

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-7182

MERRILL LYNCH & CO., INC.

(Exact name of Registrant as specified in its charter)

Delaware

13-2740599

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

**4 World Financial Center,
New York, New York**

10080

(Address of Principal Executive Offices)

(Zip Code)

(212) 449-1000

Registrant's Telephone Number, Including Area Code:

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

☒ YES ☐ NO

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

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

☐ YES ☒ NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

881,306,718 shares of Common Stock and 2,663,196 Exchangeable Shares were outstanding as of the close of business on October 27, 2006. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

MERRILL LYNCH & CO., INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2006
TABLE OF CONTENTS

<u>Part I. Financial Information</u>	4
<u>Item 1. Financial Statements (unaudited)</u>	4
<u>Condensed Consolidated Statements of Earnings</u>	4
<u>Condensed Consolidated Balance Sheets</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Note 1. Summary of Significant Accounting Policies</u>	9
<u>Note 2. Segment Information</u>	13
<u>Note 3. Securities Financing Transactions</u>	15
<u>Note 4. Investment Securities</u>	16
<u>Note 5. Securitization Transactions and Transactions with Special Purpose Entities (“SPEs”)</u>	17
<u>Note 6. Loans, Notes, Mortgages and Related Commitments to Extend Credit</u>	21
<u>Note 7. Commercial Paper, Short- and Long-Term Borrowings, and Deposits</u>	22
<u>Note 8. Comprehensive Income</u>	24
<u>Note 9. Stockholders’ Equity and Earnings Per Share</u>	25
<u>Note 10. Commitments, Contingencies and Guarantees</u>	26
<u>Note 11. Employee Benefit Plans</u>	30
<u>Note 12. Employee Incentive Plans</u>	31
<u>Note 13. Regulatory Requirements</u>	35
<u>Report of Independent Registered Public Accounting Firm</u>	38
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Forward-Looking Statements</u>	39
<u>Overview</u>	39
<u>Critical Accounting Policies and Estimates</u>	41
<u>Business Environment</u>	45
<u>Results of Operations</u>	46
<u>Business Segments</u>	49
<u>Consolidated Balance Sheets</u>	57
<u>Off Balance Sheet Arrangements</u>	58
<u>Contractual Obligations and Commitments</u>	58
<u>Capital and Funding</u>	59
<u>Risk Management</u>	66
<u>Non-Investment Grade Holdings and Highly Leveraged Transactions</u>	70
<u>Recent Developments</u>	72
<u>Statistical Data</u>	76
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	77
<u>Item 4. Controls and Procedures</u>	77
<u>Part II. Other Information</u>	77
<u>Item 1. Legal Proceedings</u>	77
<u>Item 1A. Risk Factors</u>	79
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	79
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	80
<u>Item 5. Other Information</u>	80
<u>Item 6. Exhibits</u>	80
<u>Signatures</u>	82
<u>Index to Exhibits</u>	83

Available Information

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

	For the Three Months Ended		
	Sept. 29, 2006	Sept. 30, 2005	Percent Inc. (Dec.)
(in millions, except per share amounts)			
Net Revenues			
Asset management and portfolio service fees	\$ 1,782	\$ 1,527	16.7%
Principal transactions	1,681	917	83.3
Commissions	1,383	1,342	3.1
Investment banking	857	880	(2.6)
Revenues from consolidated investments	210	142	47.9
Other	776	548	41.6
Subtotal	6,689	5,356	24.9
Interest and dividend revenues	10,690	7,039	51.9
Less interest expense	9,452	5,717	65.3
Net interest profit	1,238	1,322	(6.4)
Gain on merger	1,969	-	N/M
Total Net Revenues	9,896	6,678	48.2
Non-Interest Expenses			
Compensation and benefits	3,950	3,270	20.8
Communications and technology	485	405	19.8
Brokerage, clearing, and exchange fees	268	190	41.1
Occupancy and related depreciation	259	235	10.2
Professional fees	224	173	29.5
Advertising and market development	164	138	18.8
Expenses of consolidated investments	142	91	56.0
Office supplies and postage	53	48	10.4
Other	223	192	16.1
Total Non-Interest Expenses	5,768	4,742	21.6
Earnings Before Income Taxes	4,128	1,936	113.2
Income tax expense	1,083	560	93.4
Net Earnings	\$ 3,045	\$ 1,376	121.3
Preferred Stock Dividends	50	18	177.8
Net Earnings Applicable to Common Stockholders	\$ 2,995	\$ 1,358	120.5
Earnings Per Common Share			
Basic	\$ 3.50	\$ 1.54	
Diluted	\$ 3.17	\$ 1.40	
Dividend Paid Per Common Share	\$ 0.25	\$ 0.20	
Average Shares Used in Computing Earnings Per Common Share			
Basic	855.8	881.4	
Diluted	945.3	968.5	

See Notes to Condensed Consolidated Financial Statements.

N/M = Not Meaningful

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

	For the Nine Months Ended		
	Sept. 29, 2006	Sept. 30, 2005	Percent Inc. (Dec.)
(in millions, except per share amounts)			
Net Revenues			
Asset management and portfolio service fees	\$ 5,234	\$ 4,393	19.1%
Principal transactions	4,856	2,868	69.3
Commissions	4,571	3,930	16.3
Investment banking	2,984	2,613	14.2
Revenues from consolidated investments	500	353	41.6
Other	2,440	1,582	54.2
Subtotal	20,585	15,739	30.8
Interest and dividend revenues	29,044	18,544	56.6
Less interest expense	25,582	15,054	69.9
Net interest profit	3,462	3,490	(0.8)
Gain on merger	1,969	-	N/M
Total Net Revenues	<u>26,016</u>	<u>19,229</u>	35.3
Non-Interest Expenses			
Compensation and benefits	13,680	9,514	43.8
Communications and technology	1,367	1,196	14.3
Brokerage, clearing, and exchange fees	769	625	23.0
Occupancy and related depreciation	749	695	7.8
Professional fees	620	534	16.1
Advertising and market development	499	424	17.7
Expenses of consolidated investments	334	211	58.3
Office supplies and postage	167	151	10.6
Other	761	679	12.1
Total Non-Interest Expenses	<u>18,946</u>	<u>14,029</u>	35.0
Earnings Before Income Taxes	7,070	5,200	36.0
Income tax expense	1,917	1,477	29.8
Net Earnings	\$ 5,153	\$ 3,723	38.4
Preferred Stock Dividends	138	42	228.6
Net Earnings Applicable to Common Stockholders	<u>\$ 5,015</u>	<u>\$ 3,681</u>	36.2
Earnings Per Common Share			
Basic	\$ 5.73	\$ 4.11	
Diluted	\$ 5.19	\$ 3.76	
Dividend Paid Per Common Share	<u>\$ 0.75</u>	<u>\$ 0.56</u>	
Average Shares Used in Computing Earnings Per Common Share			
Basic	875.0	895.6	
Diluted	966.6	980.1	

See Notes to Condensed Consolidated Financial Statements.

N/M = Not Meaningful

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

<i>(dollars in millions)</i>	Sept. 29, 2006	Dec. 30, 2005
ASSETS		
Cash and cash equivalents	\$ 30,368	\$ 14,586
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	14,908	11,949
Securities financing transactions		
Receivables under resale agreements	189,893	163,021
Receivables under securities borrowed transactions	105,463	92,484
	<u>295,356</u>	<u>255,505</u>
Trading assets, at fair value (includes securities pledged as collateral that can be sold or repledged of \$44,979 in 2006 and \$38,678 in 2005)		
Equities and convertible debentures	38,753	32,933
Mortgages, mortgage-backed, and asset-backed	35,133	29,233
Corporate debt and preferred stock	34,427	27,436
Contractual agreements	33,468	26,216
Non-U.S. governments and agencies	19,128	15,157
U.S. Government and agencies	15,495	8,936
Municipals and money markets	5,307	5,694
Commodities and related contracts	2,350	3,105
	<u>184,061</u>	<u>148,710</u>
Investment securities	76,393	69,273
Securities received as collateral	26,863	16,808
Other receivables		
Customers (net of allowance for doubtful accounts of \$46 in 2006 and 2005)	43,663	40,451
Brokers and dealers	13,286	12,127
Interest and other	25,491	15,619
	<u>82,440</u>	<u>68,197</u>
Loans, notes, and mortgages (net of allowances for loan losses of \$481 in 2006 and \$406 in 2005)	71,058	66,041
Separate accounts assets	11,886	16,185
Equipment and facilities (net of accumulated depreciation and amortization of \$5,078 in 2006 and \$4,865 in 2005)	2,629	2,313
Goodwill and other intangible assets	2,263	6,035
Other assets	<u>6,499</u>	<u>5,413</u>
Total Assets	<u>\$804,724</u>	<u>\$681,015</u>

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

<i>(dollars in millions, except per share amounts)</i>	Sept. 29, 2006	Dec. 30, 2005
LIABILITIES		
Securities financing transactions		
Payables under repurchase agreements	\$236,857	\$198,152
Payables under securities loaned transactions	<u>18,080</u>	<u>19,335</u>
	<u>254,937</u>	<u>217,487</u>
Commercial paper and other short-term borrowings	8,468	3,902
Deposits	77,902	80,016
Trading liabilities, at fair value		
Contractual agreements	36,652	28,755
Equities and convertible debentures	26,125	19,119
Non-U.S. governments and agencies	14,151	19,217
U.S. Government and agencies	12,137	12,478
Corporate debt and preferred stock	7,768	6,203
Commodities and related contracts	1,670	2,029
Municipals, money markets and other	<u>1,370</u>	<u>1,132</u>
	<u>99,873</u>	<u>88,933</u>
Obligation to return securities received as collateral	26,863	16,808
Other payables		
Customers	44,465	35,619
Brokers and dealers	33,068	19,528
Interest and other	<u>42,325</u>	<u>28,501</u>
	<u>119,858</u>	<u>83,648</u>
Liabilities of insurance subsidiaries	2,830	2,935
Separate accounts liabilities	11,886	16,185
Long-term borrowings	160,364	132,409
Long-term debt issued to TOPrSSM partnerships	<u>3,092</u>	<u>3,092</u>
Total Liabilities	<u>766,073</u>	<u>645,415</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity (liquidation preference of \$30,000 per share; issued: 2006 - 105,000 shares; 2005 - 93,000 shares)	3,147	2,773
Less: Treasury stock, at cost (2006 - 615 shares; 2005 - 3,315 shares)	<u>23</u>	<u>100</u>
Total Preferred Stockholders' Equity	3,124	2,673
Common Stockholders' Equity		
Shares exchangeable into common stock	39	41
Common stock (par value \$1.33 ¹ / ₃ per share; authorized: 3,000,000,000 shares; issued: 2006 - 1,199,401,807 shares; 2005 - 1,148,714,008 shares)	1,598	1,531
Paid-in capital	17,935	13,320
Accumulated other comprehensive loss (net of tax)	(877)	(844)
Retained earnings	<u>31,142</u>	<u>26,824</u>
	49,837	40,872
Less: Treasury stock, at cost (2006 - 319,426,179 shares; 2005 - 233,112,271 shares)	<u>14,310</u>	<u>7,945</u>
Total Common Stockholders' Equity	<u>35,527</u>	<u>32,927</u>
Total Stockholders' Equity	<u>38,651</u>	<u>35,600</u>
Total Liabilities and Stockholders' Equity	<u>\$804,724</u>	<u>\$681,015</u>

See Notes to Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005
<i>(dollars in millions)</i>		
Cash flows from operating activities:		
Net earnings	\$ 5,153	\$ 3,723
Noncash items included in earnings:		
Gain on merger	(1,969)	-
Depreciation and amortization	378	358
Share-based compensation expense	2,828	757
Deferred taxes	(569)	151
Undistributed earnings from equity investments	(304)	(295)
Other	704	825
Changes in operating assets and liabilities:		
Trading assets	(35,461)	1,552
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(1,952)	6,139
Receivables under resale agreements	(26,871)	(53,101)
Receivables under securities borrowed transactions	(12,979)	9,707
Customer receivables	(3,795)	(6,310)
Brokers and dealers receivables	(1,210)	(1,143)
Proceeds from loans, notes, and mortgages held for sale	22,645	17,013
Other changes in loans, notes, and mortgages held for sale	(28,375)	(17,979)
Trading liabilities	2,954	(8,252)
Payables under repurchase agreements	38,705	31,895
Payables under securities loaned transactions	(1,255)	(1,103)
Customer payables	8,846	3,384
Brokers and dealers payables	13,577	(4,132)
Other, net	5,488	(1,981)
Cash used for operating activities	<u>(13,462)</u>	<u>(18,792)</u>
Cash flows from investing activities:		
Proceeds from (payments for):		
Maturities of available-for-sale securities	9,908	20,047
Sales of available-for-sale securities	13,413	27,154
Purchases of available-for-sale securities	(22,381)	(42,862)
Maturities of held-to-maturity securities	2	15
Purchases of held-to-maturity securities	(3)	-
Loans, notes, and mortgages held for investment, net	682	(7,411)
Transfer of cash balances related to merger	(651)	-
Other investments and other assets	(2,695)	127
Equipment and facilities, net	(734)	(175)
Cash used for investing activities	<u>(2,459)</u>	<u>(3,105)</u>
Cash flows from financing activities:		
Proceeds from (payments for):		
Commercial paper and other short-term borrowings	4,566	78
Issuance and resale of long-term borrowings	53,265	44,786
Settlement and repurchases of long-term borrowings	(27,556)	(30,401)
Deposits	(2,114)	(1,907)
Derivative and other financing transactions	8,219	4,515
Issuance of common stock	1,148	582
Issuance of preferred stock	360	1,110
Common stock repurchases	(6,321)	(2,986)
Other stock transactions	585	26
Dividends paid on common and preferred stock	(835)	(566)
Excess tax benefits related to stock-based compensation	386	-
Cash provided by financing activities	<u>31,703</u>	<u>15,237</u>
Increase (decrease) in cash and cash equivalents	15,782	(6,660)
Cash and cash equivalents, beginning of period	<u>14,586</u>	<u>20,790</u>
Cash and cash equivalents, end of period	<u>\$ 30,368</u>	<u>\$ 14,130</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Income taxes	\$ 2,134	\$ 906
Interest	24,976	14,796
Non-cash investing and financing activities:		
The investment recorded in connection with the merger of the MLIM business with BlackRock (see Note 2) totaled \$7.7 billion. The book value of net asset transfers, derecognition of goodwill and other adjustments totaled \$4.9 billion.		

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 29, 2006

Note 1. Summary of Significant Accounting Policies

For a complete discussion of Merrill Lynch's accounting policies, refer to the Annual Report on Form 10-K for the year ended December 30, 2005 ("2005 Annual Report").

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries (collectively, "Merrill Lynch"), whose subsidiaries are generally controlled through a majority voting interest but may be controlled by means of a significant minority ownership, by contract, lease or otherwise. In certain cases, Merrill Lynch subsidiaries (i.e., Variable Interest Entities ("VIEs")) may also be consolidated based on a risks and rewards approach as required by Financial Accounting Standards Board ("FASB") revised Interpretation No. 46 ("FIN 46R"). Intercompany transactions and balances have been eliminated. The interim Condensed Consolidated Financial Statements for the three- and nine-month periods are unaudited; however, in the opinion of Merrill Lynch management, all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the Condensed Consolidated Financial Statements have been included.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the 2005 Annual Report. The December 30, 2005 unaudited Condensed Consolidated Balance Sheet was derived from the audited 2005 Consolidated Financial Statements. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

During the second quarter of 2006, Merrill Lynch began reporting cash flows from loans held for sale as operating activities, whereas in prior periods, these loans were classified as investing activities. Merrill Lynch corrected the previously presented cash flows for these loans to conform to U.S. Generally Accepted Accounting Principles. All prior period amounts have been restated to conform to this presentation.

Merrill Lynch offers a broad array of products and services to its diverse client base of individuals, small to mid-size businesses, employee benefit plans, corporations, financial institutions, and governments around the world. These products and services are offered from a number of locations around the world. In some cases, the same or similar products and services may be offered to both individual and institutional clients, utilizing the same infrastructure. In other cases, a single infrastructure may be used to support multiple products and services offered to clients. When Merrill Lynch analyzes its profitability, it does not focus on the profitability of a single product or service. Instead, Merrill Lynch looks at the profitability of businesses offering an array of products and services to various types of clients. The profitability of the products and services offered to individuals, small to mid-size businesses, and employee benefit plans is analyzed separately from the profitability of products and services offered to corporations, financial institutions, and governments, regardless of

whether there is commonality in products and services infrastructure. As such, Merrill Lynch does not separately disclose the costs associated with the products and services sold or general and administrative costs, in total or by product.

When pricing its various products and services, Merrill Lynch considers multiple factors, including prices being offered in the market for similar products and services, the competitiveness of its pricing compared to competitors, the profitability of its businesses and its overall profitability, as well as the profitability, creditworthiness, and importance of the overall client relationships.

Expenses which are incurred to support products and services and infrastructures shared by businesses are allocated to the businesses based on various methodologies which may include headcount, square footage, and certain other criteria. Similarly, certain revenues may be shared based upon agreed methodologies. When looking at the profitability of various businesses, Merrill Lynch considers all expenses incurred, including overhead and the costs of shared services, as all are considered integral to the operation of the businesses.

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. SFAS No. 157 nullifies the guidance provided by the Emerging Issues Task Force on Issue 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3") that prohibits recognition of day one gains or losses on derivative transactions where model inputs that significantly impact valuation are not observable. In addition, SFAS No. 157 prohibits the use of block discounts for large positions of unrestricted financial instruments that trade in an active market and requires an issuer to consider changes in its own credit spreads when determining the fair value of its liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. The provisions of SFAS No. 157 are to be applied prospectively, except that the provisions related to block discounts and existing derivative financial instruments measured under EITF 02-3 are to be applied as a one-time cumulative effect adjustment to opening retained earnings in the year of the adoption. Merrill Lynch is currently evaluating whether or not it will early adopt SFAS No. 157 as of the first quarter of 2007 as permitted and whether the adoption will have a material impact on the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R* ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of its defined benefit pension and other postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability in its consolidated balance sheets. Upon adoption, SFAS No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income (loss), net of tax. These provisions of SFAS No. 158 are effective for Merrill Lynch for year-end 2006. SFAS No. 158 also requires defined benefit plan assets and benefit obligations to be measured as of the date of the company's fiscal year-end. Merrill Lynch has historically used a September 30 measurement date. Under the provisions of SFAS No. 158, Merrill Lynch will be required to change its measurement date to coincide with its December year-end. This provision of SFAS No. 158 will be effective for Merrill Lynch beginning with year-end 2008. Merrill Lynch is currently assessing the impact of the adoption of SFAS No. 158 on the Consolidated Financial Statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB No. 108") to provide guidance on how the effects of the carryover or reversal of prior year

unrecorded misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires a company to apply an approach that considers the amount by which the current year income statement is misstated (“rollover approach”) and an approach that considers the cumulative amount by which the current year balance sheet is misstated (“iron-curtain approach”). Prior to the issuance of SAB No. 108, many companies applied either the rollover or iron-curtain approach for purposes of assessing materiality of misstatements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Upon adoption, SAB No. 108 allows a one-time cumulative effect adjustment against retained earnings for those prior year misstatements that were not material under a company’s prior approach, but that are deemed material under the SAB No. 108 approach. Merrill Lynch does not expect the adoption of SAB No. 108 to have a material impact on the Consolidated Financial Statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for Merrill Lynch beginning in the first quarter of 2007. Merrill Lynch is currently evaluating the impact of adopting FIN 48 on the Condensed Consolidated Financial Statements.

In April 2006, the FASB issued a FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Considered in Applying FIN 46R* (“the FSP”). The FSP requires that the variability to be included when applying FIN 46R be based on a “by-design” approach and should consider what risks the variable interest entity was designed to create. Merrill Lynch adopted the FSP beginning in the third quarter of 2006 for all new entities with which Merrill Lynch became involved. Merrill Lynch will apply the provisions of the FSP to all entities previously required to be analyzed under FIN 46R when a reconsideration event occurs as defined under paragraph 7 of the Interpretation. The adoption of the FSP during the third quarter did not have a material impact on the Condensed Consolidated Financial Statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets* (“SFAS No. 156”). SFAS No. 156 amends Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits servicers to subsequently measure each separate class of servicing assets and liabilities at fair value rather than at the lower of amortized cost or market. For those companies that elect to measure their servicing assets and liabilities at fair value, SFAS No. 156 requires the difference between the carrying value and fair value at the date of adoption to be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the election is made. Merrill Lynch will adopt SFAS No. 156 beginning in the first quarter of 2007. Merrill Lynch is currently assessing the impact of adopting SFAS No. 156 but does not expect the standard to have a material impact on the Condensed Consolidated Financial Statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (“SFAS No. 155”). SFAS No. 155 clarifies the bifurcation requirements for certain financial instruments and permits hybrid financial instruments that contain a bifurcable embedded derivative to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Merrill Lynch will adopt SFAS No. 155 beginning in the first quarter of 2007. At adoption, for any financial instruments which the fair value election is made, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial

instruments and the fair value of the combined hybrid financial instruments will be recognized as a cumulative-effect adjustment to beginning retained earnings. Merrill Lynch is currently assessing the impact of adopting SFAS No. 155 on the Condensed Consolidated Financial Statements.

During the first quarter of 2006, Merrill Lynch adopted the provisions of Statement No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123R"). Under SFAS No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. Merrill Lynch adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for Merrill Lynch, SFAS No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions.

Prior to the adoption of SFAS No. 123R, Merrill Lynch had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees. This included those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. Previously, Merrill Lynch had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left Merrill Lynch. However, because SFAS No. 123R applies only to awards granted or modified in 2006, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards must continue to be amortized over the stated vesting period.

In addition, beginning with performance year 2006, for which Merrill Lynch expects to grant stock awards in early 2007, Merrill Lynch will accrue the expense for future awards granted to retirement-eligible employees over the award performance year instead of recognizing the entire expense related to the award on the grant date. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

SFAS No. 123R also requires expected forfeitures of share-based compensation awards for non-retirement-eligible employees to be included in determining compensation expense. Prior to the adoption of SFAS No. 123R, any benefits of employee forfeitures of such awards were recorded as a reduction of compensation expense when the employee left Merrill Lynch and forfeited the award. In the first quarter of 2006, Merrill Lynch recorded a benefit based on expected forfeitures which was not material to the results of operations for the quarter.

The adoption of SFAS No. 123R resulted in a first quarter charge to compensation expense of approximately \$550 million on a pre-tax basis and \$370 million on an after-tax basis.

The adoption of SFAS No. 123R, combined with other business and competitive considerations, prompted Merrill Lynch to undertake a comprehensive review of the company's stock-based incentive compensation awards, including vesting schedules and retirement eligibility requirements, examining their impact to both Merrill Lynch and its employees. Upon the completion of this review, the Management Development and Compensation Committee of Merrill Lynch's Board of Directors determined that to fulfill the objective of retaining high quality personnel, future stock grants should contain more stringent retirement provisions. These provisions include a combination of increased age and length of service requirements. While the stock awards of employees who retire continue to vest, retired employees are subject to continued compliance with the strict non-compete provisions of those awards. To facilitate transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees, including certain executive officers, were modified, effective March 31, 2006, to permit employees to be immediately eligible for retirement with respect to

those earlier awards. While Merrill Lynch modified the retirement-related provisions of the previous stock awards, the vesting and non-compete provisions for those awards remain in force.

Since the provisions of SFAS No. 123R apply to awards modified in 2006, these modifications required Merrill Lynch to record additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards.

The one-time, non-cash charge associated with the adoption of SFAS No. 123R, and the policy modifications to previous awards resulted in a net charge to compensation expense in the first quarter of 2006 of approximately \$1.8 billion pre-tax, and \$1.2 billion after-tax, or a net impact of \$1.34 and \$1.21 on basic and diluted earnings per share, respectively. Policy modifications to previously granted awards amounted to \$1.2 billion of the pre-tax charge and impacted approximately 6,300 employees.

Prior to the adoption of SFAS No. 123R, Merrill Lynch presented the cash flows related to income tax deductions in excess of the compensation expense recognized on share-based compensation as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefits of \$283 million related to total share-based compensation included in cash flows from financing activities in the first quarter of 2006 would have been included in cash flows from operating activities if Merrill Lynch had not adopted SFAS No. 123R.

As a result of adopting SFAS No. 123R, approximately \$600 million of liabilities associated with the Financial Advisor Capital Accumulation Award Plan ("FACAAP") were reclassified to stockholders' equity. In addition, as a result of adopting SFAS No. 123R, the unamortized portion of employee stock grants, which was previously reported as a separate component of stockholders' equity on the Condensed Consolidated Balance Sheets, has been reclassified to Paid-in Capital. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional information.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 was effective beginning in the third quarter of 2005 for all new limited partnership agreements and any limited partnership agreements that were modified. For those partnership agreements that existed at the date EITF 04-5 was issued, the guidance became effective in the first quarter of 2006. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

Note 2. Segment Information

Through the end of the third quarter of 2006, Merrill Lynch aligned its operations into three business segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and Merrill Lynch Investment Managers ("MLIM"). GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world, and in connection with proprietary trading activities. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM managed financial assets for individual, institutional and corporate clients. Refer to

Note 3 to the 2005 Annual Report for information on the principal methodologies used in preparing the segment results.

On September 29, 2006, Merrill Lynch completed the merger of its MLIM business with BlackRock, Inc. ("BlackRock"). Merrill Lynch received 65 million BlackRock common and preferred shares in the combined company representing a 45% voting interest. At the completion of this merger, Merrill Lynch recognized a pre-tax gain of \$2.0 billion, along with related non-interest expenses of \$202 million for a total after-tax net benefit of \$1.1 billion. Merrill Lynch's investment in BlackRock is \$7.7 billion and is included in Investment securities on the Condensed Consolidated Balance Sheet and in the MLIM segment at September 29, 2006. Additionally, in connection with the merger, the goodwill associated with the MLIM business has been derecognized on the Condensed Consolidated Balance Sheet at September 29, 2006. The gain and related one-time expenses associated with the closing of the BlackRock merger are reflected in the Corporate segment. Merrill Lynch will account for its investment in BlackRock under the equity method of accounting and record its share of BlackRock's earnings, net of expenses and taxes, in revenues on the Consolidated Statement of Earnings.

As this transaction closed on the last day of the fiscal quarter, Merrill Lynch's third quarter 2006 results of operations include the full quarter results for MLIM. Additionally, cash flows associated with MLIM's business for the entire nine months ended September 29, 2006 have been included in Merrill Lynch's Condensed Consolidated Statement of Cash Flows. However, the balance sheet related to the business transferred was not included in Merrill Lynch's Condensed Consolidated Balance Sheet at September 29, 2006. Similarly, MLIM's Assets Under Management were transferred to BlackRock upon completion of the merger and are no longer included in Merrill Lynch's consolidated Assets Under Management.

Revenues and expenses associated with inter-segment activities are recognized in each segment and eliminated in the Corporate segment. Inter-segment revenues and expenses primarily consist of certain MLIM and GMI products that are distributed through GPC distribution channels and, to a lesser extent, certain MLIM products that are distributed through GMI. Merrill Lynch has revenue and expense sharing agreements for joint activities between segments, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities.

The following segment results represent the information that is used by management in its decision-making processes. Prior period amounts have been reclassified to conform to the current period presentation.

Results by business segment are as follows:

(dollars in millions)

	GMI	GPC	MLIM	Corporate	Total
Three Months Ended Sept. 29, 2006(3)					
Non-interest revenues	\$ 3,640	\$ 2,326	\$ 693	\$ 1,999(1)	\$ 8,658
Net interest profit	<u>756</u>	<u>499</u>	<u>7</u>	<u>(24)(2)</u>	<u>1,238</u>
Net revenues	4,396	2,825	700	1,975	9,896
Non-interest expenses	<u>2,937</u>	<u>2,214</u>	<u>416</u>	<u>201</u>	<u>5,768</u>
Pre-tax earnings	\$ <u>1,459</u>	\$ <u>611</u>	\$ <u>284</u>	\$ <u>1,774</u>	\$ <u>4,128</u>
Quarter-end total assets(4)	<u>\$720,195</u>	<u>\$73,690</u>	<u>\$8,028</u>	<u>\$2,811</u>	<u>\$804,724</u>
Three Months Ended Sept. 30, 2005					
Non-interest revenues	\$ 2,662	\$ 2,243	\$ 443	\$ 8(1)	\$ 5,356
Net interest profit	<u>983</u>	<u>448</u>	<u>13</u>	<u>(122)(2)</u>	<u>1,322</u>
Net revenues	3,645	2,691	456	(114)	6,678
Non-interest expenses	<u>2,356</u>	<u>2,101</u>	<u>294</u>	<u>(9)</u>	<u>4,742</u>
Pre-tax earnings (loss)	\$ <u>1,289</u>	\$ <u>590</u>	\$ <u>162</u>	\$ <u>(105)</u>	\$ <u>1,936</u>
Quarter-end total assets	<u>\$579,961</u>	<u>\$76,166</u>	<u>\$8,048</u>	<u>\$6,418</u>	<u>\$670,593</u>
Nine Months Ended Sept. 29, 2006(3)(5)					
Non-interest revenues	\$ 11,420	\$ 7,245	\$1,867	\$ 2,022(1)	\$ 22,554
Net interest profit	<u>2,109</u>	<u>1,564</u>	<u>33</u>	<u>(244)(2)</u>	<u>3,462</u>
Net revenues	13,529	8,809	1,900	1,778	26,016
Non-interest expenses	<u>10,365</u>	<u>7,132</u>	<u>1,263</u>	<u>186</u>	<u>18,946</u>
Pre-tax earnings	\$ <u>3,164</u>	\$ <u>1,677</u>	\$ <u>637</u>	\$ <u>1,592</u>	\$ <u>7,070</u>
Nine Months Ended Sept. 30, 2005					
Non-interest revenues	\$ 7,803	\$ 6,665	\$1,264	\$ 7(1)	\$ 15,739
Net interest profit	<u>2,598</u>	<u>1,197</u>	<u>10</u>	<u>(315)(2)</u>	<u>3,490</u>
Net revenues	10,401	7,862	1,274	(308)	19,229
Non-interest expenses	<u>6,890</u>	<u>6,305</u>	<u>864</u>	<u>(30)</u>	<u>14,029</u>
Pre-tax earnings (loss)	\$ <u>3,511</u>	\$ <u>1,557</u>	\$ <u>410</u>	\$ <u>(278)</u>	\$ <u>5,200</u>

(1) Includes the elimination of intersegment revenues and expenses.

(2) The Corporate segment also includes acquisition financing costs and other corporate interest, including the impact of Trust Originated Preferred Securities ("TOPrSSM").

(3) The Corporate segment's results for the three and nine months ended September 29, 2006 include \$2.0 billion of non-interest revenues and \$202 million of non-interest expenses related to the closing of the BlackRock merger.

(4) MLIM's quarter-end total assets as of September 29, 2006 include Merrill Lynch's investment in BlackRock, as well as MLIM's allocation of other shared assets.

(5) The nine months ended September 29, 2006 results include the impact of the \$1.8 billion, pre-tax, one-time compensation expenses incurred in the first quarter of 2006. These one-time compensation expenses were recorded as follows: \$1.4 billion to GMI, \$281 million to GPC and \$109 million to MLIM; refer to Note 1 to the Condensed Consolidated Financial Statements for further information.

Note 3. Securities Financing Transactions

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

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, mortgages, mortgage-backed and asset-backed securities, corporate debt and preferred stock, equities and convertible debentures, municipals and money markets, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge the securities received (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At September 29, 2006 and December 30, 2005, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was \$573 billion and \$538 billion, respectively, and the fair value of the portion that has been sold or repledged was \$445 billion and \$402 billion, respectively. Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Securities Exchange Act Rule 15c3-3 of the SEC. At September 29, 2006 and December 30, 2005, the fair value of collateral used for this purpose was \$18.9 billion and \$15.5 billion, respectively.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets on the Condensed Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at September 29, 2006 and December 30, 2005 are as follows:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Trading asset category		
Mortgages, mortgage-backed, and asset-backed	\$ 23,680	\$ 14,457
Corporate debt and preferred stock	13,133	10,394
U.S. Government and agencies	8,756	6,711
Equities and convertible debentures	2,887	4,019
Non-U.S. governments and agencies	2,354	3,353
Municipals and money markets	500	100
Total	\$ 51,310	\$ 39,034

Note 4. Investment Securities

Investment securities at September 29, 2006 and December 30, 2005 are presented below:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Investment securities		
Available-for-sale ⁽¹⁾	\$ 53,305	\$ 54,471
Trading	6,151	5,666
Held-to-maturity	284	271
Non-qualifying ⁽²⁾		
Equity investments ⁽³⁾	18,286	9,795
Investments of insurance subsidiaries ⁽⁴⁾	1,185	1,174
Deferred compensation hedges ⁽⁵⁾	1,733	1,457
Investments in TOPrSM partnerships and other investments	755	738
Total	\$ 81,699	\$ 73,572

- (1) At September 29, 2006 and December 30, 2005, includes \$5.3 billion and \$4.3 billion, respectively, of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.
- (2) Non-qualifying for SFAS No. 115 purposes.
- (3) Includes Merrill Lynch's investment in BlackRock at September 29, 2006.
- (4) Primarily represents insurance policy loans.
- (5) Represents investments which economically hedge deferred compensation liabilities.

Note 5. Securitization Transactions and Transactions with Special Purpose Entities ("SPEs")

Securitizations

In the normal course of business, Merrill Lynch securitizes: commercial and residential mortgage and home equity loans; municipal, government, and corporate bonds; and other types of financial assets. SPEs, frequently referred to as Variable Interest Entities, or VIEs, are often used when entering into or facilitating securitization transactions. Merrill Lynch's involvement with SPEs used to securitize financial assets includes: structuring and/or establishing SPEs; selling assets to SPEs; managing or servicing assets held by SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of approximately \$91.5 billion and \$64.5 billion for the nine months ended September 29, 2006 and September 30, 2005, respectively. For the nine months ended September 29, 2006 and September 30, 2005, Merrill Lynch received \$92.1 billion and \$65.2 billion, respectively, of proceeds, and other cash inflows, from securitization transactions, and recognized net securitization gains of \$346.1 million and \$329.3 million, respectively, in Merrill Lynch's Condensed Consolidated Statements of Earnings.

For the first nine months of 2006 and 2005, cash inflows from securitizations related to the following asset types:

(dollars in millions)

Asset category	Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005
Residential mortgage loans	\$ 67,777	\$ 42,788
Municipal bonds	11,141	12,205
Corporate and government bonds	3,220	1,825
Commercial loans and other	9,988	8,359
	<u>\$ 92,126</u>	<u>\$ 65,177</u>

Retained interests in securitized assets were approximately \$6.5 billion and \$4.0 billion at September 29, 2006 and December 30, 2005, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of September 29, 2006 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The

sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	\$ 5,459	\$ 848	\$ 218
Weighted average credit losses (rate per annum)	0.8%	0.0%	0.5%
Range	0.0 – 6.8%	0.0%	0.0 – 4.5%
Impact on fair value of 10% adverse change	\$ (70)	\$ -	\$ (1)
Impact on fair value of 20% adverse change	\$ (135)	\$ -	\$ (3)
Weighted average discount rate	8.1%	4.1%	9.7%
Range	0.0 – 35.0%	1.9 – 8.2%	0.0 – 23.6%
Impact on fair value of 10% adverse change	\$ (154)	\$ (84)	\$ (5)
Impact on fair value of 20% adverse change	\$ (306)	\$ (131)	\$ (10)
Weighted average life (in years)	4.4	1.5	2.0
Range	0.0 – 28.7	0.1 – 3.0	1.6 – 16.6
Weighted average prepayment speed (CPR)	17.7%	11.0%(1)	6.1%
Range	0.0 – 70.0%	2.0 – 23.9%(1)	0.0 – 50.3%
Impact on fair value of 10% adverse change	\$ (104)	\$ -	\$ (1)
Impact on fair value of 20% adverse change	\$ (167)	\$ -	\$ (2)

CPR=Constant Prepayment Rate

(1) Relates to select securitization transactions where assets are prepayable.

The preceding sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge risks, including credit, interest rate, and prepayment risk, that are inherent in the retained interests. These hedging strategies are structured to take into consideration the hypothetical stress scenarios above such that they would be effective in principally offsetting Merrill Lynch's exposure to loss in the event these scenarios occur.

The weighted average assumptions and parameters used initially to value retained interests relating to securitizations that were still held by Merrill Lynch as of September 29, 2006 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Credit losses (rate per annum)	0.9%	0.0%	0.3%
Weighted average discount rate	8.4%	4.0%	9.3%
Weighted average life (in years)	4.4	3.5	1.3
Prepayment speed assumption (CPR)	17.2%	9.0%	3.6%

CPR=Constant Prepayment Rate

For residential mortgage loan and other securitizations, the investors and the securitization trust generally have no recourse to Merrill Lynch's other assets for failure of mortgage holders to pay when due.

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

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

The maximum commitment under these liquidity and default guarantees totaled \$34.1 billion and \$29.9 billion at September 29, 2006 and December 30, 2005, respectively. The fair value of the guarantees approximated \$36 million and \$14 million at September 29, 2006 and December 30, 2005, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, \$6.9 billion at September 29, 2006 and December 30, 2005, represent agreements where the guarantee is provided to the SPE by a third-party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 10 to the Condensed Consolidated Financial Statements and in Note 12 of the 2005 Annual Report.

The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of September 29, 2006 and December 30, 2005:

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
September 29, 2006			
Principal amount outstanding	\$ 107,276	\$ 18,942	\$17,475
Delinquencies	2,427	—	11
December 30, 2005			
Principal amount outstanding	\$ 82,468	\$ 19,745	\$10,416
Delinquencies	688	—	—

Net credit losses associated with securitized financial assets for the nine months ended September 29, 2006 and September 30, 2005 approximated \$79 million and \$32 million, respectively.

Variable Interest Entities

In January 2003, the FASB issued FIN 46, which provided additional guidance on the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, for enterprises that have interests in entities that meet the definition of a VIE, and on December 24, 2003, the FASB issued FIN 46R. FIN 46R requires that an entity shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

QSPEs are a type of VIE that holds financial instruments and distributes cash flows to investors based on preset terms. QSPEs are commonly used in mortgage and other securitization transactions. In accordance with Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FIN 46R, Merrill Lynch does not consolidate QSPEs. Information regarding QSPEs can be found in the Securitization section of this Note and the Guarantees section in Note 10 to the Condensed Consolidated Financial Statements.

The following table summarizes Merrill Lynch's involvement with VIEs as of September 29, 2006 and December 30, 2005, respectively. The table below does not include information on QSPEs.

Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)

Description	Primary Beneficiary			Significant Variable Interest Holder		Other Involvement with VIEs	
	Total Asset Size(4)	Net Asset Size(5)	Recourse to Merrill Lynch(6)	Total Asset Size(4)	Maximum Exposure	Total Asset Size(4)	Maximum Exposure
September 29, 2006							
Loan and real estate VIEs	\$ 3,073	\$2,997	\$ -	\$ 203	\$ 169	\$ -	\$ -
Tax planning VIEs(1)(2)	30,670	9,696	6,108	657	25	-	-
Guaranteed and other funds	2,025	1,563	462	4,964	4,948	-	-
Credit linked note and other VIEs(3)	141	41	-	-	-	10,382	799
December 30, 2005							
Loan and real estate VIEs	\$ 5,144	\$5,140	\$ -	\$ 116	\$ 63	\$ -	\$ -
Tax planning VIEs(1)(2)	29,617	8,365	5,823	5,416	2,297	-	-
Guaranteed and other funds	1,802	1,349	464	2,981	2,973	-	-
Credit linked note and other VIEs(3)	130	30	-	-	-	8,835	780

(1) Recourse to Merrill Lynch associated with Tax Planning VIEs primarily relates to transactions where the investors in the debt issued by the VIEs have recourse to both the assets of the VIEs and to Merrill Lynch, as well as certain indemnifications made by Merrill Lynch to the investors in the VIEs.

(2) The maximum exposure for Tax Planning VIEs reflects the fair value of investments in the VIEs and derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made by Merrill Lynch to investors in the VIEs.

(3) The maximum exposure for Credit-Linked Note and Other VIEs is the fair value of the derivatives entered into with the VIEs if they are in an asset position as of September 29, 2006 and December 30, 2005, respectively.

(4) This column reflects the total size of the assets held in the VIE.

(5) This column reflects the size of the assets held in the VIE after accounting for intercompany eliminations and any balance sheet netting of assets and liabilities as permitted by FASB Interpretation No. 39.

(6) This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.

Note 6. Loans, Notes, Mortgages and Related Commitments to Extend Credit

Loans, notes, mortgages and related commitments to extend credit at September 29, 2006 and December 30, 2005, are presented below. This disclosure includes commitments to extend credit that may result in loans held for investment and loans held for sale.

(dollars in millions)

	Loans		Commitments ⁽¹⁾	
	Sept. 29, 2006	Dec. 30, 2005	Sept. 29, 2006 ⁽²⁾⁽³⁾	Dec. 30, 2005 ⁽³⁾
Consumer and small- and middle-market business:				
Mortgages	\$17,298	\$18,172	\$ 7,220	\$ 6,376
Small- and middle-market business	3,173	4,994	2,159	3,062
Other	2,945	2,558	200	75
Commercial:				
Secured	41,101	36,571	43,823	34,583
Unsecured investment grade	5,656	3,283	23,441	22,061
Unsecured non-investment grade	1,366	869	2,182	980
	71,539	66,447	79,025	67,137
Allowance for loan losses	(481)	(406)	-	-
Reserve for lending-related commitments	-	-	(317)	(281)
Total, net	\$71,058	\$66,041	\$ 78,708	\$66,856

- (1) Commitments are outstanding as of the date the commitment letter is issued and are comprised of closed and contingent commitments. Closed commitments represent the unfunded portion of existing commitments available for draw down. Contingent commitments are contingent on the borrower fulfilling certain conditions or upon a particular event, such as an acquisition. A portion of these contingent commitments may be syndicated among other lenders or replaced with capital markets funding.
- (2) See Note 10 to the Condensed Consolidated Financial Statements for a maturity profile of these commitments.
- (3) In addition to the loan origination commitments included in the table above, at September 29, 2006, Merrill Lynch entered into agreements to purchase \$1.5 billion of loans that, upon settlement, are likely to be classified in loans held for investment and loans held for sale. Similar loan purchase commitments totaled \$96 million at December 30, 2005. See Note 10 to the Condensed Consolidated Financial Statements for further information.

Activity in the allowance for loan losses is presented below:

(dollars in millions)

	Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005
Allowance for loan losses at beginning of period	\$ 406	\$ 283
Provision for loan losses	99	149
Charge-offs	(37)	(58)
Recoveries	12	9
Net charge-offs	(25)	(49)
Other	1	(1)
Allowance for loan losses at end of period	\$ 481	\$ 382

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 268,000 individual loans at September 29, 2006, and included residential mortgages,

home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at September 29, 2006 consisted of approximately 9,000 separate loans, include corporate and institutional loans, commercial mortgages, asset-based loans, and other loans to businesses. The principal balance of nonaccrual loans was \$202 million at September 29, 2006 and \$256 million at December 30, 2005. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings.

Non-investment grade counterparties are those rated lower than BBB. In some cases, Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded commercial loans. The notional value of these swaps totaled \$10.0 billion and \$7.9 billion at September 29, 2006 and December 30, 2005, respectively. For information on credit risk management see Note 6 of the 2005 Annual Report.

The above amounts include \$18.0 billion and \$12.3 billion of loans held for sale at September 29, 2006 and December 30, 2005, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At September 29, 2006, such loans consisted of \$5.6 billion of consumer loans, primarily residential mortgages and automobile loans, and \$12.4 billion of commercial loans, approximately 32% of which are to investment grade counterparties. At December 30, 2005, such loans consisted of \$3.4 billion of consumer loans, primarily automobile loans and residential mortgages, and \$8.9 billion of commercial loans, approximately 22% of which are to investment grade counterparties.

For further information on loans, notes and mortgages, see Notes 1 and 8 of the 2005 Annual Report.

Note 7. Commercial Paper, Short- and Long-Term Borrowings, and Deposits

ML & Co. is the primary issuer of all debt instruments. For local tax or regulatory reasons, debt is also issued by certain subsidiaries.

During the second quarter of 2006, ML & Co. issued \$2.0 billion of subordinated debt which matures on May 16, 2016. ML & Co. pays interest on this subordinated debt at an annual rate of 6.05%. During the third quarter of 2006, ML & Co. issued an additional \$1.8 billion and EUR 1.5 billion of subordinated debt through two separate issuances that mature on September 15, 2026 and September 14, 2018, respectively. Both issuances include fixed rate and floating rate tranches. All of ML & Co.'s subordinated debt is junior in right of payment to all of ML & Co.'s senior indebtedness.

Total borrowings at September 29, 2006 and December 30, 2005, which is comprised of commercial paper and other short-term borrowings, long-term borrowings and long-term debt issued to TOPrSM partnerships, consisted of the following:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Senior debt issued by ML & Co.	\$129,045	\$111,533
Senior debt issued by subsidiaries — guaranteed by ML & Co.	19,736	13,036
Subordinated debt issued by ML & Co.	5,602	-
Subordinated debt issued to TOPr SM partnerships	3,092	3,092
Other subsidiary financing — not guaranteed by ML & Co.	2,562	1,391
Other subsidiary financing — non-recourse	<u>11,887</u>	<u>10,351</u>
Total	\$171,924	\$139,403

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 of the 2005 Annual Report, Derivatives section, for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments. Other subsidiary financing — non-recourse is primarily attributable to consolidated entities that are VIEs. Additional information regarding VIEs is provided in Note 5 to the Condensed Consolidated Financial Statements.

Borrowings and Deposits at September 29, 2006 and December 30, 2005, are presented below:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Commercial paper and other short-term borrowings		
Commercial paper	\$ 7,238	\$ 3,420
Other	<u>1,230</u>	<u>482</u>
Total	<u>\$ 8,468</u>	<u>\$ 3,902</u>
Long-term borrowings⁽¹⁾		
Fixed-rate obligations ⁽²⁾⁽⁴⁾	\$ 56,709	\$ 54,104
Variable-rate obligations ⁽³⁾⁽⁴⁾	<u>104,507</u>	<u>79,071</u>
Zero-coupon contingent convertible debt (LYONs®)	<u>2,240</u>	<u>2,326</u>
Total	<u>\$163,456</u>	<u>\$135,501</u>
Deposits		
U.S.	\$ 58,059	\$ 61,784
Non U.S.	<u>19,843</u>	<u>18,232</u>
Total	<u>\$ 77,902</u>	<u>\$ 80,016</u>

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

(2) Fixed-rate obligations are generally swapped to floating rates.

(3) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.

(4) Included are various equity-linked or other indexed instruments.

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and long-term debt issued to TOPrSSM partnerships at September 29, 2006, mature as follows:

(dollars in millions)

Less than 1 year	\$ 34,288	21%
1 – 2 years	<u>29,396</u>	<u>18</u>
2+ – 3 years	<u>21,264</u>	<u>13</u>
3+ – 4 years	<u>15,755</u>	<u>10</u>
4+ – 5 years	<u>17,758</u>	<u>11</u>
Greater than 5 years	<u>44,995</u>	<u>27</u>
Total	<u>\$163,456</u>	<u>100%</u>

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

A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Refer to Note 1 of the 2005 Annual Report, Embedded Derivatives section for additional information.

Except for the \$2.2 billion of LYONs® that were outstanding at September 29, 2006, senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. See Note 9 of the 2005 Annual Report for additional information regarding conditions surrounding LYONs® conversion.

The fair values of long-term borrowings and related hedges approximated the carrying amounts at September 29, 2006 and December 30, 2005.

The effective weighted-average interest rates for borrowings, at September 29, 2006 and December 30, 2005 were:

	Sept. 29, 2006	Dec. 30, 2005
Commercial paper and other short-term borrowings	3.61%	3.46%
Long-term borrowings, contractual rate	4.09	3.70
Long-term debt issued to TOPrSSM partnerships	7.31	7.31

See Note 9 of the 2005 Annual Report for additional information on Borrowings.

Other

Merrill Lynch also obtains standby letters of credit from issuing banks to satisfy various counterparty collateral requirements, in lieu of depositing cash or securities collateral. Such standby letters of credit aggregated \$2.4 billion and \$1.1 billion at September 29, 2006 and December 30, 2005, respectively.

Note 8. Comprehensive Income

The components of comprehensive income are as follows:

(dollars in millions)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005
Net earnings	\$ 3,045	\$ 1,376	\$ 5,153	\$ 3,723
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	48	10	4	(195)
Net unrealized gain (loss) on investment securities available-for-sale	122	(54)	(53)	(35)
Deferred gain (loss) on cash flow hedges	17	(8)	17	(28)
Minimum pension liability	(2)	-	(1)	(1)
Total other comprehensive income (loss), net of tax	185	(52)	(33)	(259)
Comprehensive income	\$ 3,230	\$ 1,324	\$ 5,120	\$ 3,464

Note 9. Stockholders' Equity and Earnings Per Share

The following table presents the computations of basic and diluted EPS:

(dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005
Net earnings	\$ 3,045	\$ 1,376	\$ 5,153	\$ 3,723
Preferred stock dividends	(50)	(18)	(138)	(42)
Net earnings applicable to common shareholders — for basic EPS	\$ 2,995	\$ 1,358	\$ 5,015	\$ 3,681
Interest expense on LYONs®(1)	-	1	1	2
Net earnings applicable to common shareholders — for diluted EPS	\$ 2,995	\$ 1,359	\$ 5,016	\$ 3,683
<i>(shares in thousands)</i>				
Weighted-average basic shares outstanding(2)	855,844	881,409	874,985	895,582
Effect of dilutive instruments				
Employee stock options(3)	38,938	41,182	41,364	41,265
FACAAP shares(3)	21,834	22,395	21,452	21,707
Restricted shares and units(3)	28,235	22,000	27,884	19,127
Convertible LYONs®(1)	415	1,498	865	2,402
ESPP shares(3)	8	9	11	7
Dilutive potential common shares	89,430	87,084	91,576	84,508
Diluted Shares(4)	945,274	968,493	966,561	980,090
Basic EPS	\$ 3.50	\$ 1.54	\$ 5.73	\$ 4.11
Diluted EPS	3.17	1.40	5.19	3.76

(1) See Note 9 of the 2005 Annual Report for further information on LYONs®.

(2) Includes shares exchangeable into common stock.

(3) See Note 14 of the 2005 Annual Report for a description of these instruments.

(4) Excludes 33 million instruments for the three and nine month periods ended September 29, 2006, and 43 million instruments for the three and nine month periods ended September 30, 2005 that were considered anti-dilutive and thus were not included in the above calculations.

The Board of Directors authorized the repurchase of \$6 billion of Merrill Lynch's outstanding common shares under a program announced on February 26, 2006. During the third quarter of 2006, Merrill Lynch repurchased 18.3 million common shares at an average repurchase price of \$71.56 per share.

On October 16, 2006, the Board of Directors authorized the repurchase of an additional \$5 billion of Merrill Lynch outstanding common shares.

On February 28, 2006, Merrill Lynch issued \$360 million face value of floating rate, non-cumulative, perpetual preferred stock.

On January 18, 2006, the Board of Directors declared a 25% increase in the regular quarterly dividend to 25 cents per common share.

Note 10. Commitments, Contingencies and Guarantees

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 resulted in increased legal actions against many firms, including Merrill Lynch.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. Given the number of these matters, it is likely that some may result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process. In accordance with SFAS No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including almost all of the class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Tax Matters

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities including Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001-2003 was completed in 2006, subject to the resolution of the Japanese issue discussed below. As previously disclosed, there were carryback claims from the years 2001 and 2002 which were under Joint Committee review. During the third quarter, Merrill Lynch received notice that the Joint Committee has not taken exception and the refund claims are being processed. As a result, Merrill Lynch's third quarter 2006 effective tax rate reflects a \$296 million reduction in the tax provision. IRS audits are also in progress for the 2004 and 2005 tax years. New York State and City audits for the years 1997-2001 were also completed in the third quarter of 2006 and did not have a material impact on the Condensed Consolidated Financial Statements.

In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998-2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch has begun the process

of obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation.

Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than \$150 million. Merrill Lynch will adjust the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

Commitments

At September 29, 2006, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

	Total	Commitment expiration			
		Less than 1 year	1 – 3 years	3+ – 5 years	Over 5 years
Commitments to extend credit ⁽¹⁾	\$ 79,025	\$ 39,205	\$11,674	\$ 19,697	\$ 8,449
Purchasing and other commitments	18,747	15,801	681	772	1,493
Operating leases	3,151	562	993	794	802
Commitments to enter into resale agreements	11,477	11,477	-	-	-
Total	\$112,400	\$ 67,045	\$13,348	\$ 21,263	\$10,744

(1) See Note 6 to the Condensed Consolidated Financial Statements.

Lending Commitments

Merrill Lynch primarily enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance, corporate and institutional transactions and asset-based lending transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions. See Note 6 to the Condensed Consolidated Financial Statements for additional information.

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

Purchasing and Other Commitments

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity and principal investing activities, of \$707 million and \$734 million at September 29, 2006 and December 30, 2005, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, systems consulting, and other office-related services. At September 29,

2006 and December 30, 2005, minimum fee commitments over the remaining life of these agreements aggregated \$343 million and \$517 million, respectively. Merrill Lynch entered into commitments to purchase loans of \$13.7 billion (\$12.2 billion of which may be included in trading assets and \$1.5 billion of which may be included in loans, notes, and mortgages) at September 29, 2006. Such commitments totaled \$3.3 billion at December 30, 2005. In addition, Merrill Lynch entered into institutional and margin-lending transactions, some of which are on a committed basis, but most of which are not. Merrill Lynch's binding margin lending commitments totaled \$681 million at September 29, 2006 and \$381 million at December 30, 2005.

Other purchasing commitments amounted to \$3.3 billion and \$856 million at September 29, 2006 and December 30, 2005, respectively. Other purchasing commitments at September 29, 2006 includes the commitments to acquire HCA Inc. and the First Franklin mortgage origination franchise. On July 24, 2006, Merrill Lynch, along with a consortium of additional investors, announced the execution of an agreement to acquire HCA Inc. HCA Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. On September 5, 2006, Merrill Lynch announced an agreement to acquire the First Franklin mortgage origination franchise and related servicing platform from National City Corporation for \$1.3 billion. First Franklin originates non-prime residential mortgage loans through a wholesale network.

Leases

As disclosed in Note 12 of the 2005 Annual Report, Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

Guarantees

The derivatives in the following table meet the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* ("FIN 45"), definition of guarantees and include certain written options and credit default swaps that contingently require Merrill Lynch to make payments based on changes in an underlying. Because the maximum exposure to loss could be unlimited for certain derivatives (e.g., interest rate caps) and the maximum exposure to loss is not considered when assessing the risk of contracts, the notional value of these contracts has been included to provide information about the magnitude of Merrill Lynch's involvement with these types of transactions. Merrill Lynch records all derivative instruments at fair value on its Condensed Consolidated Balance Sheets.

The liquidity facilities and default facilities in the following table relate primarily to municipal bond securitization SPEs and Merrill Lynch-sponsored asset-backed commercial paper conduits. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. As of September 29, 2006, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of September 29, 2006, the maximum payout if the standby facilities are drawn was \$28.9 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was \$31.3 billion. In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of September 29, 2006, the maximum payout if an issuer defaults was \$5.2 billion, and the value of the assets to which Merrill Lynch has recourse, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of

principal and/or interest when due, was \$6.7 billion. In addition, Merrill Lynch provides a \$5.0 billion liquidity facility and \$200 million credit facility to a Merrill Lynch-sponsored asset-backed commercial paper conduit. The maximum exposure to loss for these two facilities combined is \$5.0 billion and assumes a total loss on a portfolio of highly rated assets. In June 2006, Merrill Lynch sponsored a second asset backed commercial paper conduit where Merrill Lynch provides a \$5.0 billion liquidity facility and a \$400 million standby letter of credit to a conduit that holds asset backed loans. The combined maximum exposure is zero and no letters of credit were issued pursuant to the commitment as of September 29, 2006. For additional information on these facilities, see Note 12 of the 2005 Annual Report and Note 5 to the Condensed Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of \$564 million as collateral, which equals the maximum potential payout related to these guarantees.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. At September 29, 2006, Merrill Lynch's maximum potential exposure to loss with respect to these guarantees is \$634 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at September 29, 2006. These transactions met the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS No. 149") definition of derivatives and, as such, were carried as a liability with a fair value of \$6 million at September 29, 2006.

Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions at September 29, 2006 is \$165 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

These guarantees and their expiration are summarized at September 29, 2006 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 – 3 years	3+ – 5 years	Over 5 years	Carrying Value
Derivative contracts ⁽¹⁾	\$1,541,623	\$438,512	\$338,335	\$247,383	\$517,393	\$ 32,276
Liquidity facilities with SPEs ⁽²⁾	39,034	38,884	150	-	-	44
Liquidity and default facilities with SPEs ⁽³⁾	6,056	4,099	1,957	-	-	-
Residual value guarantees ⁽⁴⁾	1,059	59	167	329	504	25
Standby letters of credit and other guarantees ⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,099	1,667	517	1,636	279	17

(1) As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a reliable indicator of Merrill Lynch's exposure to these contracts.

(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch. Includes \$6.9 billion of guarantees provided to SPEs by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.

(3) Amounts relate to liquidity facilities and credit default protection provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch.

(4) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$322 million.

(5) Includes \$88 million of reimbursement agreements with the Mortgage 100SM program.

- (6) Includes guarantees related to principal-protected mutual funds.
(7) Includes certain indemnifications related to foreign tax planning strategies.

See Note 12 of the 2005 Annual Report for additional information on guarantees.

Note 11. Employee Benefit Plans

Merrill Lynch provides pension and other postretirement benefits to its employees worldwide through defined contribution pension, defined benefit pension, and other postretirement plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 13 of the 2005 Annual Report for a complete discussion of employee benefit plans.

Defined Benefit Pension Plans

Pension cost for the three and nine month periods ended September 29, 2006 and September 30, 2005, for Merrill Lynch's defined benefit pension plans, included the following components:

(dollars in millions)

	Three Months Ended					
	Sept. 29, 2006			Sept. 30, 2005		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	\$ -	\$ 7	\$ 7	\$ -	\$ 7	\$ 7
Interest cost	24	16	40	24	15	39
Expected return on plan assets	(28)	(15)	(43)	(24)	(12)	(36)
Amortization of unrecognized items and other	-	5	5	-	3	3
Total defined benefit pension cost	\$ (4)	\$ 13	\$ 9	\$ -	\$ 13	\$ 13

	Nine Months Ended					
	Sept. 29, 2006			Sept. 30, 2005		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	\$ -	\$ 21	\$ 21	\$ -	\$ 18	\$ 18
Interest cost	72	47	119	72	44	116
Expected return on plan assets	(84)	(45)	(129)	(72)	(37)	(109)
Amortization of unrecognized items and other	-	14	14	-	11	11
Total defined benefit pension cost	\$ (12)	\$ 37	\$ 25	\$ -	\$ 36	\$ 36

Merrill Lynch disclosed in its 2005 Annual Report that it expected to pay \$3 million of benefit payments to participants in the U.S. non-qualified pension plans and Merrill Lynch expected to contribute \$103 million to its non-U.S. defined benefit pension plans in 2006. Merrill Lynch periodically updates these estimates, and currently expects to contribute \$7 million to its U.S. non-qualified pension plans and \$65 million to its non-U.S. defined benefit pension plans in 2006. The overall decrease in total estimated contributions can primarily be attributed to changes in funding requirements relating to the U.K. pension plan.

Postretirement Benefits Other Than Pensions

Other postretirement benefit cost for the three and nine month periods ended September 29, 2006 and September 30, 2005, included the following components:

(dollars in millions)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005
Service cost	\$ 2	\$ 5	\$ 6	\$ 14
Interest cost	4	7	12	23
Other	<u>1</u>	<u>1</u>	<u>(2)</u>	<u>6</u>
Total other postretirement benefits cost ⁽¹⁾	\$ 7	\$ 13	\$ 16	\$ 43

(1) The decrease in postretirement benefits cost is primarily due to amendments to the U.S. postretirement plan.

Approximately 87% of the postretirement benefit cost components for the period relate to the U.S. postretirement plan.

Note 12. Employee Incentive Plans

Merrill Lynch adopted the provisions of SFAS No. 123R in the first quarter of 2006. See Note 1, *Summary of Significant Accounting Policies — New Accounting Pronouncements*, to the Condensed Consolidated Financial Statements for further information.

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with shares of ML & Co. common stock or options to purchase such shares. The total pre-tax compensation cost and related tax benefits recognized in earnings for share-based payment compensation plans for the three months ended September 29, 2006 were \$355 million and \$157 million, respectively. The total pre-tax compensation cost and related tax benefits recognized in earnings for share-based payment compensation plans for the nine months ended September 29, 2006 were \$2.8 billion and \$995 million, respectively, which includes approximately \$1.8 billion associated with one-time, non-cash compensation expenses further described in Note 1 to the Condensed Consolidated Financial Statements. For the three months ended September 30, 2005, the total pre-tax compensation cost and related tax benefits recognized in earnings for stock-based payment compensation plans were \$243 million and \$90 million, respectively. For the nine months ended September 30, 2005, the total pre-tax compensation cost and related tax benefits recognized in earnings for stock-based payment compensation plans were \$764 million and \$269 million, respectively.

As of September 29, 2006, there was \$1.9 billion of total unrecognized compensation cost related to non-vested share-based payment compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.3 years.

Below is a description of our share-based payment compensation plans.

Long-Term Incentive Compensation Plans ("LTIC Plans"), Employee Stock Compensation Plan ("ESCP") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ESCP, a broad-based plan approved by shareholders, provides for the issuance of Restricted Shares, Restricted Units, Non-qualified Stock Options and Stock Appreciation Rights. ECAP, a shareholder-approved plan, provides for the issuance of Restricted Shares and Performance Shares. All grants under LTIC Plans, ESCP and ECAP may be satisfied using either treasury or newly issued shares. As of September 29, 2006, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, Performance Options, Participation Units and Stock Appreciation Rights 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. Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period. 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. Restricted Share and Restricted Unit grants made prior to 2003 generally cliff vest in three years. Restricted Share and Restricted Unit grants made in 2003 through 2005 generally cliff vest in four years. Restricted Shares and Restricted Units granted in January 2006 generally vest ratably over four years.

In January 2006, Participation Units were granted from the Long-Term Incentive Compensation Plan under Merrill Lynch's Managing Partners Incentive Program. The awards granted under this program are fully at risk, and the potential payout will vary depending on Merrill Lynch's financial performance against pre-determined return on average common stockholders' equity ("ROE") targets. One-third of the Participation Units will convert into Restricted Shares on each of January 31, 2007, January 31, 2008 and January 31, 2009, subject to the satisfaction of minimum ROE targets determined for the most recently completed fiscal year. Participation Units will cease to be outstanding immediately following conversion. If the minimum target is not met, the Participation Units will expire without being converted.

In connection with the merger of Merrill Lynch's MLIM business segment with BlackRock, 1,564,808 Restricted Shares held by employees that transferred to BlackRock were converted to Restricted Units effective June 2, 2006. The vesting period for such awards was accelerated to end on the transaction closing date of September 29, 2006. In addition, the vesting periods for 1,135,477 Restricted Share and 156,118 Restricted Unit awards that were not converted were accelerated to end on the transaction closing date of September 29, 2006.

The activity for Restricted Shares and Units (including Restricted Units and Participation Units) under these plans during the nine months ended September 29, 2006 follows:

	LTIC Plans		ECAP	ESCP		Total
	Restricted Shares	Units	Restricted Shares	Restricted Shares	Restricted Units	Restricted Shares and Units
Authorized for issuance at:						
September 29, 2006	660,000,000	N/A	104,800,000	75,000,000	N/A	N/A
September 30, 2005	<u>660,000,000</u>	<u>N/A</u>	<u>104,800,000</u>	<u>75,000,000</u>	<u>N/A</u>	<u>N/A</u>
Available for issuance at:						
September 29, 2006	64,440,784	N/A	10,831,281	39,721,519	N/A	N/A
September 30, 2005	<u>65,585,879</u>	<u>N/A</u>	<u>10,832,121</u>	<u>57,065,040</u>	<u>N/A</u>	<u>N/A</u>
Outstanding at December 30, 2005	<u>28,967,539</u>	<u>4,720,546</u>	<u>20,856</u>	<u>15,683,787</u>	<u>2,157,894</u>	<u>51,550,622</u>
Granted — 2006	1,971,610	3,600,180	840	15,753,197	2,899,871	24,225,698
Share to Unit conversion	(600,392)	600,392	-	(964,416)	964,416	-
Delivered	(818,695)	(351,872)	(2,253)	-	-	(1,172,820)
Forfeited	<u>(1,039,189)</u>	<u>(199,401)</u>	<u>-</u>	<u>(979,634)</u>	<u>(236,634)</u>	<u>(2,454,858)</u>
Outstanding at September 29, 2006	28,480,873	8,369,845	19,443	29,492,934	5,785,547	72,148,642

N/A = Not Applicable

SFAS No. 123R requires the immediate expensing of share-based payment awards granted or modified to retirement-eligible employees in 2006, including awards that are subject to non-compete provisions. The above activity contains awards with or without a future service requirement, as follows:

	No Future Service Required		Future Service Required	
	Shares/ Units	Weighted Avg Grant Price	Shares/ Units	Weighted Avg Grant Price
Outstanding at December 30, 2005	<u>38,877,644</u>	\$ 51.00	<u>12,672,978</u>	\$ 54.01
Granted — 2006	7,429,380	71.57	16,796,318	71.43
Delivered	(1,172,820)	46.12	-	-
Forfeited	(1,874,537)	57.82	(580,321)	61.04
Service criteria satisfied ⁽¹⁾	<u>20,214,490</u>	64.72	<u>(20,214,490)</u>	64.72
Outstanding at September 29, 2006	63,474,157	57.66	8,674,485	62.33

⁽¹⁾ Represents those awards for which employees attained retirement-eligibility during 2006, subsequent to the grant date.

The total fair value of Restricted Shares and Units granted to retirement-eligible employees, or for which service criteria were satisfied, during the three and nine months ended September 29, 2006, was \$0.2 million and \$2.1 billion, respectively. The total fair value of Restricted Shares and Units vested during the three and nine months ended September 30, 2005 was \$11 million and \$691 million, respectively.

The weighted-average fair value per share or unit granted for the three and nine months ended September 29, 2006 follows:

	Three Months Ended	Nine Months Ended
	September 29, 2006	September 29, 2006
LTIC Plans		
Restricted Shares	\$ 67.70	\$ 71.00
Restricted Units	67.81	71.31
ECAP Restricted Shares	N/A	71.49
ESCP Plans		
Restricted Shares	N/A	71.54
Restricted Units	N/A	71.67

N/A = Not Applicable

Non-Qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1996 through 2000 generally became exercisable over five years; options granted in 2001 and 2002 became exercisable after approximately six months. Options and Stock Appreciation Rights granted after 2002 generally become exercisable ratably over four years. The exercise price of these grants 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. Options and Stock Appreciation Rights generally expire ten years after their grant date.

The activity for Options and Stock Appreciation Rights under LTIC Plans for the nine months ended September 29, 2006 follows:

	Quantity Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (in years)
Outstanding at December 30, 2005	176,713,075	\$ 49.10	4.06
Granted	333,598	71.43	3.76
Exercised	(31,175,042)	37.03	3.09
Forfeited	(302,022)	49.46	6.49
Outstanding at September 29, 2006	145,569,609	\$ 51.73	4.26
Exercisable at September 29, 2006	135,214,064	\$ 51.91	4.09

All Options and Stock Appreciation Rights outstanding as of September 29, 2006 are fully vested or expected to vest.

The weighted-average fair value of options granted for the three months ended September 30, 2005 was \$12.99 per option. No options were granted for the three months ended September 29, 2006. The weighted-average fair value of options granted for the nine months ended September 29, 2006 and September 30, 2005 was \$17.86 and \$17.94, respectively. The fair value of each option award is estimated on the date of grant based on a Black-Scholes option pricing model using the following weighted-average assumptions. Expected volatilities are based on historical volatility of ML & Co. common stock. The expected life of options granted is equal to the contractual life of the options. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on the current dividend rate at the time of grant.

	Three Months Ended		Nine Months Ended	
	September 29, 2006 ⁽¹⁾	September 30, 2005	September 29, 2006	September 30, 2005
Risk-free interest rate	N/A	4.1%	4.3%	3.8%
Expected life	N/A	4.0 yrs	4.4 yrs	4.6 yrs
Expected volatility	N/A	31.90%	29.49%	35.40%
Dividend yield	N/A	1.51%	1.44%	1.14%

N/A = Not Applicable

(1) No options were granted during the three months ended September 29, 2006.

Merrill Lynch received approximately \$190 million and \$1.1 billion in cash from the exercise of stock options during the three and nine months ended September 29, 2006. The net tax benefit realized from the exercise of these options was \$40 million and \$271 million, respectively.

The total intrinsic value of options exercised during the three months ended September 29, 2006 and September 30, 2005 was \$191 million and \$137 million, respectively. The total intrinsic value of options exercised during the nine months ended September 29, 2006 and September 30, 2005 was \$1.2 billion and \$550 million, respectively. As of September 29, 2006, the total intrinsic value of options outstanding and exercisable was \$3.9 billion and \$3.6 billion, respectively.

Financial Advisor Capital Accumulation Award Plans ("FACAAP")

Under FACAAP, eligible employees in GPC 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. Awards granted in 2003 and thereafter are generally payable eight years from the date of grant in a fixed number of shares of ML & Co. common stock. For outstanding awards granted prior to 2003, payment is generally made 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, in which case the minimum value is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. Only shares of ML & Co. common stock held as treasury stock may be issued under FACAAP. FACAAP, which was approved by the Board of Directors, has not been shareholder approved.

At September 29, 2006, 35,359,308 shares were subject to outstanding awards while 15,397,066 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during the three and nine months ended September 29, 2006 was \$67.81 and \$72.89, respectively.

Note 13. Regulatory Requirements

Effective January 1, 2005, Merrill Lynch became a consolidated supervised entity ("CSE") as defined by the SEC. As a CSE, Merrill Lynch is subject to group-wide supervision, which requires Merrill Lynch to compute allowable capital and risk allowances on a consolidated basis. As of September 29, 2006, Merrill Lynch is in compliance with applicable CSE standards.

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

Securities Regulation

As a registered broker-dealer and futures commission merchant, MLPF&S is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (“the Rule”). Under the alternative method permitted by the Rule, the minimum required net capital, as defined, shall be the greater of 2% of aggregate debit items (“ADI”) arising from customer transactions or \$500 million. At September 29, 2006, MLPF&S’s regulatory net capital of \$2,990 million was approximately 18.9% of ADI, and its regulatory net capital in excess of the minimum required was \$2,483 million.

MLPF&S is also subject to the capital requirements of the Commodity Futures Trading Commission, which requires that minimum net capital should not be less than 8% of the total customer risk margin requirement plus 4% of the total non-customer risk margin requirement. MLPF&S substantially exceeds both standards.

Merrill Lynch International (“MLI”), a U.K. regulated investment firm, is subject to capital requirements of the U.K. Financial Services Authority (“FSA”). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At September 29, 2006, MLI’s financial resources were \$12,983 million, exceeding the minimum requirement by \$1,344 million.

Merrill Lynch Government Securities Inc. (“MLGSI”), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At September 29, 2006, MLGSI’s liquid capital of \$1,351 million was 172% of its total market and credit risk, and liquid capital in excess of the minimum required was \$408 million.

Merrill Lynch Japan Securities Co. Ltd. (“MLJS”), a Japan-based regulated broker-dealer, is subject to capital requirements of the Japanese Financial Services Agency (“JFSA”). Net capital, as defined, must exceed 120% of the total risk equivalents requirement of the JFSA. At September 29, 2006, MLJS’s net capital was \$1,322 million, exceeding the minimum requirement by \$740 million.

Banking Regulation

Merrill Lynch Bank USA (“MLBUSA”) is a Utah-chartered industrial bank, regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the State of Utah Department of Financial Institutions. Merrill Lynch Bank & Trust Co., FSB (“MLBT-FSB”) is a full service thrift institution regulated by the Office of Thrift Supervision (“OTS”), whose deposits are insured by the FDIC. Both MLBUSA and MLBT-FSB are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The following table illustrates the actual capital ratios and capital amounts for MLBUSA and MLBT-FSB as of September 29, 2006.

(dollars in millions)

	Well Capitalized Minimum	MLBUSA		MLBT-FSB	
		Actual Ratio	Actual Amount	Actual Ratio	Actual Amount
Tier 1 leverage (to average assets)	5%	9.90%	\$ 6,172	7.58%	\$ 9,564
Tier 1 capital (to risk-weighted assets)	6%	10.73	6,172	8.97	8,081
Total capital (to risk-weighted assets)	10%	11.89	6,841	11.99	8,081

In July 2006, Merrill Lynch Trust Company, FSB (“MLTC-FSB”) received approval from the OTS to become a full service thrift institution as part of an internal reorganization of certain banking businesses of Merrill Lynch. On August 5, 2006, Merrill Lynch Bank & Trust Co. (“MLB&T”), an existing FDIC-insured depository institution, was merged into MLTC-FSB, and MLTC-FSB was renamed Merrill Lynch Bank & Trust Co., FSB.

Merrill Lynch Capital Markets Bank Limited (“MLCMBL”), an Ireland-based regulated bank, is required to meet minimum regulatory capital requirements under the European Union (“EU”) banking law as implemented in Ireland by the Financial Regulator. At September 29, 2006, MLCMBL’s capital ratio was above the minimum requirement at 11.6% and its financial resources, as defined, were \$3,737 million, exceeding the minimum requirement by \$503 million.

Merrill Lynch International Bank Limited (“MLIB”), a U.K.-based regulated bank, is required to meet minimum regulatory capital requirements under the EU banking law as implemented in the U.K. MLIB’s consolidated capital ratio (including its subsidiaries), is above the minimum capital requirements established by the FSA. At September 29, 2006, MLIB’s consolidated capital ratio was 11.5% and its consolidated financial resources were \$4,449 million, exceeding the minimum requirement by \$458 million.

Prior to April 28, 2006, MLCMBL and MLIB were subsidiaries of Merrill Lynch International Finance Corporation (“MLIFC”) and were subject to capital requirements imposed by the State of New York Banking Department. Pursuant to an internal corporate reorganization, MLIFC is no longer a direct or indirect parent company of MLCMBL or MLIB, and therefore is no longer subject to such capital requirements.

On September 30, 2006 (the “Transfer Date”), Merrill Lynch completed an internal reorganization of its European banking structure, when the entire business of MLIB was transferred to MLCMBL after obtaining all necessary regulatory approvals and court approval from the High Court of Justice of England and Wales and the Singapore High Court. The business of MLIB’s branches in other jurisdictions has been transferred to MLCMBL pursuant to applicable local law. Additionally, and with effect from the Transfer Date, MLCMBL changed its name to Merrill Lynch International Bank Limited to reflect its broader business activities (and MLIB simultaneously changed its name to mlib (historic) Limited).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of September 29, 2006, and the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 29, 2006 and September 30, 2005, and the condensed consolidated statements of cash flows for the nine-month periods ended September 29, 2006 and September 30, 2005. These interim financial statements are the responsibility of Merrill Lynch's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the condensed consolidated financial statements, in 2006 Merrill Lynch changed its method of accounting for share-based payments to conform to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 30, 2005, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 30, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
November 3, 2006

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in this report. See Risk Factors that Could Affect Our Business in the Annual Report on Form 10-K for the year ended December 30, 2005 ("2005 Annual Report"). Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Overview

Introduction

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, Merrill Lynch created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, is one of the world's leading wealth management, capital markets and advisory companies with offices in 37 countries and territories and total client assets of approximately \$1.5 trillion at September 29, 2006. As an investment bank, it is a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and serves as a strategic advisor to corporations, governments, institutions and individuals worldwide. Merrill Lynch owns a 45% voting interest of BlackRock, Inc. ("BlackRock"), one of the world's largest publicly traded investment management companies with approximately \$1 trillion in assets under management.

Through the end of the third quarter of 2006, Merrill Lynch's activities were conducted through three business segments:

- *Global Markets and Investment Banking Group ("GMI")*, Merrill Lynch's institutional business segment, provides equity, debt and commodities trading, capital market services, investment banking and advisory services to corporations, financial institutions, and governments around the world. GMI's Global Markets division facilitates client transactions and is a market maker in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands, and in connection with proprietary trading activities. Global Markets also provides clients with financing, securities clearing, settlement, and custody services and also engages in principal investments and private equity investing for the account of Merrill Lynch. GMI's Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients, including

underwriting and placement of public and private equity, debt and related securities, as well as lending and other financing activities for clients globally. These services also include advising clients on strategic issues, valuation, mergers, acquisitions and restructurings. GMI's growth strategy entails a program of significant investments in personnel and technology to gain further scale in certain asset classes and geographies.

- *Global Private Client ("GPC")*, Merrill Lynch's full-service retail wealth management segment, provides brokerage and investment advisory services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small- to mid-size businesses, investment advisors and employee benefit plans. The largest portion of this business is offered through the Advisory Division, where services are delivered by Merrill Lynch Financial Advisors ("FAs") through a global network of branch offices. GPC's offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and credit cards; trust and generational planning; retirement services; and insurance products. GPC's growth priorities include the hiring of additional FAs, client segmentation, annuitization of revenues through fee-based products, diversification of revenues through adding products and services, investments in technology to enhance productivity and efficiency, and disciplined expansion into additional geographic areas globally.
- *Merrill Lynch Investment Managers ("MLIM")*, Merrill Lynch's asset management segment, offered a wide range of investment management capabilities to retail and institutional investors through proprietary and third-party distribution channels globally. Asset management capabilities included equity, fixed income, money market, index, enhanced index and alternative investments (including hedge funds, private equity and property), which were offered through vehicles such as mutual funds, privately managed accounts, and both retail and institutional separate accounts. MLIM's growth priorities included driving strong relative long-term investment performance and broadening the distribution of its products through multiple channels, while maintaining discipline on expenses.

On September 29, 2006, Merrill Lynch completed the merger of its MLIM business with BlackRock. Merrill Lynch received 65 million BlackRock common and preferred shares in the combined company representing a 45% voting interest. At the completion of this merger, Merrill Lynch recognized a pre-tax gain of \$2.0 billion, along with related non-interest expenses of \$202 million for a total after-tax net benefit of \$1.1 billion. Merrill Lynch's investment in BlackRock is \$7.7 billion and is included in Investment securities on the Condensed Consolidated Balance Sheet and in the MLIM segment at September 29, 2006. Additionally, in connection with the merger, the goodwill associated with the MLIM business has been derecognized on the Condensed Consolidated Balance Sheet at September 29, 2006. The gain and related one-time expenses associated with the closing of the BlackRock merger are reflected in the Corporate segment. Merrill Lynch will account for its investment in BlackRock under the equity method of accounting and record its share of BlackRock's earnings, net of expenses and taxes, in revenues on the Consolidated Statement of Earnings.

As this transaction closed on the last day of the fiscal quarter, Merrill Lynch's third quarter 2006 results of operations include the full quarter results for MLIM. Additionally, cash flows associated with MLIM's business for the entire nine months ended September 29, 2006 have been included in Merrill Lynch's Condensed Consolidated Statement of Cash Flows. However, the balance sheet related to the business transferred was not included in Merrill Lynch's Condensed Consolidated Balance Sheet at September 29, 2006. Similarly, MLIM's Assets Under Management were transferred to BlackRock upon completion of the merger and are no longer included in Merrill Lynch's consolidated Assets Under Management.

Critical Accounting Policies and Estimates

The following is a summary of Merrill Lynch's critical accounting policies. For a full description of these and other accounting policies see Note 1 of the 2005 Annual Report and Note 1 to the Condensed Consolidated Financial Statements.

Use of Estimates

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

- Valuations of assets and liabilities requiring fair value estimates including:
 - Trading inventory and investment securities;
 - Private equity investments;
 - Loans and allowance for loan losses;
- The outcome of litigation;
- The realization of deferred tax assets and tax reserves;
- Assumptions and cash flow projections used in determining whether variable interest entities ("VIEs") should be consolidated and the determination of the qualifying status of special purpose entities ("QSPEs");
- The carrying amount of goodwill and other intangible assets;
- Valuation of employee stock options;
- Insurance reserves and recovery of insurance deferred acquisition costs;
- Interim compensation and benefits accruals, particularly cash and stock incentive awards and FA compensation; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 of the 2005 Annual Report.

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

Valuation of Financial Instruments

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

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the Condensed Consolidated Financial Statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the

market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. At the inception of the contract, unrealized gains for these instruments are not recognized unless significant inputs to the valuation model are observable in the market.

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

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

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

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

- Category 1. Highly liquid cash and derivative instruments, primarily carried at fair value, for which quoted market prices are readily available (for example, exchange-traded equity securities, certain listed options, and U.S. Government securities).
- Category 2. Liquid instruments, primarily carried at fair value, including:
 - a) Cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);
 - b) Derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and
 - c) Instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain mortgage loans).
- Category 3. Less liquid instruments that are valued using management's best estimate of fair value and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management. Areas where these valuation methodologies are primarily applied include private equity investments, long-dated or complex derivatives such as certain foreign exchange options and credit default swaps, distressed debt and commodity derivatives, such as long-dated options on gas and power and weather derivatives. In applying these models, management considers such

factors as projected cash flows, market comparables, slope to the yield curve, volatility, and various market inputs.

At September 29, 2006 and December 30, 2005, certain assets and liabilities on the Condensed Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

(dollars in millions)

September 29, 2006	Category 1	Category 2	Category 3	Total
Assets				
Trading assets, excluding contractual agreements	\$ 73,925	\$ 74,285	\$ 2,383	\$150,593
Contractual agreements	7,818	22,803	2,847	33,468
Investment securities ⁽¹⁾	3,346	59,975	13,072	76,393
Liabilities				
Trading liabilities, excluding contractual agreements	\$ 50,519	\$ 12,687	\$ 15	\$ 63,221
Contractual agreements	6,171	23,203	7,278	36,652
December 30, 2005				
Assets				
Trading assets, excluding contractual agreements	\$ 56,556	\$ 63,344	\$ 2,594	\$122,494
Contractual agreements	5,008	18,177	3,031	26,216
Investment securities ⁽¹⁾	6,115	54,805	8,353	69,273
Liabilities				
Trading liabilities, excluding contractual agreements	\$ 48,688	\$ 11,248	\$ 242	\$ 60,178
Contractual agreements	4,623	17,490	6,642	28,755

(1) Includes investments that are not carried at fair value. See Note 4 to the Condensed Consolidated Financial Statements for additional information on Investment securities.

In addition, other trading-related assets recorded in the Condensed Consolidated Balance Sheets at September 29, 2006 and December 30, 2005, include \$295.4 billion and \$255.5 billion, respectively, of receivables under resale agreements and receivables under securities borrowed transactions. Trading-related liabilities recorded in the Condensed Consolidated Balance Sheets at September 29, 2006 and December 30, 2005, include \$254.9 billion and \$217.5 billion, respectively, of payables under repurchase agreements and payables under securities loaned transactions. These securities financing transactions are recorded at their contractual amounts, which approximate fair value, and for which little or no estimation is required by management.

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. In accordance with SFAS No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. See Note 12 and Other Information (Unaudited) — Legal Proceedings of the 2005 Annual Report for further information.

Variable Interest Entities

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

Income Taxes

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities including Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001–2003 was completed in 2006, subject to the resolution of the Japanese issue discussed below. As previously disclosed, there were carryback claims from the years 2001 and 2002 which were under Joint Committee review. During the third quarter, Merrill Lynch received notice that the Joint Committee has not taken exception and the refund claims are being processed. As a result, Merrill Lynch's third quarter 2006 effective tax rate reflects a \$296 million reduction in the tax provision. IRS audits are also in progress for the 2004 and 2005 tax years. New York State and City audits for the years 1997–2001 were also completed in the third quarter of 2006 and did not have a material impact on the Condensed Consolidated Financial Statements.

In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998–2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch has begun the process of obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation.

Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than \$150 million. Merrill Lynch will adjust the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

Business Environment⁽¹⁾

The business environment in the third quarter of 2006 was characterized by both a typical seasonal slowdown, particularly in July and August, and a continuation of the decline in activity levels that began mid-May triggered by market uncertainty surrounding interest rate policy, economic outlook and geopolitical concerns. By the end of the quarter however, many of these concerns had receded to a degree. Both debt and equity market conditions improved, in part due to the U.S. Federal Reserve System's Federal Open Market Committee's ("FOMC") decision to leave interest rates unchanged at 5.25% at both its August and September meetings. The yield curve, although inverted at times, remained relatively flat throughout the quarter. Long-term interest rates, as measured by the 10-year U.S. Treasury bond, ended the third quarter at 4.64%, down from 5.15% at the end of the second quarter.

Major U.S. equity indices rebounded during the third quarter aided by the FOMC's interest rate announcements and a decline in the prices of crude oil and other commodities. The Dow Jones Industrial Average rose 4.7%, its best third quarter performance in 11 years, finishing up 9.0% from the start of the year. Similarly, the Nasdaq Composite rose 4.0% for the quarter and 2.4% year-to-date, while the Standard & Poor's 500 Index rose 5.2% for the quarter and 7.0% year-to-date.

International equity indices generally also ended the quarter with positive results. Sequentially, the Dow Jones World Index, excluding the United States, the FTSE 100 Index and the Dow Jones Stoxx 50 rose 3.2%, 2.2% and 5.1%, respectively. In Japan, the Nikkei Stock Average rose 4.0% for the quarter, while in Hong Kong the Hang Seng rose 7.8%. India's Sensex Index rose 17.4% sequentially. In Latin America, however, the major indices were mixed as the Mexican Bolsa index rose 14.6% sequentially, while Argentina's Merval index declined 4.3%.

U.S. Equity trading volumes experienced typical third quarter seasonality as both the dollar volume and number of shares traded on the New York Stock Exchange and on the NASDAQ declined compared to the 2006 second quarter, but rose compared to the 2005 third quarter. Equity trading volumes on the London Stock Exchange exhibited similar trends with both the average daily number of trades and the average daily value traded lower sequentially, but up compared to the year-ago quarter.

Third quarter global debt and equity underwriting volumes of \$1.5 trillion were down 16% sequentially and down 3% from the year-ago quarter. Global debt underwriting volumes of \$1.4 trillion were down 14% compared to the second quarter and down 2% compared to the year-ago quarter, while global equity underwriting volumes of \$136 billion were down 31% and 13%, respectively, over the same time periods.

Merger and acquisition activity ("M&A") slowed somewhat during the quarter as the value of global announced deals of \$816 billion declined 15% sequentially but was up 19% from the year-ago quarter. Globally, completed M&A activity increased 11% to \$761 billion from the previous quarter and was up 16% from the year-ago quarter.

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

(1) Debt and equity underwriting and merger and acquisition statistics were obtained from Dealogic.

Results of Operations

(dollars in millions, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 29, 2006	Sept. 30, 2005	Sept. 29, 2006	Sept. 30, 2005
Net Revenues				
Asset management and portfolio service fees	\$ 1,782	\$ 1,527	\$ 5,234	\$ 4,393
Principal transactions	1,681	917	4,856	2,868
Commissions	1,383	1,342	4,571	3,930
Investment banking	857	880	2,984	2,613
Revenues from consolidated investments	210	142	500	353
Other	776	548	2,440	1,582
Subtotal	6,689	5,356	20,585	15,739
Interest and dividend revenues	10,690	7,039	29,044	18,544
Less interest expense	9,452	5,717	25,582	15,054
Net interest profit	1,238	1,322	3,462	3,490
Gain on merger	1,969	-	1,969	-
Total Net Revenues	9,896	6,678	26,016	19,229
Non-interest expenses:				
Compensation and benefits	3,950	3,270	13,680	9,514
Communications and technology	485	405	1,367	1,196
Brokerage, clearing, and exchange fees	268	190	769	625
Occupancy and related depreciation	259	235	749	695
Professional fees	224	173	620	534
Advertising and market development	164	138	499	424
Expenses of consolidated investments	142	91	334	211
Office supplies and postage	53	48	167	151
Other	223	192	761	679
Total non-interest expenses	5,768	4,742	18,946	14,029
Earnings before income taxes	\$ 4,128	\$ 1,936	\$ 7,070	\$ 5,200
Net earnings	\$ 3,045	\$ 1,376	\$ 5,153	\$ 3,723
Earnings per common share:				
Basic	\$ 3.50	\$ 1.54	\$ 5.73	\$ 4.11
Diluted	3.17	1.40	5.19	3.76
Annualized return on average common stockholders' equity	35.4%	17.2%	19.7%	15.7%
Pre-tax profit margin	41.7%	29.0%	27.2%	27.0%
Compensation and benefits as a percentage of net revenues	39.9%	49.0%	52.6%	49.5%
Non-compensation expenses as a percentage of net revenues	18.4%	22.0%	20.2%	23.5%
Book value per common share	\$ 40.22	\$ 34.66	\$ 40.22	\$ 34.66

Quarterly Results of Operations

Merrill Lynch's third quarter 2006 net earnings were \$3.0 billion, on record net revenues of \$9.9 billion, up 121% and 48%, respectively, from the third quarter of 2005. Earnings per common share were

\$3.50 basic and \$3.17 diluted for the 2006 third quarter, up 127% and 126%, respectively from the year-ago quarter. Pre-tax earnings were \$4.1 billion, an increase of 113% from the prior-year period, and the pre-tax profit margin was 41.7%, up from 29.0% in the year-ago quarter. These results reflect significant benefits arising from the completion of the merger between Merrill Lynch's MLIM business and BlackRock. The net impact of the BlackRock merger includes a one-time pre-tax gain of \$2.0 billion and related non-interest expenses of \$202 million, for a total after-tax net benefit of \$1.1 billion, or \$1.17 per diluted share.

Excluding the net benefits from the BlackRock merger, third quarter 2006 net earnings were \$1.9 billion, on net revenues of \$7.9 billion, up 41% and 19%, respectively, from the third quarter of 2005. On the same basis, earnings per common share were \$2.21 basic and \$2.00 diluted for the 2006 third quarter, up 44% and 43%, respectively, from the third quarter of 2005; pre-tax earnings of \$2.4 billion were up 22% from the prior-year quarter; and the pre-tax profit margin was 29.8%, up from 29.0% in the year ago quarter. Management believes that, while the results excluding the net benefits from the BlackRock merger are considered "non-GAAP" measures, they depict the performance of the company more clearly and enable more meaningful period-to-period comparisons. See Exhibit 99.1 for a reconciliation of "non-GAAP" measures.

Asset management and portfolio service fees primarily consist of (i) fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets, (ii) performance fees earned on certain separately managed accounts and institutional money management arrangements, (iii) servicing fees related to these accounts and (iv) annual account fees and certain other account-related fees. Asset management and portfolio service fees were \$1.8 billion, up 17% from the third quarter of 2005. The increase in asset management fees reflects the impact of net inflows of higher-yielding assets as well as higher average equity market values. The increase in portfolio service fees reflects the impact of net inflows into asset-priced accounts. As the merger of MLIM with BlackRock closed on the last day of the fiscal quarter, Merrill Lynch's third quarter 2006 results of operations include the full quarter results for MLIM.

Principal transactions revenues include realized gains and losses from the purchase and sale of securities, such as equity securities, fixed income securities, including government bonds and municipal securities, in which Merrill Lynch acts as principal, as well as unrealized gains and losses on trading assets and liabilities, including commodities, derivatives, and loans. Principal transactions revenues were \$1.7 billion, 83% higher than the year-ago quarter, due primarily to increased revenues derived from the trading of equity and fixed income products.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities, insurance products and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds ("12b-1 fees"), as well as contingent deferred sales charges earned when a shareholder redeems shares prior to the required holding period. Commissions revenues were \$1.4 billion, up 3% from the 2005 third quarter, due primarily to an increase in global transaction volumes, particularly in listed equities and mutual funds.

Net interest profit is a function of (i) the level and mix of total assets and liabilities, including trading assets owned, deposits, financing and lending transactions, and trading strategies associated with the institutional securities business, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit is an integral component of trading activity. In assessing the profitability of its client facilitation and trading activities, Merrill Lynch views principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate. Net interest profit was \$1.2 billion, down 6% from the 2005 third quarter, due primarily to the impact of

rising rates on municipal and equity derivatives and increased interest expense and funding charges, partially offset by higher short-term interest rates on deposit spreads earned.

Investment banking revenues include (i) origination revenues representing fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication and commitment fees and (ii) strategic advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were \$857 million, down 3% from the year-ago quarter, driven primarily by declines in equity and debt origination revenues, partially offset by increased merger and acquisition advisory revenues.

Revenues from consolidated investments include revenues from investments in entities that are consolidated but are less than 100% owned. Revenues from consolidated investments were \$210 million, up from \$142 million in the 2005 third quarter, reflecting higher investment gains and additional investments.

Other revenues include realized investment gains and losses, equity income from unconsolidated subsidiaries, distributions on cost method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, gains related to the sale of mortgages, write-downs of certain available-for-sale securities, and translation gains and losses on foreign denominated assets and liabilities. Other revenues were \$776 million, 42% higher than the 2005 third quarter, due principally to higher revenues from private equity, gains from the sale of mortgages and increased net translation gains.

Gain on the merger with BlackRock was \$2.0 billion during the third quarter of 2006. This non-recurring gain entirely relates to the merger of Merrill Lynch's MLIM business with BlackRock. For more information on this merger, refer to Note 2 to the Condensed Consolidated Financial Statements.

Compensation and benefits expenses of \$4.0 billion were 39.9% of net revenues, down from 49.0% in the year-ago quarter. Excluding the impact of the BlackRock merger, compensation expenses were \$3.8 billion in the third quarter of 2006, or 48.0% of net revenues.

Non-compensation expenses were \$1.8 billion in the third quarter of 2006, up 24% from the year-ago quarter and include \$58 million in costs associated with the closing of the BlackRock merger. Excluding the net impact of the BlackRock merger, the ratio of total non-compensation expenses to total net revenues was 22.2% during the third quarter of 2006, compared to 22.0% in the year-ago period. Communications and technology costs were \$485 million, up 20% from the third quarter of 2005 due primarily to costs related to technology investments for growth, and higher market information and communications costs. Brokerage, clearing and exchange fees were \$268 million, up 41% from the 2005 third quarter, due primarily to higher transaction volumes. Occupancy costs and related depreciation of \$259 million increased 10% from the year-ago quarter, principally due to higher office rental expenses and office space added via acquisitions. Professional fees were \$224 million, up 29% from the prior-year quarter due to higher legal, consulting and other professional fees primarily associated with increased business activity levels. Advertising and market development expenses were \$164 million, up 19% from the year-ago quarter due primarily to higher travel expenses associated with increased business activity levels. Expenses of consolidated investments were \$142 million, up from \$91 million in the 2005 third quarter, principally due to increased minority interest expenses associated with the related increased revenues from consolidated investments. Other expenses were \$223 million, up from \$192 million in the 2005 third quarter, reflecting the absence of a prior-year litigation provision reversal in GMI.

Year-to-date Results of Operations

For the first nine months of 2006, net earnings were \$5.2 billion, on record net revenues of \$26.0 billion, up 35% from the first nine months of 2005. The results for the first nine months of 2006 include the net benefit of the merger between MLIM and BlackRock, which occurred at the end of the 2006 third quarter. The net impact of the BlackRock merger includes a one-time pre-tax gain of \$2.0 billion and related non-interest expenses of \$202 million, for a total after-tax net benefit of \$1.1 billion, or \$1.14 per diluted share. Net earnings for the first nine months of 2006 also include \$1.2 billion, after-tax, or \$1.22 per diluted share, of one-time non-cash compensation expenses (\$1.8 billion pre-tax) incurred in the first quarter 2006, arising from modifications to the retirement eligibility requirements for existing stock-based employee compensation awards and the adoption of SFAS No. 123 as revised in 2004 ("SFAS No. 123R"); (together, "one-time compensation expenses"). Refer to Note 1 to the Condensed Consolidated Financial Statements for further detail on the one-time compensation expenses.

Excluding the one-time compensation expenses and the net benefit resulting from the BlackRock merger, net earnings were \$5.2 billion for the first nine months of 2006, up 40% from the prior-year period, on record revenues of \$24.0 billion, up 25% from the first nine months of 2005. On the same basis, pre-tax earnings were \$7.1 billion, up 36% from the first nine months of 2005; the pre-tax profit margin was 29.4%, up 2.4 percentage points from the prior year period; the annualized return on average common equity was 20.2%, up 4.5 percentage points from 15.7% in the first nine months of 2005; and earnings per common share were \$5.83 basic and \$5.27 diluted, up 42% and 40%, respectively, from the prior-year periods. Management believes that, while the results excluding the one-time compensation expenses and net benefit resulting from the BlackRock merger are considered "non-GAAP" measures, they depict the performance of the company more clearly and enable more meaningful period-to-period comparisons. See Exhibit 99.1 for a reconciliation of "non-GAAP" measures.

Merrill Lynch's third quarter 2006 effective tax rate was 26.2%, which reflects a \$296 million reduction in the tax provision arising from carryback claims covering the years 2001 and 2002 and brings the year-to-date effective tax rate to 27.1%. Excluding the one-time compensation expenses and impact resulting from the BlackRock merger, the effective tax rate for the first nine months of 2006 was 26.0%, down from 28.4% for the prior-year period.

Business Segments

Through the end of the third quarter of 2006, Merrill Lynch aligned its operations into three business segments: GMI, GPC and MLIM. GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world, and in connection with proprietary trading activities. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM managed financial assets for individual, institutional and corporate clients. Refer to Note 3 to the 2005 Annual Report for information on the principal methodologies used in preparing the segment results.

On September 29, 2006, Merrill Lynch completed the merger of its MLIM business with BlackRock. As this transaction closed the last day of the fiscal quarter, Merrill Lynch's third quarter 2006 results of operations include the full quarter results for MLIM. For more information on this merger, refer to Note 2 to the Condensed Consolidated Financial Statements.

Revenues and expenses associated with inter-segment activities are recognized in each segment and eliminated in the Corporate segment. Inter-segment revenues and expenses primarily consist of certain MLIM and GMI products that are distributed through GPC distribution channels and, to a lesser extent,

certain MLIM products that are distributed through GMI. Merrill Lynch has revenue and expense sharing agreements for joint activities between segments, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities. Business segment results are reclassified to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and organizational structure.

The following discussions of segment results compare the three and nine months ended September 29, 2006 to the three and nine months ended September 30, 2005, and represent the information that is used by management in its decision-making processes. Certain prior period amounts have been reclassified to conform to the current period presentation.

Global Markets and Investment Banking

GMI's Results of Operations

(dollars in millions)

	For the Three Months Ended			For the Nine Months Ended		
	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)
Global Markets						
FICC	\$ 2,117	\$ 1,680	26%	\$ 5,933	\$ 4,948	20%
Equity	<u>1,496</u>	<u>1,192</u>	26	<u>4,946</u>	<u>3,185</u>	55
Total Global Markets net revenues	<u>3,613</u>	<u>2,872</u>	26	<u>10,879</u>	<u>8,133</u>	34
Investment Banking						
Origination						
Debt	330	396	(17)	1,092	1,052	4
Equity	193	219	(12)	745	684	9
Strategic Advisory Services	<u>260</u>	<u>158</u>	65	<u>813</u>	<u>532</u>	53
Total Investment Banking net revenues	<u>783</u>	<u>773</u>	1	<u>2,650</u>	<u>2,268</u>	17
Total net revenues	4,396	3,645	21	13,529	10,401	30
Non-interest expenses before one-time compensation expenses	2,937	2,356	25	8,996	6,890	31
One-time compensation expenses	<u>-</u>	<u>-</u>	-	<u>1,369</u>	<u>-</u>	N/M
Pre-tax earnings	\$ <u>1,459</u>	\$ <u>1,289</u>	13	\$ <u>3,164</u>	\$ <u>3,511</u>	(10)
Pre-tax profit margin	33.2%	35.4%		23.4%	33.8%	

N/M = Not Meaningful

Despite challenging market conditions during the third quarter of 2006, each of GMI's three major business lines — Fixed Income, Currencies, and Commodities ("FICC") (formerly Debt Markets), Equity Markets and Investment Banking — recorded increased net revenues compared with the third quarter of 2005. GMI's total net revenues were a record for a fiscal third quarter at \$4.4 billion, up 21% from the year-ago quarter. Pre-tax earnings were \$1.5 billion, up 13% from the year-ago quarter, driven by strong net revenue growth. The pre-tax profit margin was 33.2%, compared with 35.4% in the year-ago quarter, primarily due to higher expenses associated with investments for growth across the business, as well as the absence of a litigation provision reversal in the year-ago quarter.

For the first nine months of 2006, GMI's net revenues were \$13.5 billion, an increase of 30% from the first nine months of 2005. Pre-tax earnings of \$3.2 billion and the pre-tax profit margin of 23.4% included \$1.4 billion in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, pre-tax earnings for the first nine months of 2006

were \$4.5 billion, up 29% from the year-ago period, and the pre-tax profit margin was 33.5%, down from 33.8% in the year-ago period. Refer to Note 1 to the Condensed Consolidated Financial Statements for further detail on the one-time compensation expenses and Exhibit 99.1 for a reconciliation of non-GAAP measures.

From a geographic perspective, Europe, Middle East and Africa (“EMEA”) and the United States were the largest dollar contributors to third quarter 2006 revenue growth over the prior-year quarter. For the first nine months of 2006, EMEA and the Pacific Rim regions had the strongest revenue growth with net revenues up more than 40% compared to the prior-year period.

A detailed discussion of GMI’s net revenues follows:

Global Markets

For the third quarter of 2006, Global Markets net revenues were \$3.6 billion, up 26% from the year-ago quarter. For the first nine months of 2006, Global Markets net revenues were a record at \$10.9 billion, up 34% from the year-ago period.

Fixed Income, Currencies, and Commodities (formerly Debt Markets)

FICC net revenues include principal transactions and net interest profit (which management believes should be viewed in aggregate to assess trading results), commissions, revenues from principal investments, fair value adjustments on private equity investments made by non-broker-dealer subsidiaries that are held for capital appreciation and/or current income, and other revenues. The business lines included in FICC are described in the Debt Markets section of the 2005 Annual Report. For the third quarter of 2006, FICC net revenues set a new quarterly record at \$2.1 billion, up 26% from the third quarter of 2005. The increase in net revenues was driven primarily by increases in commodities and trading credit products, which more than offset declines from principal investing and trading interest rate products. The commodities results were driven principally by strong trading results in both natural gas and power in the United States and Europe, as well as significant revenues from structured transactions.

For the first nine months of 2006, FICC net revenues were \$5.9 billion, up 20% from the first nine months of 2005, due primarily to the strong trading results in commodities and the trading of credit products. These increases were partially offset by declines in principal investing, rates, and foreign exchange.

Equity Markets

Equity Markets net revenues include commissions, principal transactions and net interest profit (which management believes should be viewed in aggregate to assess trading results), revenues from equity method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, and other revenues. The business lines included in Equity Markets are described in the 2005 Annual Report. During the third quarter of 2006, Equity Markets net revenues were \$1.5 billion, an increase of 26% over the year-ago quarter, driven by higher revenues in private equity, cash trading, proprietary trading and equity financing and services. These increases were partially offset by a modest decline in equity-linked trading.

For the first nine months of 2006, Equity Markets net revenues were \$4.9 billion, up 55% from the year-ago period, driven primarily by private equity-related gains, increased equity-linked and cash trading revenues, and higher equity financing and services net revenues.

Investment Banking

Investment Banking net revenues were \$783 million for the third quarter of 2006, up slightly from the prior-year quarter, as substantially higher merger and acquisition advisory revenues offset decreases

from debt and equity origination. For the first nine months of 2006, Investment Banking net revenues were a record at \$2.7 billion, up 17% from the prior-year period.

Origination

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

Origination revenues in the third quarter of 2006 were \$523 million, down 15% from the year-ago quarter on lower debt and equity origination revenues. Debt origination revenues were down 17% from the year-ago quarter, primarily due to a decrease in overall issuances in the market. Equity origination revenues were down 12% from the year-ago quarter, mostly impacted by lower activity levels.

For the first nine months of 2006, origination revenues increased 6% to \$1.8 billion from the year-ago period, mainly due to a higher volume of new issuances during the first half of the year and the benefits of continued investment in the business. Equity and debt origination revenues were up 9% and 4%, respectively, compared with the first nine months of 2005.

Strategic Advisory Services

Strategic advisory services revenues, which include merger and acquisition and other advisory fees, were \$260 million in the third quarter of 2006, up 65% from the year-ago quarter as overall deal volume increased. For the first nine months of 2006, strategic advisory services revenues of \$813 million increased 53% from the year-ago period on increased overall deal volume as well as an increase in Merrill Lynch's share of global completed merger and acquisition volume.

For additional information on GMI's segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

GPC's Results of Operations

(dollars in millions)

	For the Three Months Ended			For the Nine Months Ended		
	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)
Fee-based revenues	\$1,516	\$1,351	12%	\$4,507	\$3,908	15%
Transactional and origination revenues	713	800	(11)	2,514	2,443	3
Net interest profit and related hedges ⁽¹⁾	519	461	13	1,579	1,282	23
Other revenues	77	79	(3)	209	229	(9)
Total net revenues	2,825	2,691	5	8,809	7,862	12
Non-interest expenses before one-time compensation expenses	2,214	2,101	5	6,851	6,305	9
One-time compensation expenses	-	-	-	281	-	N/M
Pre-tax earnings	\$ 611	\$ 590	4	\$1,677	\$1,557	8
Pre-tax profit margin	21.6%	21.9%		19.0%	19.8%	

N/M = Not Meaningful

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

GPC's third quarter 2006 net revenues were \$2.8 billion, up 5% from the year-ago quarter. The increase was primarily driven by higher fee-based revenues and net interest revenues. These increases were partially offset by lower transaction and origination revenues, reflecting a more typical seasonal slowdown in client activity than the year-ago quarter. GPC's pre-tax earnings for the third quarter of 2006 were \$611 million, up 4% from the year-ago quarter, and the pre-tax profit margin was 21.6%, compared with 21.9% in the year-ago quarter.

Total client assets in GPC accounts increased 11% from the year-ago quarter, to \$1.5 trillion. Client assets in products that generate annuitized revenues were \$578 billion, up 17% from the end of the prior year period. Third quarter net inflows of client assets into annuitized-revenue products (products that generate fee-based revenues) were \$7 billion, bringing the year-to-date total to \$30 billion. Total net new money for the third quarter and first nine months of 2006 was \$14 billion and \$39 billion, respectively.

Financial Advisor headcount reached 15,700 at the end of the third quarter of 2006, a net increase of 1,010 since the third quarter of 2005. The increase was due to low turnover rates, active but disciplined recruiting efforts, and acquisitions.

For the first nine months of 2006, GPC's net revenues increased 12% to \$8.8 billion, driven by growth in nearly every major revenue category. Pre-tax earnings of \$1.7 billion and the pre-tax profit margin of 19.0% included \$281 million in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, GPC's pre-tax earnings for the first nine months of 2006 were \$2.0 billion, up 26% from the year-ago period. On the same basis, pre-tax margin was 22.2%, up from 19.8% for the first nine months of 2005. Refer to Note 1 to the Condensed Consolidated Financial Statements for further detail on the one-time compensation expenses and Exhibit 99.1 for a reconciliation of non-GAAP measures.

A detailed discussion of GPC's revenues follows:

Fee-based revenues

Fee-based revenues are comprised of portfolio service fees which are primarily derived from accounts that charge an annual fee based on net asset value (generally billed in advance quarterly based on prior quarter asset values), such as Merrill Lynch Consults® (a separately managed account product) and Unlimited AdvantageSM (a fee-based brokerage account). Also included in fee-based revenues are fees from insurance products, taxable and tax-exempt money market funds, and alternative investment products, as well as fixed annual account fees and other account-related fees, and commissions related to distribution fees on mutual funds.

GPC generated \$1.5 billion of fee-based revenues for the third quarter of 2006, up 12% from the year-ago quarter. Fee-based revenues for the first nine months of 2006 were \$4.5 billion, up 15% from the year-ago period. Both increases reflect continued growth in fee-based client assets resulting from higher financial market levels and net inflows into annuitized products. This growth in client assets resulted in higher portfolio service fees and increased distribution fees related to mutual fund sales.

The following table provides the U.S. and non-U.S. client assets as well as assets in annuitized-revenue products included in GPC at September 29, 2006 and September 30, 2005:

(dollars in billions)

	Sept. 29, 2006	Sept. 30, 2005
Assets in GPC accounts		
U.S.	\$ 1,412	\$ 1,271
Non-U.S.	130	113
Total	<u>\$ 1,542</u>	<u>\$ 1,384</u>
Assets in annuitized-revenue products	<u>\$ 578</u>	<u>\$ 496</u>

Transactional and origination revenues

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

Transactional and origination revenues of \$713 million in the third quarter of 2006 were down 11% from the year-ago quarter, primarily due to lower transaction-related revenues resulting from decreased investor activity. Transactional and origination revenues for the first nine months of 2006 were \$2.5 billion, up 3% from the year-ago period.

Net interest profit and related hedges

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

GPC's net interest profit and related hedges were \$519 million in the third quarter of 2006, up 13% from the year-ago quarter. This increase primarily reflects higher margins on deposits resulting from rising short-term interest rates. For the first nine months of 2006, GPC's net interest profit and related hedges was \$1.6 billion, 23% higher than the year-ago period.

Other revenues

GPC's other revenues were \$77 million in the third quarter of 2006, down 3% from the year-ago quarter, due largely to lower mortgage-related revenues. For the first nine months of 2006, other revenues were down 9% to \$209 million, also due to lower mortgage-related revenues.

For additional information on GPC's segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

Merrill Lynch Investment Managers

On September 29, 2006, Merrill Lynch completed the merger of its MLIM business with BlackRock. As this transaction closed the last day of the fiscal quarter, Merrill Lynch's third quarter 2006 results of operations include the full quarter results for MLIM. For more information on this merger, refer to Note 2 to the Condensed Consolidated Financial Statements.

MLIM's Results of Operations

(dollars in millions)

	For the Three Months Ended			For the Nine Months Ended		
	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)	Sept. 29, 2006	Sept. 30, 2005	% Inc. (Dec.)
Asset management fees	\$ 546	\$ 400	37%	\$1,560	\$1,137	37%
Commissions	22	26	(15)	83	79	5
Other revenues	132	30	340	257	58	343
Total net revenues	700	456	54	1,900	1,274	49
Non-interest expenses before one-time compensation expenses	416	294	41	1,154	864	34
One-time compensation expenses	-	-	-	109	-	N/M
Pre-tax earnings	\$ 284	\$ 162	75	\$ 637	\$ 410	55
Pre-tax profit margin	40.6%	35.5%		33.5%	32.2%	

N/M = Not Meaningful

MLIM's third quarter 2006 net revenues were a record \$700 million, up 54% from the year-ago quarter. The increase in net revenues was due to higher long-term asset values driven in part by robust net inflows, and consolidated investments. Pre-tax earnings were \$284 million, up 75% from the year-ago quarter, driven by the significantly higher net revenues, strong operating leverage and lower spending in certain areas in anticipation of the BlackRock merger. MLIM's pre-tax profit margin for the third quarter of 2006 was 40.6%, up more than five percentage points from the year-ago quarter.

For the first nine months of 2006, MLIM's net revenues of \$1.9 billion were up 49% over the first nine months of 2005. Pre-tax earnings of \$637 million and the pre-tax profit margin of 33.5% included \$109 million in one-time compensation expenses recognized during the first quarter of 2006. Excluding the one-time compensation expenses, the pre-tax earnings for the first nine months of 2006

were \$746 million, up 82% from the year-ago period, and the pre-tax margin was 39.3%, up more than 7 percentage points from 32.2% in the prior-year period. The increases in pre-tax earnings and pre-tax margin were due primarily to significantly higher net revenues, strong operating leverage and lower spending in certain areas in anticipation of the BlackRock merger.

Refer to Note 1 to the Condensed Consolidated Financial Statements for further detail on the one-time compensation expenses and Exhibit 99.1 for a reconciliation of non-GAAP measures.

A detailed discussion of MLIM's revenues follows:

Asset management fees

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

Asset management fees for the third quarter of 2006 were \$546 million, up 37% from the year-ago quarter due to higher average equity market values, an improvement in the fee profile of assets under management and new money inflows. For the first nine months of 2006, asset management fees were \$1.6 billion, up 37% from the year-ago period on higher performance fees.

Firmwide assets under management just prior to the merger of MLIM with BlackRock totaled \$598 billion, with \$593 billion managed by MLIM and \$5 billion managed by GPC. Excluding the effect of the BlackRock merger, firmwide assets under management would have increased 14% over the year-ago quarter, due principally to positive market movement and net new money inflows. Net inflows for the third quarter of 2006 were \$1 billion, as inflows in the EMEA Pacific and Americas retail channels, driven by equity and liquidity products, were partially offset by outflows in the EMEA institutional channel.

Commissions

Commissions for MLIM principally consist of distribution fees and contingent deferred sales charges ("CDSC") related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds, and the CDSC represents fees earned when a shareholder redeems shares prior to the specified holding period. Commissions revenues were \$22 million in the third quarter of 2006, down \$4 million from the year-ago quarter. For the first nine months of 2006, commissions were \$83 million, up \$4 million from the year-ago period.

Other revenues

Other revenues primarily include net interest profit, investment gains and losses and revenues from consolidated investments. Other revenues were \$132 million for the third quarter of 2006, up more than three times the revenues from the year-ago quarter, reflecting increased investment gains from consolidated investments. For the first nine months of 2006, other revenues were \$257 million, compared to \$58 million for the first nine months of 2005.

For additional information on MLIM's segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheet. The following table summarizes the September 29, 2006 and December 30, 2005 period-end, and first nine months of 2006 and full-year 2005 average balance sheets:

(dollars in billions)

	Sept. 29, 2006	2006 Nine Month Average(1)	Dec. 30, 2005	2005 Full Year Average(1)
Assets				
Trading-Related				
Securities financing assets	\$ 322.2	\$ 352.6	\$ 272.3	\$ 268.3
Trading assets	184.1	187.4	148.7	182.9
Other trading-related receivables	59.2	66.9	54.3	60.9
	<u>565.5</u>	<u>606.9</u>	<u>475.3</u>	<u>512.1</u>
Non-Trading-Related				
Cash	45.3	36.9	26.5	38.7
Investment securities	76.4	67.8	69.3	71.2
Loans, notes, and mortgages, net	71.1	70.4	66.0	60.6
Other non-trading assets	46.4	44.3	43.9	47.8
	<u>239.2</u>	<u>219.4</u>	<u>205.7</u>	<u>218.3</u>
Total assets	<u>\$ 804.7</u>	<u>\$ 826.3</u>	<u>\$ 681.0</u>	<u>\$ 730.4</u>
Liabilities				
Trading-Related				
Securities financing liabilities	\$ 281.8	\$ 328.7	\$ 234.3	\$ 272.7
Trading liabilities	99.9	116.5	88.9	105.7
Other trading-related payables	79.8	77.5	56.9	63.8
	<u>461.5</u>	<u>522.7</u>	<u>380.1</u>	<u>442.2</u>
Non-Trading-Related				
Commercial paper and other short-term borrowings	8.5	9.5	3.9	6.5
Deposits	77.9	81.0	80.0	79.2
Long-term borrowings	160.4	134.4	132.4	122.4
Long-term debt issued to TOPrS sm partnerships	3.1	3.1	3.1	3.1
Other non-trading liabilities	54.6	38.7	45.9	43.8
	<u>304.5</u>	<u>266.7</u>	<u>265.3</u>	<u>255.0</u>
Total liabilities	<u>766.0</u>	<u>789.4</u>	<u>645.4</u>	<u>697.2</u>
Total stockholders' equity	<u>38.7</u>	<u>36.9</u>	<u>35.6</u>	<u>33.2</u>
Total liabilities and stockholders' equity	<u>\$ 804.7</u>	<u>\$ 826.3</u>	<u>\$ 681.0</u>	<u>\$ 730.4</u>

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

Off Balance Sheet Arrangements

As a part of its normal operations, Merrill Lynch enters into various off balance sheet arrangements that may require future payments. The table below outlines the significant off balance sheet arrangements, as well as the future expiration as of September 29, 2006:

(dollars in millions)

	Total	Expiration			
		Less than 1 Year	1 - 3 Years	3+- 5 Years	Over 5 Years
Liquidity facilities with SPEs ⁽¹⁾	\$39,034	\$38,884	\$ 150	\$ -	\$ -
Liquidity and default facilities with SPEs ⁽²⁾	6,056	4,099	1,957	-	-
Residual value guarantees ⁽³⁾	1,059	59	167	329	504
Standby letters of credit and other guarantees ⁽⁴⁾⁽⁵⁾⁽⁶⁾	4,099	1,667	517	1,636	279

(1) Amounts relate primarily to facilities provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch.

(2) Amounts relate to liquidity facilities and credit default protection provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch.

(3) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$322 million.

(4) Includes \$88 million of reimbursement agreements with the Mortgage 100sm program.

(5) Includes guarantees related to principal-protected mutual funds.

(6) Includes certain indemnifications related to foreign tax planning strategies.

Refer to Note 10 to the Condensed Consolidated Financial Statements for additional information.

Contractual Obligations and Commitments

Contractual Obligations

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch's contractual obligations by remaining maturity at September 29, 2006. Excluded from this table are obligations recorded on the Condensed Consolidated Balance Sheets that are: (i) generally short-term in nature, including securities financing transactions, trading liabilities, commercial paper and other short-term borrowings and other payables; (ii) deposits; (iii) obligations that are related to Merrill Lynch's insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability; and (iv) separate accounts liabilities, which fund separate accounts assets.

(dollars in millions)

	Total	Expiration			
		Less than 1 Year	1 - 3 Years	3+- 5 Years	Over 5 Years
Long-term borrowings ⁽¹⁾	\$163,456	\$34,288	\$50,660	\$33,513	\$44,995
Purchasing and other commitments	18,747	15,801	681	772	1,493
Operating lease commitments	3,151	562	993	794	802

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

Commitments

At September 29, 2006, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

	Total	Expiration			
		Less than 1 Year	1 - 3 Years	3+- 5 Years	Over 5 Years
Commitments to extend credit	\$79,025	\$39,205	\$11,674	\$19,697	\$ 8,449
Commitments to enter into resale agreements	11,477	11,477	-	-	-

Capital and Funding

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

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

These objectives and Merrill Lynch's capital and funding policies are discussed more fully in the 2005 Annual Report.

Capital

At September 29, 2006, equity capital, as defined by Merrill Lynch, was comprised of \$35.5 billion of common equity, \$3.1 billion of preferred stock, and \$2.5 billion of long-term debt issued to TOPrSsm partnerships (net of related investments). Equity capital is Merrill Lynch's view of capital available to support its businesses and differs from stockholders' equity as defined by U.S. generally accepted accounting principles, which does not include long-term debt issued to TOPrSsm partnerships, net of related investments.

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

Merrill Lynch continued to grow its equity capital base in the first nine months of 2006 primarily through net earnings, additional preferred stock issuances, and the net effect of employee stock transactions, including the adoption of SFAS No. 123R, partially offset by common stock repurchases and dividends. Equity capital of \$41.2 billion at September 29, 2006 was 8% higher than at December 30, 2005.

The Board of Directors authorized the repurchase of \$6 billion of Merrill Lynch's outstanding common shares under a program announced on February 26, 2006. During the third quarter of 2006, Merrill Lynch repurchased 18.3 million common shares at an average repurchase price of \$71.56 per share.

On October 16, 2006, the Board of Directors authorized the repurchase of an additional \$5 billion of Merrill Lynch outstanding common shares.

On February 28, 2006, Merrill Lynch issued \$360 million face value of floating rate, non-cumulative, perpetual preferred stock.

On January 18, 2006, the Board of Directors declared a 25% increase in the regular quarterly dividend to 25 cents per common share.

Major components of the changes in equity capital for the first nine months of 2006 are as follows:

(dollars in millions)

Balance at December 30, 2005	\$38,144
Net earnings	5,153
Issuance of preferred stock	360
Common and preferred stock dividends	(835)
Common stock repurchases	(6,321)
Net effect of employee stock transactions and other ⁽¹⁾	<u>4,694</u>
Balance at September 29, 2006	\$41,195

(1) Includes effect of Accumulated other comprehensive loss, the reclassification of FACAAP liabilities to equity associated with the adoption of SFAS No. 123R, and other items.

Balance Sheet Leverage

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

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

The following table provides calculations of Merrill Lynch's leverage ratios at September 29, 2006 and December 30, 2005:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Total assets	\$ 804,724	\$ 681,015
Less:		
Receivables under resale agreements	189,893	163,021
Receivables under securities borrowed transactions	105,463	92,484
Securities received as collateral	26,863	16,808
Add:		
Trading liabilities, at fair value, excluding contractual agreements	63,221	60,178
Sub-total	545,726	468,880
Less:		
Segregated cash and securities balances	14,908	11,949
Separate account assets	11,886	16,185
Adjusted assets	518,932	440,746
Less:		
Goodwill and other intangible assets	2,263	6,035
Tangible adjusted assets	\$ 516,669	\$ 434,711
Stockholders' equity	\$ 38,651	\$ 35,600
Add:		
Long-term debt issued to TOPrS sm partnerships, net of related investments ⁽¹⁾	2,544	2,544
Equity capital	\$ 41,195	\$ 38,144
Tangible equity capital ⁽²⁾	\$ 38,932	\$ 32,109
Leverage ratio ⁽³⁾	19.5x	17.9x
Adjusted leverage ratio ⁽⁴⁾	12.6x	11.6x
Tangible adjusted leverage ratio ⁽⁵⁾	13.3x	13.5x

(1) Due to the perpetual nature of TOPrSsm and other considerations, Merrill Lynch views the long-term debt issued to TOPrSsm partnerships (net of related investments) as a component of equity capital. However, the Long-term debt issued to TOPrSsm partnerships is reported as a liability for accounting purposes. TOPrSsm related investments were \$548 million at September 29, 2006 and December 30, 2005.

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

(3) Total assets divided by equity capital.

(4) Adjusted assets divided by equity capital.

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

Funding

Liquidity Risk Management

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

Maintain sufficient long-term capital: Merrill Lynch utilizes a long-term capital model which takes into account the term structure and liquidity value of assets to determine its long-term capital requirements. Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital sources to meet long-term capital requirements. Merrill

Lynch's long-term capital sources include equity capital, long-term debt obligations and certain deposit liabilities in banking subsidiaries which are considered by management to be long-term or stable in nature.

At September 29, 2006 and December 30, 2005, total long-term capital was as follows:

(dollars in billions)

	Sept. 29, 2006	Dec. 30, 2005
Equity capital	\$ 41.2	\$ 38.1
Long-term debt obligations ⁽¹⁾	114.2	99.3
Deposit liabilities ⁽²⁾	<u>66.9</u>	<u>69.9</u>
Total long-term capital	\$ 222.3	\$ 207.3

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

(2) Includes \$56.1 billion and \$10.8 billion of deposits in U.S. and non-U.S. banking subsidiaries, respectively, at September 29, 2006, and \$60.2 billion and \$9.7 billion of deposits, respectively, at December 30, 2005 that are considered by management to be long-term.

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

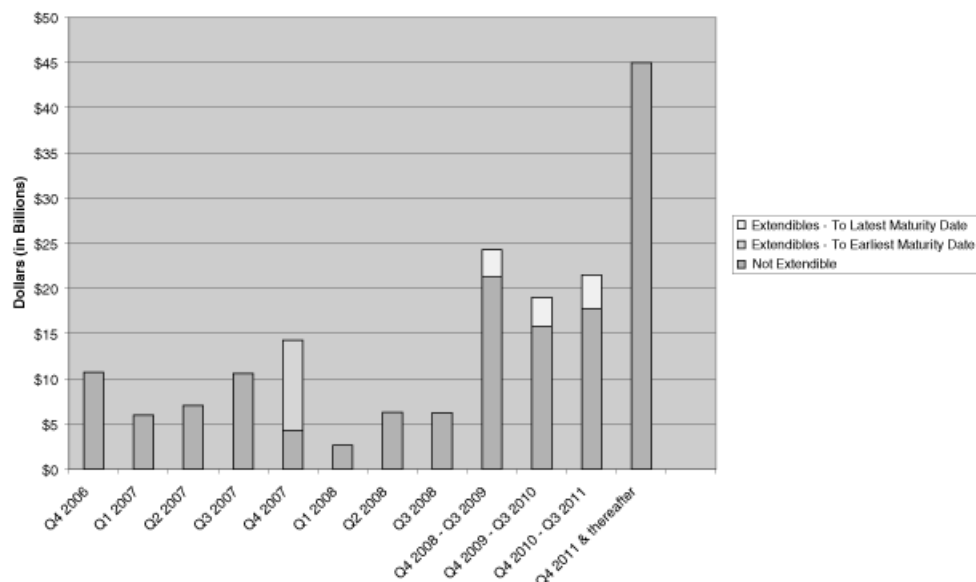
- The portion of assets that cannot be self-funded in the secured financing markets, considering stressed market conditions, including long-term, illiquid assets such as certain loans, private equity investments, goodwill and other intangible assets and fixed assets;
- Subsidiaries' regulatory capital;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

At September 29, 2006, Merrill Lynch's long-term capital sources of \$222.3 billion exceeded Merrill Lynch's estimated long-term capital requirements.

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

During the second quarter of 2006, ML & Co. issued \$2.0 billion of subordinated debt which matures on May 16, 2016. ML & Co. pays interest on this subordinated debt at an annual rate of 6.05%. During the third quarter of 2006, ML & Co. issued an additional \$1.8 billion and EUR 1.5 billion of subordinated debt through two separate issuances that mature on September 15, 2026 and September 14, 2018, respectively. Both issuances include fixed rate and floating rate tranches. All of ML & Co.'s subordinated debt is junior in right of payment to all of ML & Co.'s senior indebtedness.

The following chart presents Merrill Lynch's long-term borrowings maturity profile as of September 29, 2006 (quarterly for two years and annually thereafter):



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

Major components of the change in long-term borrowings, including long-term debt issued to TOPrSsm partnerships, during the first nine months of 2006 are as follows:

(dollars in billions)

Balance at December 30, 2005	\$135.5
Issuance and resale	53.3
Settlement and repurchase	(27.6)
Other ⁽¹⁾	2.3
Balance at September 29, 2006 ⁽²⁾	\$163.5

(1) Relates to foreign exchange and other movements.

(2) See Note 7 to the Condensed Consolidated Financial Statements for the long-term borrowings maturity schedule.

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

Merrill Lynch maintains excess liquidity in the form of cash, U.S. government and agency obligations, and other liquid securities to meet cash outflow obligations within one year such as unsecured debt repayments, commitments, other contractual obligations and contingent outflows. As of September 29, 2006 the excess liquidity at ML & Co., including amounts at subsidiaries which management believes may be upstreamed free of regulatory restrictions, totaled \$51.5 billion. This excess liquidity and other liquidity sources which included maturing short-term assets and committed credit facilities, exceeded short-term obligations and other contractual and contingent cash outflows based on management's estimates.

Merrill Lynch monitors the extent to which other unencumbered assets are available as a source of funds, considering that some subsidiaries are restricted in their ability to migrate excess cash and unencumbered assets to affiliates. As of September 29, 2006 unencumbered assets, including amounts that may be restricted, were in excess of \$161.7 billion, including the carrying value of the ML & Co. excess liquidity.

For liquidity planning purposes, Merrill Lynch considers as short-term debt obligations: (i) commercial paper and other short-term borrowings and (ii) the current portion of long-term borrowings. At September 29, 2006 and December 30, 2005, these short-term debt obligations are as follows:

(dollars in billions)

	Sept. 29, 2006	Dec. 30, 2005
Commercial paper and other short-term borrowings	\$ 8.5	\$ 3.9
Current portion of long-term borrowings	34.3	22.8
Total short-term obligations	\$ 42.8	\$ 26.7

Merrill Lynch maintains credit facilities that are available to cover immediate funding needs. Merrill Lynch maintains a committed, multi-currency, unsecured bank credit facility that totaled \$4.5 billion at September 29, 2006 and \$4.0 billion at December 30, 2005. This 364-day facility permits borrowings by ML & Co. and select subsidiaries and expires in June 2007. The facility includes a one year term-out feature that allows ML & Co., at its option, to extend borrowings under the facility for a further year beyond the expiration date in June 2007. At September 29, 2006 and December 30, 2005, there were no borrowings outstanding under this credit facility, although Merrill Lynch borrows regularly from this facility.

Merrill Lynch also maintains two committed, secured credit facilities which totaled \$7.0 billion at September 29, 2006 and \$5.5 billion at December 30, 2005. The facilities expire in December 2006 and May 2007 respectively. Both facilities include a one year term-out option that allows ML & Co. to extend borrowings under the facilities for a further year beyond their respective expiration dates. The secured facilities permit borrowings by ML & Co. and select subsidiaries, secured by a broad range of collateral. At September 29, 2006 and December 30, 2005 there were no borrowings outstanding under either facility.

In addition, Merrill Lynch maintains a committed, secured credit facility with a financial institution that totaled \$6.25 billion at September 29, 2006 and December 30, 2005. The secured facility may be collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At September 29, 2006 and December 30, 2005, there were no borrowings outstanding under this facility.

Concentrate unsecured financing at ML & Co.: ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name

recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

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

Total borrowings outstanding at September 29, 2006 were issued in the following currencies:

(USD equivalent in millions)

USD	\$103,006	60%
EUR	37,978	22
JPY	11,317	7
GBP	8,924	5
AUD	3,280	2
CAD	2,385	1
Other	5,034	3
Total	\$171,924	100%

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

Credit Ratings

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

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries on October 27, 2006 were as follows. Rating agencies express outlooks from time to time on these ratings. Each of these agencies describes its current outlook as stable. On October 27, 2006 Standard & Poor's raised ML & Co.'s senior debt rating to AA- and its preferred stock rating to A.

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

In connection with certain OTC derivatives transactions and other trading agreements, Merrill Lynch could be required to provide additional collateral to certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. At September 29, 2006, the amount of additional collateral that would be required for such derivatives transactions and trading agreements was approximately \$388 million in the event of a one-notch downgrade and approximately \$794 million in the event of a two-notch downgrade of ML & Co.'s long term senior debt credit rating. Merrill Lynch considers additional collateral on derivative contracts that may be required in the event of changes in ML & Co.'s ratings as part of its liquidity management practices.

Risk Management

Risk-taking is integral to many of the core businesses in which Merrill Lynch operates. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. Senior managers of Merrill Lynch's core businesses are responsible and accountable for management of the risks associated with their business activities. In addition, there are independent control groups that manage market risk, credit risk, liquidity risk and operational risk, among other functions, which fall under the management responsibility of the Chief Financial Officer. Along with other control units these disciplines work to ensure risks are properly identified, measured, monitored, and managed throughout Merrill Lynch. For a full discussion of Merrill Lynch's risk management framework, see the 2005 Annual Report.

Market Risk

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

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

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

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

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

The table that follows presents Merrill Lynch's average and ending VaR for trading instruments for the second and third quarters of 2006 and the full-year 2005. Additionally, high and low VaR for the third quarter of 2006 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

	Sept. 29, 2006	June 30, 2006	Dec. 30, 2005	High 3Q06	Low 3Q06	Daily Average 3Q06	Daily Average 2Q06	Daily Average 2005
Trading Value-at-Risk ⁽¹⁾								
Interest rate and credit spread	\$ 46	\$ 56	\$ 37	\$ 66	\$ 46	\$ 56	\$ 44	\$ 37
Equity	15	19	16	23	9	16	25	12
Commodity	12	11	6	22	10	15	9	8
Currency	3	4	2	9	2	5	4	3
	76	90	61			92	82	60
Diversification benefit	(33)	(37)	(23)			(35)	(34)	(25)
Overall ⁽²⁾	\$ 43	\$ 53	\$ 38	\$ 71	\$ 43	\$ 57	\$ 48	\$ 35

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

(2) Overall VaR using a 95% confidence level and a one-week holding period was \$72 million at September 29, 2006, \$92 million at June 30, 2006 and \$63 million at December 30, 2005.

Trading VaR at September 29, 2006 was lower than at June 30, 2006 due primarily to reductions in credit spread and equity exposures. The average trading VaR was higher in the third quarter than in the second quarter due primarily to higher credit spread and commodity exposures earlier in the period. If market conditions are favorable, Merrill Lynch may increase its risk taking in a number of its businesses, including certain proprietary trading activities and principal investments. These activities provide revenue opportunities while also increasing the loss potential under certain market conditions. Risk levels are monitored on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

Non-Trading Market Risk

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

The primary market risk of non-trading investment securities, and non-trading repurchase and reverse repurchase agreements is expressed as sensitivity to changes in the general level of credit spreads which are defined as the differences in the yields on debt instruments from relevant LIBOR/Swap rates. Non-trading investment securities include securities available-for-sale and held-to-maturity as well as investments of insurance subsidiaries. At the end of the third quarter of 2006, the total credit spread sensitivity of these instruments is a pre-tax loss of \$24 million in fair market value for an increase of one basis point, which is one one-hundredth of a percent, in credit spreads, compared to a pre-tax loss of \$22 million at the end of the second quarter of 2006 and \$19 million at year-end 2005. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

The interest rate risk associated with the foregoing non-trading positions, together with treasury funding activities is expressed as sensitivity to changes in the general level of interest rates. Treasury funding activities include LYONs®, TOPrSsm and other long-term debt together with interest rate hedges. At the end of the third quarter of 2006, the net interest rate sensitivity of these positions is a pre-tax loss in fair market value of \$3 million for a parallel one basis point increase in interest rates across all yield curves, compared to \$2 million at the end of the second quarter of 2006, and \$1 million at year-end 2005. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

Other non-trading equity investments include direct private equity interests, private equity fund investments, hedge fund interests, and certain direct and indirect real estate investments. These investments are broadly sensitive to general price levels in the equity or commercial real estate markets as well as to specific business, financial and credit factors which influence the performance and valuation of each investment uniquely. Refer to Note 5 of the 2005 Annual Report for additional information on these investments.

Credit Risk

Commercial Lending

Commercial lending conducted by Merrill Lynch consists primarily of corporate and institutional lending, asset-based finance, commercial finance, and commercial real estate related activities. In evaluating certain potential commercial lending transactions, Merrill Lynch utilizes a risk adjusted return on capital model in addition to other methodologies.

The following table presents a distribution of commercial loans and closed commitments for September 29, 2006, gross of allowances for loan losses and reserves, without considering the impact of purchased credit protection. Closed commitments represent the unfunded portion of existing commitments available for draw down and do not include contingent commitments extended but not yet closed. As of September 29, 2006, Merrill Lynch's largest commercial lending industry concentration was to financial institutions including banks, insurance companies, finance companies, investment managers and other diversified financial institutions. Commercial borrowers were predominantly domiciled in the United States or had principal operations tied to the United States or

its economy. The majority of all outstanding commercial loan balances had a remaining maturity of less than three years. Additional detail on Merrill Lynch's commercial lending related activities can be found in Note 6 to the Condensed Consolidated Financial Statements. The following table depicts Merrill Lynch's commercial lending balances by credit quality, industry and country at September 29, 2006

(dollars in millions)

By Credit Quality ⁽¹⁾	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
Investment grade	\$18,491	\$ 5,656	\$14,601	\$ 21,584
Non-investment grade	<u>22,610</u>	<u>1,366</u>	<u>13,006</u>	<u>1,127</u>
Total	\$41,101	\$ 7,022	\$27,607	\$ 22,711

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

By Industry	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
Financial institutions	34%	8%	44%	32%
Consumer goods and services	22	39	21	16
Real estate	17	13	7	3
Technology/Media/Telecommunications	3	24	4	15
Energy/Utilities	1	6	3	17
Industrial/Manufacturing goods and services	4	4	6	10
All other	<u>19</u>	<u>6</u>	<u>15</u>	<u>7</u>
Total	100%	100%	100%	100%

By Country	Loans		Closed Commitments	
	Secured	Unsecured	Secured	Unsecured
United States	64%	71%	80%	73%
United Kingdom	12	2	7	6
Germany	3	3	-	8
Japan	4	4	1	-
Netherlands	2	-	2	2
All other	<u>15</u>	<u>20</u>	<u>10</u>	<u>11</u>
Total	100%	100%	100%	100%

Residential Mortgage Lending

Merrill Lynch originates and purchases residential mortgage loans, certain of which include features that may result in additional credit risk when compared to more traditional types of mortgages. The potential additional credit risk arising from these mortgages is addressed through adherence to underwriting guidelines. Credit risk is closely monitored in order to ensure that reserves are sufficient and valuations are appropriate. For additional information on residential mortgage lending, see the 2005 Annual Report.

Derivatives

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with substantially all of its derivative counterparties as soon as possible. Agreements are negotiated bilaterally and can require complex terms. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign

such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of \$10.7 billion of collateral, of which \$6.7 billion represented cash collateral) of OTC trading derivatives in a gain position by maturity at September 29, 2006.

(dollars in millions)

Credit Rating ⁽¹⁾	Years to Maturity				Cross-Maturity Netting ⁽²⁾	Total
	0-3	3+-5	5+-7	Over 7		
AAA	\$ 1,759	\$ 537	\$ 177	\$2,476	\$ (702)	\$ 4,247
AA	2,950	614	830	2,189	(1,791)	4,792
A	2,989	1,298	1,510	2,971	(1,689)	7,079
BBB	1,468	444	457	1,431	(590)	3,210
Other	2,557	714	366	681	(223)	4,095
Total	\$11,723	\$3,607	\$3,340	\$9,748	\$ (4,995)	\$23,423

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

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

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

Non-Investment Grade Holdings and Highly Leveraged Transactions

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

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

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either replicate

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

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

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

Trading Exposures

The following table summarizes Merrill Lynch's trading exposure to non-investment grade or highly leveraged issuers or counterparties:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Trading assets:		
Cash instruments	\$22,849	\$15,578
Derivatives	6,558	6,750
Trading liabilities — cash instruments	(3,419)	(3,400)
Collateral on derivative assets	<u>(2,463)</u>	<u>(3,123)</u>
Net trading asset exposure	\$23,525	\$15,805

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At September 29, 2006, the carrying value of such debt and equity securities totaled \$601 million, of which 38% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$900 million at December 30, 2005, of which 61% related to market-making activities. Also included are distressed bank loans totaling \$404 million and \$290 million at September 29, 2006 and December 30, 2005, respectively.

Non-Trading Exposures

The following table summarizes Merrill Lynch's non-trading exposures to non-investment grade or highly leveraged corporate issuers or counterparties:

(dollars in millions)

	Sept. 29, 2006	Dec. 30, 2005
Investment securities	\$ 781	\$ 554
Other investments ⁽¹⁾ :		
Partnership interests	3,782	2,223
Other equity investments ⁽²⁾	2,565	2,086
Other assets	-	76

(1) Includes a total of \$773 million and \$556 million in investments held by employee partnerships at September 29, 2006 and December 30, 2005, respectively, for which a portion of the market risk of the investments rests with the participating employees.

(2) Includes investments in 158 and 167 enterprises at September 29, 2006 and December 30, 2005, respectively.

In addition, Merrill Lynch had commitments to non-investment grade or highly leveraged corporate issuers or counterparties of \$2.3 billion and \$1.3 billion at September 29, 2006 and December 30, 2005, respectively, which primarily relate to commitments to invest in partnerships.

Recent Developments

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. SFAS No. 157 nullifies the guidance provided by the Emerging Issues Task Force on Issue 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3") that prohibits recognition of day one gains or losses on derivative transactions where model inputs that significantly impact valuation are not observable. In addition, SFAS No. 157 prohibits the use of block discounts for large positions of unrestricted financial instruments that trade in an active market and requires an issuer to consider changes in its own credit spreads when determining the fair value of its liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. The provisions of SFAS No. 157 are to be applied prospectively, except that the provisions related to block discounts and existing derivative financial instruments measured under EITF 02-3 are to be applied as a one-time cumulative effect adjustment to opening retained earnings in the year of the adoption. Merrill Lynch is currently evaluating whether or not it will early adopt SFAS No. 157 as of the first quarter of 2007 as permitted and whether the adoption will have a material impact on the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R* ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of its defined benefit pension and other postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability in its statement of financial condition. Upon adoption, SFAS No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income (loss),

net of tax. These provisions of SFAS No. 158 are effective for Merrill Lynch for year-end 2006. SFAS No. 158 also requires defined benefit plan assets and benefit obligations to be measured as of the date of the company's fiscal year-end. Merrill Lynch has historically used a September 30 measurement date. Under the provisions of SFAS No. 158, Merrill Lynch will be required to change its measurement date to coincide with its December year-end. This provision of SFAS No. 158 will be effective for Merrill Lynch beginning with year-end 2008. Merrill Lynch is currently assessing the impact of the adoption of SFAS No. 158 on the Consolidated Financial Statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB No. 108") to provide guidance on how the effects of the carryover or reversal of prior year unrecorded misstatements should be considered in quantifying a current year misstatement. SAB No. 108 requires a company to apply an approach that considers the amount by which the current year income statement is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current year balance sheet is misstated ("iron-curtain approach"). Prior to the issuance of SAB No. 108, many companies applied either the rollover or iron-curtain approach for purposes of assessing materiality of misstatements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. Upon adoption, SAB No. 108 allows a one-time cumulative effect adjustment against retained earnings for those prior year misstatements that were not material under a company's prior approach, but that are deemed material under the SAB No. 108 approach. Merrill Lynch does not expect the adoption of SAB No. 108 to have a material impact on the Consolidated Financial Statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for Merrill Lynch beginning in the first quarter of 2007. Merrill Lynch is currently evaluating the impact of adopting FIN 48 on the Condensed Consolidated Financial Statements.

In April 2006, the FASB issued a FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Considered in Applying FIN 46R* ("the FSP"). The FSP requires that the variability to be included when applying FIN 46R be based on a "by-design" approach and should consider what risks the variable interest entity was designed to create. Merrill Lynch adopted the FSP beginning in the third quarter of 2006 for all new entities with which Merrill Lynch became involved. Merrill Lynch will apply the provisions of the FSP to all entities previously required to be analyzed under FIN 46R when a reconsideration event occurs as defined under paragraph 7 of the Interpretation. The adoption of the FSP during the third quarter did not have a material impact on the Condensed Consolidated Financial Statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets* ("SFAS No. 156"). SFAS No. 156 amends Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits servicers to subsequently measure each separate class of servicing assets and liabilities at fair value rather than at the lower of amortized cost or market. For those companies that elect to measure their servicing assets and liabilities at fair value, SFAS No. 156 requires the difference between the carrying value and fair value at the date of adoption to be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the election is made. Merrill Lynch will adopt SFAS No. 156 beginning in the first quarter of 2007. Merrill Lynch is currently assessing

the impact of adopting SFAS No. 156 but does not expect the standard to have a material impact on the Condensed Consolidated Financial Statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). SFAS No. 155 clarifies the bifurcation requirements for certain financial instruments and permits hybrid financial instruments that contain a bifurcable embedded derivative to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Merrill Lynch will adopt SFAS No. 155 beginning in the first quarter of 2007. At adoption, for any financial instruments which the fair value election is made, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instruments and the fair value of the combined hybrid financial instruments will be recognized as a cumulative-effect adjustment to beginning retained earnings. Merrill Lynch is currently assessing the impact of adopting SFAS No. 155 on the Condensed Consolidated Financial Statements.

During the first quarter of 2006, Merrill Lynch adopted the provisions of Statement No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123R"). Under SFAS No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. Merrill Lynch adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for Merrill Lynch, SFAS No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions.

Prior to the adoption of SFAS No. 123R, Merrill Lynch had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees. This included those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. Previously, Merrill Lynch had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left Merrill Lynch. However, because SFAS No. 123R applies only to awards granted or modified in 2006, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards must continue to be amortized over the stated vesting period.

In addition, beginning with performance year 2006, for which Merrill Lynch expects to grant stock awards in early 2007, Merrill Lynch will accrue the expense for future awards granted to retirement-eligible employees over the award performance year instead of recognizing the entire expense related to the award on the grant date. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

SFAS No. 123R also requires expected forfeitures of share-based compensation awards for non-retirement-eligible employees to be included in determining compensation expense. Prior to the adoption of SFAS No. 123R, any benefits of employee forfeitures of such awards were recorded as a reduction of compensation expense when the employee left Merrill Lynch and forfeited the award. In the first quarter of 2006, Merrill Lynch recorded a benefit based on expected forfeitures which was not material to the results of operations for the quarter.

The adoption of SFAS No. 123R resulted in a first quarter charge to compensation expense of approximately \$550 million on a pre-tax basis and \$370 million on an after-tax basis.

The adoption of SFAS No. 123R, combined with other business and competitive considerations, prompted Merrill Lynch to undertake a comprehensive review of the company's stock-based incentive compensation awards, including vesting schedules and retirement eligibility requirements, examining their impact to both Merrill Lynch and its employees. Upon the completion of this review, the Management Development and Compensation Committee of Merrill Lynch's Board of Directors determined that to fulfill the objective of retaining high quality personnel, future stock grants should contain more stringent retirement provisions. These provisions include a combination of increased age and length of service requirements. While the stock awards of employees who retire continue to vest, retired employees are subject to continued compliance with the strict non-compete provisions of those awards. To facilitate transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees, including certain executive officers, were modified, effective March 31, 2006, to permit employees to be immediately eligible for retirement with respect to those earlier awards. While Merrill Lynch modified the retirement-related provisions of the previous stock awards, the vesting and non-compete provisions for those awards remain in force.

Since the provisions of SFAS No. 123R apply to awards modified in 2006, these modifications required Merrill Lynch to record additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards.

The one-time, non-cash charge associated with the adoption of SFAS No. 123R, and the policy modifications to previous awards resulted in a net charge to compensation expense in the first quarter of 2006 of approximately \$1.8 billion pre-tax, and \$1.2 billion after-tax, or a net impact of \$1.34 and \$1.21 on basic and diluted earnings per share, respectively. Policy modifications to previously granted awards amounted to \$1.2 billion of the pre-tax charge and impacted approximately 6,300 employees.

Prior to the adoption of SFAS No. 123R, Merrill Lynch presented the cash flows related to income tax deductions in excess of the compensation expense recognized on share-based compensation as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefits of \$283 million related to total share-based compensation included in cash flows from financing activities in the first quarter of 2006 would have been included in cash flows from operating activities if Merrill Lynch had not adopted SFAS No. 123R.

As a result of adopting SFAS No. 123R, approximately \$600 million of liabilities associated with the Financial Advisor Capital Accumulation Award Plan ("FACAAP") were reclassified to stockholders' equity. In addition, as a result of adopting SFAS No. 123R, the unamortized portion of employee stock grants, which was previously reported as a separate component of stockholders' equity on the Condensed Consolidated Balance Sheets, has been reclassified to Paid-in Capital. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional information.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 was effective beginning in the third quarter of 2005 for all new limited partnership agreements and any limited partnership agreements that were modified. For those partnership agreements that existed at the date EITF 04-5 was issued, the guidance became effective in the first quarter of 2006. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

Statistical Data

	3rd Qtr. 2005	4th Qtr. 2005	1st Qtr. 2006	2nd Qtr. 2006	3rd Qtr. 2006
Client Assets (dollars in billions)					
Private Client:					
U.S.	\$ 1,271	\$ 1,341	\$ 1,381	\$ 1,370	\$ 1,412
Non-U.S.	<u>113</u>	<u>117</u>	<u>121</u>	<u>124</u>	<u>130</u>
Total Private Client Assets	1,384	1,458	1,502	1,494	1,542
Assets in Annuitized-Revenue Products ⁽¹⁾	\$ 496	\$ 528	\$ 560	\$ 559	\$ 578
Net New Money (dollars in billions)					
All Private Client Accounts ⁽²⁾	\$ 11	\$ 17	\$ 18	\$ 7	\$ 14
Annuitized-Revenue Products ⁽²⁾⁽³⁾	\$ 10	\$ 10	\$ 13	\$ 10	\$ 7
Full-Time Employees:⁽⁴⁾⁽⁵⁾					
U.S.	41,900	43,200	43,400	43,600	43,200
Non-U.S.	<u>11,200</u>	<u>11,400</u>	<u>12,100</u>	<u>12,400</u>	<u>12,100</u>
Total	<u>53,100</u>	<u>54,600</u>	<u>55,500</u>	<u>56,000</u>	<u>55,300</u>
Private Client Financial Advisors:⁽⁶⁾	14,690	15,160	15,350	15,520	15,700
Balance Sheet (dollars in millions, except per share amounts)					
Total assets	\$670,593	\$681,015	\$732,240	\$799,188	\$804,724
Total stockholders' equity	\$ 33,630	\$ 35,600	\$ 37,825	\$ 36,541	\$ 38,651
Book value per common share	\$ 34.66	\$ 35.82	\$ 37.19	\$ 37.18	\$ 40.22
Share Information (in thousands)					
Weighted-average shares outstanding:					
Basic	881,409	876,230	883,737	885,373	855,844
Diluted	968,493	970,673	981,085	973,324	945,274
Common shares outstanding at period end	921,699	919,201	933,443	898,124	883,268

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.

(1) Includes all Private Client Assets which generate fee-based revenue.

(2) GPC net new money excludes flows associated with the Institutional Advisory Division which serves certain small- and middle-market companies, as well as net outflows in the Amvescap retirement business and the Advest acquisition prior to its system conversion in early March 2006.

(3) Includes both net new client assets into annuitized-revenue products, as well as existing client assets transferred into annuitized-revenue products. Includes net flows from the majority of annuitized-revenue products but excludes flows in the Amvescap retirement business, as well as certain other annuitized products.

(4) Excludes 200 full-time employees on salary continuation severance at the end of 3Q05 and 4Q05, 300 at the end of 1Q06 and 2Q06 and 200 at the end of 3Q06.

(5) 3Q06 excludes 2,400 MLIM employees that transferred to BlackRock at the end of the quarter.

(6) Includes 140 FA's associated with the Mitsubishi UFJ JV at the end of 2Q06 and 150 at the end of 3Q06.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information under the caption Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management” above in this Report is incorporated herein by reference.

Item 4. Controls and Procedures

ML & Co.’s Disclosure Committee assists with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.’s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.’s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.’s disclosure controls and procedures are effective.

In addition, no change in ML & Co.’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the third fiscal quarter of 2006 that has materially affected, or is reasonably likely to materially affect, ML & Co.’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements the discussions in Part I, Item 3 “Legal Proceedings” in ML & Co.’s Annual Report on Form 10-K for the fiscal year ended December 30, 2005 and ML & Co.’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006.

Enron Litigation

United States v. Brown, et al.: On October 19, 2006, the United States Court of Appeals for the Fifth Circuit denied the government’s petition for rehearing, and thus allowed to stand the August 1, 2006, decision of the Court of Appeals vacating the conviction of four former Merrill Lynch employees for conspiracy and wire fraud related to Enron’s alleged misrepresentations of its financial condition.

Newby v. Enron Corp. et al.: On August 8, 2006, the district court postponed the commencement of the trial until April 9, 2007. On November 1, 2006, the United States Court of Appeals for the Fifth Circuit agreed to hear Merrill Lynch’s appeal of the district court’s July 5, 2006 order allowing the case to proceed as a class action.

Allegheny Energy Litigation

Merrill Lynch v. Allegheny Energy, Inc.: On October 30, 2006, the United States Court of Appeals for the Second Circuit heard oral argument on Allegheny Energy’s appeal of the July 18, 2005, decision ordering it to pay Merrill Lynch \$115 million plus interest and denying Allegheny’s claims for relief. No decision has yet been rendered on the appeal.

SwissAir

A hearing has been set for December 6, 2006 before the commercial court of Zurich for the court to express its preliminary views on the merits of the claims by the Liquidator of SAirGroup ("SwissAir") against Merrill Lynch Capital Markets Bank AG ("MLCMB AG"). As set forth in Merrill Lynch's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, the Liquidator claims that SwissAir lacked authority to enter into certain transactions with MLCMB AG in 1999 and 2000 pursuant to which SwissAir received an economic interest in additional SwissAir shares. MLCMB AG has denied the Liquidator's allegations.

Other

Merrill Lynch has been named as a defendant in various other legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 resulted in increased legal actions against many firms, including Merrill Lynch.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process. In accordance with SFAS No. 5, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including most of the class action lawsuits disclosed in ML & Co.'s public filings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Subject to the foregoing, Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended December 30, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Merrill Lynch. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On July 25, 2006, ML & Co. issued unregistered common stock in connection with a transaction under South Africa’s Black Economic Empowerment program between Merrill Lynch South Africa (Proprietary) Limited (“MLSA”) and Tselane Basadi Capital Proprietary Limited, Merrill Lynch South Africa Black Employees Trust and Merrill Lynch South Africa Charitable Trust (collectively, the “beneficiaries”). Under the terms of the agreements entered into principally between ML&Co, MLSA and the beneficiaries on July 25, 2006, ML&Co. donated 173,556 shares of ML & Co. common stock, equivalent to an 8.5% economic interest in MLSA. The ML & Co. common stock was issued in accordance with Regulation S under the Securities Act of 1933 and is subject to restrictions on transfer. There was no underwriter or distributor for the shares. ML & Co. does not plan to file a registration statement under the Securities Act of 1933 to register the resale of the ML & Co. shares by the counterparties.

The table below sets forth the information with respect to purchases made by or on behalf of Merrill Lynch or any “affiliated purchaser” of Merrill Lynch’s common stock during the quarter ended September 29, 2006.

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
Month #1 (Jul. 1, 2006 – Aug. 4, 2006)				
Capital Management Program	12,678,500	\$ 70.06	12,678,500	\$ 1,435
Employee Transactions(2)	334,992	71.11	N/A	N/A
Month #2 (Aug. 5, 2006 – Sep. 1, 2006)				
Capital Management Program	2,976,700	\$ 73.89	2,976,700	\$ 1,215
Employee Transactions(2)	154,182	74.14	N/A	N/A
Month #3 (Sep. 2, 2006 – Sep. 29, 2006)				
Capital Management Program	2,691,000	\$ 76.07	2,691,000	\$ 1,010
Employee Transactions(2)	507,296	78.17	N/A	N/A
Third Quarter 2006 (Jul. 1, 2006 – Sep. 29, 2006)				
Capital Management Program	18,346,200	\$ 71.56	18,346,200	\$ 1,010
Employee Transactions(2)	996,470	75.17	N/A	N/A

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

(2) Included in the total number of shares purchased are: (1) shares purchased during the period by participants in the Merrill Lynch 401(k) Savings and Investment Plan ("401(k)") and the Merrill Lynch Retirement Accumulation Plan ("RAP"), (2) shares delivered or attested to in satisfaction of the exercise price by holders of ML & Co. employee stock options (granted under employee stock compensation plans) and (3) Restricted Shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of Restricted Shares. ML & Co.'s employee stock compensation plans provide that the value of the shares delivered or attested, or withheld, shall be the average of the high and low price of ML & Co.'s common stock (Fair Market Value) on the date the relevant transaction occurs. See Notes 13 and 14 of the 2005 Annual Report for additional information on these plans.

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

On April 28, 2006, ML & Co. held its Annual Meeting of Shareholders. Further details concerning matters submitted for shareholders' vote can be found in ML & Co.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006.

Item 5. Other Information

The 2007 Annual Meeting of Shareholders will be held at 10:00 a.m. on Friday, April 27, 2007 at the Merrill Lynch Hopewell Campus, 1550 Merrill Lynch Drive, Hopewell, New Jersey. Any shareholder of record entitled to vote generally for the election of directors may nominate one or more persons for election at the Annual Meeting only if proper written notice, as set forth in ML & Co.'s Certificate of Incorporation, has been given to the Corporate Secretary of ML & Co., 222 Broadway, 17th Floor, New York, New York 10038, no earlier than February 11, 2007 and no later than March 8, 2007. In addition, any shareholder intending to bring any other business before the meeting must provide proper written notice, as set forth in ML & Co.'s By-Laws, to the Secretary of ML & Co. on or before March 8, 2007. In order to be included in ML & Co.'s proxy statement, shareholder proposals must be received by ML & Co. no later than November 10, 2006.

Item 6. Exhibits

- 4 Instruments defining the rights of security holders, including indentures:
ML & Co. hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of the instruments that have not been filed which define the rights of holders of long-term debt securities of ML & Co. that authorize an amount of securities constituting 10% or less of the total assets of ML & Co. and its subsidiaries on a consolidated basis. Such instruments have not been filed pursuant to Item 601(b) (4)(iii)(A) of Regulation S-K.
- 11 Statement re: computation of earnings per common share (the calculation of per share earnings is in Part I, Item 1, Note 9 to the Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
- 12 Statement re: computation of ratios.
- 15 Letter re: unaudited interim financial information.
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.

- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Reconciliation of “Non-GAAP” Measures.

SIGNATURES

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

MERRILL LYNCH & CO., INC.
(Registrant)

By: /s/ Jeffrey N. Edwards
Jeffrey N. Edwards
Senior Vice President and
Chief Financial Officer

By: /s/ Laurence A. Tosi
Laurence A. Tosi
Senior Vice President and Finance Director
Principal Accounting Officer

Date: November 3, 2006

INDEX TO EXHIBITS

Exhibit

- 4 Instruments defining the rights of security holders, including indentures:
ML & Co. hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of the instruments that have not been filed which define the rights of holders of long-term debt securities of ML & Co. that authorize an amount of securities constituting 10% or less of the total assets of ML & Co. and its subsidiaries on a consolidated basis. Such instruments have not been filed pursuant to Item 601(b) (4)(iii)(A) of Regulation S-K.
- 11 Statement re: computation of earnings per common share (the calculation of per share earnings is in Part I, Item 1, Note 9 to the Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
- 12 Statement re: computation of ratios.
- 15 Letter re: unaudited interim financial information.
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Reconciliation of “Non-GAAP” Measures.

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)

	For the Three Months Ended	For the Nine Months Ended	Year Ended Last Friday in December				
	September 29, 2006	September 29, 2006	2005(a) (52 weeks)	2004(a) (53 weeks)	2003(a) (52 weeks)	2002(a) (52 weeks)	2001(a) (52 weeks)
Pre-tax earnings (loss)(b)	\$ 4,013	\$ 6,766	\$ 6,814	\$ 5,436	\$ 5,040	\$ 2,343	\$ (228)
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	9,490	25,707	21,967	10,734	8,195	10,164	17,690
Pre-tax earnings before fixed charges	<u>13,503</u>	<u>32,473</u>	<u>28,781</u>	<u>16,170</u>	<u>13,235</u>	<u>12,507</u>	<u>17,462</u>
Fixed charges:							
Interest	9,434	25,540	21,752	10,530	8,003	9,958	17,437
Other(c)	56	167	215	204	193	206	260
Total fixed charges	<u>9,490</u>	<u>25,707</u>	<u>21,967</u>	<u>10,734</u>	<u>8,196</u>	<u>10,164</u>	<u>17,697</u>
Preferred stock dividend requirements	<u>67</u>	<u>189</u>	<u>100</u>	<u>54</u>	<u>52</u>	<u>51</u>	<u>54</u>
Total combined fixed charges and preferred stock dividends	<u>\$ 9,557</u>	<u>\$ 25,896</u>	<u>\$ 22,067</u>	<u>\$ 10,788</u>	<u>\$ 8,248</u>	<u>\$ 10,215</u>	<u>\$ 17,751</u>
Ratio of earnings to fixed charges	<u>1.42</u>	<u>1.26</u>	<u>1.31</u>	<u>1.51</u>	<u>1.61</u>	<u>1.23</u>	<u>0.99</u> (d)
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>1.41</u>	<u>1.25</u>	<u>1.30</u>	<u>1.50</u>	<u>1.60</u>	<u>1.22</u>	<u>0.98</u> (d)

(a) Certain prior period amounts have been reclassified to conform to the current period presentation.

(b) Excludes undistributed earnings (loss) from equity investments.

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

(d) Earnings were insufficient to cover fixed charges and combined fixed charges and preferred dividend requirements by \$235 million and \$289 million, respectively.

November 3, 2006

Merrill Lynch & Co., Inc.
4 World Financial Center
New York, NY 10080

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim condensed consolidated financial information of Merrill Lynch & Co., Inc. and subsidiaries (“Merrill Lynch”) as of September 29, 2006 and for the three-month and nine-month periods ended September 29, 2006 and September 30, 2005, as indicated in our report dated November 3, 2006 (which report included an explanatory paragraph regarding the change in accounting method in 2006 for share-based payments to conform to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*); because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 29, 2006, is incorporated by reference in the following Registration Statements, as amended:

Filed on Form S-8

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors’ Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-64676 (1986 Employee Stock Purchase Plan)

Registration Statement No. 333-64674 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-68330 (2002 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-99105 (2003 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-108296 (2004 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-109236 (Employee Stock Compensation Plan)

Registration Statement No. 333-118615 (2005 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125109 (2006 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125181 (Deferred Stock Unit Plan for Non-Employees)

Registration Statement No. 333-134065 (2007 Deferred Compensation Plan for a Select Group of Eligible Employees)

Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depository Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937
Registration Statement No. 333-105098
Registration Statement No. 333-109802
Registration Statement No. 333-122639
Registration Statement No. 333-132911

Medium Term Notes:

Registration Statement No. 2-96315
Registration Statement No. 33-03079
Registration Statement No. 33-05125
Registration Statement No. 33-09910
Registration Statement No. 33-16165
Registration Statement No. 33-19820
Registration Statement No. 33-23605
Registration Statement No. 33-27549
Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)
Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)
Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)
Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)
Registration Statement No. 333-67903 (Howard Johnson & Company Resale)
Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

We are also aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of a Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

New York, New York
November 3, 2006

Certification

I, E. Stanley O'Neal, certify that:

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

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chairman of the Board and
Chief Executive Officer

Dated: November 3, 2006

Certification

I, Jeffrey N. Edwards, certify that:

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

/s/ Jeffrey N. Edwards

Jeffrey N. Edwards
Senior Vice President and
Chief Financial Officer

Dated: November 3, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-Q for the period ended September 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chairman of the Board and
Chief Executive Officer

Dated: November 3, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-Q for the period ended September 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey N. Edwards, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey N. Edwards

Jeffrey N. Edwards
Senior Vice President and
Chief Financial Officer

Dated: November 3, 2006

Merrill Lynch & Co., Inc.
Reconciliation of Non-GAAP Measures

For the Three Months Ended September 29, 2006

During the third quarter of 2006, Merrill Lynch completed the merger of its Merrill Lynch Investment Managers business with BlackRock, Inc. Merrill Lynch recognized a gain associated with this merger along with other non-recurring expenses, collectively “Impact of BlackRock Merger”.

Management believes that while the results excluding the impact of the BlackRock merger are considered non-GAAP measures, they depict the performance of the company more clearly and enable more appropriate period-to-period comparisons.

Unaudited Earnings Summary

(in millions, except per share amounts)

	For the Three Months Ended September 29, 2006		
	Excluding Impact of BlackRock Merger	Impact of BlackRock Merger	GAAP Basis
Net Revenues(a)	\$ 7,927	\$ 1,969	\$ 9,896
Non-Interest Expenses			
Compensation and benefits(b)	3,806	144	3,950
Non-compensation expenses(c)	1,760	58	1,818
Total Non-Interest Expenses	5,566	202	5,768
Earnings Before Income Taxes(d)	2,361	1,767	4,128
Income Tax Expense(e)	421	662	1,083
Net Earnings	\$ 1,940	\$ 1,105	\$ 3,045
Preferred Stock Dividends	\$ 50	\$ -	\$ 50
Net Earnings Applicable to Common Stockholders	\$ 1,890	\$ 1,105	\$ 2,995
Earnings Per Common Share			
Basic	\$ 2.21	\$ 1.29	\$ 3.50
Diluted	\$ 2.00	\$ 1.17	\$ 3.17
Average Shares Used in Computing Earnings Per Common Share			
Basic	855.8	-	855.8
Diluted	945.3	-	945.3

Financial Ratios

	For the Three Months Ended September 29, 2006	
	Excluding Impact of BlackRock Merger	GAAP Basis
Ratio of compensation and benefits to net revenues(b)/(a)	48.0%	39.9%
Ratio of non-compensation and benefits to net revenues(c)/(a)	22.2%	18.4%
Effective Tax Rate(e)/(d)	17.8%	26.2%
Pre-tax Profit Margin(d)/(a)	29.8%	41.7%
Average Common Equity	\$ 33,862	\$ 33,862
Impact of the BlackRock merger	(276)	-
Average Common Equity	33,586	33,862
Annualized Return on Average Common Equity	22.5%	35.4%

Merrill Lynch & Co., Inc.
Reconciliation of Non-GAAP Measures

For the Nine Months Ended September 29, 2006

Merrill Lynch adopted Statement of Financial Accounting Standards No. 123 (as revised in 2004) for stock-based employee compensation during the first quarter of 2006. Additionally, as a result of a comprehensive review of the retirement provisions in its stock-based compensation plans, Merrill Lynch also modified the retirement eligibility requirements of existing stock awards in order to facilitate transition to more stringent retirement eligibility requirements for future stock awards. These modifications and the adoption of the new accounting standard required Merrill Lynch to accelerate the recognition of compensation expenses for affected stock awards, resulting in the “one-time compensation expenses.” These changes represent timing differences and are not economic in substance.

During the third quarter of 2006, Merrill Lynch completed the merger of its Merrill Lynch Investment Managers business with BlackRock, Inc. Merrill Lynch recognized a gain associated with this merger along with other non-recurring expenses, collectively “Impact of BlackRock Merger”.

Management believes that while the results excluding these one-time compensation expenses and the impact of the BlackRock merger are considered non-GAAP measures, they depict the performance of the company more clearly and enable more appropriate period-to-period comparisons.

Unaudited Earnings Summary

(in millions, except per share amounts)

	For the Nine Months Ended September 29, 2006 ⁽¹⁾			
	Excluding One-time Compensation Expenses & Impact of BlackRock Merger	Impact of One-time Compensation Expenses	Impact of BlackRock Merger	GAAP Basis
Net Revenues(a)	\$ 24,047	\$ -	\$ 1,969	\$ 26,016
Non-Interest Expenses				
Compensation and benefits(b)	11,777	1,759	144	13,680
Non-compensation expenses(c)	5,208	-	58	5,266
Total Non-Interest Expenses	16,985	1,759	202	18,946
Earnings Before Income Taxes(d)	7,062	(1,759)	1,767	7,070
Income Tax Expense(e)	1,837	(582)	662	1,917
Net Earnings	\$ 5,225	\$ (1,177)	\$ 1,105	\$ 5,153
Preferred Stock Dividends	\$ 138	\$ -	\$ -	\$ 138
Net Earnings Applicable to Common Stockholders	\$ 5,087	\$ (1,177)	\$ 1,105	\$ 5,015
Earnings Per Common Share				
Basic	\$ 5.83	\$ (1.35)	\$ 1.25	\$ 5.73
Diluted	\$ 5.27	\$ (1.22)	\$ 1.14	\$ 5.19
Average Shares Used in Computing Earnings Per Common Share				
Basic	873.1	1.9	-	875.0
Diluted	964.7	1.9	-	966.6

Financial Ratios

	For the Nine Months Ended ⁽¹⁾ September 29, 2006	
	Excluding One-time Compensation Expenses & Impact of BlackRock Merger	GAAP Basis
Ratio of compensation and benefits to net revenues(b)/(a)	49.0%	52.6%
Ratio of non-compensation and benefits to net revenues(c)/(a)	21.7%	20.2%
Effective Tax Rate(e)/(d)	26.0%	27.1%
Pre-tax Profit Margin(d)/(a)	29.4%	27.2%
Average Common Equity	\$ 33,887	\$ 33,887
Impact of one-time compensation expenses and the BlackRock merger	(256)	-
Average Common Equity	33,631	33,887
Annualized Return on Average Common Equity	20.2%	19.7%

(1) For purposes of comparison with previously published results, data excluding the impact of the one-time compensation expenses for the first nine months of 2006 assumes the impact of the one-time compensation expenses is limited to the first quarter of 2006.

Merrill Lynch & Co., Inc.

Reconciliation of Non-GAAP Measures — Segment Data (unaudited)

(dollars in millions)

	For the Three Months Ended			Percent Inc / (Dec)		For the Nine Months Ended		
	Sept. 29, 2006	June 30, 2006	Sept. 30, 2005	3Q06 vs. 2Q06	3Q06 vs. 3Q05	Sept. 29, 2006	Sept. 30, 2005	Percent Inc/(Dec)
Global Markets & Investment Banking								
Total net revenues(a)	\$ 4,396	\$4,580	\$3,645	(4)%	21%	\$13,529	\$10,401	30%
Pre-tax earnings	1,459	1,493	1,289	(2)	13	3,164	3,511	(10)
Impact of one-time compensation expenses	-	-	-	N/M	N/M	1,369	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	1,459	1,493	1,289	(2)	13	4,533	3,511	29
Pre-tax profit margin	33.2%	32.6%	35.4%			23.4%	33.8%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	33.2%	32.6%	35.4%			33.5%	33.8%	
Global Private Client								
Total net revenues(a)	2,825	3,045	2,691	(7)	5	8,809	7,862	12
Pre-tax earnings	611	701	590	(13)	4	1,677	1,557	8
Impact of one-time compensation expenses	-	-	-	N/M	N/M	281	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	611	701	590	(13)	4	1,958	1,557	26
Pre-tax profit margin	21.6%	23.0%	21.9%			19.0%	19.8%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	21.6%	23.0%	21.9%			22.2%	19.8%	
Merrill Lynch Investment Managers								
Total net revenues(a)	\$ 700	\$ 630	\$ 456	11	54	\$ 1,900	\$ 1,274	49
Pre-tax earnings	284	240	162	18	75	637	410	55
Impact of one-time compensation expenses	-	-	-	N/M	N/M	109	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	284	240	162	18	75	746	410	82
Pre-tax profit margin	40.6%	38.1%	35.5%			33.5%	32.2%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	40.6%	38.1%	35.5%			39.3%	32.2%	
Corporate								
Total net revenues	\$ 1,975	\$ (97)	\$ (114)	N/M	N/M	\$ 1,778	\$ (308)	N/M
Impact of BlackRock merger	1,969	-	-	N/M	N/M	1,969	-	N/M
Total net revenues excluding the BlackRock merger	6	(97)	(114)	106	105	(191)	(308)	38
Pre-tax earnings	1,774	(85)	(105)	N/M	N/M	1,592	(278)	N/M
Impact of BlackRock merger	(1,767)	-	-	N/M	N/M	(1,767)	-	N/M
Pre-tax earnings excluding the BlackRock merger	7	(85)	(105)	108	107	(175)	(278)	37
Total								
Total net revenues(a)	\$ 9,896	\$8,158	\$6,678	21	48	\$26,016	\$19,229	35
Impact of BlackRock merger	1,969	-	-	N/M	N/M	1,969	-	N/M
Total net revenues excluding the BlackRock merger	7,927	8,158	6,678	(3)	19	24,047	19,229	25
Pre-tax earnings	4,128	2,349	1,936	76	113	7,070	5,200	36
Impact of BlackRock merger	(1,767)	-	-	N/M	N/M	(1,767)	-	N/M
Impact of one-time compensation expenses	-	-	-	N/M	N/M	1,759	-	N/M
Pre-tax earnings excluding BlackRock merger and one-time compensation expenses(b)	2,361	2,349	1,936	1	22	7,062	5,200	36
Pre-tax profit margin	41.7%	28.8%	29.0%			27.2%	27.0%	
Pre-tax profit margin excluding BlackRock merger and one-time compensation expenses(b)/(a)	29.8%	28.8%	29.0%			29.4%	27.0%	

N/M = Not Meaningful

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.