

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 26, 1997

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.)
WORLD FINANCIAL CENTER--NORTH TOWER 250 VESEY STREET NEW YORK, NEW YORK	10281 (ZIP CODE)

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 449-1000
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

<TABLE>	<C>
<S>	
Common Stock, par value \$1.33 1/3	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Paris Bourse; London Stock Exchange; and Tokyo Stock Exchange
Depository Shares representing 1/400th share of 9% Cumulative Preferred Stock, Series A	New York Stock Exchange
Rights to Purchase Series A Junior Preferred Stock	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Paris Bourse; London Stock Exchange; and Tokyo Stock Exchange
Currency Protected Notes due December 31, 1998; Global Bond Linked Securities due December 31, 1998; S&P 500 Market Index Target-Term Securities ("MITTS") due July 31, 1998; Global Telecommunications Portfolio MITTS due October 15, 1998; European Portfolio MITTS due June 30, 1999; S&P 500 MITTS due May 10, 2001; Technology MITTS due August 15, 2001; Healthcare/Biotechnology Portfolio MITTS due October 31, 2001; Nikkei 225 MITTS due June 14, 2002; S&P 500 MITTS due September 16, 2002; Merrill Lynch's MITTS based upon the Dow Jones Industrial Average due January 14, 2003; Top Ten Yield MITTS due August 15, 2006; S&P 500 Inflation Adjusted MITTS due September 24, 2007; Stock Market Annual Reset Term Notes ("SMART Notes") due December 31, 1999 (Series A); Equity Participation Securities with Minimum Return Protection due June 30, 1999; 6 1/2% Structured Yield Product Exchangeable for Stock ("STRYPES") due August 15, 1998; 6% STRYPES due June 1, 1999; 7 1/4% STRYPES due June 15, 1999; 7 7/8% STRYPES due February 1, 2001; 6 1/4% STRYPES due July 1, 2001	New York Stock Exchange
Japan Index Equity Participation Securities with Minimum Return Protection due January 31, 2000; AMEX Oil Index SMART Notes due December 29, 2000; Russell 2000 Index Call Warrants expiring November 17, 1998; AMEX Hong Kong 30 Index Equity Participation Notes due February 16, 1999; Major 8 European Index MITTS due August 30, 2002; Major 11 International MITTS due December 6, 2002; Russell 2000 Index MITTS due September 30, 2004	American Stock Exchange

</TABLE>

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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 requirements for the past 90 days. Yes [X] 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. [X]

As of February 23, 1998, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$24.2 billion.

As of February 23, 1998, there were 342,205,174 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Merrill Lynch & Co., Inc. Proxy Statement for its 1998 Annual Meeting of Stockholders dated March 5, 1998--Incorporated by reference in part in this Form 10-K in Parts III and IV.

CROSS REFERENCE INDEX TO ANNUAL REPORT ON FORM 10-K
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INTRODUCTION

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Our \$1.9 billion in net earnings for 1997 were the highest in our history, up 18% from the previous record of \$1.6 billion the year before, and represent a return on common equity of 26.8%.

In recognition of sustained earnings growth, in April 1997 our Board of Directors approved a two-for-one common stock split and a 33% increase in the regular quarterly dividend, making 1997 the sixth consecutive year in which dividends increased.

On the following pages, we present Merrill Lynch's financial results for 1997 in detail. A companion publication, the 1997 Annual Review, contains our Letter to Shareholders and Clients setting the events and accomplishments of last year in the context of a thorough discussion of our strategy. We urge you to read these two publications in tandem, since both strategic vision and financial strength will continue to be critical elements for success during a period of extraordinary change in the global financial services industry.

/s/ David H. Komansky

/s/ Herbert M. Allison, Jr.

DAVID H. KOMANSKY
Chairman and Chief Executive Officer

HERBERT M. ALLISON, JR.
President and Chief Operating Officer

February 26, 1998

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SELECTED FINANCIAL DATA
(Dollars in Millions, Except Per Share Amounts)

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Year Ended Last Friday in December

	1997	1996	1995	1994	1993
	(52 Weeks)	(52 Weeks)	(52 Weeks)	(52 Weeks)	(53 Weeks)
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING RESULTS					
Total Revenues	\$ 31,731	\$ 25,011	\$ 21,513	\$ 18,234	\$ 16,588
Interest Expense	16,062	11,895	11,248	8,609	6,030
Net Revenues	15,669	13,116	10,265	9,625	10,558
Non-Interest Expenses	12,619	10,550	8,454	7,895	8,133
Earnings Before Income Taxes, Dividends on Preferred Securities Issued by Subsidiaries, and Cumulative Effect of Change in Accounting Principle	3,050	2,566	1,811	1,730	2,425
Income Tax Expense	1,097	947	697	713	1,031
Dividends on Preferred Securities Issued by Subsidiaries	47	-	-	-	-
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 1,906	\$ 1,619	\$ 1,114	\$ 1,017	\$ 1,394
Net Earnings	\$ 1,906	\$ 1,619	\$ 1,114	\$ 1,017	\$ 1,359
Net Earnings Applicable to Common Stockholders	\$ 1,867	\$ 1,572	\$ 1,066	\$ 1,004	\$ 1,354
FINANCIAL POSITION					
Total Assets	\$292,819	\$213,016	\$176,857	\$163,749	\$152,910
Short-Term Borrowings (a)	\$122,725	\$102,002	\$ 86,363	\$ 78,304	\$ 79,632
Long-Term Borrowings	\$ 43,090	\$ 26,102	\$ 17,340	\$ 14,863	\$ 13,469
Preferred Securities Issued by Subsidiaries	\$ 627	\$ 327	\$ 51	\$ 51	\$ 51
Total Stockholders' Equity	\$ 8,329	\$ 6,892	\$ 6,141	\$ 5,818	\$ 5,486
COMMON SHARE DATA (b) (In Thousands, Except Per Share Amounts)					
Basic:					
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 5.63	\$ 4.65	\$ 3.02	\$ 2.57	\$ 3.31
Net Earnings	\$ 5.63	\$ 4.65	\$ 3.02	\$ 2.57	\$ 3.23
Diluted:					
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 4.83	\$ 4.11	\$ 2.71	\$ 2.38	\$ 3.06
Net Earnings	\$ 4.83	\$ 4.11	\$ 2.71	\$ 2.38	\$ 2.98
Weighted-Average Shares Outstanding:					
Basic	331,467	337,794	353,126	391,321	418,553
Diluted	386,749	382,271	393,995	422,099	453,585
Shares Outstanding at Year-End (c)					
Shares Repurchased	13,741	37,158	40,024	59,977	32,691
Average Share Repurchase Price	\$ 48.91	\$ 31.30	\$ 23.48	\$ 18.98	\$ 21.28
Book Value	\$ 23.64	\$ 19.19	\$ 16.20	\$ 14.43	\$ 13.09
Dividends Paid	\$ 0.75	\$ 0.58	\$ 0.505	\$ 0.445	\$ 0.35
FINANCIAL RATIOS					
Pretax Margin (d)	19.5%	19.6%	17.6%	18.0%	23.0%
Profit Margin (e)	12.2%	12.3%	10.8%	10.6%	13.2%
Common Dividend Payout Ratio	13.4%	12.5%	16.9%	17.5%	10.9%
Return on Average Assets	0.7%	0.7%	0.6%	0.6%	1.0%

Return on Average Common Stockholders' Equity	26.8%	26.8%	20.1%	18.6%	27.3%
Average Leverage (f)	35.5x	33.5x	32.4x	31.7x	27.1x
Average Adjusted Leverage (g)	21.5x	19.9x	19.3x	18.7x	16.4x

EMPLOYEE STATISTICS

Full-Time Employees:

U.S.	45,700	42,100	39,250	38,750	37,500
Non-U.S.	10,900	7,700	6,750	5,050	4,400
Total	56,600	49,800	46,000	43,800	41,900

Financial Consultants
and Account Executives

Worldwide	15,300	14,400	13,900	13,500	13,200
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</TABLE>

- (a) Includes payables under repurchase agreements and securities loaned transactions and commercial paper and other short-term borrowings.
- (b) All share and per share data have been restated for the two-for-one common stock split (see Note 6 to the Consolidated Financial Statements).
- (c) Does not include 3,078, 8,026, 12,854, and 17,864 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1996, 1995, 1994, and 1993, respectively, which are not considered outstanding for accounting purposes.
- (d) Earnings Before Income Taxes, Dividends on Preferred Securities Issued by Subsidiaries, and Cumulative Effect of Change in Accounting Principle to Net Revenues.
- (e) Earnings Before Cumulative Effect of Change in Accounting Principle to Net Revenues.
- (f) Average total assets to average total stockholders' equity and preferred securities issued by subsidiaries.
- (g) Average total assets less average receivables under resale agreements and securities borrowed transactions to average total stockholders' equity and preferred securities issued by subsidiaries.

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MANAGEMENT'S DISCUSSION OF FINANCIAL RESPONSIBILITY

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Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in the Annual Report. The consolidated financial statements and notes are prepared in accordance with generally accepted accounting principles. 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 integrity and understanding the risks of its businesses. Therefore, Management devotes considerable attention to 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. The Audit and Finance Committee, consisting entirely of independent directors, examines Merrill Lynch's compliance with acceptable business standards and ethics. It also reviews significant financial issues and recommends overall policies regarding risk and funding requirements. 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 and Finance Committee, providing independent appraisals of Merrill Lynch's internal accounting controls and compliance with established policies and procedures.

Finance 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.

Risk Management and Corporate Credit are both independent from business line management and have oversight responsibility for Merrill Lynch's market and credit risks. These groups have clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks.

Law and Compliance 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, including a review of the internal accounting control system. Merrill Lynch's independent auditors are appointed each year by the Audit and Finance Committee and are given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, Board of Directors, and committees of the Board.

/s/ David H. Komansky /s/ Herbert M. Allison, Jr. /s/ E. Stanley O'Neal

DAVID H. KOMANSKY	HERBERT M. ALLISON, JR.	E. STANLEY O'NEAL
Chairman and	President and	Executive Vice President
Chief Executive Officer	Chief Operating Officer	and Chief Financial Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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BUSINESS ENVIRONMENT

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. Merrill Lynch conducts its businesses in global financial markets that are influenced by numerous unpredictable factors. These factors include economic conditions and monetary policy, 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.

The financial services industry continues to be affected by the intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, expansion by banks and insurance companies into traditional brokerage activities, and diminishing margins in many mature products and services.

Global financial markets continued to advance for much of 1997, after generally strong performances in 1996 and 1995. Robust economic growth, low inflation, and falling U.S. interest rates propelled U.S. equity markets to record highs and contributed to significant gains in most non-U.S. markets. The weak-

ening of certain Asian currencies in the 1997 third quarter and further devaluation of those currencies in the 1997 fourth quarter, however, caused significant volatility and overall declines in global equity markets, particularly in Asia. These events also resulted in the widening of credit spreads and sharply reduced liquidity in a number of markets, particularly in emerging markets. Subsequently, many markets recovered, while Asian markets continued to decline.

U.S. equity markets posted significant gains in 1997, with the Dow Jones Industrial Average ("DJIA")

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

rising 23%. This was the first time the DJIA rose more than 20% for three consecutive years, although nearly all of the 1997 increase occurred in the first seven months of the year. U.S. equity markets weakened in August, primarily due to corporate earnings disappointments, and declined significantly in October following the devaluation of several Asian currencies. These events precipitated a DJIA market correction of 7.2%, or 554 points, on October 27, the largest one-day point drop ever. The DJIA staged a sharp comeback the next day, rising 4.7%. Despite volatility throughout the remainder of the year, the DJIA returned to pre-October levels by the end of 1997.

U.S. bond market rates trended upward at the beginning of 1997, as inflationary fears forced the Federal Reserve Board to raise short-term interest rates in late March. Despite strong economic growth and low unemployment, this trend reversed later in the year as inflationary fears eased and demand for U.S. Treasuries increased over concerns that the conditions in Asia would spread to other parts of the world. The yield on the 30-year U.S. Treasury bond ended the year at 5.9%, its lowest level since early 1996.

Global equity markets rose on average approximately 13% during the year, as measured by the Dow Jones World Index (Registered Trademark). Most European markets experienced significant advances during 1997 due to falling bond yields and a steady stream of mergers and acquisitions. Asian markets, however, incurred large losses late in 1997 due to the prospects of slower growth and significant currency fluctuations. In Latin America, strong export growth, low inflation, and significant foreign capital inflows led to large gains during the first half of the year. These gains were partially offset during the second half of the year as the decline in Asian markets prompted a massive sell-off of Latin American stocks, leading to the largest price deterioration since the 1994 Mexican peso crisis. Despite these price declines, Latin American stock indices posted significant gains during 1997. Although equity prices in many countries, when measured in local currency terms, were up more than U.S. equity prices, in U.S. dollar terms, only a few of these increases exceeded the U.S. advance due to the overall strengthening of the U.S. dollar versus many local currencies.

Global underwriting volume reached record levels during 1997, up 33% over the previous record levels of 1996. Although disclosed underwriting fees for stocks and bonds fell 10% to \$8.4 billion, 1997 was the third-best year for underwriting fees after 1996 and 1993, according to Securities Data Co. ("SDC"). Increasing competition from non-U.S. and U.S. commercial banks and a sharp drop in equity initial public offerings led to the decline in disclosed fees.

Strategic services had its third consecutive year of record volume in 1997, as a result of a continuation of the high level of merger and acquisition activity since 1995. Driven by a generally favorable stock market, regulatory and technological changes, and ongoing industry consolidations, companies continued to seek strategic alliances to increase earnings growth and expand into new markets and businesses.

Fiscal 1997 was primarily characterized by favorable economic conditions and strong, yet volatile, financial markets. Merrill Lynch continually evaluates its businesses across varying market conditions for profitability and alignment with long-term strategic objectives. Merrill Lynch seeks to mitigate the effect of market downturns by developing and maintaining long-term client relationships, selectively expanding its global presence, closely monitoring costs and risks, and continuing to diversify revenue sources.

RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

(in millions, except per share amounts)	1997 VS.				
	1997	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	\$31,731	\$25,011	\$21,513	26.9%	47.5%
Net revenues	15,669	13,116	10,265	19.5	52.6
Net earnings	1,906	1,619	1,114	17.8	71.1
Net earnings applicable to					

common stockholders	1,867	1,572	1,066	18.7	75.1
Earnings per common share:					
Basic	5.63	4.65	3.02	21.1	86.4
Diluted	4.83	4.11	2.71	17.5	78.2
Return on average common stockholders' equity	26.8%	26.8%	20.1%	-	33.3

</TABLE>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Merrill Lynch's record 1997 net earnings of \$1.9 billion surpassed its previous record of \$1.6 billion in 1996 by 18%. Record revenues in commissions, principal transactions, investment banking, and asset management and portfolio service fees, partially offset by increased costs, particularly in compensation and technology, led to the record net earnings.

The following discussion provides details of major revenue and expense categories and other pertinent information on Merrill Lynch's business activities, financial condition, liquidity, and risks. Certain limited reclassification and format changes have been made to prior year amounts to conform with the current year presentation.

COMMISSIONS

<TABLE>			
<CAPTION>			
(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Listed and over-the-counter	\$2,597	\$2,039	\$1,678
Mutual funds	1,443	1,192	906
Other	627	555	542
Total	\$4,667	\$3,786	\$3,126

</TABLE>

Commissions revenues advanced 23% in 1997 to a record \$4.7 billion, primarily due to higher levels of listed securities transactions and mutual fund commissions.

Commissions from listed securities were up 30% from 1996 as a result of higher trading volumes on many exchanges around the world. Mutual fund commissions revenues rose 21%, benefiting from strong sales of both U.S. and non-U.S. funds. Other commissions revenues advanced 13% in 1997, largely due to increased sales of over-the-counter options and third party annuity contracts and higher processing fees.

Commissions revenues in 1996 rose 21% over 1995 levels. Increased trading volume led to higher listed and over-the-counter securities transaction revenues, while strong sales of U.S. funds and greater distribution fees from deferred-charge funds increased mutual fund commissions.

INTEREST AND DIVIDENDS

<TABLE>			
<CAPTION>			
(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
INTEREST AND DIVIDEND REVENUES			
Trading assets	\$ 5,207	\$ 4,170	\$ 3,832
Securities borrowed transactions	3,473	2,821	2,940
Resale agreements	4,513	2,977	2,810
Margin lending	2,186	1,542	1,394
Other	1,708	1,389	1,245
	17,087	12,899	12,221
INTEREST EXPENSE			
Borrowings	6,588	4,873	4,330

Repurchase agreements	5,214	3,576	3,680
Trading liabilities	2,947	2,451	2,205
Other	1,313	995	1,033
	-----	-----	-----
	16,062	11,895	11,248
	-----	-----	-----
NET INTEREST AND DIVIDEND PROFIT	\$ 1,025	\$ 1,004	\$ 973
	=====	=====	=====

</TABLE>

Interest and dividend revenues and expenses are a function of the level and mix of interest-earning assets and interest-bearing liabilities and the prevailing level, term structure, and volatility of interest rates. Net interest and dividend profit was up 2% from 1996. Increases in net interest-earning assets were offset by declining interest spreads due to the flattening of the yield curve.

Merrill Lynch hedges its long- and short-term borrowings, primarily with interest rate and currency swaps, to better match the interest rate characteristics of the borrowings to the assets funded by borrowing proceeds. The effect of this hedging activity, which is included in "Borrowings" above, increased (decreased) interest expense for 1997, 1996, and 1995 by \$45 million, \$(64) million, and \$(45) million, respectively (see Note 5 to the Consolidated Financial Statements).

In 1996, interest and dividend profit was up 3% from 1995 as a result of increases in interest spreads attributable to a steepening yield curve.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

PRINCIPAL TRANSACTIONS

The table that follows provides information on aggregate trading revenues, including related net interest. Interest revenue and expense amounts are based on financial reporting categories and management's assessment of the cost to finance trading positions, after consideration of the underlying liquidity of these positions.

<TABLE>
<CAPTION>

(in millions)	NET		
	PRINCIPAL TRANSACTIONS REVENUES	INTEREST REVENUES (EXPENSE)	NET TRADING REVENUES
<S>	<C>	<C>	<C>
1997			
Equities and equity derivatives	\$1,238	\$(114)	\$1,124
Interest rate and currency swaps	1,042	(161)	881
Taxable fixed-income	996	268	1,264
Municipals	304	15	319
Foreign exchange and commodities	189	8	197
	-----	-----	-----
Total	\$3,769	\$ 16	\$3,785
	=====	=====	=====
1996			
Equities and equity derivatives	\$1,138	\$(91)	\$1,047
Interest rate and currency swaps	893	(74)	819
Taxable fixed-income	966	250	1,216
Municipals	323	13	336
Foreign exchange and commodities	134	4	138
	-----	-----	-----
Total	\$3,454	\$ 102	\$3,556
	=====	=====	=====
1995			
Equities and equity derivatives	\$ 912	\$(84)	\$ 828
Interest rate and currency swaps	732	(82)	650
Taxable fixed-income	516	246	762
Municipals	273	1	274
Foreign exchange and commodities	86	7	93
	-----	-----	-----
Total	\$2,519	\$ 88	\$2,607
	=====	=====	=====

</TABLE>

Principal transactions revenues rose 9% from 1996 to a record \$3.8 billion in 1997. The increase resulted from favorable market conditions, including rising U.S. stock prices, low interest rates, and narrowing credit spreads, as well as increased customer demand for higher-yielding securities, for most of the year. These gains were partially offset by declines in values during the fourth quarter for certain non-U.S. equity and debt positions triggered by the Asian market decline late in 1997.

Trading and related hedging and financing activities affect the recognition of both principal transactions revenues and net interest and dividend profit. In assessing the profitability of its trading activities, Merrill Lynch aggregates net interest and principal transactions revenues. For financial reporting purposes, however, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues. The net interest carry (i.e., the spread representing interest earned less financing costs) for trading positions, including hedges, is recorded either as principal transactions revenues or net interest profit, depending on the nature of the specific instruments. Changes in the composition of trading inventories and hedge positions can cause the recognition of revenues within these categories to fluctuate.

Equities and equity derivatives trading revenues were up 9% from 1996. Increased profitability from equity derivative transactions, higher transaction volume, and price appreciation in the U.S. and European equity markets contributed to higher revenues.

Interest rate and currency swaps trading revenues rose 17%, primarily because of higher revenues from emerging market-related derivatives, improved customer demand due to market volatility, and increased activity in credit derivatives.

Taxable fixed-income trading revenues increased 3% from 1996. Increased revenues from high-yield debt, corporate bonds and preferred stock, and money markets were partially offset by lower trading revenues from non-U.S. and U.S. governments and mortgage-backed products. The increase in trading revenues from high-yield debt and corporate bonds and preferred stock was attributable to investors seeking greater returns as interest rates generally remained low. Trading revenues from money market instruments benefited in part from increased floating-rate note activity in European markets. The decrease in trading revenues from non-U.S. governments and agencies securities was primarily

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MANAGEMENT'S DISCUSSION AND ANALYSIS

attributable to lower interest rates and reduced market volatility in certain countries, while the decline in trading revenues from U.S. Government and agencies securities was due to the falling interest rate environment in the U.S. Lower trading revenues from mortgage-backed products resulted from a less favorable market environment compared to 1996.

Municipal securities trading revenues were down 6% from 1996, primarily due to lower margins on sales of shorter-term instruments. Foreign exchange and commodities trading revenues rose 41% from 1996, primarily due to increased volume resulting from higher market share and fluctuations in the U.S. dollar versus the German mark and Japanese yen.

In 1996, principal transactions revenues were up 37% from 1995. Improved market conditions, increased capacity related to the acquisition of Smith New Court, and record NASDAQ volume led to gains in equities and equity derivatives trading revenues (up 25%). Customer demand for higher-yielding instruments related to derivative products led to increases in interest rate and currency swaps (up 22%). Lower interest rates and improved economic conditions in many emerging markets in 1996 increased demand for and inventory values of taxable fixed-income products (up 87%), while strong investor demand for tax-advantaged products increased municipal securities revenues (up 19%). Higher volume led to an increase in foreign exchange and commodities trading revenues (up 56%).

INVESTMENT BANKING

<TABLE>

<CAPTION>

(in millions) 1997 1996 1995

<S>	<C>	<C>	<C>
Underwriting revenues	\$1,958	\$1,520	\$ 964
Strategic services revenues	791	425	344
Total	\$2,749	\$1,945	\$1,308
	=====	=====	=====

</TABLE>

Investment banking revenues soared 41% in 1997 to a record \$2.7 billion, bene-

fitting from record levels of equity underwriting and merger and acquisition activity industrywide. During 1997, Merrill Lynch became the only securities firm ever to be ranked first in the U.S. in debt underwriting, equity underwriting, and completed mergers and acquisitions in the same year, with market shares of 15.8%, 15.9%, and 28.7%, respectively, according to SDC. In addition, Merrill Lynch retained its position as top underwriter of total debt and equity securities for the tenth consecutive year in the U.S. and for the ninth consecutive year globally. Merrill Lynch's underwriting market share information based on transaction value follows:

	1997		1996		1995	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
U.S. PROCEEDS						
Debt	15.8%	1	15.7%	1	18.0%	1
Equity	15.9	1	13.6	2	14.7	2
Debt and Equity	16.1	1	16.0	1	17.8	1
GLOBAL PROCEEDS						
Debt	13.1	1	12.2	1	13.5	1
Equity	15.4	1	12.1	2	13.1	2
Debt and Equity	13.6	1	12.7	1	13.7	1

</TABLE>

Source: SDC statistics based on full credit to book manager.

Strategic services fees increased 86% from 1996 to a record \$791 million, benefiting from strong merger and acquisition activity attributable in part to consolidation across various industries. Merrill Lynch's merger and acquisition market share information based on transaction value follows:

	1997		1996		1995	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
COMPLETED TRANSACTIONS						
U.S.	28.7%	1	24.4%	2	8.9%	8
Global	19.6	3	16.2	3	6.6	10
ANNOUNCED TRANSACTIONS						
U.S.	28.7	1	28.2	1	16.4	4
Global	19.0	3	18.2	2	10.5	4

</TABLE>

Source: SDC statistics based on full credit to both target and acquiring companies' advisors.

Investment banking revenues increased 49% in 1996 from 1995 due to higher levels of equity and debt underwriting and increased merger and acquisition activity.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES

	1997	1996	1995
Asset management fees	\$1,208	\$ 997	\$ 856
Portfolio service fees	844	609	477
Account fees	411	373	338
Other fees	326	282	219
Total	\$2,789	\$2,261	\$1,890

</TABLE>

Revenues from asset management and portfolio service fees rose 23% in 1997 to a record \$2.8 billion, primarily due to strong growth in client assets and market appreciation. Year-end client assets and assets under management for the last three years are summarized as follows:

<TABLE>

<CAPTION>

(in billions)	1997 VS.				
	1997	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
U.S. client assets	\$ 979/(1)/	\$ 792/(2)/	\$ 665	24%	47%
Non-U.S. client assets	225/(3)/	47	38	379	492
Total client assets	\$1,204	\$ 839	\$ 703	44	71
Assets under management:					
MLAM/(4)/:					
Money market	\$ 107	\$ 90	\$ 82	18	30
Equity	72	59	47	21	53
Fixed-income	48	43	41	12	19
Private portfolio	49	38/(2)/	22	28	117
Insurance	3	4	4	(10)	(19)
Total	279	234	196	19	42
Mercury	167	-	-	N/A	N/A
Total assets under management	\$ 446	\$ 234	\$ 196	91	127
Merrill Lynch Consults (Registered Trademark)	\$ 27	\$ 21	\$ 17	30	59
Mutual Fund Advisor(Service Mark) and Asset Power (Registered Trademark)	\$ 15	\$ 9	\$ 6	78	167

</TABLE>

- /(1)/ Includes \$17 billion of assets related to the acquisition of MasterWorks, a 401(k) service provider.
/(2)/ Includes \$10 billion of assets related to the acquisition of Hotchkis and Wiley, a Los Angeles-based asset management company.
/(3)/ Includes \$167 billion of assets related to the December 1997 acquisition of Mercury Asset Management.
/(4)/ Merrill Lynch Asset Management.

Worldwide client assets reached an industry record \$1.2 trillion during 1997. Major components of the change in client assets and assets under management follow:

<TABLE>

<CAPTION>

(in billions)	NET CHANGES DUE TO			
	DEC. 27, 1996	NEW MONEY/(1)/	ASSET APPRECIATION	DEC. 26, 1997
<S>	<C>	<C>	<C>	<C>
Client assets	\$839	\$258/(2)/	\$107	\$1,204
Assets under management	234	192	20	446

</TABLE>

- /(1)/ Includes Mercury Asset Management assets of \$167 billion.
/(2)/ Includes MasterWorks assets of \$17 billion.

Asset management fees increased 21% in 1997 due to net asset appreciation and strong inflows of client assets. Portfolio service fees were up 39% in 1997, benefiting from the growth in client accounts and asset levels for various fee products, including Merrill Lynch Consults, Merrill Lynch Mutual Fund Advisor, and Asset Power services. Account fees rose 10% principally as a result of increases in the number of customer and custodial accounts. Other fee-based revenues were up 16%, due in part to higher revenues from transfer agency and mortgage servicing activities.

In 1996, asset management and portfolio service fees rose 20% from 1995, due to increases in client assets and higher levels of asset-based products.

OTHER REVENUES

Other revenues were \$670 million in 1997, up 1% from 1996. Other revenues include investment gains and losses, partnership distributions, and fees from transaction processing and proxy activities. In 1997, other revenues included realized investment gains, income from the outsourcing of Merrill Lynch's beneficial proxy operation, and gains from sales of mortgages to Real Estate Mortgage Investment Conduits ("REMICs"), while other revenues in 1996 contained a \$155 million pretax gain from the partial sale of a minority interest in Bloomberg L.P.

In 1996, other revenues rose 48% from 1995 to \$666 million due to the partial sale of the Bloomberg investment and an increase in gains from real estate transactions, primarily sales of mortgages to REMICs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

NON-INTEREST EXPENSES

	1997	1996	1995
Compensation and benefits	\$ 7,962	\$ 6,704	\$5,270
Non-interest expenses, excluding compensation and benefits:			
Communications and equipment rental	669	559	487
Occupancy	491	508	449
Depreciation and amortization	446	411	367
Professional fees	813	582	425
Advertising and market development	597	514	398
Brokerage, clearing, and exchange fees	505	413	361
Other	1,136	859	697
Total non-interest expenses, excluding compensation and benefits	4,657	3,846	3,184
Total non-interest expenses	\$12,619	\$10,550	\$8,454
Compensation and benefits as a percentage of net revenues	50.8%	51.1%	51.3%
Compensation and benefits as a percentage of pretax earnings before compensation and benefits	72.3%	72.3%	74.4%

Non-interest expenses in 1997 were up 20% over the prior year. The largest expense category, compensation and benefits, increased 19% from 1996 due to higher incentive and production-related compensation and a 14% increase in the number of full-time employees. Incentive compensation rose as a result of increased profitability, while production-related compensation was up due to strong business volume. Full-time employees totaled 56,600 at year-end 1997, compared with 49,800 at the previous year-end. Headcount increased due to acquisitions, strategic business expansion, and growth in existing businesses. The ratio of support employees and sales assistants to producers increased from 1.51 in 1996 to 1.57 in 1997.

Communications and equipment rental expense was up 20% from 1996 due to increased business volume, higher technology maintenance costs, and expanded use of market data services. Occupancy costs decreased 3%, reflecting a nonrecurring pretax charge in 1996 of \$40 million related to the resolution of Olympia & York's bankruptcy that affected ML & Co.'s long-term sublease agreement in the World Financial Center, partially offset by increased costs related to international growth. Depreciation and amortization expense rose 9% from 1996 primarily as a result of purchases of technology-related equipment during 1997.

Higher systems and management consulting costs related to various technology projects and other strategic market studies led to a 40% increase in professional fees. Advertising and market development expense rose 16%, primarily due to increased global travel related to business development and client promotion costs. Brokerage, clearing, and exchange fees were up 22% as a result of higher global securities trading volume. Other expenses increased 32% from 1996 due to increases in provisions for various business activities and legal matters, and higher office and postage costs.

In 1996, non-interest expenses increased 25% from 1995 to \$10.6 billion. Higher incentive and production-related compensation and an 8% growth in full-

time employees led to a 27% increase in compensation and benefits expense. Communications and equipment rental expense was up 15% due to increased computer maintenance costs related to systems initiatives, as well as higher levels of business activity. Occupancy costs increased 13%, primarily as a result of the 1996 nonrecurring \$40 million pretax charge related to the resolution of Olympia & York's bankruptcy. Depreciation and amortization expense rose 12%, attributable to purchases of technology-related equipment. Professional fees increased 37% as a result of higher systems development and management consulting costs. Advertising and market development expense rose 29% due to increased international travel and higher production-related recognition programs. Brokerage, clearing, and exchange fees were up 15% because of higher securities volume, particularly in non-U.S. markets. Other expenses rose 23% due in part to provisions related to various business activities and goodwill amortization.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

Presented is a bar graph showing Merrill Lynch's fee-based revenues as a percentage of fixed and semi-fixed expenses

Fee-Based Revenues as a Percentage of
Fixed and Semi-Fixed Expenses
(in millions)

Year	Fee-Based Revenues*	Fixed and Semi-Fixed Expenses
1993	59%	\$4,085
1994	67%	\$4,255
1995	65%	\$4,664
1996	65%	\$5,440
1997	65%	\$6,418

*Fee-based revenues principally include asset management and portfolio service fees and net margin interest.

INCOME TAXES

Merrill Lynch's 1997 income tax provision of \$1.1 billion represented a 36.0% effective tax rate. In 1996 and 1995, income tax provisions were \$947 million and \$697 million, respectively, resulting in effective tax rates of 36.9% in 1996 and 38.5% in 1995. The effective tax rate decreased in 1997 due to a reduction in state and local taxes associated with the settlement of many prior-year tax audits.

Deferred tax assets 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 pretax earnings were \$1.5 billion per year. Accordingly, management believes that it is more likely than not that the deferred tax assets will be realized.

ACQUISITIONS

In 1997, Merrill Lynch acquired Mercury Asset Management Group Holdings PLC ("Mercury"), the leading independent U.K. asset management firm whose clients include five of the 10 largest global pension funds, for approximately \$5.3 billion. The acquisition was recorded on December 26, 1997 and as a result, had no effect on the statement of earnings. Goodwill of approximately \$4.8 billion was recognized and will be amortized over 30 years as a noncash expense. Going forward, management believes cash earnings and cash return on equity will be the most relevant measures of financial performance because they best illustrate Merrill Lynch's operating performance and ability to support growth.

Merrill Lynch has also made other recent strategic acquisitions to help expand its global presence and client base. In addition to the Mercury acquisition in 1997, Merrill Lynch acquired MasterWorks, a 401(k) service provider, for \$13 million and recorded goodwill of \$10 million. Merrill Lynch also hired the employees of the Centaurus Corporate Finance Group in Australia in late 1997.

Acquisitions made or substantially completed in 1996, which included McIntosh

Securities Limited and Hotchkis and Wiley, were for aggregate consideration of \$232 million, of which \$167 million represented goodwill. In 1995, Merrill Lynch acquired Smith New Court PLC, a U.K.-based global securities firm, for \$803 million and recorded \$533 million of goodwill related to the acquisition.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

STRATEGIC PRIORITIES

During 1997, Merrill Lynch announced an organizational structure that matches the manner in which services are provided to clients. Merrill Lynch is now organized along four key strategic priorities: Corporate and Institutional Client, U.S. Private Client, International Private Client, and Asset Management. These business priorities and their activities are summarized below.

Presented is a pie chart showing Merrill Lynch's percentage of net revenues by strategic priority.

Percentage of Net Revenues
By Strategic Priority

Corporate and Institutional Client	42%
U.S. Private Client	45%
International Private Client	6%
Asset Management	7%

For further information on Merrill Lynch's business activities, see "Business of Merrill Lynch--Description of Business Activities".

CORPORATE AND INSTITUTIONAL CLIENT

The Corporate and Institutional Client group provides a broad array of financial services, including securities trading, investment banking, and advisory services to financial institutions, corporations, and governments worldwide. The group raises capital for its clients on favorable terms, through securities underwriting and loan syndication, and has been the leading underwriter of global debt and equity for nine consecutive years, according to SDC. The Corporate and Institutional Client group also manages risk and investment returns by tailoring investments and structuring derivatives to meet clients' needs. The group is also a leading provider of merger and acquisition advisory services and, in 1997, ranked first in the U.S. and third in global announced transactions, according to SDC.

U.S. PRIVATE CLIENT

The U.S. Private Client group provides a wide range of financial services and products, advice, and execution to individuals, small businesses, and employee benefit plans. These products and services are provided through approximately 13,300 Financial Consultants, who assist clients in managing their assets. The Cash Management Account (Registered Trademark) service for individuals and the Working Capital Management (Service Mark) account for businesses have been an integral part of delivering a wide range of client services, including effecting trades in stocks, bonds, and other securities. In addition, the group serves clients' diverse liability management needs by offering a broad selection of mortgage loans and commercial real estate financing, primarily through Merrill Lynch Credit Corporation. In 1997, the group expanded its client base through the acquisition of MasterWorks, a 401(k) service provider.

INTERNATIONAL PRIVATE CLIENT

The International Private Client group provides financial planning, private banking, and trust and investment services to individuals outside the U.S., through a network of 1,100 private bankers and other specialists in more than 30 countries worldwide. The group offers clients investing and advisory services similar to those provided in the U.S.

ASSET MANAGEMENT

The Asset Management group provides investment advisory and portfolio management services to clients, principally through Merrill Lynch Asset Management. Investment research and various advisory programs are offered to clients,

including the Merrill Lynch Consults(Registered Trademark), Merrill Lynch Mutual Fund Advisor(Service Mark), and Merrill Lynch Mutual Fund Advisor Selects(Service Mark) services. As one of the largest mutual fund managers, the group had assets under management of \$446 billion at year-end 1997. The group also provides portfolio management services to large domestic and international institutional clients. In December 1997, Merrill Lynch

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

acquired Mercury, further strengthening Merrill Lynch's global presence as one of the premier asset management firms.

GLOBAL OPERATIONS

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

- Europe, Middle East, and Africa
- Asia and Pacific
- Australia and New Zealand
- Japan
- Latin America and Canada

In 1997, Merrill Lynch continued to strategically expand its U.S. and non-U.S. operations. This expansion, coupled with previous acquisitions, enabled Merrill Lynch to continue to benefit from the globalization of financial markets driven by the increase in cross-border transactions and client demand for global investments.

In 1997, Merrill Lynch's non-U.S. businesses were influenced by many of the same market conditions that impacted U.S. operating results, including rising stock prices, low interest rates, and market volatility that occurred later in the year. The combination of these market conditions, synergies from acquisitions, and expanded global presence resulted in increases from 1996 levels in total revenues, net revenues, and earnings before income taxes in most geographic regions.

EUROPE, MIDDLE EAST, AND AFRICA

<TABLE>
<CAPTION>
(in millions)

	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$ 6,750	\$ 5,336	\$ 3,981
Net revenues	\$ 2,284	\$ 1,837	\$ 1,319
Earnings before income taxes	\$ 405	\$ 357	\$ 155
Total assets	\$111,404	\$75,901	\$56,948
Total full-time employees	6,470	4,610	4,100

</TABLE>

Merrill Lynch operates in Europe, the Middle East, and Africa as a dealer in a comprehensive array of debt and equity products, as well as providing investment banking, private banking, asset management, and research services to a wide range of clients.

The region benefited from a number of market trends during 1997, including increased privatization activity, growing issuances and restructurings in the European markets, and numerous strategic acquisitions.

Merrill Lynch continued to enhance its presence in the region during 1997 and in December announced the purchase of Mercury. This acquisition demonstrates Merrill Lynch's commitment to its strategic objective of becoming a global leader in the asset management business and dramatically expands the region's depth and range of products and services.

In 1997, total and net revenues for the region increased 26% and 24% from 1996, respectively. The increases primarily resulted from higher commissions and trading revenues. Commissions revenues benefited from increased mutual fund activity. Trading revenues were up due to higher revenues from equities, foreign exchange, and emerging market activities.

The 13% increase in earnings before income taxes from 1996 resulted from the higher revenues, partially offset by increases in expenses from continued investment in infrastructure to support business growth in the region. Compensation and benefits costs rose due to increased headcount, while professional fees increased due to higher systems and management consulting costs.

In 1996, total and net revenues for the Europe, Middle East, and Africa region increased 34% and 39% from 1995, respectively. The increases were primarily due to higher trading, underwriting, and commissions revenues. The region's earnings before income taxes more than doubled from 1995, due to increased revenues and lower costs across the region.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASIA AND PACIFIC

<TABLE> <CAPTION> (in millions)			
	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$ 586	\$ 395	\$ 228
Net revenues	\$ 582	\$ 394	\$ 227
Earnings before income taxes	\$ 16	\$ 41	\$ 7
Total assets	\$ 797	\$ 335	\$ 240
Total full-time employees	1,690	1,300	1,060

</TABLE>

Merrill Lynch serves a broad retail and institutional client base throughout the Asia and Pacific region. In mainland China, the focus is principally on institutional business opportunities, while in other locations, such as China's special autonomous region of Hong Kong, Korea, Singapore, Taiwan, and Malaysia, both retail and institutional activities are conducted. Merrill Lynch has a trading presence and exchange memberships in virtually all financial markets in the region. During 1997, Merrill Lynch obtained a dealing/underwriting license in Taiwan and opened its first office in the Philippines.

Total and net revenues in the region were both up 48% from 1996. Revenues during the first half of 1997 benefited from strong trading volume and investment banking activity. Revenues then declined in the 1997 second half as currency devaluations across the region significantly affected equity and debt markets, particularly in Hong Kong and Singapore. The continued drop in the regional currencies caused significant problems for Asian issuers of U.S. dollar-denominated debt and significantly weakened the emerging secondary market.

Earnings before income taxes decreased 61% from 1996 due to provisions for certain client claims in Singapore and increased expenses associated with the growth in the regional expansion, partially offset by higher trading revenues.

Total and net revenues in the Asia and Pacific region in 1996 were up 73% and 74% from 1995, respectively. Earnings before income taxes rose almost six-fold from 1995. Results in the region benefited from increased investment banking revenues, while the integration of Smith New Court added significantly to equity trading activities. In addition, increased commissions on regional equities and mutual funds also contributed to higher revenues.

AUSTRALIA AND NEW ZEALAND

<TABLE> <CAPTION> (in millions)			
	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$ 272	\$ 151	\$ 163
Net revenues	\$ 229	\$ 88	\$ 66
Earnings before income taxes	\$ 39	\$ 24	\$ 14
Total assets	\$ 1,899	\$ 1,115	\$ 976
Total full-time employees	780	160	130

</TABLE>

In the Australia and New Zealand region, Merrill Lynch provides a broad mix of retail and institutional activities. In early 1997, Merrill Lynch completed the acquisition of McIntosh Securities Limited, one of the largest securities brokerage firms in Australia and New Zealand. In late 1997, Merrill Lynch further expanded and strengthened its position in the region with the addition of the staff and clients of Centaurus Corporate Finance Group, a top-tier Australian merger and acquisition advisory firm.

Total and net revenues for the region increased 80% and 160% from 1996, respectively. The increases primarily resulted from higher equity trading and investment banking revenues. Equity trading revenues rose due to improved market conditions and increased capacity related to the acquisition of McIntosh. Investment banking revenues were also higher, benefiting from increased cross-border activities. In addition, Merrill Lynch also increased its market share on the Australian Stock Exchange during 1997, attaining the number two position.

Earnings before income taxes increased 63% from 1996. Partially offsetting the increase in revenues was higher incentive and production-related compensation costs due to growth in the region.

Total revenues in the Australia and New Zealand region in 1996 were down 7%,

while net revenues were up 33% from 1995. Earnings before income taxes rose 71% from 1995. Equities trading revenues increased as a result of improved corporate earnings and market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

JAPAN

<TABLE>
<CAPTION>
(in millions)

	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$ 1,108	\$ 993	\$ 841
Net revenues	\$ 598	\$ 502	\$ 408
Earnings before income taxes	\$ 140	\$ 119	\$ 60
Total assets	\$15,294	\$16,455	\$15,698
Total full-time employees	780	630	585

</TABLE>

In Japan, Merrill Lynch operates as a dealer in a full range of debt and equity products and provides investment banking and research services to a predominantly institutional client base. In addition during 1997, Merrill Lynch continued to build a solid base for its asset management business in Japan, which has been augmented by the acquisition of Mercury and its existing local client base. In December, Merrill Lynch Japan raised approximately \$1 billion for Income Strategies Portfolio, making it one of the most successful offshore open-end funds launched in Japan.

Subsequent to year end, Merrill Lynch announced its re-entry into the Japanese retail securities business, through the planned opening of approximately 30 offices in Japan and the anticipated hiring of about 2,000 former employees of Yamaichi Securities Co. This re-entry is expected to benefit both Private Client and Asset Management activities.

Total and net revenues in the Japan region were up 12% and 19% from 1996, respectively. Increased derivative trading revenues and sales of cross-border products were partially offset by lower trading revenues for local products. These higher revenues led to an increase in earnings before income taxes of 18%.

Total and net revenues in the Japan region in 1996 were up 18% and 23% from 1995, respectively. Earnings before income taxes increased 98% from 1995. The increases were due to higher sales of cross-border products, partially offset by lower revenues from local products.

LATIN AMERICA AND CANADA

<TABLE>
<CAPTION>
(in millions)

	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$1,048	\$ 826	\$ 704
Net revenues	\$ 738	\$ 472	\$ 347
Earnings before income taxes	\$ 227	\$ 128	\$ 127
Total assets	\$7,054	\$5,205	\$4,997
Total full-time employees	1,180	1,000	875

</TABLE>

In Latin America, Merrill Lynch provides varied brokerage and investment services. Included in the Latin America region are certain U.S. offices that primarily serve Latin American clients. Latin America experienced strong growth during the first half of the year due to low inflation and significant foreign capital inflows. This growth was significantly affected in the second half of the year as the uncertainty of the Asian markets spread to Latin American markets. In Canada, Merrill Lynch provides investment banking, research, fixed-income sales, and trading services.

Total and net revenues for the region increased 27% and 56% from 1996, respectively. Trading and underwriting activities in Latin America were up from 1996 levels due to increased investor demand for higher-yielding securities, despite the volatility that occurred late in the year. In addition, Latin American results benefited from increased commissions due to higher mutual fund sales. Canadian results increased due to the favorable interest rate environment and strong cross-border activities in mergers and acquisitions.

Earnings before income taxes rose 77%. Higher revenues from sales and underwriting activities were partially offset by increases in variable expenses, such as compensation costs and brokerage, clearing, and exchange fees. The additional commitment of resources to the region in 1997 also contributed to

higher compensation costs.

Total and net revenues in the Latin America and Canada region in 1996 increased 17% and 36% from 1995, respectively, while earnings before income taxes increased 1% from 1995. A strong economic environment combined with higher revenues from high-yield financing and rising bond prices led to these increases. The advance in revenues was offset by higher compensation and infrastructure costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BALANCE SHEET

Trading-related balances accounted for approximately 85% of assets and 64% of liabilities at December 26, 1997. As presented below, securities trading, derivatives dealing, and related activities result in trading asset/liability, resale/repurchase agreement, securities borrowed/loaned transaction, and certain receivable/payable balances.

Presented are two pie charts illustrating Merrill Lynch's trading-related balances as percentages of total assets and total liabilities, respectively.

Assets	
Trading Related:	
Trading Assets	36%
Resale Agreements	24
Securities Borrowed	12
Receivables	13
	--
	85
Non-Trading-Related	15
	--
	100%
	===

Liabilities	
Trading Related:	
Trading Liabilities	25%
Repurchase Agreements	25
Securities Loaned	2
Payables	12
	--
	64
Non-Trading-Related	36
	100%
	===

Although trading-related balances comprise a significant portion of the balance sheet, the magnitude of these balances do not necessarily convey a sense of the risk profile assumed by Merrill Lynch. Hedging strategies and compliance with collateral maintenance policies, as discussed later, mitigate risk exposures.

TRADING ASSETS AND LIABILITIES

Trading assets and liabilities principally represent securities purchased ("long" positions) and securities sold but not yet purchased ("short" positions), respectively. Trading assets and liabilities also include receivables and payables that represent the fair value of derivatives (see Note 1 to the Consolidated Financial Statements).

Merrill Lynch acts as a market maker in many securities, maintaining 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 hedging techniques to manage trading inventory market risks (see Note 3 to the Consolidated Financial Statements). A significant portion of trading assets and liabilities, including derivatives, represents hedges of other trading positions. Many short U.S. Government securities and futures positions, for example, hedge various interest-sensitive trading assets. Hedging techniques at the trading unit level are supplemented by corporate risk management policies and procedures. For a description of risk management poli-

cies and procedures and a discussion of the effectiveness of hedging techniques, see the "Risk Management" section.

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. "Matched-book" repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different counterparties using the same underlying securities in order to generate 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 (see "Collateral" section). The following graph illustrates the balances related to these activities at December 26, 1997.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

Presented is a bar graph illustrating the nature of resale/repurchase agreements and securities borrowed/loaned transactions, differentiating between matched-book and non-matched-book for total resale agreements, repurchase agreements, securities borrowed, and securities loaned balances of \$70,262, \$71,044, \$35,366, and \$6,831, respectively.

Resale/Repurchase Agreements and
Securities Borrowed/Loaned Transactions
(in millions)

	Matched- Book -----	Non-Matched- Book -----
Resale Agreements	64%	36%
Repurchase Agreements	63	37
Securities Borrowed Transactions	11	89
Securities Loaned Transactions	55	45

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.

COLLATERAL

The table that follows presents reported assets at December 26, 1997 and the related collateral maintained by Merrill Lynch to reduce default risk exposure.

<TABLE>
<CAPTION>

(in millions)

BALANCE COLLATERAL
SHEET MAINTAINED

<S>	<C>	<C>
Cash and cash equivalents	\$ 5,032	\$ -
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	12,384	-
Marketable investment securities	3,309	-
Trading assets/(a)/	106,778	4,750
Receivables under resale agreements/(b)/	70,262	71,121
Receivables under securities borrowed transactions/(b)/	35,366	33,121
Other receivables/(c)/	39,743	27,059
Investments of insurance subsidiaries	4,833	-
Loans, notes, and mortgages/(d)/	4,310	4,105
Other investments	1,826	-
Property, leasehold improvements, and equipment	2,074	-
Goodwill	5,455	-
Other assets	1,447	-
	-----	-----
Total Assets	\$292,819	\$140,156
	=====	=====

</TABLE>

- /(a)/ Various techniques reduce credit risk on trading assets, including maintaining collateral on derivative contract receivables.
- /(b)/ The risk of default on receivables under resale agreements and securities borrowed transactions is substantially eliminated by maintaining related securities with fair values in accordance with specific collateral guidelines.
- /(c)/ To the extent possible, collateral is taken to secure receivables. For instance, Merrill Lynch maintains collateral substantially in excess of customer margin loan receivables, and broker-dealer receivables are substantially collateralized by the related securities. The collateral amounts above do not include overcollateralization.
- /(d)/ 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.

Besides requiring collateral, Merrill Lynch's Corporate Credit group uses other techniques to manage credit risk (see "Risk Management" section).

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AVERAGE ASSETS AND LIABILITIES

Merrill Lynch monitors changes in its balance sheet using average daily balances that are determined on a settlement date basis and reported for management information purposes. Financial statement balances are recorded on a trade date basis as required under generally accepted accounting principles. The following discussion compares changes in settlement date average daily balances. These changes were consistent with the growth in the year-end financial statement balances.

In 1997, average daily assets were \$286 billion, up 32% from \$216 billion in 1996. Average daily liabilities in 1997 rose 32% to \$277 billion from \$209 billion in 1996. The major components in the growth of average assets and liabilities are summarized as follows:

(in millions)	INCREASE IN AVERAGE ASSETS	PERCENT INCREASE
Trading assets	\$35,961	50%
Receivables under resale agreements and securities borrowed transactions	19,893	21
Customer receivables	6,816	30
	-----	-----
	INCREASE IN AVERAGE LIABILITIES	PERCENT INCREASE
Payables under repurchase agreements and securities loaned transactions	\$17,726	21%
Trading liabilities	17,663	42
Long-term borrowings	12,604	55
Commercial paper and other short-term borrowings	11,959	38

Due to the adoption of SFAS No. 125, "Accounting for Transfers and Servicing

of Financial Assets and Extinguishments of Liabilities", both average asset balances (trading assets and receivables under resale agreements) and average liability balances (payables under repurchase agreements) increased by approximately \$3 billion (see Note 2 to the Consolidated Financial Statements for more information on SFAS No. 125). In addition, during 1997 trading assets and liabilities (which include on-balance-sheet hedges used to manage trading risks) rose as volume increased, benefiting from higher customer demand. Increases in secured lending activity, in the form of margin and other collateralized loans, led to higher levels of customer receivables.

Receivables under resale agreements and securities borrowed transactions and payables under repurchase agreements and securities loaned transactions rose to meet higher funding requirements for increased trading activity. In addition, these transactions increased as a result of expanded matched-book activity, primarily involving governments and agencies securities.

Assets are funded through diversified sources which include repurchase agreements and securities loaned transactions, commercial paper and short-term borrowings, long-term borrowings, and equity. In addition to the increases in repurchase agreements and securities loaned transactions, the growth in average assets was funded by higher long-term borrowings, particularly medium-term notes, and commercial paper.

STOCKHOLDERS' EQUITY

Stockholders' equity at December 26, 1997 increased 21% to \$8.3 billion from \$6.9 billion at year-end 1996. The 1997 increase resulted from net earnings and the net effect of employee stock transactions, partially offset by common share repurchases and dividends. In 1997 and 1996, Merrill Lynch repurchased 13.7 million and 37.2 million common shares at average prices of \$48.91 and \$31.30 per share, respectively. Merrill Lynch will continue to consider share repurchases, taking into account capital needs and the effect of issuances under employee stock plans.

In the second quarter of 1997, Merrill Lynch's 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, an adjustment from paid-in capital to common stock 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.

At December 26, 1997, total common shares outstanding were 335.1 million, 2% higher than the

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MANAGEMENT'S DISCUSSION AND ANALYSIS [LOGO OF MERRILL LYNCH APPEARS HERE]

328.2 million shares outstanding at December 27, 1996. The increase was attributable principally to employee stock grants and option exercises, partially offset by common share repurchases.

During the first quarter of 1997, all shares of the outstanding Remarketed Preferred(Service Mark) Stock, Series C were redeemed.

LIQUIDITY AND LIABILITY MANAGEMENT

The primary objective of Merrill Lynch's funding policies is to assure liquidity at all times. Merrill Lynch's liquidity management strategy has three key components:

1. Maintain alternative funding sources such that all debt obligations maturing within one year can be funded when due without issuing new unsecured debt or liquidating business assets;
2. Concentrate unsecured, general purpose borrowings at the ML & Co. level; and
3. Expand and diversify Merrill Lynch's funding programs.

Merrill Lynch's primary alternative funding sources to unsecured borrowings are repurchase agreements and secured bank loans, which require pledging unencumbered marketable securities. Other funding alternatives include liquidating cash equivalents; securitizing loan assets; and drawing on committed, unsecured bank credit facilities that, at December 26, 1997, totaled \$6.8 billion and were not drawn upon. To finance the purchase of Mercury, Merrill Lynch obtained additional short-term bank credit facilities totaling 2.0 billion British pounds (approximately \$3.3 billion), which as of year end had not been drawn upon. Subsequently, Merrill Lynch drew upon these facilities. These borrowings are expected to be repaid during 1998 with proceeds from long-term financing.

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 turns over frequently and is typically match-funded with liabilities having similar maturities and cash flow characteristics. At

December 26, 1997, substantially all of Merrill Lynch's assets were considered readily marketable by management.

Merrill Lynch concentrates its unsecured, general purpose borrowings 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 enhanced flexibility to meet variable funding requirements of subsidiaries.

Merrill Lynch also strives to expand and diversify its funding programs and investor and creditor base. Merrill Lynch benefits by distributing its debt through its own sales force to a large, diversified customer base. Additionally, Merrill Lynch maintains strict concentration standards for short-term borrowings, including limits for any single investor.

Commercial paper is the major source of short-term general purpose funding. Commercial paper outstanding totaled \$30.4 billion at December 26, 1997 and \$23.6 billion at December 27, 1996, which represented 10% and 11% of total assets at year-end 1997 and 1996, respectively.

Outstanding long-term debt at December 26, 1997 increased to \$43.1 billion from \$26.1 billion at December 27, 1996. Major components of the change in long-term debt for 1997 and 1996 follow:

(in billions)	1997	1996
Beginning of year	\$26.1	\$17.3
Issuances	24.2	15.0
Maturities	(6.8)	(6.1)
Other	(0.4)	(0.1)
End of year/(1)/	\$43.1	\$26.1
Average maturity in years of long-term debt, when measured to:		
Maturity	3.5	3.5
Earlier of the call or put date	3.1	3.2

(1) At year-end 1997 and 1996, \$31.0 and \$20.1 billion of long-term debt had maturity dates beyond one year, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Merrill Lynch's senior long-term debt, preferred stock, and Trust Originated Preferred Securities (Service Mark) ("TOPrS" (Registered Trademark)) were rated by recognized credit rating agencies at December 26, 1997 as follows:

RATING AGENCY	SENIOR DEBT RATINGS	PREFERRED STOCK AND TOPrS RATINGS
Duff & Phelps Credit Rating Co.	AA	AA-
Fitch IBCA, Inc.	AA	AA-
The Japan Bond Research Institute	AA	Not Rated
Moody's Investors Service, Inc.	Aa3	aa3
Standard & Poor's	AA-	A
Thomson BankWatch, Inc.	AA+	Not Rated

Approximately \$75.2 billion of indebtedness at December 26, 1997 is considered senior indebtedness as defined under various indentures.

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 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 26, 1997, approximately 84% of invested assets of

insurance subsidiaries were considered liquid by management.

CAPITAL RESOURCES AND CAPITAL ADEQUACY

Among U.S. institutions engaged primarily in the global securities business, Merrill Lynch is one of the most highly capitalized, with \$7.9 billion in common equity and \$425 million in preferred stock at December 26, 1997 (see "Stockholders' Equity" in the "Balance Sheet" section). In 1997, a trust subsidiary of ML & Co. issued \$300 million of TOPrS. These subsidiary-issued preferred securities, along with \$327 million of preferred securities outstanding in other subsidiaries, further strengthen Merrill Lynch's equity capital base. Subsequent to year-end 1997, \$750 million of TOPrS were issued by another trust subsidiary (see Note 6 to the Consolidated Financial Statements).

Merrill Lynch's leverage ratios were as follows:

<TABLE>
<CAPTION>

	LEVERAGE RATIO/(1)/	ADJUSTED LEVERAGE RATIO/(2)/
<S>	<C>	<C>
YEAR END		
December 26, 1997	32.7x	20.9x
December 27, 1996	29.5x	18.0x
AVERAGE FOR YEAR ENDED/(3)/		
December 26, 1997	35.5x	21.5x
December 27, 1996	33.5x	19.9x

</TABLE>

/(1)/ Total assets to total stockholders' equity and preferred securities issued by subsidiaries.

/(2)/ Total assets less receivables under resale agreements and securities borrowed transactions to total stockholders' equity and preferred securities issued by subsidiaries.

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

Overall capital needs are continually reviewed to ensure that Merrill Lynch's capital base can support the estimated risks of its businesses as well as the regulatory and legal capital requirements of its subsidiaries. Statistically based product risk models are used to estimate potential losses arising from market and credit risks. These dynamic models incorporate changes in business risk into Merrill Lynch's equity requirements. Based upon these analyses as well as other criteria, management believes that Merrill Lynch's equity capital base is adequate.

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 11 to the Consolidated Financial Statements and "Business of Merrill Lynch--Regulation"). 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, making affiliated investments, and entering into management and service agreements with affiliated companies.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

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 plans to build a new European headquarters in London for approximately \$650 million. Completion of this facility is expected in 2001. During 1997, Merrill Lynch also approved a plan to construct an office complex in central New Jersey to consolidate certain operations. Construction costs are estimated at approximately \$325 million, and completion of this facility is anticipated in 2000.

Significant technology initiatives include Merrill Lynch Trusted Global Advisor (Service Mark) ("TGA" Service Mark) and Year 2000 systems compliance. The TGA system, a technology platform for Financial Consultants, is expected to be available to all U.S. Financial Consultants by the end of the 1998 third quarter. New system applications will be added to the platform at various times throughout 1998. The projected remaining cost for the TGA system is

approximately \$200 million.

The modifications for Year 2000 systems compliance are proceeding according to plan and are expected to be completed in early 1999. Based on information currently available, the remaining expenditures are estimated at \$200 million and will cover hardware and software upgrades, systems consulting, and computer maintenance. These expenditures are not expected to have a material adverse impact on Merrill Lynch's financial position, results of operations, or cash flows in future periods. However, the failure of Merrill Lynch's securities exchanges, clearing organizations, vendors, clients, or regulators to resolve their own processing issues in a timely manner could result in a material financial risk. Merrill Lynch is devoting necessary resources to address all Year 2000 issues in a timely manner.

RISK MANAGEMENT

Merrill Lynch's operating activities expose it to many risks that are continually monitored, evaluated, and managed. Proper management of these risks helps reduce the likelihood of earnings volatility. Business units typically hedge risks arising either from individual transactions or portfolios of similar transactions to manage risk at the legal entity level. Hedging techniques will vary based on many factors, including the nature and extent of the risks involved. The effectiveness of hedging techniques and corporate risk management policies and procedures is illustrated by analyzing actual net trading-related revenues over time. The nature of Merrill Lynch's trading-related activities, which are principally client order flow-driven, combined with its risk management strategies, help to reduce earnings volatility. A distribution of weekly net trading-related revenues, net of reserves, for each of the last three years is presented in the graph that follows.

Presented is a bar graph illustrating the distribution of weekly net trading-related revenues by revenue band for 1995, 1996, and 1997.

Distribution of Weekly Net
Trading-Related Revenues by Year
(in millions)

	1995	1996	1997
	----	----	----
Number of Weeks:			
\$ 0-40 million	-	1	3
\$ 40-80 million	20	12	6
\$ 80-120 million	29	38	21
\$120-160 million	3	1	19
Over \$160 million	-	-	3
	---	---	---
	52	52	52
	===	===	===

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MANAGEMENT'S DISCUSSION AND ANALYSIS

To supplement risk management at the business unit level, Merrill Lynch has developed corporate governance policies and procedures that require specific areas and units to assist in the identification, assessment, and control of these risks. These policies and procedures are performed by many groups, including the Global Risk Management Group ("Risk Management"); the Credit Division ("Corporate Credit"); and other control units, including Finance, Audit, Operations, and Law and Compliance ("Control Units"). In addition to independent risk management responsibilities, senior management from Risk Management, Corporate Credit, and the Control Units take an active role in the oversight of the risk management process through the Risk Control and Reserve Committees.

The Risk Control Committee and Risk Management provide general risk oversight for all institutional trading activities. The Risk Control Committee, chaired by the head of Risk Management, reports periodically to the Audit and Finance Committee of the Board of Directors and is independent of Merrill Lynch's trading units. The Risk Control Committee's activities are also designed to ensure compliance with Merrill Lynch's commitment under the Derivatives Policy Group's Framework for Voluntary Oversight.

The Reserve Committee monitors valuation and certain other risks associated with assets and liabilities. Merrill Lynch establishes reserves in the Consolidated Balance Sheets for existing conditions, events, or circumstances that

may indicate that the realizable value of an asset has been reduced below its carrying value or that a liability has been incurred. The Reserve Committee, chaired by the Chief Financial Officer, reviews and approves firmwide reserve levels, as well as changes in reserve methodologies. The Reserve Committee meets monthly to review current market conditions and to act on specific issues. Merrill Lynch's reserves take into account management's judgment and are generally based on:

- - identification of risks and exposures,
- - formulas, and
- - aging, concentration, and liquidity analyses.

The following discussions of market, credit, operating, and other risks highlight the corporate policies and procedures for risk identification, assessment, and control. Further discussion of market and credit risk is contained in Note 3 to the Consolidated Financial Statements.

MARKET RISK

Market risk is the potential change in a financial instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, and credit spreads. Risk Management is responsible for the measurement, monitoring, and control of market risk on trading positions, including the establishment of trading limits throughout the firm.

Over the last several years, measuring market risk with mathematical models has become the focal point of many risk management efforts worldwide, with the term "risk management" becoming almost synonymous with "risk measurement". In general, Merrill Lynch believes that the primary risk of a product is not in the product itself, but in the way in which the product is managed. Breaches of discipline or lapses in supervision can result in losses irrespective of the products involved or the mathematical models used.

Approximately ten years ago, Merrill Lynch implemented a firmwide risk process based on the belief that there is more to risk management than identifying and measuring risk. The process itself has been strengthened by experience, but the underlying philosophy is essentially unchanged. This philosophy is based on the following six principles:

1. The most important tools in any risk process are experience, judgment, and constant communication with risk takers.
2. Vigilance, discipline, and an awareness of risk must be continuously emphasized throughout the firm.
3. Management must provide a clear and simple statement as to what can and cannot be done in committing capital.

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MANAGEMENT'S DISCUSSION AND ANALYSIS [LOGO OF MERRILL LYNCH APPEARS HERE]

4. Risk Management must consider the unexpected, probe for potential problems, test for weaknesses, and help identify potential for loss.
5. The process must be flexible to permit adaptation to changing environments, including the evolving goals of Merrill Lynch itself.
6. The key objective must be to minimize the possibility of incurring unacceptable loss. Such losses usually arise from unexpected events that most statistical model-based risk methodologies cannot predict.

Risk Management Process

Risk Management is organized along geographic and product lines to ensure direct and frequent communication with specific trading areas. In addition, Risk Management performs regular, formal risk reviews with senior trading managers.

Risk Management has established certain controls and guidelines to supplement hedging techniques at the trading unit level (see "Trading Assets and Liabilities" in the "Balance Sheet" section for further information on these techniques). Risk Management sets and monitors trading limits, which may not be exceeded without prior approval. In addition, Risk Management and representatives from other Control Units approve new types of transactions as part of the new product review process. Certain commitments are subject to prior approval from Risk Management and other Control Units. These commitments include underwritings of equity, high-yield, and emerging market securities, real estate financings, and bridge loans. Risk Management also has authority to require reductions in specific trading desk exposures or to veto proposed transactions.

Risk Management uses several risk technology tools, including a risk inventory database, a trading limit monitoring system, and trading system access. The risk inventory database provides daily consolidation of securities inventory exposure by product, credit rating, country, etc., along with concentrations of exposure. The trading limit monitoring system enables Risk Management to

review compliance with established limits. Access to trading systems allows Risk Management to monitor positions and perform computerized analytics.

Merrill Lynch also uses mathematical risk models, including value-at-risk and sensitivity analysis, to help estimate its exposure to market risk. Nevertheless, Merrill Lynch believes that the use of mathematical risk models alone may provide a greater sense of security than warranted; therefore, reliance on these models should be limited. In fact, because of the inability of mathematical risk models to quantify large-scale potential financial events with any precision, these models only serve to supplement other risk management efforts. In order to satisfy the Securities and Exchange Commission's market risk disclosure requirements, however, value-at-risk measures are presented.

Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. For these disclosures, Merrill Lynch uses a historical simulation approach to estimate value-at-risk using a one-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical weekly 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 value-at-risk.

The reader should be aware that a number of assumptions must be made to obtain the sensitivities and simulated profits and losses. There is no reason to believe that the historically simulated profits and losses have any predictive power for the future distribution of profits and losses. Hypothetical gains and losses from simulated changes in risk factors for the trading portfolio would be reflected in earnings since these instruments are accounted for at fair value. Hypothetical gains and losses from simulated changes in risk factors for the non-trading portfolio generally would not be reflected in earnings since these instruments are typically accounted for at historical cost.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

All trading units communicate daily to Risk Management the sensitivity of their positions to changes in risk factors. The table that follows presents Merrill Lynch's value-at-risk for trading instruments at December 26, 1997:

<S>	<C>
Market risks:	
Interest rate	\$60
Equity	32
Commodity	17
Currency	13

Risk Management does not monitor sensitivities to market risk for non-trading instruments since earnings generally are not impacted by such sensitivities. The table below presents Merrill Lynch's value-at-risk for non-trading instruments at December 26, 1997:

<S>	<C>
Market risks:	
Currency	\$32
Interest rate	10
Equity	5

For information on qualitative aspects of market risk, see Note 3 to the Consolidated Financial Statements.

CREDIT RISK

Credit risk represents the loss that Merrill Lynch would incur if a counterparty or issuer failed to perform its contractual obligations. Policies and procedures have been established with the objective of protecting against such losses, which include:

- reviewing and establishing limits for credit exposures,
- further limiting counterparty credit exposures through various techniques, including maintaining collateral and obtaining the right to terminate transactions or collect collateral in the event of a credit downgrade, and
- continually assessing the creditworthiness of counterparties and issuers.

The responsibility for compliance with these policies and procedures rests with the business units and is monitored by Corporate Credit.

Corporate Credit is centralized and organized geographically. The Sovereign Credit Risk group analyzes the political, economic, and financial conditions of a country, establishes credit ratings, and recommends overall risk limits. Regional credit groups, in addition to evaluating the creditworthiness of specific counterparties, enhance the country analysis by ensuring that total credit risks are within country concentration limits. Credit officers also set limits by counterparty or issuer, recommend credit reserves, manage credit exposures, and participate in the new product review process.

Many types of transactions, including most derivatives and syndicated loans, are subject to prior approval from Corporate Credit. Within Corporate Credit, approval levels have been established based on counterparty or issuer credit quality and the potential risk of the transaction. Transactions that exceed prescribed levels must be approved by the Credit Committee, which includes several Directors of Corporate Credit and the Chief Credit Officer.

The credit system tracks information from automated and manual sources to enable Corporate Credit to monitor counterparty/issuer, product, and country concentrations. This system aggregates credit exposure by counterparty/issuer, maintains overall counterparty/ issuer and specific product limits, and identifies limit review dates by counterparty/issuer. Detailed information on firmwide inventory positions and executed transactions, including current and potential credit exposure, is updated frequently and compared with limits. Collateral holdings, which reduce credit exposure, are also tracked on the credit system.

Corporate Credit works with the trading units to develop and refine credit risk measurement models and to analyze potential credit exposures for complex derivative transactions. Credit exposures related to Merrill Lynch's retail customer business, including mortgages and home equity lines of credit, customer margin accounts, and working capital facilities to small businesses, are continually monitored.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 [LOGO OF MERRILL LYNCH APPEARS HERE]

 OPERATING RISK

Operating risk focuses on Merrill Lynch's ability to accumulate, process, protect, and communicate information necessary to conduct business in a global market environment. It includes the execution of legal, fiduciary, and agency responsibilities. Merrill Lynch manages operating risk in many ways, including maintaining backup facilities, using technology, employing experienced personnel, and maintaining a comprehensive system of internal controls.

Merrill Lynch maintains key backup facilities worldwide and updates systems and equipment as required in response to changes in business conditions and technology needs. An example is the extensive work currently being performed to become Year 2000-compliant (see "Capital Projects and Expenditures" section). In addition, experienced operations personnel provide support and control for trading, clearance, and settlement activities and perform custodial functions for customer and proprietary assets. Merrill Lynch regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies and opportunities for improvement are implemented when cost-effective.

From a legal standpoint, risk arises from the enforceability of clients' and counterparties' obligations to and from Merrill Lynch, including obtaining contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. The firm seeks to mitigate such risk by:

- developing policies that enhance enforceability of transactions;
- monitoring compliance with internal policies and external regulations; and
- requiring consultation with internal and external legal advisors for non-standard transactions.

Fiduciaries and agents have obligations to act on behalf of others. Such risks are inherent in brokerage and investment management activities. Merrill Lynch has a number of policies in place to ensure that obligations to clients are met and that Merrill Lynch is in compliance with applicable legal and regulatory requirements.

 OTHER RISKS

the underlying security (e.g., long total return swap) or potentially force ownership of the underlying security (e.g., short put option). In addition, derivatives may subject Merrill Lynch to credit spread risk in that changes in the credit quality of the underlying securities may offset the derivatives' fair values. A summary of exposures related to derivatives with non-investment grade underlying securities follows:

(in millions)	1997	1996
Derivative fair values:		
Trading assets/(1)/	\$ 62	\$ 63
Trading liabilities	62	64
Derivative notionals (off-balance-sheet)/(2)/	3,257	2,895

/(1)/ The preceding table includes \$42 and \$9 at year-end 1997 and 1996, respectively, of credit risk exposures to non-investment grade counterparties.

/(2)/ Represents amount subject to strike or reference price.

Merrill Lynch engages in hedging strategies to reduce its exposure associated with non-investment grade positions by purchasing an option to sell the related security or by entering into other offsetting derivative contracts. Merrill Lynch also uses non-investment grade trading inventories, principally non-U.S. governments and agencies securities, to hedge the exposure arising from structured derivative transactions.

A summary of cash instruments and derivatives used to hedge the credit risk of non-investment grade positions follows:

(in millions)	1997	1996
Trading assets - cash instruments	\$1,312	\$ 905
Derivative notionals (off-balance-sheet)/(1)/	4,235	1,311

/(1)/ Represents amount subject to strike or reference price.

At December 26, 1997, the largest non-investment grade concentration of credit exposure consisted of various sovereign and corporate issues of a South American country totaling \$1.1 billion.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
[LOGO OF MERRILL LYNCH APPEARS HERE]

HIGHLY LEVERAGED TRANSACTIONS

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 be determined on a select basis. A summary of loans, investments, and commitments related to highly leveraged transactions follows:

(in millions)	1997	1996
Loans (net of allowance for loan losses)/(1)/	\$467	\$340
Equity investments/(2)/	170	113

Partnership interests	82	104
Bridge loan	-	31
Additional commitments to invest in partnerships	60	82
Unutilized revolving lines of credit and other lending commitments	485	301

</TABLE>

- /(1)/ Represented outstanding loans to 48 and 36 companies at year-end 1997 and 1996, respectively.
/(2)/ Invested in 72 and 48 enterprises at year-end 1997 and 1996, respectively.

At December 26, 1997, no single industry sector accounted for more than 27% of total non-investment grade positions and highly leveraged transactions.

CASH FLOWS

Merrill Lynch's cash flows are principally associated with operating and financing activities related to Merrill Lynch's trading, customer, and investment banking transactions. Merrill Lynch's cash and cash equivalents totaled \$5.0 billion at December 26, 1997, up \$1.7 billion and \$1.9 billion from year-end 1996 and 1995, respectively.

Cash of \$17.7 billion in 1997 was used for operating activities, primarily to fund higher net trading assets generated by increased levels of business activity. Merrill Lynch's investing activities used cash of \$1.5 billion in 1997, partially due to the purchase of technology-related equipment.

Financing activities provided Merrill Lynch with \$20.9 billion of cash in 1997, reflecting proceeds from net issuances of long-term debt and commercial paper, partially offset by increases in net resale/repurchase agreements.

In 1996, cash and cash equivalents increased \$284 million to \$3.4 billion at year-end. Cash used for operating and investing activities totaled \$8.8 billion and \$593 million, respectively, while cash provided by financing activities totaled \$9.7 billion.

In 1995, cash and cash equivalents increased \$779 million to \$3.1 billion at year-end. Cash provided by financing activities totaled \$8.8 billion, while cash used for operating and investing activities totaled \$7.2 billion and \$873 million, respectively.

LITIGATION

Certain actions have been filed against Merrill Lynch by Orange County, California and others in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector or from the purchase of debt instruments issued by Orange County

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MANAGEMENT'S DISCUSSION AND ANALYSIS

that were underwritten by Merrill Lynch's subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated (see "Business of Merrill Lynch--Legal Proceedings" for further information). Although the ultimate outcome of these actions 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 or the results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements contained herein.

RECENT DEVELOPMENTS

NEW ACCOUNTING PRONOUNCEMENTS

In December 1996, the Financial Accounting Standards Board issued SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125", which deferred for one year the effective date of the collateral provisions for all transactions and the sale provisions for repurchase agreements, securities lending, and similar transactions. These deferred provisions have been adopted for transactions entered into after December 31, 1997. The adoption of such provisions will create additional balance sheet captions related to the recognition of securities pledged and received as collateral. The impact of adopting these provisions cannot be quantified at December 26, 1997 since they are only applicable to future transactions; however, total assets and total liabilities are expected to increase significantly upon adoption of these provisions. For a discussion of the provisions of SFAS No. 125 adopted in 1997, see Note 2 to the Consolidated Financial Statements.

 INDEPENDENT AUDITORS' REPORT

[LOGO OF DELOITTE & TOUCHE LLP APPEARS HERE]

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 26, 1997 and December 27, 1996 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 26, 1997. 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 generally accepted auditing standards. 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 26, 1997 and December 27, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 26, 1997 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

New York, New York
 February 23, 1998

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STATEMENTS OF CONSOLIDATED EARNINGS

(Dollars in Millions, Except Per Share Amounts)

[LOGO OF MERRILL LYNCH APPEARS HERE]

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	Year Ended Last Friday in December		
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES			
Commissions	\$ 4,667	\$ 3,786	\$ 3,126
Interest and dividends	17,087	12,899	12,221
Principal transactions	3,769	3,454	2,519
Investment banking	2,749	1,945	1,308
Asset management and portfolio service fees	2,789	2,261	1,890
Other	670	666	449
TOTAL REVENUES	31,731	25,011	21,513
Interest Expense	16,062	11,895	11,248
NET REVENUES	15,669	13,116	10,265
NON-INTEREST EXPENSES			
Compensation and benefits	7,962	6,704	5,270
Communications and equipment rental	669	559	487
Occupancy	491	508	449
Depreciation and amortization	446	411	367
Professional fees	813	582	425
Advertising and market development	597	514	398
Brokerage, clearing, and exchange fees	505	413	361
Other	1,136	859	697
TOTAL NON-INTEREST EXPENSES	12,619	10,550	8,454

 EARNINGS BEFORE INCOME TAXES AND

DIVIDENDS ON PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	3,050	2,566	1,811
Income Tax Expense	1,097	947	697
Dividends on Preferred Securities Issued by Subsidiaries	47	-	-
NET EARNINGS	\$ 1,906	\$ 1,619	\$ 1,114
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	\$ 1,867	\$ 1,572	\$ 1,066
EARNINGS PER COMMON SHARE			
Basic	\$ 5.63	\$ 4.65	\$ 3.02
Diluted	\$ 4.83	\$ 4.11	\$ 2.71

</TABLE>

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS
(Dollars in Millions, Except Per Share Amounts)
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<TABLE>
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December 26, December 27,
1997 1996

<S>	<C>	<C>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 5,032	\$ 3,375
CASH AND SECURITIES SEGREGATED FOR REGULATORY PURPOSES OR DEPOSITED WITH CLEARING ORGANIZATIONS	12,384	5,628
MARKETABLE INVESTMENT SECURITIES	3,309	2,180
TRADING ASSETS, AT FAIR VALUE		
Corporate debt and preferred stock	32,501	24,270
Equities and convertible debentures	23,617	13,153
Contractual agreements	21,205	13,465
U.S. Government and agencies	9,832	9,304
Non-U.S. governments and agencies	9,755	7,758
Mortgages, mortgage-backed, and asset-backed	7,312	5,189
Other	2,556	2,385
Total	106,778	75,524
RECEIVABLES UNDER RESALE AGREEMENTS	70,262	58,402
RECEIVABLES UNDER SECURITIES BORROWED TRANSACTIONS	35,366	24,692
OTHER RECEIVABLES		
Customers (net of allowance for doubtful accounts of \$50 in 1997 and \$39 in 1996)	26,529	18,309
Brokers and dealers	5,100	6,205
Interest and other	8,114	5,280
Total	39,743	29,794
INVESTMENTS OF INSURANCE SUBSIDIARIES	4,833	5,107
LOANS, NOTES, AND MORTGAGES (net of allowance for loan losses of \$130 in 1997 and \$117 in 1996)	4,310	3,334
OTHER INVESTMENTS	1,826	1,125
PROPERTY, LEASEHOLD IMPROVEMENTS, AND EQUIPMENT (net of accumulated depreciation and amortization of \$2,910 in 1997 and \$2,523 in 1996)	2,074	1,670

GOODWILL (net of accumulated amortization of \$131 in 1997 and \$71 in 1996)	5,455	617
OTHER ASSETS	1,447	1,568
	-----	-----
TOTAL ASSETS	\$292,819	\$213,016
	=====	=====

</TABLE>

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<TABLE>
<CAPTION>

December 26, December 27,

1997 1996

<S>	<C>	<C>
LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY		
LIABILITIES		
PAYABLES UNDER REPURCHASE AGREEMENTS AND SECURITIES LOANED TRANSACTIONS	\$ 77,875	\$ 65,420
	-----	-----
COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS	44,850	36,582
	-----	-----
TRADING LIABILITIES, AT FAIR VALUE		
Contractual agreements	20,632	11,221
U.S. Government and agencies	18,182	13,965
Equities and convertible debentures	15,724	8,332
Non-U.S. governments and agencies	9,720	7,135
Corporate debt, preferred stock, and other	5,818	2,892
	-----	-----
Total	70,076	43,545
	-----	-----
OTHER PAYABLES		
Customers	16,519	11,758
Brokers and dealers	4,112	3,407
Interest and other	22,625	13,973
	-----	-----
Total	43,256	29,138
	-----	-----
LIABILITIES OF INSURANCE SUBSIDIARIES	4,716	5,010
LONG-TERM BORROWINGS	43,090	26,102
	-----	-----
TOTAL LIABILITIES	283,863	205,797
	-----	-----
PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	627	327
	-----	-----
STOCKHOLDERS' EQUITY		
PREFERRED STOCKHOLDERS' EQUITY	425	619
	-----	-----
COMMON STOCKHOLDERS' EQUITY		
Common stock (par value \$1.33 1/3 per share; authorized: 500,000,000 shares; issued: 472,660,324 shares)	630	630
Paid-in capital	1,065	989
Accumulated other comprehensive income (net of tax)	(34)	19
Retained earnings	9,485	7,868
	-----	-----
	11,146	9,506
Less: Treasury stock, at cost:		
(1997 - 137,578,035 shares; 1996 - 141,411,196 shares)	2,804	2,895
Unallocated ESOP reversion shares, at cost:		
(1996 - 3,077,556 shares)	-	24
Employee stock transactions	438	314
	-----	-----
TOTAL COMMON STOCKHOLDERS' EQUITY	7,904	6,273
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	8,329	6,892
	-----	-----

TOTAL LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY	\$292,819	\$213,016
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements

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STATEMENTS OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY
(Dollars in Millions, Except Per Share Amounts)
[LOGO OF MERRILL LYNCH APPEARS HERE]

<TABLE>
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
PREFERRED STOCKHOLDERS' EQUITY			
9% CUMULATIVE PREFERRED STOCK, SERIES A \$10,000 LIQUIDATION PREFERENCE PER SHARE			
Balance, beginning and end of year (42,500 shares in 1997, 1996, and 1995)	\$ 425	\$ 425	\$ 425
REMARKETED PREFERRED STOCK, SERIES C \$100,000 LIQUIDATION PREFERENCE PER SHARE			
Balance, beginning of year (3,000 shares issued and 1,062 shares held in treasury in 1997, 1996, and 1995)	\$ 194	\$ 194	\$ 194
Redeemed (1,938 shares in 1997)	(194)	-	-
Balance, end of year (1,938 shares in 1996 and 1995)	\$ -	\$ 194	\$ 194
TOTAL PREFERRED STOCKHOLDERS' EQUITY	\$ 425	\$ 619	\$ 619
COMMON STOCKHOLDERS' EQUITY			
COMMON STOCK, PAR VALUE \$1.33 1/3			
Balance, beginning and end of year (472,660,324 shares in 1997, 1996, and 1995)	\$ 630	\$ 630	\$ 630
PAID-IN CAPITAL			
Balance, beginning of year	\$ 989	\$ 922	\$ 881
Issuance of stock:			
To employees	(3)	(8)	(2)
For other activity, including employee stock grants	(16)	(8)	(13)
To ESOP, including share allocations	95	83	56
Balance, end of year	\$ 1,065	\$ 989	\$ 922
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Foreign Currency Translation Adjustment (net of tax)			
Balance, beginning of year	\$ 10	\$ 11	\$ 4
Translation adjustment (net of deferred income taxes)	(82)	(1)	7
Balance, end of year	(72)	10	11
Net Unrealized Gains on Investment Securities Available- for-Sale (net of tax)			
Balance, beginning of year	9	25	(57)
Net unrealized gains (losses) on investment securities available-for-sale	34	(97)	335
Other adjustments/(a)/	(5)	81	(253)

Balance, end of year	38	9	25
Balance, end of year	\$ (34)	\$ 19	\$ 36

</TABLE>

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<TABLE>

<CAPTION>

Year Ended Last Friday in December

	1997	1996	1995
<S>	<C>	<C>	<C>
RETAINED EARNINGS			
Balance, beginning of year	\$ 7,868	\$ 6,492	\$ 5,606
Net earnings	1,906	1,619	1,114
Cash dividends declared:			
9% Cumulative Preferred stock	(38)	(38)	(38)
Remarketed Preferred stock	(1)	(9)	(10)
Common stock (\$.75 per share in 1997; \$.58 in 1996; and \$.505 in 1995)	(250)	(196)	(180)
Balance, end of year	\$ 9,485	\$ 7,868	\$ 6,492
COMMON TREASURY STOCK, AT COST			
Balance, beginning of year (141,411,196 shares in 1997; 121,858,556 in 1996; 96,847,888 in 1995)	\$ (2,895)	\$ (2,241)	\$ (1,627)
Treasury stock purchased (13,741,116 shares in 1997; 37,157,634 in 1996; 40,023,642 in 1995)	(672)	(1,163)	(939)
Issued out of treasury (net of reacquisitions):			
Employees (1,293,262 shares in 1997; 1,689,774 in 1996; 1,645,636 in 1995)	60	51	37
Employee stock grants (16,281,015 shares in 1997; 15,915,220 in 1996; 13,367,338 in 1995)	703	458	288
Balance, end of year (137,578,035 shares in 1997; 141,411,196 in 1996; 121,858,556 in 1995)	\$ (2,804)	\$ (2,895)	\$ (2,241)
UNALLOCATED ESOP REVERSION SHARES, AT COST			
Balance, beginning of year (3,077,556 shares in 1997; 8,025,038 in 1996; 12,854,182 in 1995)	\$ (24)	\$ (63)	\$ (101)
Allocation of shares to participants (3,077,556 shares in 1997; 4,947,482 in 1996; 4,829,144 in 1995)	24	39	38
Balance, end of year (3,077,556 in 1996; 8,025,038 in 1995)	\$ -	\$ (24)	\$ (63)
EMPLOYEE STOCK TRANSACTIONS			
Balance, beginning of year	\$ (314)	\$ (254)	\$ (137)
Net issuance of employee stock grants	(351)	(251)	(192)
Amortization of employee stock grants	218	183	68
Repayment of employee loans	9	8	7
Balance, end of year	\$ (438)	\$ (314)	\$ (254)
TOTAL COMMON STOCKHOLDERS' EQUITY	\$ 7,904	\$ 6,273	\$ 5,522
TOTAL STOCKHOLDERS' EQUITY	\$ 8,329	\$ 6,892	\$ 6,141

</TABLE>

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

See Notes to Consolidated Financial Statements

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STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in Millions)

[LOGO OF MERRILL LYNCH APPEARS HERE]

<TABLE>

<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
NET EARNINGS	\$1,906	\$1,619	\$1,114
OTHER COMPREHENSIVE INCOME:			
Foreign currency translation adjustment:			
Foreign currency translation losses, net of gains	(86)	(17)	(12)
Deferred income taxes	4	16	19
Total	(82)	(1)	7
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	50	(68)	333
Reclassification adjustment for (gains) losses included in net earnings	(16)	(29)	2
Net unrealized gains (losses) on investment securities	34	(97)	335
Adjustments for:			
Policyholder liabilities	10	64	(137)
Deferred policy acquisition costs	-	9	(72)
Deferred income taxes	(15)	8	(44)
Total	29	(16)	82
Total Other Comprehensive Income	(53)	(17)	89
COMPREHENSIVE INCOME	\$1,853	\$1,602	\$1,203

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See Notes to Consolidated Financial Statements

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STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in Millions)

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<TABLE>

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	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Earnings	\$ 1,906	\$ 1,619	\$ 1,114
Noncash items included in earnings:			
Depreciation and amortization	446	411	367
Policyholder reserves	240	269	297
Other	1,401	919	672
(Increase) decrease in operating assets(a):			

Trading assets	(31,099)	(15,378)	(6,375)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(6,333)	(198)	(459)
Receivables under securities borrowed transactions	(10,674)	(4,047)	348
Customer receivables	(8,036)	(3,543)	(771)
Maturities and sales of trading investment securities	177	98	-
Purchases of trading investment securities	(636)	(67)	-
Other	(3,487)	1,125	250
Increase (decrease) in operating liabilities(a):			
Trading liabilities	26,531	10,195	(2,608)
Payables under securities loaned transactions	4,080	(105)	677
Customer payables	4,761	366	(1,377)
Liabilities of insurance subsidiaries	(524)	(587)	(732)
Other	3,517	75	1,405
	-----	-----	-----
CASH USED FOR OPERATING ACTIVITIES	(17,730)	(8,848)	(7,192)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from (payments for):			
Maturities of available-for- sale securities	3,376	3,057	1,453
Sales of available-for-sale securities	2,198	1,341	1,029
Purchases of available-for-sale securities	(6,383)	(4,374)	(2,387)
Maturities of held-to-maturity securities	1,081	920	1,217
Purchases of held-to-maturity securities	(752)	(555)	(1,094)
Acquisitions, net of cash acquired	(13)	(135)	(601)
Other investments and other assets	(224)	(384)	(138)
Property, leasehold improvements, and equipment	(822)	(463)	(352)
	-----	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(1,539)	(593)	(873)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (payments for):			
Resale agreements, net of repurchase agreements	(3,485)	(8,293)	5,155
Commercial paper and other short-term borrowings	8,218	9,892	2,429
Issuance and resale of long- term borrowings	25,087	16,454	10,353
Settlement and repurchase of long-term borrowings	(8,191)	(7,440)	(7,971)
Issuance of subsidiaries' preferred securities	300	276	-
Redemption of Remarketed Preferred Stock	(194)	-	-
Common stock transactions	(520)	(921)	(894)
Dividends	(289)	(243)	(228)
	-----	-----	-----
CASH PROVIDED BY FINANCING ACTIVITIES	20,926	9,725	8,844
	-----	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	1,657	284	779
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,375	3,091	2,312
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,032	\$ 3,375	\$ 3,091
	=====	=====	=====

(a)Net of effects of acquisitions.

SUPPLEMENTAL DISCLOSURES

Cash paid for:

Income taxes	\$ 877	\$ 1,108	\$ 557
Interest	15,232	11,612	11,229

</TABLE>

Noncash Investing and Financing Activity
A liability of \$5.3 billion representing the acquisition price of Mercury Asset Management was recorded on December 26, 1997.

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries (collectively, "Merrill Lynch"). All material intercompany balances have been eliminated. Certain limited reclassification and format changes have been made to prior year amounts to conform to the current year presentation.

Merrill Lynch provides investment, financing, insurance, and related services to individuals and institutions on a global basis through its principal U.S. and U.K. broker-dealer subsidiaries, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and Merrill Lynch International ("MLI"), respectively, and its broker, dealer, banking, insurance, and other financial services subsidiaries. Such services include:

- securities brokerage, trading, and underwriting;
- investment banking, strategic services, and other corporate finance advisory activities, including loan syndication;
- asset management and other investment advisory and recordkeeping services;
- trading and brokerage of swaps, options, forwards, futures, and other derivatives;
- securities clearance services;
- banking, trust, and lending services; and
- insurance sales and underwriting services.

The Consolidated Financial Statements are presented in accordance with generally accepted accounting principles and prevailing industry practices, both of which require management to make estimates regarding certain trading inventory valuations, the outcome of litigation, goodwill, the realization of deferred tax assets, 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. As such, actual results could differ materially from those estimates.

TRADING INSTRUMENTS

Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or to hedge trading inventory. Included in trading liabilities are securities that Merrill Lynch has sold but does not currently own and will therefore be obligated to purchase at a future date ("short sales"). Trading inventory is recorded on a trade date basis at fair value. Fair value is based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts

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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. The derivative definition excludes all cash instruments, including those that derive their values or contractually required cash flows from an underlying instrument or index, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments. It also excludes option features embedded in cash instruments such as conversion features and call provisions embedded in bonds.

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, currencies, or commodities). Different types of derivatives can also be combined to meet specialized needs (e.g., swaptions).

Derivatives are often referred to as off-balance-sheet instruments since their notional amounts or underlying instruments are not reflected on the balance sheet; however, the fair values of trading derivatives are recorded in trading assets and liabilities.

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 maintain hedges over the life of the contract. A portion of income related to longer-term contracts is recognized as the related administrative costs are incurred.

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

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 cash instrument caption. The fair value of equity options purchased, for example, is recorded in the "Equities and convertible debentures" trading asset caption.

Merrill Lynch enters into when-issued and delayed delivery transactions. Unrealized gains and losses from these forward transactions are reflected in the related cash instrument caption.

Revenue Recognition

Principal transactions revenues are recognized on a trade date basis and include net unrealized gains and losses from marking-to-market all trading instruments. Realized gains and losses on trading instruments and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, respectively.

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FINANCING AND RELATED ACTIVITIES

Merrill Lynch strives to match-fund the interest rate sensitivity of its assets and liabilities. Funding is principally obtained from repurchase agreements, commercial paper, and long-term borrowings.

Merrill Lynch uses derivatives to reduce risk by managing interest rate, for-

eign currency, and other exposures. Derivatives used as hedges must be effective at reducing the risk associated with the exposure being managed and be designated as a hedge at inception. Derivatives that modify the interest rate characteristics of specified non-trading assets and liabilities are accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to the related interest income or expense. Unrealized gains and losses on other financing derivatives are recognized currently. Realized gains and losses on early terminations of derivatives are deferred over the remaining lives of the hedged assets or liabilities. At December 26, 1997, there were no deferred amounts related to terminated contracts.

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 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 fee received or paid by Merrill Lynch is 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, Merrill Lynch does not offset such receivables and payables with the same counterparty on the Consolidated Balance Sheets.

INVESTMENT SECURITIES

Merrill Lynch holds debt and equity investments principally in non-broker-dealer subsidiaries. These investments are classified as held-to-maturity, trading, or available-for-sale.

Held-to-maturity investments are debt securities that Merrill Lynch has the positive intent and ability to hold 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 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.

Other debt and equity securities that are not categorized as held-to-maturity or trading are classified as available-for-sale and reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of "Accumulated other comprehensive income", net of applicable income taxes and other related items.

Restricted equity investment securities or equity investment securities without available market quota-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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tions are reported at the lower of cost or estimated net realizable 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.

LENDING ACTIVITIES

Merrill Lynch engages in loan origination, loan securitization, and secondary market loan trading activities.

Loans held for investment purposes, including consumer and small business loans and the residual portion of commercial loans syndicated by Merrill Lynch, 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 the net servicing revenue. Mortgage servicing assets are periodically evaluated for impairment and are included in "Other assets" on the Consolidated Balance Sheets. Residual interests are reported in "Other investments" on the Consolidated Balance Sheets.

Loans held for trading purposes are recorded at fair value and are reported in "Trading assets" on the Consolidated Balance Sheets.

COMMISSIONS AND RELATED EXPENSES

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Production-related compensation and benefits expense is accrued to match revenue recognition.

INVESTMENT BANKING

Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Deal-related expenses are deferred to match revenue recognition.

RECEIVABLES FROM AND PAYABLES TO CUSTOMERS

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.

INSURANCE

Insurance liabilities are future benefits payable under annuity and interest-sensitive life 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[LOGO OF MERRILL LYNCH APPEARS HERE]

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 income", 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 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.

PROPERTY, LEASEHOLD IMPROVEMENTS, AND EQUIPMENT

Property (excluding land), leasehold improvements, and equipment are reported at historical cost, net of accumulated depreciation and amortization. Land is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Property and equipment are depreciated over their estimated useful lives, while leasehold improvements are amortized over the lesser of their estimated economic useful life or the term of the lease. Fixed assets are primarily technology-based and have short lives, generally three to five years. Maintenance and repair costs are expensed as incurred.

Facilities-related depreciation and amortization expense was \$154, \$151, and \$142, in 1997, 1996, and 1995, respectively. Non-facilities-related depreciation and amortization expense for 1997, 1996, and 1995 was \$292, \$260, and \$225, respectively.

STOCK-BASED COMPENSATION

Merrill Lynch accounts for stock-based compensation plans 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 Statement of Financial Accounting Standards ("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 over periods not exceeding fifteen years. Beginning in 1998, goodwill associated with the purchase of Mercury Asset Management Group Holdings PLC will be amortized over 30 years (see Note 2 for additional information). Goodwill is evaluated periodically for impairment.

INCOME TAXES

ML & Co. and certain of its wholly-owned subsidiaries file a consolidated 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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions, Except Per Share Amounts)

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. No deferred Federal income taxes have been provided for the undistributed earnings of foreign subsidiaries to the extent that such earnings are considered to be permanently reinvested in Merrill Lynch's foreign operations.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities of foreign subsidiaries are translated at year-end currency exchange rates, while revenues and expenses are translated at average currency exchange rates during the year. Adjustments that result from translating foreign currency financial statements, net of hedging gains or losses and related tax effects, are reported in stockholders' equity as a component of "Accumulated other comprehensive income". Gains or losses resulting from the effect of exchange rate changes on foreign currency transactions are included in earnings.

CASH FLOWS

For purposes of the Statements of Consolidated Cash Flows, 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. Cash flows from trading derivatives are classified as operating activities; cash flows from non-trading derivatives are classified with the cash flows of the item being hedged.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 26, 1997 and December 27, 1996, substantially all financial instrument assets are carried at fair value or amounts that approximate fair value. Fair values of financial instruments are disclosed in Notes 3, 4, 5, and 7.

INTEREST EXPENSE

Interest expense includes payments in lieu of dividends of \$19, \$9, and \$10 in 1997, 1996, and 1995, respectively.

NOTE 2. OTHER SIGNIFICANT EVENTS

ACCOUNTING CHANGES

In 1996, the Financial Accounting Standards Board ("FASB") issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 125 provides guidance for determining whether a transfer of a financial asset is treated as a sale or a financing. Additionally, if a transfer qualifies as a financing transaction, the statement contains provisions that may require the recognition of collateral received or provided, in addition to the financing balance.

Merrill Lynch adopted the provisions of SFAS No. 125 not deferred by SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125", for all transactions entered into after December 31, 1996. As of December 26, 1997, the adoption of these provisions increased both assets ("Trading assets" and "Receivables under resale agreements") and liabilities ("Payables under repurchase agreements") by approximately \$4 billion.

In 1995, Merrill Lynch adopted:

- SFAS No. 114, "Accounting by Creditors for Impairment of a Loan";
- SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures"; and
- SFAS No. 122, "Accounting for Mortgage Servicing Rights".

The impact of adopting these pronouncements was not material to Merrill Lynch's results of operations.

DISCLOSURE CHANGES

In 1997, the FASB issued SFAS No. 128, "Earnings Per Share", which is effective for fiscal years ending after December 15, 1997. SFAS No. 128 replaced the presentation of primary and fully diluted earnings per common share ("EPS") with basic and diluted EPS (see Note 6 for additional information).

In 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which requires reporting of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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comprehensive income in the financial statements. The statement is effective for fiscal years beginning after December 15, 1997. Merrill Lynch has elected to early adopt SFAS No. 130 for 1997.

ACQUISITIONS

In December 1997, Merrill Lynch acquired Mercury Asset Management Group Holdings PLC ("Mercury"), a U.K. global asset manager, for approximately \$5.3 billion. Goodwill of approximately \$4.8 billion was recorded related to the acquisition. Since the acquisition was recorded as of December 26, 1997, the results of operations do not include the operating results of Mercury or goodwill amortization. In 1997, Merrill Lynch also acquired a 401(k) service provider for \$13 and recorded goodwill of \$10.

Merrill Lynch completed several acquisitions in 1996, including two non-U.S. securities firms and a U.S. asset manager. Aggregate consideration of \$232 was paid and goodwill of \$167 was recorded in connection with these acquisitions. In August 1995, Merrill Lynch acquired Smith New Court PLC, a U.K.-based

global securities firm, for \$803, and recorded \$533 of related goodwill.

The operating results of acquired companies are included in Merrill Lynch's results of operations commencing with the acquisition date.

NOTE 3. TRADING ACTIVITIES

As part of its trading activities, Merrill Lynch provides to clients brokerage, dealing, and underwriting services for securities and derivative products. While trading activities are primarily generated by client order flow, Merrill Lynch also takes 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 transactions, along with the hedging and financing of these positions.

Principal transactions revenues by product category follow/(1)/:

<TABLE>

<CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Equities and equity derivatives	\$1,238	\$1,138	\$ 912
Interest rate and currency swaps	1,042	893	732
Taxable fixed-income	996	966	516
Municipals	304	323	273
Foreign exchange and commodities	189	134	86
	-----	-----	-----
Total	\$3,769	\$3,454	\$2,519
	=====	=====	=====

</TABLE>

/(1)/ The revenue amounts presented include gains and losses from both cash and related derivative instruments.

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. For further information on Merrill Lynch's net trading results, see "Management's Discussion and Analysis" (unaudited)-"Principal Transactions".

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, and credit spreads. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 rates received and paid are variable 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 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 and warrants. 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.

Commodity Price Risk

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.

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,

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can be designed to protect the holder from loss due to changes in credit spreads, as well as credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the following "Credit Risk" section.

CREDIT RISK

Merrill Lynch is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms and the collateral held, if any, is deemed worthless ("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.

Merrill Lynch uses resale and repurchase agreements and securities borrowed and loaned transactions to finance securities, to facilitate settlement processes, and to meet customers' needs. 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. When providing collateral for these transactions, Merrill Lynch delivers its own securities, securities borrowed from counterparties, and securities owned by customers collateralizing margin loans and other obligations.

The market value of securities owned by Merrill Lynch that have been loaned or pledged to counterparties as collateral for obligations of Merrill Lynch, primarily related to repurchase agreements, were \$28,132 and \$27,810 at December 26, 1997 and December 27, 1996, respectively.

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 26, 1997, 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 taking trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to \$11,692 and \$10,332 at December 26, 1997 and Decem-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions, Except Per Share Amounts)

ber 27, 1996, 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 resale agreement or securities borrowed transaction counterparty. 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 at December 26, 1997 and December 27, 1996 totaled \$60,868 and \$33,321, respectively.

At December 26, 1997, Merrill Lynch had concentrations of credit risk with other counterparties, including a European sovereign rated AA by recognized credit rating agencies and an investment company whose holdings primarily consist of various European sovereign debt instruments. Total exposure to these counterparties, excluding collateral held, was \$3,405, or 1.2% of total assets. At December 27, 1996, Merrill Lynch had concentrations of credit risk with a European and a South American sovereign and an investment company totaling \$3,912, or 1.8% of total assets, excluding collateral held.

Merrill Lynch's most significant industry credit concentration is with U.S. and non-U.S. financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and mutual funds. 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 represent the most significant concentration, followed by financial institutions.

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.

 DERIVATIVES USED IN TRADING ACTIVITIES

Merrill Lynch trades derivative financial instruments and provides clients with customized derivative products. These transactions allow clients to manage their exposure to interest and currency exchange rate, equity and commodity price, and credit spread risks. Merrill Lynch also uses derivative instruments to manage its own risks related to proprietary trading strategies, client transactions, and financing activities (see Note 5 for further details on the role of derivatives in financing activities).

The fair values of derivatives used in trading activities at year-end 1997 and 1996 follows:

<TABLE>
 <CAPTION>

	DECEMBER 26, 1997		DECEMBER 27, 1996	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
<S>	<C>	<C>	<C>	<C>
Swap agreements	\$16,189	\$15,703	\$11,553	\$9,370
Forward contracts	3,805	3,539	1,304	1,403
Options	5,982	10,965	2,618	3,203

</TABLE>

The table below presents the average fair values of Merrill Lynch's trading derivatives for 1997 and 1996, calculated on a monthly basis:

<TABLE>
 <CAPTION>

	AVERAGE FAIR VALUE			
	1997		1996	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
<S>	<C>	<C>	<C>	<C>
Swap agreements	\$13,888	\$12,002	\$9,872	\$8,404
Forward contracts	2,340	2,181	1,192	1,260
Options	4,942	7,125	2,573	1,964

</TABLE>

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

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 contractual amounts of derivatives used for trading purposes by type of risk follow:

<TABLE>
 <CAPTION>

(in billions)	INTEREST RATE RISK/(1)/(2)/	CURRENCY RISK/(3)/RISK	EQUITY PRICE RISK	COMMODITY PRICE RISK
<S>	<C>	<C>	<C>	<C>
DECEMBER 26, 1997				
Swap agreements	\$1,482	\$159	\$17	\$ 2
Forward contracts	59	196	1	15
Futures contracts	202	1	15	2
Options purchased	99	71	60	3

Options written	133	73	44	3
DECEMBER 27, 1996				
Swap agreements	\$1,212	\$140	\$13	\$ 3
Forward contracts	24	147	1	17
Futures contracts	126	2	7	5
Options purchased	85	76	21	3
Options written	118	72	31	3

</TABLE>

- /(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 short-term in duration with a weighted-average maturity of approximately 2.8 years at December 26, 1997 and 2.7 years at December 27, 1996. For trading derivatives outstanding at December 26, 1997, the following table presents the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

<TABLE>

<CAPTION>

(in billions)	AFTER					
	1998	1999	2000	2001	2001	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Swap agreements	\$ 428	\$287	\$201	\$137	\$607	\$1,660
Forward contracts	261	6	2	1	1	271
Futures contracts	153	31	17	6	13	220
Options purchased	114	32	26	16	45	233
Options written	123	36	29	17	48	253
Total	\$1,079	\$392	\$275	\$177	\$714	\$2,637

</TABLE>

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 contracts. 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. 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. Presented below is a summary of counterparty credit ratings for the replacement cost (net of \$4,750 of collateral) of trading derivatives in a gain position by maturity at December 26, 1997.

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<TABLE>

<CAPTION>

CREDIT	YEARS TO MATURITY		CROSS-MATURITY
	-----	-----	

RATING/(1)/	0-3	3-5	5-7	OVER 7	NETTING/(2)/	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AAA	\$ 684	\$ 274	\$ 364	\$ 371	\$ (191)	\$ 1,502
AA+/AA	3,951	406	164	558	(623)	4,456
AA-	2,351	755	492	666	(802)	3,462
A+/A	2,802	518	383	703	(427)	3,979
A-	1,982	730	160	239	(380)	2,731
BBB	1,946	676	262	169	(437)	2,616
BB	887	314	36	293	(556)	974
Other	1,111	232	110	321	(268)	1,506
Total	\$15,714	\$3,905	\$1,971	\$3,320	\$ (3,684)	\$21,226

</TABLE>

/(1)/ Represents rating agency equivalent.

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

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

NOTE 4. INVESTMENTS AND OTHER NON-TRADING ASSETS

INVESTMENTS

Merrill Lynch has several broad categories of investments on its Consolidated Balance Sheets, including "Investments of insurance subsidiaries, Marketable investment securities", and "Other investments".

Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Marketable investment securities consist of equity and debt securities, including those held for rating agency purposes or to manage cash flows related to certain liabilities of Merrill Lynch's banking subsidiaries. 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 carried as held-to-maturity, trading, or available-for-sale securities as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 26, 1997 and December 27, 1996 are presented below:

<S>	1997	1996
INVESTMENTS OF INSURANCE SUBSIDIARIES		
Available-for-sale	\$3,338	\$3,624
Trading	16	-
Non-qualifying/(1)/(2)/	1,479	1,483
Total	\$4,833	\$5,107
MARKETABLE INVESTMENT SECURITIES		
Available-for-sale	\$2,392	\$1,523
Held-to-maturity	322	653
Trading	595	4
Total	\$3,309	\$2,180
OTHER INVESTMENTS		
Available-for-sale	\$ 500	\$ 142
Held-to-maturity	233	328
Trading	-	3
Non-qualifying/(1)/(3)/	1,093	652
Total	\$1,826	\$1,125

</TABLE>

/(1)/ Non-qualifying for SFAS No. 115 purposes.

/(2)/ Primarily consists of insurance policy loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)
[LOGO OF MERRILL LYNCH APPEARS HERE]

Information regarding investment securities subject to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", follows:

<TABLE>
<CAPTION>

	DECEMBER 26, 1997				DECEMBER 27, 1996			
	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	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<S>								
Corporate debt	\$3,136	\$ 78	\$ (8)	\$3,206	\$3,016	\$ 72	\$ (12)	\$3,076
U.S. Government and agencies	650	4	-	654	399	3	(1)	401
Municipals	936	2	(1)	937	276	3	-	279
Mortgage-backed securities	1,036	47	(1)	1,082	1,029	21	(3)	1,047
Other debt securities	109	1	(2)	108	417	8	(9)	416
Total debt securities	5,867	132	(12)	5,987	5,137	107	(25)	5,219
Equity securities	247	1	(5)	243	70	5	(5)	70
Total	\$6,114	\$133	\$ (17)	\$6,230	\$5,207	\$ 112	\$ (30)	\$5,289

<CAPTION>

	DECEMBER 26, 1997				DECEMBER 27, 1996			
	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	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<S>								
Corporate debt	\$ 189	\$ 1	\$ -	\$ 190	\$ 483	\$ 4	-	\$ 487
U.S. Government and agencies	211	-	-	211	37	-	-	37
Municipals	35	44	(1)	78	122	15	-	137
Mortgage-backed securities	119	2	-	121	281	2	-	283
Other debt securities	1	-	-	1	58	-	-	58
Total	\$ 555	\$ 47	\$ (1)	\$ 601	\$ 981	\$ 21	-	\$1,002

</TABLE>

The amortized cost and estimated fair value of debt securities at December 26, 1997, by contractual maturity, for available-for-sale and held-to-maturity investments follow:

<TABLE>
<CAPTION>

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	ESTIMATED AMORTIZED COST	ESTIMATED FAIR VALUE	ESTIMATED AMORTIZED COST	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Due in one year or less	\$1,147	\$1,148	\$166	\$167
Due after one year through five years	1,835	1,875	104	120
Due after five years through ten years	1,105	1,129	159	174
Due after ten years	744	753	7	19
	4,831	4,905	436	480
Mortgage-backed securities	1,036	1,082	119	121

Total/(1)/	\$5,867	\$5,987	\$555	\$601
------------	---------	---------	-------	-------

</TABLE>

(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:

<TABLE>
<CAPTION>

	1997	1996	1995
Proceeds	\$2,198	\$1,341	\$1,029
Gross realized gains	27	41	26
Gross realized losses	(11)	(12)	(28)

</TABLE>

Net unrealized (losses) gains from investment securities classified as trading included in the 1997, 1996, and 1995 Statements of Consolidated Earnings were \$(21), \$(1), and \$1, respectively.

OTHER NON-TRADING ASSETS

Most other financial instrument assets are carried at amounts that approximate fair value. Such assets include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, most receivables under resale agreements and securities borrowed transactions, and other receivables.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions, Except Per Share Amounts)

Other financial instrument assets with carrying values that differ from their fair values are presented below:

<TABLE>
<CAPTION>

	DECEMBER 26, 1997		DECEMBER 27, 1996	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Merchant banking equity investment and loan portfolio/(1)/	\$ 272	\$ 397	\$ 202	\$ 362
Loans, notes, and mortgages/(2)/	4,197	4,230	3,313	3,347

</TABLE>

(1) Merchant banking equity investments are non-qualifying for SFAS No. 115 purposes.

(2) Excludes loans related to merchant banking activities.

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, con-

sisting 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.

Merrill Lynch holds a passive minority interest in Bloomberg L.P., a privately held limited partnership that provides information services. In 1996, Merrill Lynch sold one-third of its interest to the majority interest holder, resulting in a pretax gain of \$155. Due to the nature and terms of the sale, the sale price is not necessarily indicative of the fair value of Merrill Lynch's remaining investment. In addition, given the contractual restrictions on the disposition of Merrill Lynch's interest, the fair value of the remaining investment is not readily determinable as of December 26, 1997. Management believes, however, that the fair value of this investment significantly exceeds its carrying value of \$28.

Merrill Lynch enters into derivative hedges of interest rate risk on various non-trading assets, including certain long-term resale agreements. At December 26, 1997 and December 27, 1996, the notional amounts of derivatives hedging these positions were \$9 billion and \$5 billion, respectively. The combined carrying value of hedged non-trading assets and related hedges approximates their combined fair value at both dates.

Merrill Lynch uses currency derivatives to hedge certain exposures arising from investments in and loans to foreign subsidiaries. At December 26, 1997 and December 27, 1996, the notional amounts of these currency derivatives were \$2 billion.

 NOTE 5. SHORT-TERM AND LONG-TERM BORROWINGS AND OTHER NON-TRADING LIABILITIES

SHORT-TERM AND LONG-TERM 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 financing activities may create exposure to market risk, most notably interest rate and currency risk. To better match the interest rate characteristics of assets and liabilities, Merrill Lynch generally enters into swap agreements to convert fixed-rate interest payments on its debt obligations into variable-rate payments. Interest obligations on variable-rate long-term borrowings and commercial paper may also be modified through swap agreements that change the underlying

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions, Except Per Share Amounts)
 [LOGO OF MERRILL LYNCH APPEARS HERE]

 interest rate basis or reset frequency. Non-U.S. dollar payments on debt obligations may be swapped to U.S. dollar payments.

Merrill Lynch also issues debt containing embedded options that link the repayment of these obligations to the performance of an equity or other index (e.g., S&P 500(Registered Trademark)), an industry basket of stocks, or an individual stock. The contingent components of these indexed debt obligations are hedged with derivatives.

Borrowings at December 26, 1997 and December 27, 1996 are presented below:

 <TABLE>
 <CAPTION>

	1997	1996
	-----	-----
<S>	<C>	<C>
PAYABLES UNDER REPURCHASE AGREEMENTS AND SECURITIES LOANED TRANSACTIONS		
Repurchase agreements	\$71,044	\$62,669
Securities loaned transactions	6,831	2,751
	-----	-----
Total	\$77,875	\$65,420
	=====	=====

 COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS

Commercial paper	\$30,379	\$23,558
Demand and time deposits	10,531	9,311
Bank loans and other	3,940	3,713
	-----	-----
Total	\$44,850	\$36,582
	=====	=====

LONG-TERM BORROWINGS

Fixed-rate obligations/(1)/:		
U.S. dollar-denominated	\$ 7,083	\$ 5,770
Non-U.S. dollar-denominated	1,878	1,737
Variable-rate obligations/(2)/(3)/:		
U.S. dollar-denominated	2,803	1,944
Non-U.S. dollar-denominated	1,276	690
Medium-term notes/(4)/:		
U.S. dollar-denominated	20,090	10,532
Non-U.S. dollar-denominated	9,960	5,429
	-----	-----
Total	\$43,090	\$26,102
	=====	=====

</TABLE>

- (1) At December 26, 1997, U.S. dollar-denominated fixed-rate obligations are due 1998 to 2019 at interest rates ranging from 5.50% to 10.38%; non-U.S. dollar-denominated fixed-rate obligations are due 1998 to 2002 at interest rates ranging from 2.55% to 12.10%.
- (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 in variable-rate obligations are various equity-linked or indexed instruments issued by Merrill Lynch.
- (4) Medium-term notes may bear fixed or variable interest rates and have maturities that may range from nine months to 30 years from the date of issue.

Long-term borrowings at December 26, 1997 mature as follows:

<TABLE>	
<CAPTION>	
<S>	<C>
1998	\$12,042
1999	7,226
2000	5,178
2001	3,959
2002	5,397
2003 and thereafter	9,288

Total	\$43,090
	=====

</TABLE>

The notional or contractual amounts of derivatives used to hedge exposures related to borrowings at December 26, 1997 and December 27, 1996 follow:

<TABLE>		
<CAPTION>		
	1997	1996
(in billions)	----	----
<S>	<C>	<C>
Interest rate derivatives/(1)/	\$44	\$32
Currency derivatives/(1)/	8	4
Equity derivatives	3	2

</TABLE>

- (1) Includes swap contracts totaling \$2 billion and \$1 billion in notional that contain embedded options hedging callable debt at December 26, 1997 and December 27, 1996, respectively.

Most of these derivatives are entered into with Merrill Lynch's derivative dealer subsidiaries, which intermediate interest rate, currency, and equity risks with third parties in the normal course of their trading activities.

The effective weighted-average interest rates for borrowings, which include the impact of hedges, at December 26, 1997 and December 27, 1996 were:

<TABLE>		
<CAPTION>		
	1997	1996
	-----	-----
<S>	<C>	<C>
COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS	5.43%	5.44%
LONG-TERM BORROWINGS		
Fixed-rate obligations	7.00%	7.41%
Variable-rate obligations	5.84%	5.82%
Medium-term notes	5.86%	5.68%

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The fair value of borrowings and related hedges is estimated using current market prices and pricing models. The carrying and fair values of these instruments are summarized as follows:

	DECEMBER 26, 1997		DECEMBER 27, 1996	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
COMMERCIAL PAPER AND OTHER SHORT- TERM BORROWINGS	\$ 44,850	\$ 44,857	\$ 36,582	\$ 36,581
Related derivative:				
Assets	(28)	(29)	(15)	(12)
Liabilities	3	4	5	5
Total	\$ 44,825	\$ 44,832	\$ 36,572	\$ 36,574
LONG-TERM BORROWINGS	\$ 43,090	\$ 43,648	\$ 26,102	\$ 26,850
Related derivative:				
Assets	(811)	(1,948)	(257)	(769)
Liabilities	921	1,032	370	448
Total	\$ 43,200	\$ 42,732	\$ 26,215	\$ 26,529

</TABLE>

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.

Subsequent to year-end 1997 and through February 20, 1998, long-term borrowings, net of repayments and repurchases, increased approximately \$4,138.

Borrowing Facilities

Merrill Lynch has obtained committed, unsecured revolving credit facilities aggregating \$6.8 billion under agreements with 74 banks. The agreements contain covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreements, on the date of an advance. At December 26, 1997, none of these credit facilities had been drawn upon.

The credit quality, amounts, and terms of the credit facilities are continually monitored and modified as warranted by business conditions. Under the existing agreements, the credit facilities mature as follows: \$1.2 billion in February 1998; \$1.6 billion in May 1998; \$2.0 billion in June 1998; and \$2.0 billion in October 1999. At maturity, Merrill Lynch may convert amounts borrowed, if any, into term loans that would mature in two years.

To finance the purchase of Mercury, Merrill Lynch obtained a commitment under a credit facility agreement with 12 banks to provide unsecured short-term financing of up to 2.0 billion British pounds (approximately \$3.3 billion). The commitment expires in June 1998. At December 26, 1997, the facility had not been drawn upon. Subsequent to year end, Merrill Lynch borrowed approximately 1.9 billion British pounds (approximately \$3.1 billion) under the facility. These borrowings are expected to be repaid during 1998 with proceeds from long-term financing.

OTHER NON-TRADING LIABILITIES

Other financial instrument liabilities are carried at amounts that approximate fair value. Such liabilities include most payables under repurchase agreements and securities loaned transactions, payables to customers and brokers and dealers, and insurance and other liabilities.

NOTE 6. PREFERRED SECURITIES ISSUED BY
SUBSIDIARIES AND STOCKHOLDERS' EQUITY

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Trust Originated Preferred Securities(Service Mark) ("TOPrS"(Registered Trademark)) 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 the partnership distribution guarantee are subordinated to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[LOGO OF MERRILL LYNCH APPEARS HERE]

all other liabilities of ML & Co. and rank pari passu with preferred stock of ML & Co.

In December 1996, Merrill Lynch Capital Trust I ("TOPrS I") issued \$275 of 7.75% TOPrS, consisting of 11,000,000 securities with a \$25 liquidation amount per security, and in February 1997, Merrill Lynch Capital Trust II ("TOPrS II") issued \$300 of 8% TOPrS, consisting of 12,000,000 securities with a \$25 liquidation amount per security. Both TOPrS I and TOPrS II securities are redeemable at the option of the trusts, in whole or in part, at a redemption price equal to \$25 per security on or after December 30, 2006 and March 30, 2007, respectively. Distributions are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

In January 1998, Merrill Lynch Capital Trust III issued \$750 of 7% TOPrS, consisting of 30,000,000 securities with a \$25 liquidation amount per security, which are redeemable at the option of the trust, in whole or in part, at a redemption price equal to \$25 per security, on or after March 30, 2008.

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, \$10,000 liquidation preference 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.

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 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.

Remarketed Preferred(Service Mark) Stock, Series C

During the first quarter of 1997, all of the outstanding Remarketed Preferred Stock, Series C was redeemed. Dividend rates in effect prior to redemption ranged from 3.80% to 4.15% per annum.

COMMON STOCK SPLIT

In 1997, 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, an adjustment from paid-in capital to common stock of \$315 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 26, 1997 and December 27, 1996 are comprised as follows:

<TABLE>
<CAPTION>

	1997	1996
	----	----
<S>	<C>	<C>
FOREIGN CURRENCY TRANSLATION ADJUSTMENT		
Unrealized losses, net of gains	\$ (97)	\$ (11)
Deferred income taxes	25	21
	----	----
Total	(72)	10
	----	----
UNREALIZED GAINS ON INVESTMENTS		
AVAILABLE-FOR-SALE		
Unrealized gains, net of losses	116	82
Adjustments for:		
Policyholder liabilities	(54)	(64)
Deferred policy acquisition costs	(4)	(4)
Deferred income taxes	(20)	(5)
	----	----
Total	38	9
	----	----
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME	\$ (34)	\$ 19
	====	====

</TABLE>

STOCKHOLDER RIGHTS PLAN

In December 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 ten days following: (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 December 2, 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 tenth day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

EARNINGS PER COMMON SHARE

Earnings per common share are computed in accordance with SFAS No. 128 (see Note 2). Under SFAS No. 128, basic and diluted EPS replace primary and fully diluted EPS. Basic 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 potential common shares. The following table presents the computations of basic and diluted EPS:

<TABLE>
<CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Net earnings	\$ 1,906	\$ 1,619	\$ 1,114
Preferred stock dividends	39	47	48
	-----	-----	-----
Net earnings applicable to			

common stockholders	\$ 1,867	\$ 1,572	\$ 1,066
	=====	=====	=====

(shares in thousands)			
Weighted-average shares outstanding	331,467	337,794	353,126
	-----	-----	-----
Effect of dilutive instruments/(1)/			
Employee stock options	29,405	21,016	19,772
FCCAAP shares	20,574	18,853	18,671
Restricted units	5,258	4,554	2,363
ESPP shares	45	54	63
	-----	-----	-----
Dilutive potential common shares	55,282	44,477	40,869
	-----	-----	-----
Total weighted-average diluted shares/(2)/	386,749	382,271	393,995
	=====	=====	=====

Basic EPS	\$ 5.63	\$ 4.65	\$ 3.02
Diluted EPS	4.83	4.11	2.71

</TABLE>

- /(1)/ See Note 9 for a description of these instruments and issuances subsequent to December 26, 1997.
- /(2)/ At year-end 1995, there were 2,898 instruments that were considered antidilutive and were not included in the above calculation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)
[LOGO OF MERRILL LYNCH APPEARS HERE]

NOTE 7. COMMITMENTS AND CONTINGENCIES

LITIGATION

There are civil actions, arbitration proceedings, and claims pending against Merrill Lynch as of December 26, 1997, some of which involve claims for substantial amounts.

Included among these matters is an action that is pending in the United States District Court for the Central District of California, commenced on January 12, 1995 by Orange County, California (the "County") and the Orange County Investment Pools (the "Pools"), both of which filed bankruptcy petitions in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") on December 6, 1994. ML & Co. and certain of its subsidiaries are named as defendants in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. The Pools' bankruptcy petition subsequently was dismissed. On May 17, 1996, the Bankruptcy Court confirmed a plan pursuant to which Orange County emerged from bankruptcy.

The County and its current Treasurer-Tax Collector seek relief totaling in excess of \$2 billion in connection with various securities transactions between the Orange County Treasurer-Tax Collector and ML & Co. and its subsidiaries. As subsequently amended, the complaint alleges, among other things, that these transactions violated California law and should be adjudged null and void, that ML & Co. and its subsidiaries violated various provisions of the Bankruptcy Code and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and that ML & Co. and its subsidiaries breached a fiduciary duty owed to the County and conspired to make unauthorized use of public funds.

In addition, other actions are pending against or on behalf of ML & Co., and/or against certain of its officers, directors, and employees and certain of its subsidiaries in the United States District Court for the Central District of California, the United States District Court for the Southern District of New York, and in state courts in California and New York. These include class actions and stockholder derivative actions brought by persons alleging harm to themselves or to Merrill Lynch arising out of Merrill Lynch's dealings with the Orange County Treasurer-Tax Collector, or the purchase of debt instruments issued by Orange County or other public entities with funds controlled by the Orange County Treasurer-Tax Collector that were underwritten by ML & Co.'s subsidiary, MLPF&S.

Although the ultimate outcome of these actions 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 matters will not have a material adverse effect on the Consolidated Financial Statements of Merrill Lynch contained herein.

LENDING

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking 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, agency securities lending, 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 the counterparty's 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

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total amount of outstanding commitments and guarantees may not represent future cash requirements, as guarantees and commitments may expire without being drawn upon.

At December 26, 1997 and December 27, 1996, Merrill Lynch had the following commitments and guarantees:

<TABLE>
<CAPTION>

	1997	1996
	-----	-----
<S>	<C>	<C>
Commitments to extend credit	\$5,839	\$4,780
Third party guarantees	3,819	1,975

</TABLE>

The fair value of the outstanding guarantees was \$25 and \$24 at December 26, 1997 and December 27, 1996, respectively.

LEASES

Merrill Lynch has entered into various noncancelable long-term lease agreements for premises and equipment that expire through 2024. During 1996, Merrill Lynch incurred a pretax charge of \$40 million related to the resolution of Olympia & York's bankruptcy that affected Merrill Lynch's long-term sublease agreements in the World Financial Center Headquarters ("WFC"). Merrill Lynch has also entered into various noncancelable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

At December 26, 1997, future minimum rental commitments under noncancelable leases with initial or remaining terms exceeding one year are presented below:

<TABLE>
<CAPTION>

	WFC	OTHER	TOTAL
	-----	-----	-----
<S>	<C>	<C>	<C>
1998	\$ 125	\$ 262	\$ 387
1999	140	260	400
2000	144	238	382
2001	144	213	357
2002	150	178	328
2003 and thereafter	1,936	726	2,662
Total	\$2,639	\$1,877	\$4,516
	=====	=====	=====

</TABLE>

The minimum rental commitments shown above have not been reduced by \$824 of minimum sublease rentals to be received in the future under noncancelable 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:

	1997	1996	1995
Rent expense	\$ 449	\$ 420	\$ 399
Sublease revenue	(104)	(48)	(87)
Net rent expense	\$ 345	\$ 372	\$ 312

OTHER COMMITMENTS

In the normal course of business, Merrill Lynch enters into commitments for securities underwriting and when-issued transactions. Settlement of these transactions as of December 26, 1997 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with financing activities, Merrill Lynch had commitments at December 26, 1997 and December 27, 1996 to enter into resale and repurchase agreements as follows:

	1997	1996
Resale agreements	\$3,440	\$3,653
Repurchase agreements	4,469	976

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 \$1,035 and \$2,065 at December 26, 1997 and December 27, 1996, respectively.

In connection with merchant banking activities, Merrill Lynch has committed to purchase \$88 and \$101 of partnership interests at December 26, 1997 and December 27, 1996, respectively.

Merrill Lynch has entered into agreements with providers of market data, communications, and systems consulting services. At December 26, 1997 and December 27, 1996, minimum fee commitments over the life of these agreements aggregated \$348 and \$481, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Millions, Except Per Share Amounts) [LOGO OF MERRILL LYNCH APPEARS HERE]

NOTE 8. 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 and postemployment benefit plans. Merrill Lynch reserves the right to amend or terminate these plans at any time.

DEFINED CONTRIBUTION PENSION PLANS

The domestic 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 age and service requirements.

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees over the age of 21 with one year of service. A separate retirement account is maintained for each participant.

In 1989, the ESOP trust purchased from Merrill Lynch 47,851,236 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 credits a participant's account and records pension expense under the Retirement Program based on years of service and eligible compensa-

tion. This expense is funded by quarterly allocations of Leveraged and Reversion Shares and, if necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares are released in accordance with the terms of the ESOP. If the fair market value of the shares released is less than the formula allocation to participants' accounts, cash contributions are made to the RAP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in June 1997. Leveraged Shares are allocated to participants' accounts as principal is repaid on the loan to the ESOP, which matures in 1999. Principal and interest on the loan are payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions.

ESOP shares are considered to be either allocated (contributed to participants' accounts), committed (scheduled to be contributed at a specified future date but not yet released), or unallocated (not committed or allocated). Share information at December 26, 1997 is as follows:

<TABLE>
<CAPTION>

	REVERSION SHARES	LEVERAGED SHARES
	-----	-----
<S>	<C>	<C>
Allocated	38,962,348	6,104,498
Committed	-	173,188
Unallocated	-	2,611,202

</TABLE>

The remaining cost of the unallocated Leveraged Shares of \$16 at December 26, 1997 is recorded as a reduction of stockholders' equity and represents the remaining ESOP loan balance.

Additional information on ESOP activity follows:

<TABLE>
<CAPTION>

	1997	1996	1995
	----	----	----
<S>	<C>	<C>	<C>
Dividends used for debt service/(1)/	\$ 7	\$ 8	\$ 9
Compensation costs funded with ESOP shares	193	190	143

</TABLE>

/(1)/ Dividends on all Leveraged Shares are used for debt service on the ESOP loan.

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. Merrill Lynch's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the 401K, 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 9).

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 December 26, 1997 and December 27, 1996, 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 these 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 funded status of the defined benefit plans (including the terminated plan)

follows:

<TABLE>
<CAPTION>

	1997		1996	
	PENSION PLANS IN WHICH:		PENSION PLANS IN WHICH:	
	ASSETS EXCEEDED ACCUMULATED	BENEFITS EXCEEDED ACCUMULATED	ASSETS EXCEEDED ACCUMULATED	BENEFITS EXCEEDED ACCUMULATED
	ASSETS/ (1) /	BENEFITS ASSETS/ (1) /	BENEFITS ASSETS/ (1) /	BENEFITS ASSETS/ (1) /
<S>	<C>	<C>	<C>	<C>
Accumulated benefit obligation				
Vested	\$ (1,756)	\$ (51)	\$ (1,447)	\$ (118)
Non-vested	(5)	(7)	(3)	(8)
Total	(1,761)	(58)	(1,450)	(126)
Effect of assumed increase in compensation levels	(95)	(16)	(24)	(25)
Projected benefit obligation	(1,856)	(74)	(1,474)	(151)
Plan assets at fair value	2,137	28	1,673	85
Plan assets in excess of (less than) projected benefit obligation	281	(46)	199	(66)
Unrecognized net liability at transition	2	1	3	2
Unrecognized prior service cost (benefit)	3	(1)	(3)	(1)
Unrecognized net (gain) loss	(118)	(1)	(4)	14
Prepaid (accrued) benefit cost	\$ 168	\$ (47)	\$ 195	\$ (51)

</TABLE>

(1) Consists primarily of domestic supplemental plans not subject to ERISA and non-U.S. plans where funding strategies vary due to legal requirements and local practice.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)
[LOGO OF MERRILL LYNCH APPEARS HERE]

Pension cost included the following components:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
DEFINED CONTRIBUTION PLAN COST	\$ 216	\$ 223	\$ 169
DEFINED BENEFIT PLANS/(1)/			
Service cost for benefits earned during the year	30	24	19
Interest cost on projected benefit obligation	108	103	105
Actual return on plan assets	(312)	19	(480)
Deferral and amortization of unrecognized items	194	(133)	373
Total defined benefit plan cost	20	13	17
TOTAL PENSION COST	\$ 236	\$ 236	\$ 186

</TABLE>

(1) The following actuarial assumptions were used in calculating the defined benefit cost and benefit obligations. Weighted-average rates as of the beginning of the year are:

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Discount rate	6.3%	6.7%	6.5%
Rate of compensation increase	5.6	5.4	5.5
Expected long-term rate of return on plan assets	6.6	6.9	6.7

</TABLE>

 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 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 26, 1997, none of these plans had been funded.

Postretirement benefit cost included the following components:

	1997	1996	1995
	----	----	----
<S>	<C>	<C>	<C>
Service cost	\$ 6	\$ 6	\$ 4
Interest cost on accumulated postretirement benefit obligation	11	11	10
Amortization of unrecognized gain	-	-	(1)
Total postretirement benefit cost	\$17	\$17	\$13
	===	===	===

</TABLE>

The amounts recognized for Merrill Lynch's postretirement benefit plans follow:

	1997	1996
	----	----
<S>	<C>	<C>
Accumulated postretirement benefit obligation		
Retirees	\$ (88)	\$ (73)
Fully eligible active plan participants	(57)	(37)
Other active plan participants	(69)	(62)
Total	(214)	(172)
Unrecognized net loss (gain)	8	(7)
Postretirement benefits accrued liability	\$(206)	\$(179)
	=====	=====

</TABLE>

The following actuarial assumptions were used in calculating the postretirement benefit cost and obligations. Weighted-average rates as of the beginning of the year are:

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Discount rate	6.4%	6.8%	6.5%
Health care cost trend rates/(1)/			
Initial	7.5	8.0	9.0
2012 and thereafter	5.5	5.5	5.5

</TABLE>

/(1)/ Assumed to decrease gradually until the year 2012 and remain constant thereafter.

The assumed health care cost trend rate has a significant effect on the amounts reported above. Increasing the assumed trend rate by one percentage point per year would increase the accumulated postretirement benefit obligation at December 26, 1997 and December 27, 1996 by \$26 and \$28, respectively, and increase the aggregate of service and interest costs for 1997 and 1996 by \$3 for both years.

 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions, Except Per Share Amounts)

 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 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 \$25, \$30, and \$76 in 1997, 1996, and 1995, respectively, of postemployment benefits expense, which included severance costs for terminated employees of \$13, \$14, and \$54 in 1997, 1996, and 1995, respectively. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 26, 1997 since future severance costs are not estimable.

 NOTE 9. 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 1997, 1996, and 1995 was \$318, \$269, and \$131, 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 key 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, 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 26, 1997, no instruments other than Restricted Shares, Restricted Units, and Nonqualified Stock 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, is payable in cash, and receives cash payments equivalent to dividends. Under these plans, such shares 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 for grants under LTIC Plans or the restricted period for grants under ECAP.

The activity for Restricted Shares and Units under these plans during 1997 and 1996 follows:

 <TABLE>
 <CAPTION>

	LTIC PLANS		ECAP
	RESTRICTED SHARES	RESTRICTED UNITS	RESTRICTED SHARES
	-----	-----	-----
<S>	<C>	<C>	<C>
Authorized for issuance at:			
December 26, 1997	200,000,000	N/A	52,400,000
December 27, 1996	200,000,000	N/A	52,400,000

Available for issuance at/(1)/:			
December 26, 1997	44,703,329	N/A	2,935,408
December 27, 1996	61,891,210	N/A	2,698,830

Outstanding, end of 1995	6,543,520	6,647,548	1,211,982
Granted - 1996	2,914,844	3,110,570	3,355,708
Paid, forfeited, or released from contingencies	(495,402)	(483,218)	(435,946)

Outstanding, end of 1996	8,962,962	9,274,900	4,131,744
Granted - 1997	3,662,390	3,819,904	48,747
Paid, forfeited, or released from contingencies	(2,779,206)	(3,197,062)	(299,926)

Outstanding, end of 1997/(2)/	9,846,146	9,897,742	3,880,565
=====			

</TABLE>

/(1)/ Includes shares reserved for issuance upon the exercise of stock options.

/(2)/ Subsequent to year end through February 1, 1998, 2,287,501 and 2,497,175 Restricted Shares and Units under LTIC Plans, respectively, and 1,980 ECAP Restricted Shares were granted to eligible employees.

The weighted-average fair value per share or unit for 1997, 1996, and 1995 grants follows:

<TABLE>			
<CAPTION>			
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
LTIC Plans			
Restricted Shares	\$46.31	\$28.97	\$20.85
Restricted Units	44.47	28.69	20.72
ECAP Restricted Shares	66.99	28.76	26.23

</TABLE>			

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares and units are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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[LOGO OF MERRILL LYNCH APPEARS HERE]

granted to employees and non-employee directors.

The table below summarizes information related to Restricted Shares and Units for these other plans:

<TABLE>		
<CAPTION>		
	RESTRICTED	RESTRICTED
	SHARES	UNITS
	-----	-----
<S>	<C>	<C>
Authorized for issuance at:		
December 26, 1997	6,300,000	400,000
December 27, 1996	1,700,000	400,000
Outstanding at:		
December 26, 1997	258,929	31,862
December 27, 1996	121,490	16,134

</TABLE>		

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 and thereafter generally are exercisable over five years. 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 1997, 1996,

and 1995 follows:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING	WEIGHTED- AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding, beginning of 1995	56,815,866	\$11.66
Granted - 1995	12,912,924	19.82
Exercised	(7,919,898)	8.40
Forfeited	(1,662,258)	18.48
Outstanding, end of 1995	60,146,634	13.65
Granted - 1996	13,633,940	27.28
Exercised	(8,481,030)	10.45
Forfeited	(1,486,888)	25.43
Outstanding, end of 1996	63,812,656	16.72
Granted - 1997	15,323,524	42.18
Exercised	(9,065,189)	12.24
Forfeited	(1,363,699)	31.27
Outstanding, end of 1997/(1)/	68,707,292	22.69

</TABLE>

/(1)/ In January 1998, eligible participants were granted stock options for 11,307,570 shares.

At December 26, 1997, December 27, 1996, and December 29, 1995, options exercisable under LTIC Plans were 36,380,942; 35,532,334; and 34,118,750, respectively.

The table below summarizes information related to outstanding and exercisable options at December 26, 1997.

<TABLE>
<CAPTION>

EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED- AVERAGE EXERCISE PRICE	WEIGHTED- AVERAGE REMAINING LIFE (YEARS)/(1)/	NUMBER EXERCISABLE	WEIGHTED- AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$5.00 - \$10.99	12,278,961	\$ 5.57	2.62	12,278,961	\$ 5.57
\$11.00 - \$19.99	21,287,249	16.62	5.69	16,664,361	16.35
\$20.00 - \$29.99	19,252,779	24.88	7.48	7,023,277	22.61
\$30.00 - \$39.99	1,156,924	31.03	7.77	400,768	31.03
\$40.00 - \$68.125	14,731,379	42.24	9.26	13,575	40.59

</TABLE>

/(1)/ Based on original contractual life of ten years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The weighted-average fair value of options granted in 1997, 1996, and 1995 was \$14.62, \$7.58, and \$5.67 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:

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Risk-free interest rate	6.74%	5.68%	7.61%
Expected life	6 yrs.	5 yrs.	5 yrs.
Expected volatility	26.86%	26.35%	25.00%
Dividend yield	1.47%	1.91%	2.45%

</TABLE>

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 50,300,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 1997, 1996, and 1995 follows:

<TABLE>

<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
Available, beginning of year	8,267,360	9,992,526	11,714,898
Authorized during year	300,000	-	-
Purchased through plan	(1,316,017)	(1,725,166)	(1,722,372)
Available, end of year	7,251,343	8,267,360	9,992,526

</TABLE>

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 1997, 1996, and 1995 was \$7.66, \$4.38, and \$3.60 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). Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of \$54, \$26, and \$12 for 1997, 1996, and 1995, respectively, resulting in pro forma net earnings and earnings per share as follows:

<TABLE>

<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
NET EARNINGS			
As reported	\$1,906	\$1,619	\$1,114
Pro forma	1,852	1,593	1,102
EARNINGS PER COMMON SHARE			
As reported:			
Basic	\$ 5.63	\$ 4.65	\$ 3.02
Diluted	4.83	4.11	2.71
Pro forma:			
Basic	5.47	4.58	2.99
Diluted	4.69	4.05	2.68

</TABLE>

In the table above, pro forma compensation expense associated with option grants is recognized over the vesting period. The impact of applying SFAS No. 123 on pro forma disclosure is not representative of the potential impact on pro forma net earnings for future years, which will include the cumulative effect of expense related to vesting of 1995 and subsequent grants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[LOGO OF MERRILL LYNCH APPEARS HERE]

FINANCIAL CONSULTANT CAPITAL ACCUMULATION

AWARD PLANS ("FCCAAP")

Under FCCAAP, eligible employees in Merrill Lynch's Private Client groups 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.

A total of 60,415,284 shares of common stock are authorized for issuance under FCCAAP. Only shares of common stock held as treasury stock may be issued under FCCAAP. At December 26, 1997, shares subject to outstanding awards totaled 32,469,188, while 24,658,543 shares were available for issuance through future awards. The fair value of awards granted under FCCAAP during 1997, 1996, and 1995 was \$42.09, \$25.34, and \$18.06 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 2,164,600 and 2,274,400 at December 26, 1997 and December 27, 1996, respectively. 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 groups 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 December 26, 1997 and December 27, 1996, \$292 and \$235, 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 to participants. Contributions are invested by Merrill Lynch, principally in mutual 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 \$554 and \$211, respectively, at December 26, 1997 and December 27, 1996. Accrued liabilities at those dates were \$441 and \$220, respectively.

 NOTE 10. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

 <TABLE>
 <CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Federal			
Current	\$ 856	\$ 515	\$ 788
Deferred	(94)	(119)	(164)
State and local			
Current	(15)	198	81
Deferred	7	(54)	(30)
Foreign			
Current	362	460	(39)
Deferred	(19)	(53)	61
Total	\$1,097	\$ 947	\$ 697
	=====	=====	=====

</TABLE>

The corporate statutory tax rate was 35.0% for the three years presented. A reconciliation of statutory Federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

<TABLE>

<CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Federal income tax at statutory rate	\$1,068	\$ 898	\$ 634
State and local income taxes, net	(5)	94	33
Pension plan transaction	6	12	13
Foreign operations	30	(8)	(4)
Tax-exempt interest	(26)	(21)	(14)
Dividends received deduction	(33)	(34)	(19)
Other, net	57	6	54
	-----	-----	-----
Income tax expense	\$1,097	\$ 947	\$ 697
	=====	=====	=====

</TABLE>

For financial reporting purposes, Merrill Lynch had no unrecognized net operating loss or alternative minimum tax benefit carryforwards at December 26, 1997.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an

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asset or liability and its reported amount in the Consolidated Financial Statements. These temporary differences result in taxable or deductible amounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

<TABLE>

<CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
DEFERRED TAX ASSETS			
Valuation and other reserves/(1)/	\$ 940	\$ 895	\$ 700
Deferred compensation	473	349	228
Employee benefits	109	115	94
Other	84	250	270
	-----	-----	-----
Total deferred tax assets	1,606	1,609	1,292
	-----	-----	-----
DEFERRED TAX LIABILITIES			
Lease transactions	116	114	100
Employee benefits	58	54	47
Accelerated tax depreciation	26	44	70
Unrealized gains on inventory	-	9	18
Other	175	77	41
	-----	-----	-----
Total deferred tax liabilities	375	298	276
	-----	-----	-----
NET DEFERRED TAX ASSET	\$1,231	\$1,311	\$1,016
	=====	=====	=====

</TABLE>

/(1)/ Primarily related to Trading assets and Other liabilities.

Income tax benefits of \$173, \$30, and \$34 were allocated to stockholders' equity related to employee compensation transactions for 1997, 1996, and 1995, respectively.

Earnings before income taxes included approximately \$744, \$738, and \$128 of earnings attributable to foreign entities for 1997, 1996, and 1995, respectively. Cumulative undistributed earnings of foreign subsidiaries were approximately \$1,645 at December 26, 1997. No deferred Federal income taxes have been provided for the undistributed earnings to the extent that such earnings have been permanently reinvested in Merrill Lynch's foreign operations. Assuming utilization of foreign tax credits, Merrill Lynch estimates that approximately \$81 of Federal income taxes and \$67 of foreign withholding taxes would be incurred on the repatriation of the foreign subsidiaries' earnings.

NOTE 11. REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

MLPF&S, a registered broker-dealer and a subsidiary of ML & Co., is subject to the net capital requirements of Rule 15c3-1 of 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 26, 1997, MLPF&S's regulatory net capital of \$2,249 was 11% of aggregate debit items, and its regulatory net capital in excess of the minimum required was \$1,845.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities and a subsidiary of ML & Co., 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 26, 1997, MLGSI's liquid capital of \$1,354 was 263% of its total market and credit risk, and liquid capital in excess of the minimum required was \$735.

MLI, a registered U.K. broker-dealer and a subsidiary of Merrill Lynch, is subject to capital requirements of the Securities and Futures Authority ("SFA"). Financial resources, as defined, must exceed the total financial resources requirement of the SFA. During 1997, MLI became Merrill Lynch's primary dealer for global equity derivatives business. As a result, at December 26, 1997, MLI's financial resources were \$4,540, an increase of \$3,166 since year-end 1996, and exceeded the minimum requirement by \$1,004. The equity derivatives business of Merrill Lynch Capital Markets PLC was transferred to MLI during 1997.

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 26, 1997, \$389, representing 84% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Over 88 other subsidiaries are subject to regulatory requirements promulgated by the regulatory and exchange authorities of the jurisdictions in which they operate. These regulatory restrictions may limit the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, Except Per Share Amounts)
[LOGO OF MERRILL LYNCH APPEARS HERE]

amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 26, 1997, restricted net assets of all subsidiaries were \$7,541.

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 26, 1997, this minimum capital requirement was \$350. For additional information on Merrill Lynch's regulatory oversight and supervision, see "Business of Merrill Lynch--Regulation".

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on Merrill Lynch's present ability to pay dividends on common stock, other than (1) Merrill Lynch's obligation first to make dividend payments on its preferred stock, and (2) the governing provisions of the Delaware General Corporation Law.

NOTE 12. INDUSTRY AND GLOBAL OPERATIONS

Merrill Lynch operates principally in the financial services industry and provides services to individual and institutional clients. These services, due to certain legal requirements, are conducted through various subsidiaries, including those operating as brokers, dealers, banks, insurance, and other financial services companies.

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,
- Asia and Pacific,
- Australia and New Zealand,
- Japan, and
- Latin America and Canada

European, Middle Eastern, and African operations offer international investment and private banking services, research, and dealer services in equity and fixed-income securities, swaps, futures, commodity contracts, and options.

Merrill Lynch's Asian and Pacific operations conduct business throughout various countries including China (and its special autonomous region of Hong Kong) and Singapore. Merrill Lynch has a trading presence and exchange memberships in virtually all of the region's markets.

In the Australia and New Zealand region, Merrill Lynch provides a broad mix of retail and institutional activities.

Merrill Lynch's Japan region operates as a dealer in a full range of debt and equity products. In addition, the Japan region provides investment banking and

research services to a predominately institutional client base.

In Latin America, Merrill Lynch provides international banking, brokerage, and trust services and has been instrumental in the privatization of many Latin American companies. In Canada, Merrill Lynch is a broker for securities and commodities and a market maker for bonds and money market instruments. Merrill Lynch also provides investment banking and research for Canadian customers. For further information on these regions, see "Management's Discussion and Analysis" (unaudited)--"Global Operations".

Following is the principal methodology used in preparing the geographic data in the table below:

- Commission revenues are recorded based on the location of the sales force;
- 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 fund manager;
- 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

<TABLE>

<CAPTION>

	1997	1996	1995	1997	1996	1995
	TOTAL REVENUES			NET REVENUES		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Europe, Middle East, and Africa	\$ 6,750	\$ 5,336	\$ 3,981	\$ 2,284	\$ 1,837	\$ 1,319
Asia and Pacific	586	395	228	582	394	227
Australia and New Zealand	272	151	163	229	88	66
Japan	1,108	993	841	598	502	408
Latin America and Canada	1,048	826	704	738	472	347
Total Non-U.S.	9,764	7,701	5,917	4,431	3,293	2,367
United States	25,046	19,221	16,107	12,462	10,603	8,092
Eliminations	(3,079)	(1,911)	(511)	(1,224)	(780)	(194)
Total	\$ 31,731	\$ 25,011	\$ 21,513	\$ 15,669	\$ 13,116	\$ 10,265

<CAPTION>

	EARNINGS BEFORE INCOME TAXES			TOTAL ASSETS		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Europe, Middle East, and Africa	\$ 405	\$ 357	\$ 155	\$111,404	\$ 75,901	\$ 56,948
Asia and Pacific	16	41	7	797	335	240
Australia and New Zealand	39	24	14	1,899	1,115	976
Japan	140	119	60	15,294	16,455	15,698
Latin America and Canada	227	128	127	7,054	5,205	4,997
Total Non-U.S.	827	669	363	136,448	99,011	78,859
United States	2,223	1,897	1,448	175,477	126,784	105,702
Eliminations	-	-	-	(19,106)	(12,779)	(7,704)
Total	\$ 3,050	\$ 2,566	\$ 1,811	\$292,819	\$213,016	\$176,857

</TABLE>

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QUARTERLY INFORMATION

[LOGO OF MERRILL LYNCH APPEARS HERE]

RESULTS OF OPERATIONS

The unaudited quarterly results of operations of Merrill Lynch for 1997 and 1996 are prepared in conformity with generally accepted accounting principles and reflect all adjustments (which consist of normal recurring accruals and the nonrecurring \$40 million pretax lease charge related to the resolution of Olympia & York's bankruptcy in the fourth quarter of 1996) 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.

<TABLE>
<CAPTION>

(Dollars in Millions, Except Per Share Amounts)

	For the Quarter Ended							
	DEC. 26, 1997	SEPT. 26, 1997	JUNE 27, 1997	MAR. 28, 1997	DEC. 27, 1996	SEPT. 27, 1996	JUNE 28, 1996	MAR. 29, 1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total Revenues	\$8,123	\$8,146	\$8,011	\$7,451	\$6,601	\$6,201	\$6,190	\$6,019
Interest Expense	4,255	4,153	4,044	3,610	3,219	3,108	2,810	2,758
Net Revenues	3,868	3,993	3,967	3,841	3,382	3,093	3,380	3,261
Non-Interest Expenses	3,139	3,222	3,183	3,075	2,707	2,571	2,682	2,590
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	729	771	784	766	675	522	698	671
Income Tax Expense	250	266	290	291	230	191	265	261
Dividends on Preferred Securities Issued by Subsidiaries	13	12	13	9	-	-	-	-
Net Earnings	\$ 466	\$ 493	\$ 481	\$ 466	\$ 445	\$ 331	\$ 433	\$ 410
Earnings Per Common Share/(1)/ Basic	\$ 1.37	\$ 1.46	\$ 1.43	\$ 1.37	\$ 1.32	\$ 0.95	\$ 1.24	\$ 1.15
Diluted	\$ 1.17	\$ 1.25	\$ 1.25	\$ 1.17	\$ 1.14	\$ 0.84	\$ 1.10	\$ 1.01

</TABLE>
(1) Restated for the two-for-one common stock split.

DIVIDENDS PER COMMON SHARE

<TABLE>
<CAPTION>

(Declared and paid)

	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
<S>	<C>	<C>	<C>	<C>
1997	\$.15	\$.20	\$.20	\$.20
1996	.13	.15	.15	.15

</TABLE>

Dividends per common share amounts give effect to the two-for-one common stock split. With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on Merrill Lynch's present ability to pay dividends on common stock, other than (a) Merrill Lynch's obligation first to make dividend payments on its preferred stock, and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Note 11 to the Consolidated Financial Statements).

STOCKHOLDER INFORMATION

Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below. Prices have been restated for the two-for-one common stock split.

<TABLE>
<CAPTION>

(Based on calendar period-end)

	1ST QTR.		2ND QTR.		3RD QTR.		4TH QTR.	
	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1997	\$52	\$39 1/4	\$63 7/8	\$42 1/16	\$75 1/8	\$59 1/16	\$78 3/16	\$61 1/4
1996	31 1/4	24 11/16	34 1/16	28 1/8	33 3/8	27 1/8	42 9/16	32 9/16

</TABLE>

The approximate number of record holders of common stock as of February 6, 1998 was 17,600.

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CONDENSED STATEMENTS OF EARNINGS (PARENT COMPANY ONLY)
(Dollars in Millions)

[LOGO OF MERRILL LYNCH APPEARS HERE]

<TABLE>
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
REVENUES			
Interest (principally from affiliates)	\$3,937	\$2,507	\$2,002
Management service fees (from affiliates)	296	258	282
Other	4	33	80
	-----	-----	-----
TOTAL REVENUES	4,237	2,798	2,364
Interest Expense	4,077	2,598	2,061
	-----	-----	-----
NET REVENUES	160	200	303
	-----	-----	-----
NON-INTEREST EXPENSES			
Compensation and benefits	281	285	198
Other	307	288	206
	-----	-----	-----
TOTAL NON-INTEREST EXPENSES	588	573	404
	-----	-----	-----
EQUITY IN EARNINGS OF AFFILIATES	2,193	1,849	1,208
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES	1,765	1,476	1,107
Income Tax Benefit	141	143	7
NET EARNINGS	\$1,906	\$1,619	\$1,114
	=====	=====	=====
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	\$1,867	\$1,572	\$1,066
	=====	=====	=====

</TABLE>

See Notes to Condensed Financial Statements

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CONDENSED BALANCE SHEETS (PARENT COMPANY ONLY)
(Dollars in Millions, Except Per Share Amount)
[LOGO OF MERRILL LYNCH APPEARS HERE]

<TABLE>
<CAPTION>

	December 26, December 27,	
	1997	1996
<S>	<C>	<C>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 187	\$ -

LOANS TO, RECEIVABLES FROM, AND PREFERENCE SECURITIES OF AFFILIATES	79,201	55,435
INVESTMENTS IN AFFILIATES	7,963	6,749
PROPERTY, LEASEHOLD IMPROVEMENTS, AND EQUIPMENT (net of accumulated depreciation and amortization of \$267 in 1997 and \$237 in 1996)	155	135
OTHER RECEIVABLES AND ASSETS	1,973	1,444
	-----	-----
TOTAL ASSETS	\$89,479	\$63,763
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS	\$30,607	\$24,837
LOANS FROM AND PAYABLES TO AFFILIATES	3,063	1,543
OTHER LIABILITIES AND ACCRUED INTEREST	4,492	3,960
LONG-TERM BORROWINGS	42,988	26,531
	-----	-----
TOTAL LIABILITIES	81,150	56,871
	-----	-----
STOCKHOLDERS' EQUITY		
PREFERRED STOCKHOLDERS' EQUITY	425	619
	-----	-----
COMMON STOCKHOLDERS' EQUITY		
Common stock (par value \$1.33 1/3 per share; authorized: 500,000,000 shares; issued: 472,660,324 shares)	630	630
Paid-in capital	1,065	989
Accumulated other comprehensive income (net of tax)	(34)	19
Retained earnings	9,485	7,868
	-----	-----
	11,146	9,506
Less: Treasury stock, at cost:		
1997 - 137,578,035 shares; 1996 - 141,411,196 shares	2,804	2,895
Unallocated ESOP reversion shares, at cost:		
1996 - 3,077,556 shares	-	24
Employee stock transactions	438	314
	-----	-----
TOTAL COMMON STOCKHOLDERS' EQUITY	7,904	6,273
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	8,329	6,892
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$89,479	\$63,763
	=====	=====

</TABLE>

See Notes to Condensed Financial Statements

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CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)
MERRILL LYNCH & CO., INC.
(Dollars in Millions)

[LOGO OF MERRILL LYNCH APPEARS HERE]

<TABLE>

<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 1,906	\$ 1,619	\$ 1,114
Noncash items included in earnings:			
Equity in earnings of affiliates	(2,193)	(1,849)	(1,208)
Depreciation and amortization	30	31	31
Other	103	50	(35)
(Increase) decrease in operating			

assets, net of liabilities	(333)	782	530
Dividends from affiliates and partnerships distributions	1,126	1,367	1,455
	-----	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	639	2,000	1,887
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for:			
Loans to affiliates, net of payments	(22,028)	(17,171)	(5,608)
Investments in affiliates	(64)	(132)	(363)
Property, leasehold improvements, and equipment	(54)	(18)	(12)
	-----	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(22,146)	(17,321)	(5,983)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings, net	5,770	7,499	2,592
Issuance and resale of long-term borrowings	23,592	15,019	9,458
Settlement and repurchase of long-term borrowings	(6,665)	(6,070)	(6,883)
Repurchase of Remarketed Preferred Stock	(194)	-	-
Common stock transactions	(520)	(921)	(894)
Dividends to shareholders	(289)	(243)	(228)
	-----	-----	-----
CASH PROVIDED BY FINANCING ACTIVITIES	21,694	15,284	4,045
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	187	(37)	(51)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	37	88
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 187	\$ -	\$ 37
	=====	=====	=====

SUPPLEMENTAL DISCLOSURE

Cash paid for:			
Income taxes	\$ 555	\$ 949	\$ 487
Interest	3,904	2,517	2,086

</TABLE>

See Notes to Condensed Financial Statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)
[LOGO OF MERRILL LYNCH APPEARS HERE]

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 ("Merrill Lynch") and the Notes thereto. Certain limited reclassification and format changes have been made to prior year amounts to conform to the current year presentation.

Investments in affiliates are accounted for on the equity method.

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

- . Long-term borrowings (Note 5)
- . Stockholders' equity (Note 6)
- . Employee incentive plans (Note 9)

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 4 to the Consolidated Financial Statements, respectively, for additional information.

NOTE 2. GUARANTEES

ML & Co. issues guarantees of counterparty obligations in connection with certain activities of subsidiaries. See Note 7 to the Consolidated Financial Statements for further information.

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

ML & Co. has also guaranteed subsidiaries' obligations related to Trust Originated Preferred Securities (Service Mark) (see Note 6 to the Consolidated Financial Statements).

INDEPENDENT AUDITORS' REPORT

[LOGO OF DELOITTE & TOUCHE LLP APPEARS HERE]

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 26, 1997 and December 27, 1996 and for each of the three years in the period ended December 26, 1997 and have issued our report thereon dated February 23, 1998. Our audits also included the accompanying condensed parent company balance sheets and statements of earnings and cash flows. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such condensed financial statements, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

New York, New York
February 23, 1998

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BUSINESS OF MERRILL LYNCH

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 services on a global basis. Such services include:

- . securities brokerage, trading, and underwriting
- . investment banking, strategic services, and other corporate finance advisory activities, including loan syndication
- . asset management and other investment advisory and recordkeeping services
- . trading and brokerage of swaps, options, forwards, futures, and other derivatives
- . securities clearance services
- . banking, trust, and lending services, including mortgage lending and related services
- . insurance sales and underwriting services.

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

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 U.S. principal business and operational centers are in New Jersey, Colorado, Florida, and California. From its business facilities in London, Hong Kong, Frankfurt, Paris, Singapore, Tokyo, Sydney, Dublin, and more than 50 other locations, Merrill Lynch serves its international client base and conducts its non-U.S. business. Furthermore, it has numerous retail sales and other offices throughout the world. At the end of 1997, Merrill Lynch employed 56,600 people.

In the fourth quarter of 1997, Merrill Lynch acquired Mercury Asset Management Group Holdings PLC, a global asset management firm based in the United Kingdom ("Mercury"). The Mercury acquisition further enhances Merrill Lynch's position as one of the largest asset management groups in the world. Additional information concerning the Mercury acquisition is set forth in Management's Discussion and Analysis--Acquisitions in this Annual Report.

At the end of 1997 and with the acquisition of Mercury, total assets in client accounts or under management were \$1.2 trillion. In 1997, according to Securities Data Co., Merrill Lynch achieved the top ranking in U.S. debt underwriting, equity underwriting, and completed mergers and acquisitions. Globally,

Merrill Lynch was the leading debt and equity underwriter and ranked third in mergers and acquisitions for both announced and completed transactions.

Merrill Lynch considers its business to be one business segment, the financial services business. Merrill Lynch provides financial services worldwide through a number of highly integrated subsidiaries and affiliates which frequently participate together in the facilitation and consummation of a single transaction. It manages and operates its worldwide business along four key strategic priorities:

- . Corporate and Institutional Client
- . U.S. Private Client
- . International Private Client
- . Asset Management.

This organizational structure is designed to enhance services to Merrill Lynch's diverse global client base and position it for worldwide growth. In addition, it focuses its regional management outside the United States along five international regions:

- . Europe, Middle East, and Africa
- . Asia and Pacific
- . Australia and New Zealand
- . Japan
- . Latin America and Canada.

Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December of 1997, 1996, and 1995, including

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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.

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BUSINESS OF MERRILL LYNCH

[LOGO OF MERRILL LYNCH APPEARS HERE]

the amount of total revenue contributed by classes of similar products or 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 broken down by geographic area is set forth in Merrill Lynch's Consolidated Financial Statements and the Notes thereto on pages 31 to 67 in this Annual Report.

----- BUSINESS ENVIRONMENT -----

The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry is directly affected by general economic conditions, trends in business and finance, government regulation, and investor sentiment, as well as by changes in market variables such as interest rates, currency rates, volatility in equity and commodity prices, and interest and credit spreads both in the United States and throughout the world. Merrill Lynch's revenues are particularly sensitive to these factors as well as to the volume of securities transactions and securities price levels. In addition, its business is subject to currency rate fluctuations, regulation by the U.S. government and by non-U.S. governments, and other factors inherent in worldwide operations. Furthermore, its business activities are subject to varying degrees of risk and profitability depending upon the nature of the activity and the extent to which it has placed its capital at risk in the conduct of a variety of transactions, including dealer transactions, investment banking, derivative transactions, syndicated and bridge loan financing, and other related transactions.

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 expressed in these statements. These factors include, but are not limited to, the factors listed in the previous paragraph hereof, actions and initiatives taken by both current and potential competitors, the impact 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 this Annual Report. MERRILL LYNCH UNDERTAKES NO RESPONSIBILITY TO UPDATE PUBLICLY OR REVISE ANY FORWARD-LOOKING STATEMENTS.

----- DESCRIPTION OF BUSINESS ACTIVITIES -----

The business activities of certain significant domestic and international Mer-

rill Lynch subsidiaries comprising its Corporate and Institutional Client, U.S. Private Client, International Private Client, and Asset Management groups are described below.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), which traces its origin to a brokerage business founded in 1820, is one of the largest securities firms in the world. It conducts business activities within all four business priorities and is:

- . a leading broker in securities, options contracts, and commodity and financial futures contracts
- . a leading dealer in options and in corporate and municipal securities
- . a leading investment banking firm that provides advice to, and raises capital for, corporations and other institutional clients, sovereigns, and municipalities
- . an underwriter of selected insurance products
- . a distributor of MLAM investment products.

Merrill Lynch Canada Inc. ("Merrill Lynch Canada"), a subsidiary of MLPF&S, provides certain of these financial services in Canada.

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BUSINESS OF MERRILL LYNCH

Brokerage Transactions

A significant portion of MLPF&S's revenues is generated by the commissions that it earns as a broker (i.e., agent) for investors in the purchase and sale of corporate securities, primarily common and preferred stocks and bonds traded on securities exchanges or in the over-the-counter markets. MLPF&S also acts as a broker for investors in the purchase and sale of mutual funds, money market instruments, government securities, corporate and high-yield bonds, municipal securities, futures, and options, including option contracts for the purchase and sale of various types of securities. MLPF&S provides such services to individual and institutional investors.

MLPF&S has established commission rates or fixed charges for all brokerage services that it performs. For accounts that are actively traded, however, MLPF&S's policy is to negotiate commissions based on economies of size and the complexity of the particular trading transaction and, additionally, for its institutional customers, based on the competitive environment and trading opportunities. MLPF&S customers participating in the Blueprint(SM) program can purchase certain equity securities, mutual funds, and precious metals at a lower cost due to order processing efficiencies.

At December 26, 1997, there were more than 9.0 million retail and institutional customer accounts worldwide at MLPF&S, compared to 8.1 million accounts at year-end 1996. These customer accounts were served by MLPF&S in the United States and other Merrill Lynch affiliates outside the United States through approximately 15,300 retail financial consultants and institutional account executives, including trainees, located in approximately 800 offices worldwide.

Futures Business Activities

As part of its brokerage activities, MLPF&S, as a futures commission merchant, introduces customers to its affiliate Merrill Lynch Futures Inc. ("MLF") for the purchase and sale of futures contracts and options on such futures contracts in substantially all exchange-traded commodity and financial futures products. MLPF&S and certain of its affiliates may also take proprietary market positions in futures and futures options in certain instances. 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.

All futures and futures options transactions are cleared through and/or carried by MLF and other Merrill Lynch subsidiaries engaged in futures clearing activities. On certain exchanges, third party brokers are utilized to execute and/or clear trades. Where MLF or other Merrill Lynch subsidiaries maintain memberships in the clearing associations of various futures exchanges, these entities have potentially significant financial exposure in the event that other members of futures clearing houses default materially in their obligations to such clearing houses. In addition, as with any margin transaction, the risk of loss to MLF and its customers from the trading of futures contracts is greater than the risk in cash securities transactions, primarily as a result of the low initial margin requirements (good faith deposits) relative to the value of the actual futures contracts. MLF may have financial exposure if a customer fails to meet a margin call. Net worth requirements, financial reviews, margin procedures, and other credit standards established for MLF customer futures accounts are intended to limit any exposure to MLF resulting from its trading in futures accounts. For information concerning Merrill Lynch's credit management policies, see Management's Discussion and Analysis--Risk Management-Credit Risk.

Securities Dealer Activities

MLPF&S regularly makes a market in the equity securities of approximately 550

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the over-the-counter markets. Its market-making activities are conducted with customers and other dealers. In addition, as a block positioner, MLPF&S regularly acts as a market-maker in certain listed securities. MLPF&S is also a dealer in municipal, mortgage-backed, asset-backed, and corporate fixed-income securities. MLPF&S engages in certain commodity-related transactions as a principal, such as purchase and repurchase transactions and precious metals consignments.

As an adjunct to its trading activities, MLPF&S 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, MLPF&S purchases securities, or sells securities 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, MLPF&S 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.

Other Merrill Lynch subsidiaries also act as dealers in certain specified securities, including governmental obligations; engage in interest rate and foreign currency swaps and other derivative product transactions with third parties on a principal or an intermediary basis; and act as foreign exchange dealers. For additional information on Merrill Lynch's dealer activities, see Merrill Lynch Government Securities Inc., Merrill Lynch's Derivative Products and Services, and Merrill Lynch's Banking, Trust, and Mortgage Lending and Related Activities below.

Investment Banking

MLPF&S is a leading 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. MLPF&S also provides a broad range of corporate advisory and financial services for its clients. Advisory services include advice on strategic matters, including mergers and acquisitions, divestitures, spin-offs, restructurings, leveraged buyouts, and defensive projects. MLPF&S provides a wide variety of financial services, including underwriting the sale of securities to the public, private placement of securities with investors, advising as to structured and derivative financings, including project financing, mortgage and lease financing, and advising as to capital structure and specific financing opportunities.

MLPF&S, either directly or through affiliates, provides advice, valuation services, and financing assistance and engages in the underwriting and private placement of high-yield securities in connection with, among other things, leveraged buyouts and other acquisition-related transactions. MLPF&S and its affiliates have, from time to time, taken principal positions in transactions. It extends credit to clients in the form of senior and subordinated debt, as well as bridge financing on a select basis, and it syndicates loans. Substantial funds may be provided to clients on a temporary basis until permanent financing is obtained. Before MLPF&S and its affiliates engage 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. Additionally, MLPF&S and its affiliates occasionally acquire equity interests in the subject companies as part of or in connection with such activities. For additional information on these investment banking and lending activities, see Management's Discussion and Analysis--Non-Investment Grade Holdings and Highly Leveraged Transactions.

Merrill Lynch, through various subsidiaries and affiliates, including Merrill Lynch Capital Partners, Inc.

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("MLCP"), has made investments in equity and debt securities issued in acquisition transactions, including leveraged buyouts, for which MLPF&S has acted as financial advisor or underwriter. MLCP provides management services for two leveraged buyout funds which have been funded primarily by private investors. Merrill Lynch, through MLPF&S and its other subsidiaries, may underwrite, trade, invest, and make markets in certain securities of companies in which

these funds have invested. In addition, it may provide financial advisory services to these companies.

Using ML & Co.'s capital, Merrill Lynch Capital Corporation provides senior and subordinated financing as principal to companies satisfying specific credit and other criteria.

Margin Lending

MLPF&S also 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 customer'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 customer fails to meet a margin call, any margin loan made by MLPF&S is collateralized by securities in the customer'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 customers' free credit balances to the extent permitted by regulations, and funds derived from securities loaned. For additional information concerning Merrill Lynch's credit risk management policies, see Management's Discussion and Analysis--Risk Management-Credit Risk.

Research Activities and Distribution

The Global Securities Research & Economics Group provides equity, fixed-income, and economic research services on a global basis to Merrill Lynch's institutional and private client sales forces and their customers. This group covers and distributes fundamental equity and fixed-income research, technical market and quantitative analyses, convertible securities analyses, investment and fixed-income strategy recommendations, high-yield debt securities research, credit research on municipal securities, and futures research information.

Merrill Lynch consistently ranks among the leading research providers in the industry. More than 3,900 companies located in 55 countries are covered by the group's analysts and other professionals, with more than half of the staff now dedicated to non-U.S. research activities. Information on industry sectors and countries is also gathered, analyzed, and distributed. Current information and investment opinions on these companies, industry sectors, and countries are available to all of Merrill Lynch's retail and institutional customers through their financial consultants and account executives by means of a computer-based retrieval system available in each Merrill Lynch branch or affiliate office.

Sales of Investment Products, Advisory Products and Services, and Other Activities

In 1997, MLPF&S sold more than \$48.2 billion of mutual funds, including income, balanced, and growth funds, of which approximately \$22.0 billion represented sales of mutual funds advised by Merrill Lynch Asset Management.

MLPF&S sponsors the Defined Asset Funds(SM) product. This product consists of a series of funds that are unit investment trusts registered under the Investment Company Act of 1940 and that have invested in U.S. and non-U.S. equity securities, municipal, corporate, and U.S. Government and non-U.S. debt obligations. At the end of 1997, approximately \$19.1 billion of client funds were invested in Defined Asset Funds.

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MLPF&S also provides a wide range of client services, including effecting trades in equity, fixed-income and other securities through its securities account services, such as its Cash Management Account(R) financial services program (the "CMA(R) account"). Participating CMA customers may access their assets through checking account services provided by Bank One, Columbus, N.A. and through VISA(R) cards issued by Merrill Lynch National Financial and Merrill Lynch Bank & Trust Co. Customers may also obtain, through monthly account statements and a toll free information service, securities position and account balance information and, for any margin accounts opened, the loan value of margin securities. At the end of 1997, there were more than 1.7 million CMA accounts held by Merrill Lynch's U.S. customers with aggregate assets of approximately \$455 billion and there were approximately 47,000 CMA accounts held by Merrill Lynch's clients outside the United States with aggregate assets of more than \$25 billion.

MLPF&S also offers the Capital Builder(SM) Account service ("CBA(R) account"), which was developed to meet the needs of the new investor. At the end of 1997, MLPF&S had more than 392,000 CBA accounts with assets of approximately \$21 billion.

MLPF&S offers various other services, through products such as the Merrill Lynch Consults(R) service, the Asset Power(R) service, the Merrill Lynch Mutual Fund Advisor(SM) program, the Merrill Lynch Mutual Fund Advisor Selects(SM) program, the Financial Foundation(R) service, and the Merrill Lynch Financial

Advantage(SM) service. Certain features of these products are described below.

Merrill Lynch Consults is available for an annual fee to a retail or institutional client with at least \$100,000 to invest. With this service, MLPF&S assists clients in identifying their investment objectives so that they can select appropriate third party investment managers for their investment. MLPF&S also provides periodic performance reports on the investment account. More than 25 of the investment managers participating in the Merrill Lynch Consults service manage portfolios in one or more of seven risk categories using varying proportions of equity and fixed-income instruments. At the end of 1997, approximately \$27 billion was held in approximately 100,000 client accounts subscribing to the Merrill Lynch Consults service.

The Asset Power service offers Merrill Lynch clients the option of paying an asset-based fee instead of paying commissions, loads, or similar charges. At the end of 1997, there were more than 27,000 Asset Power accounts with assets of approximately \$7.9 billion. The Merrill Lynch Financial Advantage service offers a diversified portfolio of financial services for an asset-based fee. At the end of 1997, there were more than 9,900 client relationships with assets of more than \$2.9 billion using the Merrill Lynch Financial Advantage service.

The Merrill Lynch Mutual Fund Advisor program is a discretionary investment advisory service investing in a portfolio of mutual funds selected from the Merrill Lynch Asset Management family of funds and many other top fund families. MLPF&S retains day-to-day management of each client's portfolio, customizing the asset allocation strategy where appropriate. At the end of 1997, there were more than 115,000 Merrill Lynch Mutual Fund Advisor accounts with assets of more than \$6.3 billion. In 1997, Merrill Lynch launched the Merrill Lynch Mutual Fund Advisor Selects program which offers clients non-discretionary advisory services. Clients participating in this program are given customized investment recommendations and access to almost 2,000 mutual funds.

Through the Financial Foundation program, MLPF&S offers a planning tool that analyzes an individual client's assets, liabilities, and expectations to examine financial goals and to develop plans to address them. Merrill Lynch's financial consultants have provided over 500,000 Financial Foundation plans to customers.

Group Employee Services and Retirement, Investment and Custody Services

Through its Group Employee Services division, MLPF&S is one of the largest bundled service providers of 401(k) plans in the United States. MLPF&S provides a wide variety of retirement plan products, particularly

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administration and investment, employee education, and communication services to 401(k) and other benefit plans. At the end of 1997, it provided these services to approximately 15,000 plans, representing \$74 billion in plan assets. Its services to the 401(k) market were enhanced by Merrill Lynch's 1997 acquisition of the MasterWorks division of Barclay's Global Investors which provided recordkeeping, administration, and investment services to 401(k) plans for approximately 160 companies.

MLPF&S also 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 pursuant to Section 408 of the Internal Revenue Code and related Treasury Department regulations. At the end of 1997, there were approximately 2,158,000 accounts representing approximately \$137 billion in customer assets.

MLPF&S is also actively marketing the new Roth and Education IRAs, created by the Taxpayer Relief Act of 1997 (the "Act"). At the end of 1997, MLPF&S received more than 17,000 applications for the Roth IRA. Contributions to the new IRAs were not permitted to be made until January 1998, the effective date for these provisions of the Act.

Securities Clearing Services

MLPF&S provides securities clearing services through its subsidiaries, Broadcast Capital Corp. ("BCC") and Merrill Lynch Professional Clearing Corp. ("MLPCC"). BCC provides these services to approximately 107 unaffiliated broker-dealers. Those utilizing BCC's clearing services may also execute transactions through BCC's fixed-income desk and participate in underwritings of Defined Asset Funds sponsored by MLPF&S. While the introducing broker-dealer firm retains all sales functions with their 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; clears commodities futures transactions for clients through a divisional clearing arrangement with MLF; and clears transactions of arbitrageurs, customers, and other professional trading entities.

MERRILL LYNCH INTERNATIONAL INCORPORATED

Through its subsidiaries and affiliated companies, Merrill Lynch International Incorporated ("MLII") provides comprehensive investment, financing, and related services on a global basis outside the United States and Canada to

individual investors and to sovereign governments, corporations, and other institutional clients.

MLII and its subsidiaries and affiliated companies are members of various non-U.S. stock and futures exchanges and engage in over-the-counter and exchange-listed trading of commodities, including precious and base metals. The investment, financing, and market-making operations of MLII and its affiliates are conducted through a network of offices, including representative and liaison offices, located in more than 40 countries outside the United States and Canada. This office network services major "money center" institutions as well as thousands of smaller regional institutions and individual investors.

The worldwide trading operations of MLII's subsidiaries, particularly in London and Tokyo, make it one of the largest dealers and secondary market-makers in Eurobonds and other internationally traded securities and futures and a significant participant in the over-the-counter equity derivatives business. Merrill Lynch International ("MLI"), a subsidiary of MLII, is Merrill Lynch's primary equity derivatives dealer. Through its subsidiaries and affiliates, MLII also engages in foreign exchange transactions (including options on non-U.S. currencies) as a dealer and consequently assumes principal positions in numerous currencies and related options. Information on the derivatives business and the international banking and foreign exchange activi-

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ties of MLII and certain of its subsidiaries is set forth below under the captions Merrill Lynch's Derivative Products and Services and Merrill Lynch's Banking, Trust, and Mortgage Lending and Related Activities. For additional information on Merrill Lynch's other dealer activities, see Merrill Lynch Government Securities Inc., Merrill Lynch's Derivative Products and Services, and Merrill Lynch's Banking, Trust, and Mortgage Lending and Related Activities below.

In addition to the Mercury acquisition which expanded Merrill Lynch's presence in jurisdictions where Mercury conducts its asset management business, in 1997, Merrill Lynch strengthened its presence in several major global financial markets through strategic acquisitions and initiatives. In Australia, it increased the depth of its presence with its recruitment of members of the Centaurus Corporate Finance Group, a leading corporate advisory firm. With the Centaurus staff additions, it has increased its mergers and acquisitions advisory capabilities in this area of the world. Merrill Lynch also consolidated its position in South Africa with the acquisition of that interest in Smith Borkum Hare, a leading brokerage firm, that it did not already own. In addition, Merrill Lynch opened its new office in the Philippines.

During 1997, Merrill Lynch expanded its International Private Client group operations in a number of regions of the world. In addition, in the first quarter of 1998, Merrill Lynch announced plans to open a business serving individual investors in Japan through a network of approximately 30 branch offices throughout the country.

MERRILL LYNCH'S ASSET MANAGEMENT ACTIVITIES

Merrill Lynch's asset management activities are conducted through its asset management groups--Merrill Lynch Asset Management ("MLAM") and Merrill Lynch Mercury Asset Management ("Merrill Lynch Mercury"), which consists of the newly acquired Mercury group and the Merrill Lynch Capital Management Group ("CMG"). MLAM and Merrill Lynch Mercury together constitute the investment management arm of Merrill Lynch and form one of the largest asset management organizations in the world.

The Mercury acquisition strengthens Merrill Lynch's position in the institutional and international asset management sectors and increases the number of non-dollar funds offered to clients. At the end of 1997, total assets under management at MLAM and Merrill Lynch Mercury were \$446 billion (including \$167 billion from the Mercury acquisition), as compared with \$234 billion at year-end 1996.

MLAM

At the end of 1997, through portfolio managers located in the United States, Japan, Hong Kong, and throughout Europe, MLAM managed 240 portfolios representing a wide variety of investment products ranging from money market funds to long-term taxable and tax-exempt fixed-income funds, along a broad spectrum of quality ratings and maturities.

MLAM offers a wide variety of equity funds which in the aggregate invest in more than 50 markets globally. MLAM open-end funds (except for its money-market funds) are generally offered pursuant to the Merrill Lynch Select Pricing (SM) system which allows investors four pricing alternatives. In 1997, sales of equity and bond funds managed by MLAM, which are only available through Merrill Lynch's distribution network, approximated \$22.0 billion. MLAM's other major business activity is separate account management. Separate account assets under management were \$51.8 billion at the end of 1997 as compared to approximately \$41.5 billion in 1996.

In the fourth quarter of 1997, MLAM and MLPF&S raised over \$1.2 billion for the ML Global Growth Fund, a U.S. fund marketed in the United States. In

December 1997, MLAM and Merrill Lynch's Japanese subsidiary raised approximately \$1.0 billion for the Income Strategies Portfolio, an offshore dollar-based Luxembourg fund launched in Japan. This fund is available to both retail and institutional investors outside the United States.

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Merrill Lynch Mercury

Merrill Lynch Mercury is engaged primarily in institutional asset management as well as non-dollar asset management activities outside the United States. Headquartered in London, it has a strong institutional client base, including defined contribution pension plans. It has approximately 200 fund managers located in 19 offices worldwide from which a broad range of products are offered. In the United Kingdom, products of this group will continue to be marketed and sold under the name Mercury Asset Management.

CMG provides portfolio management services to large institutional clients in the United States. CMG's penetration of the U.S. institutional investment management market in the United States expanded in 1996 with the acquisition of Hotchkis and Wiley, the Los Angeles-based institutional asset manager. Hotchkis and Wiley, a discrete unit of CMG, offers a broad range of services to the institutional market, including both U.S. and non-U.S. value-oriented equities, and manage a family of mutual funds available to the investing public.

MERRILL LYNCH GOVERNMENT SECURITIES INC.

Merrill Lynch Government Securities Inc. ("MLGSI") is a primary dealer in obligations issued or guaranteed by the United States Government and by Federal agencies or other government-sponsored entities, including Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"). It is one of 37 primary government securities dealers that daily report positions and activities to the Federal Reserve Bank of New York. It is a dealer in GNMA, FNMA, and FHLMC mortgage-backed-pass-through certificates and deals in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers' transactions.

MLGSI's transactions in obligations of the United States Government, Federal agencies and government-sponsored entities involve large dollar amounts and small dealer spreads. As an integral part of its business, MLGSI enters into repurchase agreements whereby it obtains funds by pledging its own securities as collateral. The repurchase agreements provide financing for MLGSI's dealer inventory and serve as short-term investments for MLGSI's customers, which include certain of MLGSI's affiliates. MLGSI also enters into reverse repurchase agreements whereby it provides funds against the pledge of collateral by customers. Such agreements provide MLGSI with needed collateral and provide MLGSI's customers with temporary liquidity for their investments in United States Government and agency securities.

MERRILL LYNCH'S DERIVATIVE PRODUCTS AND SERVICES

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

MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate, currency, and commodity swaps, caps and floors, currency options, and credit derivatives. MLCS maintains positions in interest-bearing securities, financial futures, and forward contracts primarily to hedge its exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies.

MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address the desire of certain swap customers

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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.

For additional information regarding Merrill Lynch's derivatives business, including its accounting, risk, and credit policies, see Management's Discussion and Analysis-Risk Management and Notes 1 and 3 to the Consolidated Financial Statements in this Annual Report.

MERRILL LYNCH MONEY MARKETS INC.

Merrill Lynch, through 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. MLMMI also originates medium-term notes issued by U.S. and non-U.S. corporations and short- and medium-term bank notes issued by financial institutions, and through MLPF&S, 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 retail customers of MLPF&S.

MERRILL LYNCH MORTGAGE CAPITAL INC.

Merrill Lynch Mortgage Capital Inc. ("MLMCI") is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing, and corporate bank loans. MLMCI, through its CMO Passport(SM) service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations 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 customers with temporary liquidity for their investments in secured whole loans. MLMCI also has a mortgage conduit which purchases commercial and multi-family mortgage loans from lenders and securitizes these loans for sale to investors. 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 domestic and non-domestic companies owning performing and non-performing real estate and mortgages.

MERRILL LYNCH INVESTMENT PARTNERS INC.

Merrill Lynch Investment Partners Inc. ("MLIP") serves principally as the general partner and commodity pool operator of public and privately offered commodity pools for which MLF acts as commodity broker and MLPF&S acts as selling agent. MLIP also structures and sponsors managed futures and hedge fund products to meet a variety of client objectives. MLIP is one of the largest managed futures sponsors in the world as measured by assets under its management and by its financial resources. MLIP is an integrated business, the capabilities of which include research, trading services, finance, systems, operations, administration, sales, and marketing. MLIP's responsibilities include selecting and

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monitoring trading advisors, as well as allocating and reallocating capital among them. At the end of 1997, approximately \$3.0 billion in equity was invested or was to be invested in 46 U.S. and non-U.S. commodity futures hedge fund products that MLIP has sponsored or been selected to manage.

MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC.

Merrill Lynch Business Financial Services Inc. ("MLBFS") provides financing services to small- and medium-sized businesses in conjunction with the Working Capital Management(SM) account ("WCMA(R) account"), which MLPF&S markets to business customers. The WCMA account combines business checking, borrowing, investment, and electronic funds transfer services into one account for participating business customers. At the end of 1997, there were more than 141,000 WCMA accounts which, in the aggregate, had investment assets of more than \$81 billion. MLBFS also provides business advisory services, including strategic services to middle market companies.

In addition to providing qualifying customers with short-term working capital financing through the WCMA commercial line of credit, MLBFS offers assistance to business customers with their term lending, equipment, and other asset-based financing needs, as well as financing for owner-occupied commercial real estate. In 1997, MLBFS originated more than \$958 million in new commercial loans for business customers and, at the end of 1997, total outstanding loans were \$1.1 billion, of which approximately 97% were secured by tangible assets pledged by customers.

MERRILL LYNCH'S INSURANCE ACTIVITIES

Merrill Lynch's operations in 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.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, the District of Columbia, Guam, and the U.S. Virgin Islands. These products are then marketed to MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 1997, MLLIC had approximately \$12.4 billion of life insurance in force. At year-end 1997, MLLIC had annuity contracts in force of approximately \$7.7 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 1997, ML Life had approximately \$1.8 billion of life insurance in force, which amount included \$900 million reinsured from yearly renewable term insurance of an unaffiliated insurer. At year-end 1997, ML Life had annuity contracts in force of approximately \$609 million in value.

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

For additional information concerning Merrill Lynch's accounting policies relating to its insurance activities, see Note 1 to the Consolidated Financial Statements under the caption Insurance.

MERRILL LYNCH'S BANKING, TRUST, AND MORTGAGE LENDING AND RELATED ACTIVITIES

Merrill Lynch Bank & Trust Co. ("MLBT") and Merrill Lynch National Financial ("MLNF"), both of which are insured by the Federal Deposit Insurance Corporation, issue certificates of deposit and money market deposit accounts (including the Insured

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Savings (SM) Account for the CMA service), make and purchase secured loans, and issue VISA (R) cards.

Merrill Lynch provides personal trust, employee benefit, trust, and custodial services in certain states through eight state-chartered trust institutions and a federally chartered savings bank which will facilitate the offering of trust services throughout the United States. This capability to enhance Merrill Lynch's trust service business through the federally chartered savings bank was acquired in 1997. Trust services outside of the United States are provided by Merrill Lynch Bank and Trust Company (Cayman) Limited ("MLBT Cayman").

Merrill Lynch International Bank Limited ("MLIB Limited"), a United Kingdom bank with branch offices in Germany, Singapore, Bahrain, Luxembourg, and Italy provides foreign exchange trading and collateralized lending and letter of credit services and accepts deposits. Merrill Lynch International Bank, an Edge Act corporation ("MLIB"), provides foreign exchange trading services to corporations and institutions. Merrill Lynch Bank (Suisse) S.A., a Swiss bank, provides loans, deposits, portfolio management services, and individual client services to international private banking clients. ML Capital Markets Bank, an Irish bank with branch offices in Frankfurt, Milan, and Tokyo, engages in capital markets activities such as underwriting, foreign exchange, and swap and other derivative transactions.

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, through Merrill Lynch financial consultants, offers a variety of adjustable-rate and fixed-rate first mortgage loans throughout the United States, including the PrimeFirst (R) mortgage program. In addition, MLCC originates and services home equity credit lines and other mortgage loans as well as services mortgage loans for affiliated and unaffiliated financial institutions. MLCC uses a variety of financing techniques to fund its loan portfolio, including securitizing its mortgages for sale into the secondary marketplace. MLCC also provides securities-based lending through its Omega (SM) account, a personal line of credit using eligible securities as collateral that is accessible by VISA (R) card and by check. Lender's Service Inc. provides real estate appraisal, title, and closing management services for the residential lending community, including for its affiliate MLCC.

COMPETITION

All aspects of Merrill Lynch's business are intensely competitive, particularly in the underwriting, trading, and advisory activities, and have been impacted by the entry of several new competitors over the last few years. Merrill Lynch competes for clients, market share, and human talent in every aspect of its business.

It competes directly on a worldwide basis with other U.S. and non-U.S. trading, investment banking, financial advisory service firms, and brokers and dealers in securities and commodities. It also competes with commercial banks and their affiliates in these businesses and particularly in its derivative and capital markets businesses. Many of Merrill Lynch's non-U.S. competitors may have competitive advantages in their home markets. Its 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 its retail and institutional customers on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product innovation. Financial services companies also compete to attract and retain successful financial consultants and other revenue-producing personnel.

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There is increased competition from sources other than those traditionally engaged in the securities business, such as commercial banks and insurance companies. Certain U.S. judicial and regulatory actions in recent years concerning, among other things, the authority of bank affiliates to engage in securities underwriting and brokerage activities have resulted in increased competition in those aspects of Merrill Lynch's business. In addition, certain U.S. bank regulatory changes adopted in 1996 and 1997 that loosen certain restrictions on the securities activities of "Section 20 broker-dealer affiliates" of commercial banks may have the effect of increasing competition from commercial banks and their affiliates in the provision of securities-related services.

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.

REGULATION

Certain aspects of Merrill Lynch's business, as that of its competitors and with the securities, commodities, and 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 have 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 (the "SEC"), Commodity Futures Trading Commission ("CFTC"), Federal Deposit Insurance Corporation (the "FDIC"), Municipal Securities Rulemaking Board ("MSRB"), and Office of Thrift Supervision ("OTS"). In other areas of the world, these regulators include The Securities and Futures Authority ("SFA"), the Bank of England, the Investment Management Regulatory Organisation ("IMRO"), the Central Bank of Ireland, the Federal Banking Supervisory Authority in Germany, the Japanese Ministry of Finance, The Monetary Authority of Singapore, and the Securities and Futures Commission in Hong Kong, among 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. governments 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"). MLPF&S, other Merrill Lynch subsidiaries engaged in securities clearing services, and Merrill Lynch Specialists Inc., which acts as a specialist on certain securities exchanges, are also subject to regulation by the NASD and by the securities exchanges of which each is a member. Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S, MLAM, and MLIP, are registered as investment advisers with the SEC. MLPF&S and MLAM are registered as investment advisers in those states requiring such registration.

Those Merrill Lynch entities that are broker-dealers registered with the SEC and members of U.S. national securities exchanges are subject to Net Capital

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

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the ability of Merrill Lynch to make withdrawals of capital from such broker-dealers. Additional information regarding net capital requirements is set forth in Note 11 to the Consolidated Financial Statements in this Annual Report.

Certain Merrill Lynch subsidiaries are also subject to the temporary 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. With the enactment of the Insider Trading and Securities Fraud Enforcement Act of 1988, the SEC and the national securities exchanges have intensified their regulation of broker-dealers, emphasizing in particular the need for supervision and control by broker-dealers of their employees.

Furthermore, the SEC, various banking regulators, the Financial Accounting Standards Board, and Congressional committees, among others, have launched a number of initiatives which have the effect of increasing regulation, and requiring greater disclosure, of financial instruments, including derivatives positions and activities. Merrill Lynch, along with certain other major U.S. securities firms, have 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 Control 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. For further information on the activities of this committee, see Management's Discussion and Analysis-- Risk Management.

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. Merrill Lynch's futures commission merchants are 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.

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. Certain of the activities of MLBFS and MLCC are regulated by the New Jersey Department of Banking. In addition to New Jersey, MLCC is also licensed to conduct its lending activities in over 35 other states and MLBFS is licensed in five states, subjecting each to regulation and examination by the appropriate authorities in those states.

MLNF is regulated primarily by the State of Utah and by the FDIC. MLIB is regulated by the Federal

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BUSINESS OF MERRILL LYNCH

Reserve Bank of New York. 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 regulatory agencies in the states where the state-chartered institutions are incorporated.

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, including MLPF&S and MLI, are regulated as broker-dealers under the laws of the jurisdictions in which they operate.

MLI, a registered broker-dealer in the United Kingdom, is regulated by the SFA and is subject to the capital requirements established by the SFA. ML Capital Markets Bank, which engages in the derivatives business, is regulated by the Central Bank of Ireland. Merrill Lynch's activities in Australia are regulated by the Australian Securities Commission 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 Japanese Ministry of Finance as well as other Japanese regulatory agencies.

Merrill Lynch Canada is an investment dealer in Canada and is regulated under the laws of the Canadian provinces by securities authorities 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 MLAM and Merrill Lynch Mercury is regulated by a number of non-U.S. regulatory agencies or bodies. IMRO and the Personal Investment Authority regulate investment management activities in the United Kingdom. Their activities in other jurisdictions are regulated by local regulators.

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 New York State Banking Department, MLIB Limited is regulated 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.

PROPERTIES

Merrill Lynch has a number of offices throughout the world. Other than those described below as being owned, substantially all offices of Merrill Lynch subsidiaries 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 of the principal facilities of Merrill Lynch.

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 at 250 Vesey Street in the North Tower consisting of 1,799,702 square feet and at 225 Liberty Street in the South Tower consisting of 1,003,381 square feet. Each tower was leased by a different Merrill Lynch affiliate in 1988. Another Merrill Lynch affiliate is a partner in

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the partnership that holds the ground lessee's interest in the North Tower. The information regarding property lease commitments of Merrill Lynch is set forth in Note 7 to the Consolidated Financial Statements under the caption Leases.

In New York City, MLPF&S also leases 139,700 square feet at 100 Church Street, 134,803 square feet at 717 Fifth Avenue, and 662,675 square feet at 570 Washington Street, under leases expiring 2000, 2000, and 2007, respectively. In 1997, a Merrill Lynch subsidiary purchased a 760,000 square foot building at 222 Broadway, which will house primarily support staff starting in 1998.

In New Jersey, separate Merrill Lynch affiliates own a 1.3 million square foot structure on a 245-acre campus in Plainsboro and a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset. MLPF&S holds a 590,174 square foot lease at 101 Hudson Street in Jersey City and a 212,680 square foot lease in Somerset. In 1997, Merrill Lynch approved a plan to build a new facility in Hopewell, New Jersey to consolidate existing operations and allow for future expansion.

Merrill Lynch affiliates own a 60-acre campus in Jacksonville, Florida, which consists of three buildings with a fourth building currently under construction, and a 70-acre campus in Englewood, Colorado with two buildings.

Principal Facilities Outside the United States

In London, an MLII subsidiary leases approximately 250,000 square feet at Ropemaker Place. The lease, which commenced in 1987, continues for 25 years with a right to cancel in 2002. Merrill Lynch is in the process of purchasing a site in the City of London to construct a new headquarters complex of approximately 550,000 square feet. These premises, which will replace the Ropemaker facility, are expected to be occupied in 2001. Approximately 170,000 square feet of office space is also leased at Farringdon Road. This lease, which has a 25 year term, commenced in 1990. Another Merrill Lynch subsidiary leases approximately 140,000 square feet under a lease expiring in 2014 on King William Street, where Merrill Lynch Mercury Asset Management's operations are headquartered.

Merrill Lynch engages in its business from other leased premises throughout the world, including Singapore, Hong Kong, Tokyo, Sydney, Frankfurt, and Paris.

LEGAL PROCEEDINGS

ML & Co., certain of its subsidiaries, including MLPF&S, and other persons have been named as parties in civil actions and arbitration proceedings, including those described below. Each of the following actions is reported as of February 25, 1998.

Orange County Litigation

The following actions have been filed against or on behalf of ML & Co. in connection with Merrill Lynch's business activities with the Treasurer-Tax Collector of Orange County, California ("Orange County") or from the purchase of debt instruments issued by Orange County that were underwritten by MLPF&S. On December 6, 1994, bankruptcy petitions were filed on behalf of Orange County and the Orange County Investment Pools (the "Pools") in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"). The Pools' bankruptcy petition subsequently was dismissed. On May 17, 1996, the Bankruptcy Court confirmed a plan pursuant to which Orange County emerged from bankruptcy. The pending actions involving Merrill Lynch and Orange County include, in the order summarized below, an action in the names of Orange County and the current Orange County Treasurer-Tax Collector; actions by investors and participants in the Pools; actions by investors in ML & Co.; and actions by holders of bonds or other debt instruments issued by or on behalf of Orange County and other public entities with funds controlled by the Orange County Treasurer-Tax Collector.

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On January 12, 1995, an action was commenced by Orange County and the Pools against ML & Co. and certain of its subsidiaries in the Bankruptcy Court pursuant to the automatic reference by law of all civil proceedings related to bankruptcy petitions (the "Orange County Action"). Orange County filed a first amended complaint on June 6, 1995, which was dismissed on October 17, 1995. Orange County filed a second amended complaint on October 25, 1995 adding John M.W. Moorlach, the current Orange County Treasurer-Tax Collector, as a plaintiff, and alleging, among other things, that Merrill Lynch's liquidation of certain securities entitles the plaintiffs to relief under Sections 362, 502, 510, 549, and 922 of the Bankruptcy Code; that various securities transactions between Orange County and/or the Pools and ML & Co. and its subsidiaries violated California law and are null and void; that ML & Co. and its subsidiaries violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 25401 of the California Corporations Code (the "California Code"), Section 17200 of the California Business and Professions Code, and Sections 1709-10 of the California Civil Code; breached fiduciary duties; aided and abetted breaches of fiduciary duty; and conspired to make unauthorized use of public funds. Damages in excess of \$2 billion, punitive damages in an unspecified amount, and injunctive and declaratory relief are sought.

On March 1, 1995, ML & Co. and Orange County entered into an agreement in order to resolve a motion by Orange County seeking a temporary restraining order, a preliminary injunction, and a constructive trust with respect to the proceeds realized by Merrill Lynch from the sale of securities purchased by Merrill Lynch from Orange County pursuant to certain master repurchase agreements. Pursuant to this agreement, the proceeds from the sale of securities purchased by Merrill Lynch from Orange County were used to purchase short-term United States Treasury Bills or United States Treasury Notes that are identifiable and held separate and subject to any rights that Merrill Lynch may have in the master repurchase agreements. This agreement may be terminated by ML & Co. upon 30 days' written notice.

On October 17, 1996, on ML&Co.'s motion, the United States District Court for the Central District of California (the "District Court") withdrew the prior automatic reference to the Bankruptcy Court of this action. The case now is pending in the District Court.

On December 13, 1994, a purported class action was commenced in the Superior Court of the State of California, Orange County, on behalf of individuals whose funds were deposited with the Orange County Treasurer-Tax Collector pursuant to proceedings in California Superior Court (the "DeLeon Action"). On December 27, 1994, plaintiffs filed a first amended class action complaint; on April 19, 1995, plaintiffs filed a second amended complaint which was dismissed on November 13, 1995; and, on December 18, 1995, plaintiffs filed a third amended complaint. As amended, the DeLeon Action is brought on behalf of the same individuals on whose behalf the action was originally brought and on behalf of individuals who invested funds in the Pools representing deferred compensation and/or retirement funds. The defendants include ML & Co., a subsidiary of ML & Co., and an employee of Merrill Lynch. Plaintiffs allege, among other things, that the defendants breached fiduciary duties; aided and abetted breaches of fiduciary duties; conspired to breach a fiduciary duty; and committed professional negligence in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Damages, including punitive damages, in unspecified amounts are sought. On May 10, 1996, the court stayed this action pending final resolution of the Orange County Action described above.

On September 15, 1995, an action was commenced in the Superior Court of the State of California, San Francisco County, by twelve California public entities (the "Atascadero State Court Action"). On January 11, 1996, the case was transferred to the Superior Court of the State of California, Contra Costa County.

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On April 10, 1996, the plaintiffs filed an amended complaint which was dismissed on November 5, 1996, and, on December 2, 1996, plaintiffs filed a second amended complaint adding two California public entities as plaintiffs. The current plaintiffs are the City of Atascadero, City of Buena Park, The Community Redevelopment Agency of the City of Buena Park, City of Claremont, City of Milpitas, City of Montebello, Community Redevelopment Agency of the City of Montebello, City of Mountain View, City of Santa Barbara, The Redevelopment Agency of the City of Santa Barbara, City of Yorba Linda, Yorba Linda Redevelopment Agency, Santiago County Water District, and Yorba Linda Water District. Named as defendants are ML & Co., certain of its subsidiaries, and three past or present employees of Merrill Lynch, two of whom were dismissed as defendants without prejudice on July 5, 1996. As amended, the complaint alleges, among other things, that the defendants committed fraud, deceit, and negligent misrepresentation; conspired to commit fraud; breached fiduciary duties; aided and abetted breaches of fiduciary duty; and violated California Penal Code Section 496 and the Racketeer Influenced and Corrupt Organizations Act ("RICO") in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Damages, including punitive damages and treble damages, in unspecified amounts are sought. On February 10, 1997, the court dismissed this action. On May 6, 1997, plaintiffs filed a notice of appeal.

On November 27, 1995, an action was commenced in the United States District Court for the Central District of California by the fourteen California public entities that are plaintiffs in the Atascadero State Court Action described above (the "Atascadero Federal Court Action"). On March 22, 1996, the plaintiffs filed a first amended complaint, which was voluntarily dismissed without prejudice on September 4, 1996. On February 19, 1997, plaintiffs filed a new complaint naming as defendants ML & Co. and certain of its subsidiaries. The complaint alleges, among other things, that the defendants committed fraud, deceit and negligent misrepresentation; conspired to commit fraud; breached fiduciary duties; aided and abetted breaches of fiduciary duty; and violated California Penal Code Section 496 and RICO in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Restitution and damages, treble damages, and punitive damages in unspecified amounts are sought. On April 17, 1997, the court granted a motion by defendants to abstain from deciding this action pending final resolution of the Atascadero State Court Action described above. On May 20, 1997, plaintiffs filed a notice of appeal.

On December 20, 1996, an action was commenced in the United States District Court for the Central District of California by Irvine Ranch Water District (the "Irvine Action"). ML & Co. is the sole defendant. The complaint alleges, among other things, that ML & Co. committed intentional and negligent misrepresentation, concealment, and breach of fiduciary duty in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Damages in excess of \$130 million and punitive damages in an unspecified amount are sought.

Beginning on December 5, 1994, five derivative actions purportedly brought on behalf of ML & Co. were filed in the Supreme Court of the State of New York, New York County (the "Wilson Action"). On February 21, 1995, the court consolidated the actions and on June 5, 1995, an amended consolidated complaint was filed naming as defendants 22 present or past directors, officers, or employees of ML & Co. and/or certain of its subsidiaries. The complaint alleges, among other things, breach of fiduciary duty, waste of corporate assets, and claims for indemnification in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Damages in an unspecified amount are sought on behalf of ML & Co. against the individuals named as defendants. Because this derivative action purports to be brought on behalf of ML & Co. and any recovery obtained by plaintiffs would belong to ML & Co., ML & Co. is named as a nomi-

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nal defendant. On August 7, 1996, the court dismissed this action. On September 11, 1996, a notice of appeal was filed.

On December 16, 1994, a purported class action was commenced in the United States District Court for the Southern District of New York (the "Balan Action"). An amended complaint was filed on May 15, 1995. As amended, the Balan Action is brought on behalf of purchasers of ML & Co.'s common stock between March 31, 1994 and December 6, 1994, and names as defendants ML & Co. and two of its present or former directors and officers. The plaintiff alleges, among other things, violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder in connection with Merrill Lynch's disclosure with respect to its business activities with the Orange County Treasurer-Tax Collector. Damages in an unspecified amount are sought.

On September 28, 1995, a purported class action was commenced in the Superior Court of the State of California, Orange County, on behalf of all persons who purchased bonds or other debt instruments between July 1, 1992 and December 6, 1994 that were issued by Orange County or other public entities with funds controlled by the Orange County Treasurer-Tax Collector (the "Smith Action").

The defendants in the case are ML & Co. and an employee of Merrill Lynch, as well as Paine Webber, Inc., CS First Boston Corp., Smith Barney, Inc., Lehman Brothers, Inc., Donaldson, Lufkin & Jenrette, Inc., Kidder Peabody & Co., Inc., Stone & Youngberg, Rauscher Pierce Refsnes, Inc., Leifer Capital, Inc., Fieldman Rolapp & Associates, Inc., CGMS, Inc., O'Brien Partners, Inc., and KPMG Peat Marwick. Plaintiffs allege, among other things, that the defendants affiliated with Merrill Lynch violated Sections 25400, 25401, 25500, 25501, and 25504.1 of the California Code and committed fraud and deceit in connection with disclosure made with respect to the sale of bonds and other debt instruments issued by Orange County or other public entities with funds controlled by the Orange County Treasurer-Tax Collector. Damages, including punitive damages, in unspecified amounts are sought. On December 10, 1996, the court approved settlements entered into by plaintiffs and certain defendants other than ML & Co. and the Merrill Lynch employee named as a defendant. On December 10, 1997, the remaining parties in this action, including ML & Co. and the Merrill Lynch employee named as a defendant, agreed to a proposed settlement that was subject to court approval. The settlement required, among other things, a payment by ML & Co. of \$1,900,000. On February 6, 1998, following notice to class members, the court granted final approval of the settlement and entered a judgment discharging the defendants, including ML & Co. and the Merrill Lynch employee, from all claims asserted in the action.

The Staff of the SEC has advised MLPF&S that the SEC has authorized the Staff to institute an enforcement proceeding against MLPF&S based on alleged unintentional violations of the Federal securities laws in connection with certain underwritings in 1994 of debt securities issued by Orange County, which MLPF&S sold to 25 sophisticated institutional investors; all such securities have been repaid in full with interest by Orange County. MLPF&S believes that this allegation is inappropriate and is pursuing its views with the SEC and the Staff.

----- NASDAQ Antitrust Litigation

On December 16, 1994, a purported class action complaint consolidating a series of previously filed actions was filed in the United States District Court for the Southern District of New York. On August 22, 1995, plaintiffs filed a complaint entitled "Refiled Consolidated Complaint," which has been amended on July 21, 1997 and December 31, 1997. The amended complaint alleges that more than 35 market-makers, including an ML & Co. subsidiary, engaged in a conspiracy with respect to the "spread" between bid and ask prices for certain securities traded on NASDAQ by, among other things, allegedly refusing to quote bid and ask prices in so-called "odd-eighths". The complaint alleges

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violations of antitrust laws and seeks damages in an unspecified amount, treble damages, and declaratory and injunctive relief. The court has certified a class consisting of certain persons, including institutional investors who purchased or sold certain securities on NASDAQ during specified time periods for each security during the period from May 1, 1989 to May 27, 1994 (the "Class Period").

On June 30, and August 27, 1997, plaintiffs filed motions seeking court approval of settlements entered into by plaintiffs and six of the defendants in the action other than the named ML & Co. subsidiary. On October 14, 1997, the court preliminarily approved those settlements.

On December 23, 1997, plaintiffs, the ML & Co. subsidiary, and all but one of the remaining defendants agreed to a proposed settlement (the "Proposed Settlement"). The Proposed Settlement requires, among other things, that the ML & Co. subsidiary named as a defendant pay approximately \$2.8 million to a settlement fund on or before January 7, 1998 and pay to the settlement fund on or before September 30, 1998, U.S. Treasury securities with a maturity date of on or before July 30, 1999 and having a value at maturity of approximately \$100.7 million. On December 31, 1997, the court issued an order expanding the Class Period from May 1, 1989 through July 17, 1996 and granted preliminary approval of the Proposed Settlement on behalf of the expanded class. The Proposed Settlement is subject to final approval of the court following notice to class members.

On July 17, 1996, the Antitrust Division of the United States Department of Justice filed a civil antitrust complaint against 24 NASDAQ market-makers, including a subsidiary of ML & Co. The complaint alleges that the firms violated Section 1 of the Sherman Act through a "common understanding" to follow a "quoting convention" that the complaint asserts had inflated the "inside spread" (the difference between the best quoted buying price and the best quoted selling price on NASDAQ) in certain NASDAQ stocks. The complaint further asserts that this alleged conduct resulted in investors having to pay higher transaction costs for buying and selling certain NASDAQ stocks than they would have paid otherwise.

At the time of the filing of the complaint, a proposed settlement of the action was announced pursuant to which the market-maker defendants in the action agreed not to engage in certain conduct. The settlement, which was approved by the court in April 1997, provides for, among other things, the monitoring and tape-recording by each of the market-maker defendants of not less than 3.5 percent (to a maximum of 70 hours per week) of telephone conversations by its over-the-counter desk traders; the provision to the Department of Justice of any taped conversation that may violate the terms of the settlement; and allowing Department of Justice representatives to appear unannounced during regular business hours to monitor trader conversations.

On May 20, 1997, the plaintiffs in the NASDAQ antitrust litigation class action described above, who had been granted limited leave to intervene in the civil antitrust action filed by the Antitrust Division of the Department of Justice in order to object to certain aspects of the settlement of such action, filed an appeal of the court's approval of the settlement. On May 21, 1997, the court stayed certain portions of its order approving the settlement, including the provision for the tape recording of telephone conversations by defendants' over-the-counter desk traders, pending completion of this appeal. In connection with its industry-wide investigations into the NASDAQ market, ML & Co., along with the other named defendants, have received inquiries from the SEC and is cooperating with these inquiries.

GSLIC Litigation

In October 1991, a derivative action purportedly brought on behalf of ML & Co. was filed in the Supreme Court of the State of New York, New York County, involving securities trading transactions that occurred at year-end 1984, 1985, 1986, and 1988 between subsidiaries of ML & Co. and a Florida insurance company, Guarantee Security Life Insurance Company ("GSLIC") that later was taken into liquidation.

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CORPORATE INFORMATION

Plaintiffs alleged that these year-end transactions were entered into by GSLIC to distort its financial condition. Named as defendants are those directors of ML & Co. who were directors at the time of the transactions described above, GSLIC's parent company, Transmark USA, Inc. ("Transmark"), and one of Transmark's principals. The complaint alleges, among other things, breach of fiduciary duty by the directors of ML & Co. who are named as defendants. Damages in an unspecified amount are sought on behalf of ML & Co. Because this derivative action purports to be brought on behalf of ML & Co. and any recov-

ery obtained by plaintiffs would belong to ML & Co., it is named as a nominal defendant. On May 6, 1997, the court dismissed this action. On July 28, 1997, plaintiffs filed a notice of appeal.

* * * *

ML & Co. believes it has strong defenses to, and, where appropriate, will vigorously contest the actions described above that have not been settled. Although the ultimate outcome of the actions described above and other civil actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries as of February 25, 1998, 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 or the results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements contained herein.

CORPORATE INFORMATION

MATTERS SUBMITTED TO A VOTE OF SECURITYHOLDERS

There were no matters submitted to a vote of securityholders during the 1997 fourth quarter.

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.

ANNUAL MEETING OF STOCKHOLDERS

The 1998 Annual Meeting of ML & Co.'s stockholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Tuesday, April 14, 1998, beginning at 10:00 a.m. (local time).

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

The information set forth under the caption Election of Directors on pages 4 to 7 of ML & Co.'s Proxy Statement dated March 5, 1998 for its 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement") is incorporated herein by reference. For a list of the members of the ML & Co. Board of Directors and of the ML & Co. executive officers, see page 94 and page 95, respectively, of this Annual Report.

EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

Information relating to ML & Co. executive officer and director compensation set forth on pages 14 to 25 and page 27 of the 1998 Proxy Statement is incorporated herein by reference.

SECURITY OWNERSHIP

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on pages 1 and 2 of the 1998 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on pages 9 and 10 of the 1998 Proxy Statement is incorporated herein by reference.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions set forth under the caption Certain Transactions on pages 25 and 26 of the 1998 Proxy Statement is incorporated herein by reference.

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<TABLE>

BOARD OF DIRECTORS OF MERRILL LYNCH & CO., INC.

<S>

DAVID H. KOMANSKY
Chairman of the Board and Chief Executive
Officer of ML & Co.

HERBERT M. ALLISON, JR.
President and Chief Operating Officer
of ML & Co.

<C>

WILLIAM R. HOOVER
Chairman of the Executive Committee of, Consultant to,
and former Chairman of the Board, Chief Executive
Officer and President of, Computer Sciences Corporation

ROBERT P. LUCIANO
Chairman of the Board and former Chief Executive

WILLIAM O. BOURKE
Corporate Director; Former Chairman of
the Board and Chief Executive Officer of
Reynolds Metals Company

W.H. CLARK
Corporate Director; Former Chairman of
the Board and Chief Executive Officer of
Nalco Chemical Company

JILL K. CONWAY
Visiting Scholar, Massachusetts
Institute of Technology

STEPHEN L. HAMMERMAN
Vice Chairman of the Board and
General Counsel of ML & Co.

EARLE H. HARBISON, JR.
Chairman of the Board of
Harbison Corporation

GEORGE B. HARVEY
Corporate Director; Former Chairman of
the Board, President and Chief Executive
Officer of Pitney Bowes Inc.

</TABLE>

EXECUTIVE MANAGEMENT OF MERRILL LYNCH

HERBERT M.
ALLISON, JR.
President and
Chief Operating
Officer

STEPHEN L.
HAMMERMAN
Vice Chairman of
the Board and
General Counsel

JEFFREY M. PEEK
Executive Vice President and Head
of Asset Management Group
President and CEO of MLAM

PAUL W.
CRITCHLOW
Senior Vice
President
Marketing and
Communications

JOHN G. HEIMANN
Chairman of
Global
Financial
Institutions

WINTHROP H. SMITH, JR.
Executive Vice President and Head
of International Private Client
Group

THOMAS W. DAVIS
Executive Vice
President and
Head of
Corporate and
Institutional
Client Group

JEROME P. KENNEY
Executive Vice
President
Corporate
Strategy and
Research

JOHN L. STEFFENS
Vice Chairman of the Board and
Head of U.S. Private Client Group

BARRY S.
FRIEDBERG
Executive Vice
President and
Chairman of
Corporate and
Institutional
Client Group

DAVID H.
KOMANSKY
Chairman of the
Board and Chief
Executive
Officer

MARY E. TAYLOR
Senior Vice President
Human Resources

CAROL GALLEY
Co-Head of
Merrill Lynch
Mercury Asset
Management

MICHAEL J.P.
MARKS
Executive
Chairman of
Merrill Lynch
Europe, Middle
East & Africa

ARTHUR ZEIKEL
Executive Vice President and
Chairman of MLAM

EDWARD L.
GOLDBERG
Executive Vice
President
Operations,
Services and
Technology

DANIEL T. NAPOLI
Senior Vice
President
Risk Management

STEPHEN A. ZIMMERMAN
Co-Head of Merrill Lynch Mercury
Asset Management

E. STANLEY
O'NEAL
Executive Vice
President and
Chief Financial
Officer

Officer of Schering-Plough Corporation

DAVID K. NEWBIGGING
Chairman of the Board of Equitas Holdings Limited

AULANA L. PETERS
Partner in the law firm of Gibson, Dunn & Crutcher

JOHN J. PHELAN, JR.
Senior Adviser, Boston Consulting Group; Former
Chairman of the Board and Chief Executive
Officer of New York Stock Exchange, Inc.

JOHN L. STEFFENS
Vice Chairman of the Board and Head of U.S.
Private Client Group of ML & Co.

WILLIAM L. WEISS
Corporate Director; Chairman Emeritus and
former Chairman of the Board and Chief
Executive Officer of Ameritech Corporation

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.

DAVID H. KOMANSKY, 58
Chairman of the Board since April 1997; Chief Executive Officer since December 1996; President and Chief Operating Officer from January 1995 to April 1997; President and Chief Executive Officer of MLPF&S since February 1995; Executive Vice President, Debt and Equity Markets Group from May 1993 to January 1995; Executive Vice President, Debt Markets Group from June 1992 to April 1993

JEROME P. KENNEY, 56
Executive Vice President, Corporate Strategy and Research since October 1990; Executive Vice President, Corporate Strategy, Research and Corporate Credit from May 1993 to May 1995

E. STANLEY O'NEAL, 46
Executive Vice President and Chief Financial Officer since March 1998; 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; Managing Director, Investment Banking and Head of Financing Services Group from June 1993 to April 1995

HERBERT M. ALLISON, JR., 54
President and Chief Operating Officer since April 1997; Executive Vice President, Corporate and Institutional Client Group from January 1995 to April 1997; Executive Vice President, Investment Banking Group from May 1993 to January 1995; Executive Vice President, Finance and Administration from October 1990 to April 1993

JEFFREY M. PEEK, 51
Executive Vice President and Head of Asset Management Group and President and Chief Executive Officer of MLAM since December 1997; Managing Director and Co-Head of Investment Banking Group from March 1997 to December 1997; Senior Vice President and Director, Global Securities Research & Economics from April 1995 to March 1997; Head of Global Industries Group from 1993 to March 1995

WINTHROP H. SMITH, JR., 48
Executive Vice President and Head of International Private Client Group since April 1997; Executive Vice President, International from June 1992 to April 1997; National Sales Director, Eastern Division in U.S. Private Client Group from November 1990 to May 1992

THOMAS W. DAVIS, 44
Executive Vice President and Head 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; Co-Head of Equity Markets Group from 1993 to April 1995; Head of Global Equity Capital Markets from 1991 to 1993

JOHN L. STEFFENS, 56
Vice Chairman of the Board since April 1997; Head of U.S. Private Client Group since October 1990

EDWARD L. GOLDBERG, 57
Executive Vice President, Operations, Services and Technology since April 1991 (and responsible for Corporate Real Estate and Purchasing since March 1993); Director and Executive Vice President of MLPF&S from May 1991 to November 1995

STEPHEN L. HAMMERMAN, 60
Vice Chairman of the Board since April 1992; General Counsel since October 1984; General Counsel of MLPF&S from March 1981 to June 1996

CORPORATE INFORMATION
 [LOGO OF MERRILL LYNCH APPEARS HERE]

 ML & CO. CAPITAL STOCK

The authorized capital stock of ML & Co. consists of 500,000,000 shares of common stock, par value \$1.33 1/3 per share ("Common Stock"), and 25,000,000 shares of preferred stock, par value \$1.00 per share, issuable in series ("Preferred Stock"), as to which the Board of Directors has the authority to issue from time to time in one or more series without further shareholder action. ML & Co. is seeking stockholder approval at its 1998 Annual Meeting of Stockholders to increase the number of authorized shares of Common Stock to 1,000,000,000.

 ML & Co. Common Stock

As of February 23, 1998, 342,205,174 shares of Common Stock were outstanding. The shares of Common Stock have no preemptive or conversion rights, redemption provisions, or sinking fund provisions. The outstanding shares of Common Stock are duly and validly issued, fully paid, and nonassessable. Each share is eligible, to the extent specified therein, to purchase certain securities upon the occurrence of certain events specified in the Rights Agreement referenced below.

ML & Co. is the principal transfer agent for the Common Stock. Questions from registered stockholders on dividends, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
 P.O. Box 20, Church Street Station
 New York, NY 10277-1004
 Attn: Gregory T. Russo, Secretary

However, registered stockholders wishing to transfer their shares of Common Stock should continue to do so through the following transfer agent and registrar:

ChaseMellon Shareholder Services, L.L.C.
 Stock Transfer Department
 P.O. Box 469
 Washington Bridge Station
 New York, NY 10033
 1-800-851-9677

 ML & Co. Preferred Stock

ML & Co.'s 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of \$425,000,000. As of February 23, 1998, there were 42,500 shares of 9% Preferred Stock outstanding. As of February 23, 1998, there were 17,000,000 Depositary Shares issued, each representing a 1/400th interest in a share of the 9% Preferred Stock. MLPF&S may occasionally acquire a temporary position in the Depositary Shares. As of February 23, 1998, the Depositary Shares held by MLPF&S for the purpose of resale was not material. The 9% Preferred Stock has dividend and liquidation preference over the Common Stock and over the Series A Junior Preferred Stock issuable pursuant to the Amended and Restated Rights Agreement dated as of December 2, 1997 between ML & Co. and ChaseMellon Shareholder Services, L.L.C.

Depositary Shares representing 1/400th of a share of 9% Cumulative Preferred Stock, Series A are listed on the New York Stock Exchange. The transfer agent and registrar for the Depositary Shares is:

Citibank, N.A.
 111 Wall Street, Fifth Floor
 New York, NY 10043
 Attn: Corporate Trust Department

 EXCHANGE LISTINGS

Common Stock

The Common Stock (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Paris Bourse, London Stock Exchange, and Tokyo Stock Exchange.

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 SUPPLEMENTAL INFORMATION

 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

 THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS ANNUAL REPORT:

1. Financial Statements

Financial Statements required to be filed with the SEC pursuant to the Annual Report on Form 10-K are listed on pages 31 to 67 of this Annual Report.

2. Financial Statement Schedules

Financial Statement Schedules required to be filed with the SEC pursuant to

the Annual Report on Form 10-K are listed on pages 69 to 72 of this Annual Report.

3. Exhibits

Exhibits required to be filed with the SEC pursuant to the Annual Report on Form 10-K are listed on pages 97 to 99 of this Annual Report.

CURRENT REPORTS ON FORM 8-K

During the 1997 fourth quarter, ML & Co. filed the following Current Reports on Form 8-K ("8-K") under the caption "Item 5. Other Events":

1. 8-K dated September 29, 1997 for the purpose of filing ML & Co.'s Russell 2000 Index Market Index Target-Term Securities (SM) due September 30, 2004.
2. 8-K dated October 15, 1997 for the purpose of filing ML & Co.'s Preliminary Unaudited Earnings Summaries for the three- and nine-month periods ended September 26, 1997.
3. 8-K dated October 29, 1997 for the purpose of filing ML & Co.'s Preliminary Unaudited Consolidated Balance Sheet as of September 26, 1997 and statements regarding computation of ratios.
4. 8-K dated November 20, 1997 for the purpose of reporting on an acquisition to be made by ML & Co.
5. 8-K dated November 26, 1997 for the purpose of filing ML & Co.'s Major 11 International Market Index Target-Term Securities due December 6, 2002.
6. 8-K dated December 2, 1997 for the purpose of filing ML & Co.'s Amended and Restated Rights Agreement dated as of December 2, 1997 between ML & Co. and ChaseMellon Shareholder Services, L.L.C.
7. 8-K dated December 16, 1997 for the purpose of filing the form of ML & Co.'s 6.56% Notes due December 16, 2007.
8. 8-K dated December 23, 1997 for the purpose of filing the form of ML & Co.'s Market Index Target-Term Securities based upon the Dow Jones Industrial Average due January 14, 2003.

LIST OF EXHIBITS FILED WITH THE SEC

Certain of the following exhibits were previously filed as exhibits to other reports or registration statements filed by ML & Co. 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

- *3.1 Restated Certificate of Incorporation of ML & Co., as amended April 24, 1987.
- 3.2 Certificate of Amendment dated April 29, 1993 of the Certificate of Incorporation of ML & Co. (Exhibit 3(i) to 10-Q for the quarter ended March 26, 1993 ("1st Quarter 1993 10-Q")).
- 3.3 Form of certificate representing the 9% Cumulative Preferred Stock, Series A, par value \$1.00 per share, of ML & Co. (the "9% Preferred Stock") (Exhibit 4(i) to 10-Q for the quarter ended September 30, 1994 ("3rd Quarter 1994 10-Q")).
- 3.4 Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (Exhibit 4(ii) to 3rd Quarter 1994 10-Q).
- 3.5 Certificate of Designation of ML & Co. establishing the rights, preferences, privileges, qualifications, restrictions, and limitations relating to the 9% Preferred Stock (Exhibit 4(iii) to 3rd Quarter 1994 10-Q).
- 3.6 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 (Exhibit 4(iv) to 3rd Quarter 1994 10-Q).
- 3.7 Certificate of Designation dated December 17, 1987 for Series A Junior Preferred Stock (Exhibit 3(f) to S-3 (File No. 33-19975)).
- 3.8 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).
- 3.9 By-Laws of ML & Co., effective as of April 15, 1997 (Exhibit 3(i) to 1997 10-Q for the quarter ended March 28, 1997 ("First Quarter 1997 10-Q")).

* Filed herewith.

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SUPPLEMENTAL INFORMATION

[LOGO OF MERRILL LYNCH APPEARS HERE]

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.

- 4.1 Senior Indenture dated as of April 1, 1983, as amended and restated, between ML & Co. and The Chase Manhattan Bank (successor by merger to Manufacturers Hanover Trust Company and Chemical Bank) and the Supplemental Indenture thereto dated as of March 15, 1990 (Exhibit 3 to ML & Co.'s Registration Statement on Form 8-A dated July 20, 1992).
- 4.2 Supplemental Indenture dated as of October 25, 1993 to the Senior Indenture dated as of April 1, 1983 (Exhibit 4(b)(ii) to S-3 (File No. 33-61559)).
- 4.3 Senior Indenture dated as of October 1, 1993 between ML & Co. and The Chase Manhattan Bank (Exhibit 4 to 8-K dated October 7, 1993).

10. MATERIAL CONTRACTS

MANAGEMENT CONTRACTS, COMPENSATION PLANS, AND OTHER EMPLOYEE ARRANGEMENTS

- 10.1 ML & Co. 1978 Incentive Equity Purchase Plan, as amended through January 16, 1995 (Exhibit 10(i) to 10-K for the fiscal year ended December 30, 1994 ("1994 10-K")).
- 10.2 Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1994 10-K).
- 10.3 ML & Co. Long-Term Incentive Compensation Plan, as amended through October 21, 1996 (Exhibit 10(i) to 10-Q for the quarter ended September 27, 1996 (the "3rd Quarter 1996 10-Q")).
- 10.4 ML & Co. Equity Capital Accumulation Plan, as amended through October 21, 1996 (Exhibit 10(ii) to 3rd Quarter 1996 10-Q).
- 10.5 ML & Co. Executive Officer Compensation Plan (Exhibit 10(i) to ML & Co.'s Proxy Statement for the 1994 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 14, 1994 ("1994 Proxy Statement")).
- 10.6 Written description of Retirement Program for Non-Employee Directors of ML & Co., as amended June 29, 1988 (Page 24 of ML & Co.'s Proxy Statement for the 1998 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 4, 1998 ("1998 Proxy Statement")).
- 10.7 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 ("1995 10-K")).
- 10.8 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(xi) to 10-K for the fiscal year ended December 31, 1993 ("1993 10-K")).
- 10.9 Written description of ML & Co.'s incentive compensation programs (Exhibit 10(xii) to 1993 10-K).
- 10.10 Written description of ML & Co.'s compensation policy for executive officers and directors (Pages 14 to 16 and page 23 of the 1998 Proxy Statement).
- 10.11 Merrill Lynch KECALP Growth Investments Limited Partnership 1983 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-81619)).
- 10.12 Merrill Lynch KECALP L.P. 1984 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-87962)).
- 10.13 Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
- 10.14 Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
- 10.15 Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
- 10.16 Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
- 10.17 Merrill Lynch KECALP L.P. 1994 (Exhibit 1(a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).
- 10.18 Merrill Lynch KECALP L.P. 1997 (Exhibit 1(a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).
- 10.19 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")).
- 10.20 ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxii) to 1994 10-K).
- 10.21 ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to First Quarter 1997 10-Q).
- 10.22 ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995 ("3rd Quarter 1995 10-Q")).

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SUPPLEMENTAL INFORMATION

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- 10.23 ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
 - 10.24 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).
 - 10.25 ML & Co. Deferred Unit and Stock Unit Plan for Non-Employee Directors (Exhibit 10(iv) to 3rd Quarter 1996 10-Q).
 - 10.26 ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers (Exhibit 10(xxx) to 1996 10-K).

- 10.27 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).
- 10.28 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).
- 10.29 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 "3rd Quarter 1997 10-Q")).
- 10.30 ML & Co. Program for the Deferral of Stock Option Gains for a Select Group of Eligible Employees (Exhibit 10(iv) to 3rd Quarter 1997 10-Q).
- *10.31 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.
- *10.32 Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers.

- *11 STATEMENT RE COMPUTATION OF PER SHARE EARNINGS.
- *12 STATEMENT RE COMPUTATION OF RATIOS.
- 13 1997 ANNUAL REPORT TO STOCKHOLDERS.

This document constitutes an Annual Report to Stockholders as required by Rule 14a-3 of the Exchange Act and an Annual Report on Form 10-K required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. This Annual Report to Stockholders has been filed with the SEC as the Annual Report to Stockholders on Form 10-K accompanied by the required Form 10-K cover page and Cross Reference Index which is included herewith for convenience.

- *21 SUBSIDIARIES OF ML & CO.
- *23 CONSENT OF INDEPENDENT AUDITORS.
- *27 FINANCIAL DATA SCHEDULE.

 * Filed herewith

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CROSS REFERENCE INDEX TO ANNUAL REPORT ON FORM 10-K
 [LOGO OF MERRILL LYNCH APPEARS HERE]

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</TABLE>

 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 4th day of March, 1998.

MERRILL LYNCH & CO., INC.
 Registrant

GREGORY T. RUSSO /s/ Gregory T. Russo

 GREGORY T. RUSSO
 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 4th day of March, 1998.

DAVID H. KOMANSKY /s/ David H. Komansky

 DAVID H. KOMANSKY
 CHAIRMAN OF THE BOARD AND
 CHIEF EXECUTIVE OFFICER
 (PRINCIPAL EXECUTIVE OFFICER)

E. STANLEY O'NEAL /s/ E. Stanley O'Neal

 E. STANLEY O'NEAL
 EXECUTIVE VICE PRESIDENT
 CHIEF FINANCIAL OFFICER
 (PRINCIPAL FINANCIAL OFFICER)

MICHAEL J. CASTELLANO /s/ Michael J. Castellano

 MICHAEL J. CASTELLANO
 SENIOR VICE PRESIDENT AND CONTROLLER
 (PRINCIPAL ACCOUNTING OFFICER)

HERBERT M. ALLISON, JR. /s/ Herbert M. Allison, Jr.

 HERBERT M. ALLISON, JR.

WILLIAM O. BOURKE /s/ William O. Bourke

 WILLIAM O. BOURKE

W.H. CLARK /s/ W. H. Clark

 W. H. CLARK

JILL K. CONWAY /s/ Jill K. Conway

JILL K. CONWAY

STEPHEN L. HAMMERMAN /s/ Stephen L. Hammerman

STEPHEN L. HAMMERMAN

EARLE H. HARBISON, JR. /s/ Earle H. Harbison, Jr.

EARLE H. HARBISON, JR.

GEORGE B. HARVEY /s/ George B. Harvey

GEORGE B. HARVEY

WILLIAM R. HOOVER /s/ William R. Hoover

WILLIAM R. HOOVER

ROBERT P. LUCIANO /s/ Robert P. Luciano

ROBERT P. LUCIANO

DAVID K. NEWBIGGING /s/ David K. Newbigging

DAVID K. NEWBIGGING

AULANA L. PETERS /s/ Aulana L. Peters

AULANA L. PETERS

JOHN J. PHELAN, JR. /s/ John J. Phelan, Jr.

JOHN J. PHELAN, JR.

JOHN L. STEFFENS /s/ John L. Steffens

JOHN L. STEFFENS

WILLIAM L. WEISS /s/ William L. Weiss

WILLIAM L. WEISS

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

MERRILL LYNCH & CO., INC.

EXHIBITS TO

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 26, 1997

Commission file number 1-7182

Form 10-K EXHIBIT INDEX

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10.6	Written description of Retirement Program for Non-Employee Directors of ML & Co., as amended June 29, 1988 (Page 24 of ML & Co.'s Proxy Statement for the 1998 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 4, 1998 ("1998 Proxy Statement")).	
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10.8	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(xi) to 10-K for the fiscal year ended December 31, 1993 ("1993 10-K")).	

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10.9	Written description of ML & Co.'s incentive compensation programs (Exhibit 10(xii) to 1993 10-K).	

- 10.10 Written description of ML & Co.'s compensation policy for executive officers and directors (Pages 14 to 16 and page 23 of the 1998 Proxy Statement).
- 10.11 Merrill Lynch KECALP Growth Investments Limited Partnership 1983 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-81619)).
- 10.12 Merrill Lynch KECALP L.P. 1984 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-87962)).
- 10.13 Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
- 10.14 Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
- 10.15 Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
- 10.16 Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
- 10.17 Merrill Lynch KECALP L.P. 1994 (Exhibit 1(a) (ii) to Registration Statement on Form N-2 (File No. 33-51825)).
- 10.18 Merrill Lynch KECALP L.P. 1997 (Exhibit 1(a) (ii) to Registration Statement on Form N-2 (File No. 333-15035)).
- 10.19 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")).
- 10.20 ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxii) to 1994 10-K).
- 10.21 ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to First Quarter 1997 10-Q).
- 10.22 ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995 ("3rd Quarter 1995 10-Q")).
- 10.23 ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
- 10.24 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).
- 10.25 ML & Co. Deferred Unit and Stock Unit Plan for Non-Employee Directors (Exhibit 10(iv) to 3rd Quarter 1996 10-Q).
- 10.26 ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers (Exhibit 10(xxx) to 1996 10-K).
- 10.27 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).
- 10.28 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).
- 10.29 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 "3rd Quarter 1997 10-Q")).
- 10.30 ML & Co. Program for the Deferral of Stock Option Gains for a Select Group of Eligible Employees (Exhibit 10(iv) to 3rd Quarter 1997 10-Q).
- *10.31 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.
- *10.32 Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers.
- *11. STATEMENT RE COMPUTATION OF PER SHARE EARNINGS.
- *12. STATEMENT RE COMPUTATION OF RATIOS.
13. 1997 ANNUAL REPORT TO STOCKHOLDERS.

This document constitutes an Annual Report to Stockholders as required by Rule 14a-3 of the Exchange Act and an Annual Report on Form 10-K required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. This Annual Report to Stockholders has been filed with the SEC as the Annual Report to Stockholders on Form 10-K accompanied by the required Form 10-K cover page and Cross Reference Index which is included herewith for convenience.

- *21. SUBSIDIARIES OF ML & CO.
- *23. CONSENT OF INDEPENDENT AUDITORS.
- *27. FINANCIAL DATA SCHEDULE.

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*Filed herewith.

RESTATED

CERTIFICATE OF INCORPORATION

OF

MERRILL LYNCH & CO., INC.

April 24, 1987

RESTATED CERTIFICATE OF INCORPORATION

OF

MERRILL LYNCH & CO., INC.

MERRILL LYNCH & CO., INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the Corporation is Merrill Lynch & Co., Inc.
2. The date of filing of its original Certificate of Incorporation with the Secretary of State was March 27, 1973.
3. In accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation duly adopted this Restated Certificate of Incorporation on April 24, 1987, at a meeting duly convened.
4. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented, and there is no discrepancy between such provisions and the provisions of this Restated Certificate of Incorporation, except as permitted by Section 245(c) of the General Corporation Law of the State of Delaware.
5. The text of the Restated Certificate of Incorporation is as follows:

ARTICLE I

NAME

The name of the Corporation is Merrill Lynch & Co., Inc.

ARTICLE II

REGISTERED OFFICE AND REGISTERED AGENT

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name and address of the Corporation's registered agent is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

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ARTICLE III

CORPORATE PURPOSES

The purpose of the Corporation is to engage in any lawful act or

activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

CAPITAL STOCK

SECTION 1. Shares, Classes and Series Authorized. The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is two hundred twenty-five million (225,000,000) shares, of which two hundred million (200,000,000) shares shall be Common Stock of the par value of one dollar and thirty-three and one-third cents (\$1.33 1/3) each (hereinafter called "Common Stock") and twenty-five million (25,000,000) shares shall be Preferred Stock of the par value of one dollar (\$1.00) each (hereinafter called "Preferred Stock").

The Preferred Stock is hereby authorized to be issued from time to time in one or more series, the shares of each series to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof and may be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or any other series of the same or any other class or classes of capital stock of the Corporation at such price or prices or at such rate or rates of exchange and with such adjustments as shall be stated and expressed in the Certificate of Incorporation or in any amendment thereto or in the resolution or resolutions adopted by the Board of Directors providing for the issue thereof.

SECTION 2. Description of Capital Stock. The following is a description of each of the classes of capital stock which the Corporation has authority to issue with the designations, preferences, voting powers and participating, optional or other special rights and the qualifications, limitations or restrictions thereof:

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THE PREFERRED STOCK

A. RIGHTS AND RESTRICTIONS OF PREFERRED STOCK. Authority is hereby expressly vested in the Board of Directors of the Corporation, subject to the provisions of this Article IV and to the limitations prescribed by law, to authorize the issue from time to time of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions adopted by the affirmative vote of a majority of the whole Board of Directors providing for the issue of such series the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(a) The designation of such series.

(b) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or series of the Corporation's capital stock, and whether such dividends shall be cumulative or noncumulative.

(c) Whether the shares of such series shall be subject to redemption for cash, property or rights, including securities of any other corporation, by the Corporation at the option of either the Corporation or the holder or both or upon the happening of a specified event, and, if made subject to any such redemption, the times or events, prices and other terms and conditions of such redemption.

(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(e) Whether or not the shares of such series shall be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or of any other series of the same or any other class or classes of the Corporation's capital stock, and, if provision be made for conversion or exchange, the times or events, prices, rates, adjustments and other terms and conditions of such conversions or exchanges.

(f) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(g) The rights of the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding

up of the Corporation.

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(h) The provisions as to voting, optional and/or other special rights and preferences, if any.

COMMON STOCK

B. RIGHTS AND RESTRICTIONS OF COMMON STOCK. The powers, preferences, rights, qualifications, limitations or restrictions thereof in respect to the Common Stock are as follows:

(a) The Common Stock is junior to the Preferred Stock and is subject to all the powers, rights, privileges, preferences and priorities of the Preferred Stock as herein or in any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Section 2 of this Article.

(b) The Common Stock shall have voting rights for the election of directors and for all other purposes, each holder of Common Stock being entitled to one vote for each share thereof held by such holder, except as otherwise required by law.

C. INCREASE OR DECREASE IN AMOUNT OF AUTHORIZED SHARES. The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased by an amendment to this Certificate of Incorporation authorized by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in the Certificate of Incorporation or in any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Section 2 of this Article with respect to the Preferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to approve such action.

D. 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 this Certificate of Incorporation and in any relevant provision of law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

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ARTICLE V

DENIAL OF PREEMPTIVE RIGHTS

No holder of any class of capital stock of the Corporation, whether now or hereafter authorized, shall be entitled, as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of capital stock of the Corporation of any class whatsoever, or of securities convertible into or exchangeable for capital stock of the Corporation of any class whatsoever, whether now or hereafter authorized, or whether issued for cash, property or services.

ARTICLE VI

RESTRICTION ON DIVIDENDS

Dividends may be declared or paid upon the shares of the Corporation's capital stock either (1) out of its surplus, determined as provided under the General Corporation Law of the State of Delaware, or (2) in case there shall be no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

A director shall be fully protected in relying in good faith upon the books of account or other records of the Corporation or statements prepared by any of its officials or by independent public accountants or by an appraiser selected with reasonable care by the Board of Directors as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid, or with which the Corporation's capital stock might properly be purchased or redeemed.

ARTICLE VII

STOCKHOLDER VOTE REQUIRED IN CONNECTION WITH CERTAIN BUSINESS COMBINATIONS

SECTION 1. Vote Generally Required. Notwithstanding anything contained herein or in the General Corporation Law of the State of Delaware, and subject to the provisions of Section 3 of this Article VII, the Corporation shall not (a) merge or consolidate with any one or more corporations, joint-stock associations or non-stock corporations (other than in a merger not requiring any vote of stockholders of the Corporation under the General Corporation Law of the State of Delaware), (b) sell, lease or exchange all or substantially all of its property and assets, or (c) dissolve, unless the Board of Directors shall, at a meeting duly called, adopt a resolution, by the affirmative vote of at least two-thirds (2/3) of

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the entire Board of Directors, approving such action and unless such action shall be approved at a meeting by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in the Certificate of Incorporation or in any resolution or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Section 2 of Article IV with respect to the Preferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to approve such action.

SECTION 2. Certain Definitions. For the purposes of this Article:

(a) "Business Combination" means:

(i) any merger or consolidation of the Corporation or any Subsidiary with (a) an Interested Stockholder or (b) any other Person (whether or not itself an Interested Stockholder) that is, or after such merger or consolidation would be, an Affiliate or Associate of an Interested Stockholder; or

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with, or proposed by or on behalf of, an Interested Stockholder or an Affiliate or Associate of an Interested Stockholder of any assets of the Corporation or any Subsidiary having an aggregate Fair Market Value of not less than \$100,000,000; or

(iii) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to, or proposed by or on behalf of, an Interested Stockholder or an Affiliate or Associate of an Interested Stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of not less than \$100,000,000; or

(iv) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation, or any spinoff or split-up of any kind of the Corporation or any Subsidiary, proposed by or on behalf of an Interested Stockholder or an Affiliate or Associate of an Interested Stockholder; or

(v) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any Subsidiary or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) that has the effect, directly or indirectly, of increasing the percentage of the outstanding shares of (a) any class of equity securities of the Corporation or any Subsidiary or (b) any class of securities of the Corporation or any Subsidiary convertible into or

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exchangeable for equity securities of the Corporation or any Subsidiary, that are directly or indirectly owned by an Interested Stockholder and all of its Affiliates and Associates; or

(vi) any agreement, contract or other arrangement providing for any one or more of the actions specified in clauses (i) through (v) of this Section 2(a).

(b) "Affiliate" or "Associate" have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on January 1, 1986.

(c) "Beneficial Owner" has the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on January 1, 1986.

(d) "Continuing Director" means (i) any member of the Board of Directors who (a) is neither the Interested Stockholder involved in the Business

Combination as to which a determination of Continuing Directors is provided hereunder, nor an Affiliate, Associate, employee, agent, or nominee of such Interested Stockholder, or the relative of any of the foregoing, and (b) was a member of the Board of Directors prior to the time that such Interested Stockholder became an Interested Stockholder, and (ii) any successor of a Continuing Director described in clause (i) who is recommended or elected to succeed a Continuing Director by the affirmative vote of a majority of Continuing Directors then on the Board of Directors.

(e) "Fair Market Value" means: (i) in the case of stock, the average of the closing sale prices during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not reported on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Exchange Act on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing bid quotations with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar interdealer quotation system then in use, or, if no such quotation is available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

(f) "Interested Stockholder" means any person (other than the Corporation or any Subsidiary, any employee benefit plan maintained by the Corporation or any Subsidiary or any trustee or fiduciary with respect to any such plan when acting in such capacity) that:

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(i) is, or was at any time within the two-year period immediately prior to the date in question, the Beneficial Owner of 5% or more of the voting power of the then outstanding shares of Voting Stock of the Corporation and who did not become the Beneficial Owner of such amount of Voting Stock pursuant to a transaction that was approved by the affirmative vote of a majority of the entire Board of Directors; or

(ii) is an assignee of, or has otherwise succeeded to, any shares of Voting Stock of the Corporation of which an Interested Stockholder was the Beneficial Owner at any time within the two-year period immediately prior to the date in question, if such assignment or succession shall have occurred in the course of a transaction, or series of transactions, not involving a public offering within the meaning of the Securities Act of 1933, as amended.

For the purpose of determining whether a Person is an Interested Stockholder, the outstanding Voting Stock of the Corporation shall include unissued shares of Voting Stock of the Corporation of which the Interested Stockholder is the Beneficial Owner but shall not include any other shares of Voting Stock of the Corporation that may be issuable pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise, to any Person who is not the Interested Stockholder.

(g) A "Person" means any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, as well as any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act.

(h) "Subsidiary" means any corporation of which the Corporation owns, directly or indirectly, (i) a majority of the outstanding shares of equity securities of such corporation, or (ii) shares having a majority of the voting power represented by all of the outstanding shares of Voting Stock of such corporation. For the purpose of determining whether a corporation is a Subsidiary, the outstanding Voting Stock and shares of equity securities thereof shall include unissued shares of which the Corporation is the Beneficial Owner but shall not include any other shares of Voting Stock of such corporation that may be issuable pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise, to any Person other than the Corporation.

(i) "Voting Stock" means outstanding shares of capital stock of the relevant corporation entitled to vote generally in the election of directors.

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SECTION 3. Greater Vote for Business Combinations. In addition to any affirmative vote required by law or by this Certificate of Incorporation, the affirmative vote of the holders of record of outstanding shares representing at least eighty percent (80%) of the voting power of the then outstanding shares of

the Voting Stock of the Corporation, voting together as a single class, shall be required to approve any Business Combination. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

SECTION 4. Powers of Continuing Directors. The Continuing Directors shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article, including, without limitation, (A) whether a Person is an Interested Stockholder, (B) the number of shares of Voting Stock of the Corporation beneficially owned by any Person, (C) whether a Person is an Affiliate or Associate of another and (D) whether the assets that are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of not less than \$100,000,000; and the good faith determination of the Continuing Directors on such matters shall be conclusive and binding for all the purposes of this Article.

SECTION 5. No Effect on Fiduciary Obligations. Nothing contained in this Article shall be construed to relieve the members of the Board of Directors or an Interested Stockholder from any fiduciary obligation imposed by law.

SECTION 6. Amendment or Repeal. Notwithstanding the fact that a lesser percentage may be specified by the General Corporation Law of Delaware, the affirmative vote of the holders of record of outstanding shares representing at least eighty percent (80%) of the voting power of all the outstanding shares of the Voting Stock of the Corporation, voting together as a single class, shall be required to amend, alter or repeal any provision of, or to adopt any provision or provisions inconsistent with, any provision of this Article.

ARTICLE VIII

CORPORATE EXISTENCE

The Corporation is to have perpetual existence.

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ARTICLE IX

NO LIABILITY OF HOLDERS OF CAPITAL STOCK FOR CORPORATE DEBTS

The holders of the capital stock of the Corporation shall not be personally liable for the payment of the Corporation's debts and the private property of the holders of the capital stock of the Corporation shall not be subject to the payment of debts of the Corporation to any extent whatsoever.

ARTICLE X

BOARD OF DIRECTORS

SECTION 1. Powers of Board of Directors. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized:

(a) To make, alter, amend or repeal the By-Laws, except as otherwise expressly provided in any By-Law made by the holders of the capital stock of the Corporation entitled to vote thereon. Any By-Law may be altered, amended or repealed by the holders of the capital stock of the Corporation entitled to vote thereon at any annual meeting or at any special meeting called for that purpose.

(b) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

(c) To determine the use and disposition of any surplus and net profits of the Corporation, including the determination of the amount of working capital required, to set apart out of any of the funds of the Corporation, whether or not available for dividends, a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

(d) To designate, by resolution passed by a majority of the whole Board of Directors, one or more committees, each committee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution designating the committee or in the By-Laws of the Corporation, shall, subject to the limitations prescribed by law, have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be

affixed to all papers which may require it. Such committee or committees shall have such name or names as may be provided in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

(e) To grant or assume rights or options entitling the holders thereof to purchase from the Corporation shares of its

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capital stock of any class or series (to be evidenced by or in such instrument or instruments as shall be approved by the Board of Directors); the terms upon which, the time or times at or within which, the persons to whom, and the price or prices at which any such rights or options may be issued and any such shares may be purchased from the Corporation upon the exercise of any such right or option, shall be such as shall be fixed in a resolution or resolutions adopted by the Board of Directors providing for the creation and issue of such rights or options. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the consideration for the issuance of such rights or options and the sufficiency thereof shall be conclusive. No such rights or options shall be invalidated or in any way affected by the fact that any director shall be a grantee thereof or shall vote for the issuance of such rights or options to himself or for any plan pursuant to which he may receive any such rights or options.

(f) To adopt or assume such plans as may, from time to time, be approved by it for the purchase by officers or employees of the Corporation and of any corporation either affiliated with or a subsidiary of the Corporation of shares of capital stock of the Corporation of any class or series; the terms upon which and the price or prices at which shares may be purchased from the Corporation pursuant to such a plan shall be such as shall be fixed by the Board of Directors in the plan. No such plan which is not at the time of adoption unreasonable or unfair shall be invalidated or in any way affected because any director shall be entitled to purchase shares of capital stock of the Corporation thereunder and shall vote for any such plan.

(g) To adopt or assume and carry out such plans as may from time to time be approved by it for the distribution among the officers or employees of the Corporation and of any corporation which is a subsidiary of the Corporation, or any of them, in addition to their regular salaries or wages, of part of the earnings of the Corporation and of any corporation which is a subsidiary of the Corporation, or any of them, in consideration for or in recognition of the services rendered by such officers or employees or as an inducement to future efforts. No such plan which is not at the time of adoption or assumption unreasonable or unfair shall be invalidated or in any way affected because any director shall be a beneficiary thereunder or shall vote for any plan under which he may benefit or for any distribution thereunder in which he may participate.

(h) To adopt such pension, retirement, deferred compensation or other employee benefit plans or provisions as may, from time to time, be approved by it, providing for pensions, retirement income, deferred compensation or other benefits for officers or employees of the Corporation and of any corporation which is a subsidiary of the Corporation, or any of them, in consideration for or in recognition of the services rendered by such officers or employees or as an inducement to

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future efforts. No such plan or provision, which is not at the time of adoption unreasonable or unfair, shall be invalidated or in any way affected because any director shall be a beneficiary thereunder or shall vote for any plan or provision under which he may benefit.

(i) To exercise, in addition to the powers and authorities hereinbefore or by law conferred upon it, any such powers and authorities and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware and of the Certificate of Incorporation and of the By-Laws of the Corporation.

SECTION 2. Classified Board. At the 1986 annual meeting of holders of capital stock of the Corporation, the directors shall be divided into three classes, with respect to the time that they severally hold office, as nearly equal in number as possible, with the initial term of office of the first class of directors to expire at the 1987 annual meeting of holders of capital stock of the Corporation, the initial term of office of the second class of directors to expire at the 1988 annual meeting of holders of capital stock of the Corporation and the initial term of office of the third class of directors to expire at the

1989 annual meeting of holders of capital stock of the Corporation. Commencing with the 1987 annual meeting of holders of capital stock of the Corporation, directors elected to succeed those directors whose terms have thereupon expired shall be elected for a term of office to expire at the third succeeding annual meeting of holders of capital stock of the Corporation after their election. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain or attain, if possible, the equality of the number of directors in each class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. If such equality is not possible, the increase or decrease shall be apportioned among the classes in such a way that the difference in the number of directors in any two classes shall not exceed one.

SECTION 3. Nominations. Subject to the rights of holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the Common Stock) then outstanding, nominations for the election of directors may be made by the affirmative vote of a majority of the entire Board of Directors or by any stockholder of record entitled to vote generally in the election of directors. However, any stockholder of record entitled to vote generally in the election of directors may nominate one or more persons for election as directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not less than 50 days nor more than 75 days prior to the meeting; 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 to be timely must be so received not later than the close of business

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on the 10th day following the day on which such notice of the date of meeting was mailed or such public disclosure was made, whichever first occurs. Each such notice to the Secretary shall set forth: (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the Corporation's capital stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each proposed nominee; (iv) a description of all arrangements or understandings between the stockholder and each proposed nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each proposed nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (vi) the written consent of each proposed nominee to serve as a director of the Corporation if so elected. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

SECTION 4. 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 5. 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.

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SECTION 6. Preferred Stock. Whenever the holders of any one or more series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or a special meeting of holders of capital stock of the Corporation, the nomination, election, term of office, filling of vacancies and other features of such directorships shall be governed by this Article X unless expressly otherwise provided by the resolution or resolutions providing for the creation of such series.

ARTICLE XI

MEETINGS OF STOCKHOLDERS AND DIRECTORS; ELECTIONS OF DIRECTORS; CORPORATION BOOKS

SECTION 1. Stockholders' Meetings. Meetings of holders of capital stock of the Corporation may be held outside the State of Delaware if the By-Laws so provide. Any action required or permitted to be taken by the holders of capital stock of the Corporation must be effected at a duly called annual or special meeting of holders of capital stock of the Corporation and may not be effected by any consent in writing by such holders. Meetings of holders of capital stock of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by the affirmative vote of a majority of the entire Board of Directors.

SECTION 2. Directors' Meetings, Consents and Elections. Meetings of the Board of Directors and of any committee thereof may be held outside the State of Delaware if the By-Laws so provide. 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 as provided by statute, if the By-Laws of the Corporation so provide. The elections of directors need not be by ballot unless the By-Laws of the Corporation so provide.

SECTION 3. Books of the Corporation. Except as otherwise provided by law, the books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

ARTICLE XII

TRANSACTIONS WITH DIRECTORS AND OFFICERS

No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee

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thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (a) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or the committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum, or (b) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders, or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE XIII

LIMITATION OF DIRECTORS' LIABILITY; INDEMNIFICATION BY CORPORATION; INSURANCE

SECTION 1. Limitation of Directors' Liability. (a) No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent provided by applicable law, for liability (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of each director of the Corporation shall be limited or eliminated to the full extent permitted by the Delaware General Corporation Law as so amended from time to time.

(b) Neither the amendment nor repeal of this Section 1, nor the adoption of any provision of the Certificate of Incorporation inconsistent with

this Section 1, shall eliminate or reduce the effect of this Section 1, in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 1, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

SECTION 2. Indemnification by Corporation. (a) The Corporation shall indemnify any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer or trustee of another corporation, trust or

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other enterprise, with respect to actions taken or omitted by such person in any capacity in which such person serves the Corporation or such other corporation, trust or other enterprise, to the full extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director, officer or trustee, as the case may be, and shall inure to the benefit of such person's heirs, executors and personal and legal representatives; provided, however, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized in advance, or unanimously consented to, by the Board of Directors of the Corporation. Any person who is or was a director or officer of a subsidiary of the Corporation shall be deemed to be serving in such capacity at the request of the Corporation for purposes of this Section 2.

(b) Directors and officers of the Corporation shall have the right to be paid by the Corporation expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition. The Corporation may, to the extent authorized from time to time by the Board of Directors, advance such expenses to any person who is or was serving at the request of the Corporation as a director, officer or trustee of another corporation, trust or other enterprise.

(c) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation and to any person serving at the request of the Corporation as an employee or agent of another corporation, trust or other enterprise.

(d) The rights to indemnification and to the advancement of expenses conferred in this Section 2 shall not be exclusive of any other right that any person may have or hereafter acquire under this Restated Certificate of Incorporation, the by-laws, any statute, agreement, vote of stockholders or disinterested directors, or otherwise.

(e) Any repeal or modification of this Section 2 by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

SECTION 3. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or any subsidiary of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of another corporation, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation shall have the

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power to indemnify him against such liability under the provisions of Section 2 of this Article XIII.

ARTICLE XIV

COMPROMISE OR ARRANGEMENT BETWEEN CORPORATION AND ITS CREDITORS OR STOCKHOLDERS

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of

creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders of this Corporation, as the case may be, and also on this Corporation.

ARTICLE XV

RESERVATION OF RIGHT TO AMEND CERTIFICATE OF INCORPORATION

The Corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all the provisions of this Certificate of Incorporation and all rights and powers conferred in this Certificate of Incorporation on stockholders, directors and officers are subject to this reserved power, provided that the affirmative vote of the holders of record of outstanding shares representing at least 80% of the voting power of all of the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, alter, change, or repeal any provision of, or to adopt any provision or provisions inconsistent with, Section 2(A) of Article IV, Article X, Article XI, Article XIII or this Article XV of this Certificate of Incorporation unless such amendment, alteration, repeal or adoption of any

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inconsistent provision or provisions is declared advisable by the Board of Directors by the affirmative vote of at least seventy-five percent (75%) of the entire Board of Directors, notwithstanding the fact that a lesser percentage may be specified by the General Corporation Law of Delaware, and provided further that any amendment, alteration, change, repeal or adoption of any provision or provisions inconsistent with Article VII may only be made in accordance with the provisions thereof.

IN WITNESS WHEREOF, said MERRILL LYNCH & CO., INC. has caused this certificate to be signed by an Executive Vice President, with its corporate seal to be hereunto duly affixed and to be attested by its Secretary this 24th day of April, 1987.

MERRILL LYNCH & CO. INC.

By: /s/ STEPHEN L. HAMMERMAN

Stephen L. Hammerman
Executive Vice President

CORPORATE SEAL

Attest:

/s/ STEPHEN M. M. MILLER

Stephen M. M. Miller
Secretary

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AMENDMENT TO DEFERRED COMPENSATION PLANS

I, Mary E. Taylor, as Administrator of the Merrill Lynch & Co., Inc. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the Merrill Lynch & Co., Inc. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees, the Merrill Lynch & Co., Inc. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees, the Merrill Lynch & Co., Inc. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees, and the Merrill Lynch & Co., Inc. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (collectively, the "Deferred Compensation Plans"), having determined, following consultation with Counsel, that such amendment will not adversely affect the Participants of the Deferred Compensation Plans, do hereby amend Section 3.4 of the Deferred Compensation Plans by restating Section 3.4(c) and adding a new Section 3.4(d) and amend Sections 5.1(a) and (b), 5.2(a) and 5.4(d) of each of the Deferred Compensation Plans as follows:

3.4 Benchmark Return Options; Adjustment of Accounts.

(c) 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 (b)) shall be applied to reduce the Account Balance (but not below zero).

- (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 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, this 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(b) will be followed.

(d) Rollover Options. 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, if appropriate because of regulatory requirements. In such event, Participants will be entitled, in such manner as the Administrator shall determine, to designate 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 the Return Option; (B) Participants may be limited in their ability to elect, change or continue their Benchmark elections 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 5 hereof until all accrued Annual Charges have been paid.

- (ii) In the event that such options include future KECALP 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 the 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees.

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 1998, 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 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). 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, shall be delayed until such Account Balance is fully liquid. 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).

(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 Sections 3.4(b) and (c) 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 $(A) \times (B)$, 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 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 (in the event of Retirement) or to the Participant's beneficiary (in the event of death); provided, however, that 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).

5.4 Beneficiary

(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,

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).

In addition, I hereby authorize any appropriate changes to the table of contents and internal cross references in connection with the foregoing amendments and the correction of typographical errors, where appropriate.

Mary E. Taylor
Administrator

Date: February 12, 1998

AMENDMENT TO DEFERRED COMPENSATION PLAN

I, Mary E. Taylor, as Administrator of the Merrill Lynch & Co., Inc. Deferred Restricted Unit Plan For Executive Officers (the "Plan"), having determined, following consultation with Counsel, that such amendment will not adversely affect the Participants of the Plan, do hereby amending Section 4 of the Plan by adding a new Section 4(d) and amending Sections 8.1(a) and (b) as follows:

4. Return Alternatives.

(d) Rollover Options. 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, if appropriate because of regulatory requirements. In such event, Participants will be entitled, in such manner as the Administrator shall determine, to designate 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 the Return Option; (B) Participants may be limited in their ability to elect, change or continue their Benchmark elections 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 5 hereof until all accrued Annual Charges have been paid.

(ii) In the event that such options include future KECALP 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 the 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees.

8.1 Payment Date.

(a) Regular Payment Elections. A Participant's Account Balance will be paid by ML & Co., 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 or (ii) in any month in the calendar year following the Participant's Retirement; provided that no election may result in the payment (in the case of a single payment) or commencement of payment (in the case of installment payments) later than the month following the Participant's 70th birthday. 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, shall be delayed until such Account Balance is fully liquid. For Participants who have chosen to have a specified portion of their Deferred Amounts benchmarked to Merrill Lynch KECALP L.P. 1997, payment elections must be made in accordance with the KECALP Deferred Compensation Plan, provided that no such payments shall occur until after Retirement as defined in this Plan.

(b) Modified Installment Payments. In lieu of one of the regular payment elections provided for in Section 8.1(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 the last sentence of Section 8.1(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 the Administrator, in his sole discretion, determines 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 4(b) as of 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 cost of borrowing and is defined as 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.

In addition, I hereby authorize any appropriate changes to the table of contents and internal cross references in connection with the foregoing amendments and the correction of typographical errors, where appropriate.

Mary E. Taylor
Administrator

Date: February 12, 1998

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
 COMPUTATION OF EARNINGS PER COMMON SHARE
 (In Millions, Except Per Share Amounts)

<TABLE>
 <CAPTION>

	Year Ended Last Friday in December				
	1997	1996	1995	1994	
1993					
	(53 Weeks)	(52 Weeks)	(52 Weeks)	(52 Weeks)	
<S>	<C>	<C>	<C>	<C>	<C>
EARNINGS					
Earnings before cumulative effect of change in accounting principle	\$ 1,906	\$ 1,619	\$ 1,114	\$ 1,017	\$
1,394					
Cumulative effect of change in accounting principle	--	--	--	--	
(35)					
Net earnings	1,906	1,619	1,114	1,017	
1,359					
Preferred stock dividends	(39)	(47)	(48)	(13)	
(5)					
Net earnings applicable to common stockholders	\$ 1,867	\$ 1,572	\$ 1,066	\$ 1,004	\$
1,354					
=====					
WEIGHTED-AVERAGE SHARES OUTSTANDING	331.4	337.8	353.1	391.3	
418.6					
EFFECT OF DILUTIVE INSTRUMENTS					
Employee stock options	29.4	21.0	19.8	14.2	
18.5					
FCCAAP shares	20.6	18.8	18.7	14.0	
12.8					
Restricted units	5.3	4.6	2.3	2.5	
3.7					
ESPP shares	--	0.1	0.1	0.1	
--					
DILUTIVE POTENTIAL COMMON SHARES	55.3	44.5	40.9	30.8	
35.0					
TOTAL WEIGHTED-AVERAGE DILUTED SHARES					
453.6	386.7	382.3	394.0	422.1	
=====					
BASIC EARNINGS PER SHARE					
Earnings before cumulative effect of change in accounting principle	\$ 5.63	\$ 4.65	\$ 3.02	\$ 2.57	\$
3.31					
Cumulative effect of change in accounting principle	--	--	--	--	
(.08)					
Net earnings	\$ 5.63	\$ 4.65	\$ 3.02	\$ 2.57	\$
3.23					
=====					
DILUTED EARNINGS PER SHARE					
Earnings before cumulative effect of change in accounting principle	\$ 4.83	\$ 4.11	\$ 2.71	\$ 2.38	\$

3.06					
Cumulative effect of change in accounting principle (.08)	--	--	--	--	
-----	-----	-----	-----	-----	
Net earnings 2.98	\$ 4.83	\$ 4.11	\$ 2.71	\$ 2.38	\$
=====	=====	=====	=====	=====	

</TABLE>

Notes: All share and per share amounts have been restated for the two-for-one common stock split, effected in the form of a 100% stock dividend, paid on May 30, 1997.

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)

<TABLE>
 <CAPTION>

	Year Ended Last Friday in December				
	1997	1996	1995	1994	1993
	(52 Weeks)	(52 Weeks)	(52 Weeks)	(52 Weeks)	(53 Weeks)
<S>	<C>	<C>	<C>	<C>	<C>
Pretax earnings from continuing operations	\$ 3,050	\$ 2,566	\$ 1,811	\$ 1,711	\$ 2,412
Add: Fixed charges (excluding capitalized interest)	16,292	12,059	11,382	8,724	6,161
Pretax earnings before fixed charges	\$19,342	\$14,625	\$13,193	\$10,435	\$ 8,573
Fixed charges:					
Interest	\$16,043	\$11,886	\$11,238	\$ 8,586	\$ 6,009
Other(A)	250	173	144	138	152
Total fixed charges	16,293	12,059	11,382	8,724	6,161
Preferred stock dividend requirements	61	73	77	22	9
Total combined fixed charges and preferred stock dividends	\$16,354	\$12,132	\$11,459	\$ 8,746	\$ 6,170
Ratio of earnings to fixed charges	1.19	1.21	1.16	1.20	1.39
Ratio of earnings to combined fixed charges and preferred stock dividends	1.18	1.21	1.15	1.19	1.39

</TABLE>

(A) Other fixed charges consist of the interest factor in rentals, amortization of debt expense, and preferred stock dividend requirements of majority-owned subsidiaries.

SUBSIDIARIES OF THE REGISTRANT

The following are subsidiaries of ML & Co. as of February 23, 1998 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.

<TABLE>
<CAPTION>

Name -----	State or Juris- diction of Entity -----
<S>	<C>
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated/1/.....	Delaware
Broadcort Capital Corp.	Delaware
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Canada Inc.	Nova Scotia
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
Mercury Asset Management Group Holdings PLC /4/.....	England
Merrill Lynch Asset Management L.P. /5/.....	Delaware
Merrill Lynch Capital Partners, Inc.	Delaware
Merrill Lynch Futures Inc.	Delaware
Merrill Lynch Group Holdings Limited.....	Ireland
Merrill Lynch Capital Markets Bank Limited.....	Ireland
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 Mortgage Capital Inc.	Delaware
Merrill Lynch National Financial.....	Utah
Merrill Lynch Trust Company /6/.....	New Jersey
Merrill Lynch Business Financial Services Inc.	Delaware
Merrill Lynch Credit Corporation.....	Delaware
Merrill Lynch Investment Partners Inc.	Delaware

</TABLE>

- 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 Asset Management 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.

<TABLE>
<CAPTION>

Name -----	State or Juris- diction of Entity -----
<S>	<C>
Merrill Lynch & Co., Inc.	
Merrill Lynch Group, Inc. (cont'd)	
MLDP Holdings, Inc./7/.....	Delaware
Merrill Lynch Derivative Products AG.....	Switzerland
ML IBK Positions Inc.	Delaware

Merrill Lynch Capital Corporation.....	Delaware
ML Leasing Equipment Corp./8/.....	Delaware
Merrill Lynch International Incorporated.....	Delaware
Merrill Lynch (Australasia) Pty Limited.....	New South Wales
Merrill Lynch International (Australia) Limited.....	New South Wales
Merrill Lynch International Bank.....	United States
Merrill Lynch International Holdings Inc.	Delaware
Merrill Lynch Bank (Austria) Aktiengesellschaft A.G.	Austria
Merrill Lynch Bank and Trust Company (Cayman) Limited.....	Cayman Islands, British West Indies
Merrill Lynch Capital Markets A.G.	Switzerland
Merrill Lynch Europe PLC.....	England
Merrill Lynch Europe Holdings Limited	England
Merrill Lynch International.....	England
Merrill Lynch, Pierce, Fenner & Smith (Brokers & Dealers) Limited.....	England
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France	France
Merrill Lynch Capital Markets (France) S.A.	France
Merrill Lynch Far East Limited.....	Hong Kong
Merrill Lynch Japan Incorporated.....	Cayman Islands, British West Indies

</TABLE>

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/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.

/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.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. (the "Company") of our reports dated February 23, 1998 relating to the Company's 1997 financial statements and related financial statement information which are included in the Company's Annual Report on Form 10-K dated March 5, 1998.

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. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Incentive Plan)

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 & Producers)

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)

Filed on Form S-3:

Debt Securities

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. 33-35456

Registration Statement No. 33-42041
Registration Statement No. 33-45327
Registration Statement No. 33-49947
Registration Statement No. 33-51489
Registration Statement No. 33-52647
Registration Statement No. 33-60413
Registration Statement No. 33-61559
Registration Statement No. 33-65135
Registration Statement No. 333-13649
Registration Statement No. 333-25255
Registration Statement No. 333-28537
Registration Statement No. 333-44173

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. 33-27594
Registration Statement No. 33-38879

Other Securities

Registration Statement No. 33-33335 (Common Stock)
Registration Statement No. 33-45777 (Common Stock)
Registration Statement No. 33-55363 (Preferred Stock)
Registration Statement No. 333-02275 (Long Term Incentive Compensation
Plan)
Registration Statement No. 333-16603 (TOPrS)
Registration Statement No. 333-20137 (TOPrS)
Registration Statement No. 333-24889 (LTIC and LTICPMP)
Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)
Registration Statement No. 333-42859 (TOPrS)

/s/ Deloitte & Touche LLP

New York, New York
March 5, 1998

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<FN>
<F1>Includes \$627 in Preferred Securities issued by Subsidiaries.
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