Merrill Lynch (Asia Pacific) Limited	Hong Kong
Merrill Lynch Far East Limited	Hong Kong
Merrill Lynch Japan Securities Co., Ltd.	Japan
Herzog, Heine, Geduld, Inc.	New York

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/8/ This corporation has more than 45 direct or indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships.

/9/ Held through an intermediate subsidiary.

/10/ Partially owned by another indirect subsidiary of ML & Co.

/11/ Held through intermediate subsidiaries.

/12/ Partially owned by another indirect subsidiary of ML & Co.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our reports dated February 26, 2001 appearing in and incorporated by reference in this Annual Report on Form 10-K of Merrill Lynch & Co., Inc. and subsidiaries for the year ended December 29, 2000.

Filed on Form S-8:

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors' Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan For a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depository Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

/s/ Deloitte & Touche LLP
New York, New York
February 26, 2001

Exhibit 99(i)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and its subsidiaries ("Merrill Lynch") as of December 29, 2000 and December 31, 1999, and for each of the three years in the period ended December 29, 2000, and have issued our report thereon dated February 26, 2001. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets as of December 25, 1998, December 26, 1997 and December 27, 1996, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 26, 1997 and December 27, 1996 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1998 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 29, 2000 included in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
February 26, 2001

Exhibit 99(ii)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and its subsidiaries ("Merrill Lynch") as of December 29, 2000 and December 31, 1999 and for each of the three years in the period ended December 29, 2000 and have issued our report thereon dated February 26, 2001. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 25, 1998, December 26, 1997 and December 27, 1996, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 26, 1997 and December 27, 1996 (none of which are presented or incorporated by reference herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1998 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in the "Selected Financial Data" under the captions "Operating Results", "Financial Position" and "Common Share Data" included in the 2000 Annual Report to Stockholders and incorporated by reference in this Annual Report on Form 10-K, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte and Touche LLP

New York, New York
February 26, 2001