

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 10, 1998  
-----

Merrill Lynch & Co., Inc.

-----  
(Exact Name of Registrant as Specified in its Charter)

Delaware	1-7182	13-2740599
-----	-----	-----
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

World Financial Center, North Tower, New York, New York	10281-1332
-----	-----
(Address of Principal Executive Offices)	(Zip Code)

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

-----  
(Former Name or Former Address, if Changed Since Last Report.)

Item 5. Other Events  
-----

On August 26, 1998, Merrill Lynch & Co., Inc. ("ML & Co.") indirectly acquired the outstanding shares of Midland Walwyn Inc. in a share exchange. The merger has been accounted for as a pooling-of-interests. The exhibit filed herewith, including audited consolidated financial statements for ML & Co. for its 1997 fiscal year, has been restated to reflect the merger and is filed in connection with various registration statements filed from time to time by ML & Co.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits  
-----

(c) Exhibits  
-----

(23) Independent Auditors' Consent

(99) Additional Exhibits

(i) Restated Financial Information

- Management's Discussion and Analysis

- Independent Auditors' Report on Consolidated Financial  
Statements

- Consolidated Financial Statements and Related Notes

- Selected Financial Data

SIGNATURE

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, hereunto duly authorized.

MERRILL LYNCH & CO., INC.

-----  
(Registrant)

By: /s/ E. Stanley O'Neal

-----  
E. Stanley O'Neal  
Executive Vice President and  
Chief Financial Officer

Date: December 10, 1998

3

EXHIBIT INDEX

Exhibit

No.      Description  
---      -----

(23)      Independent Auditors' Consent

(99)      Additional Exhibits

        (i) Restated Financial Information

          - Management's Discussion and Analysis

          - Independent Auditors' Report on Consolidated Financial  
            Statements

          - Consolidated Financial Statements and Related Notes

          - Selected Financial Data

4

INDEPENDENT AUDITORS' CONSENT

-----  
We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our report dated February 23, 1998 (December 10, 1998 as to Note 1, paragraphs 1 and 2), appearing in this Current Report on Form 8-K dated December 10, 1998.

Filed on Form S-8:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Registration Statement No. 333-17009 (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. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings and 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.)

Filed on Form S-3:

Debt Securities:

Registration Statement No. 33-54218

Registration Statement No. 2-78338  
Registration Statement No. 2-89519  
Registration Statement No. 2-83477  
Registration Statement No. 33-03602

Registration Statement No. 33-17965  
Registration Statement No. 33-27512  
Registration Statement No. 33-35456  
Registration Statement No. 33-42041  
Registration Statement No. 33-45327  
Registration Statement No. 33-49947  
Registration Statement No. 33-51489  
Registration Statement No. 33-52647  
Registration Statement No. 33-60413  
Registration Statement No. 33-61559  
Registration Statement No. 33-65135  
Registration Statement No. 333-13649  
Registration Statement No. 333-25255  
Registration Statement No. 333-28537  
Registration Statement No. 333-44173  
Registration Statement No. 333-59997

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. 33-33335 (Common Stock)  
Registration Statement No. 33-45777 (Common Stock)  
Registration Statement No. 33-55363 (Preferred Stock)  
Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)  
Registration Statement No. 333-16603 (TOPrS)  
Registration Statement No. 333-20137 (TOPrS)  
Registration Statement No. 333-24889 (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. 333-42859 (TOPrS)

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)

/s/Deloitte & Touche LLP

New York, New York  
December 10, 1998

MERRILL LYNCH & CO., INC.  
 RESTATED FINANCIAL INFORMATION

In 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn, Inc., in a transaction accounted for as a pooling-of-interests. The following financial information has been restated as if Merrill Lynch and Midland Walwyn had always been combined.

-----  
 Table of Contents  
 -----

Management's Discussion And Analysis.....	2
Independent Auditors' Report.....	27
Consolidated Financial Statements	
Consolidated Statements of Earnings.....	28
Consolidated Balance Sheets.....	29
Consolidated Statements of Changes in Stockholders' Equity....	31
Consolidated Statements of Comprehensive Income.....	33
Consolidated Statements of Cash Flows.....	34
Notes To Consolidated Financial Statements.....	35
Selected Financial Data.....	65

-----

1

Management's Discussion and Analysis  
 -----

-----  
 Table of Contents  
 -----

INTRODUCTION.....	2
BUSINESS ENVIRONMENT.....	2
RESULTS OF OPERATIONS.....	3
COMMISSIONS.....	4
INTEREST AND DIVIDENDS.....	4
PRINCIPAL TRANSACTIONS.....	5
INVESTMENT BANKING.....	6
ASSET MANAGEMENT AND	
PORTFOLIO SERVICE FEES.....	7
OTHER REVENUES.....	7
NON-INTEREST EXPENSES.....	8
INCOME TAXES.....	9
ACQUISITIONS.....	9
STRATEGIC PRIORITIES.....	10
GLOBAL OPERATIONS.....	11
BALANCE SHEET.....	14
LIQUIDITY AND LIABILITY MANAGEMENT...	17
CAPITAL RESOURCES AND	
CAPITAL ADEQUACY.....	18
CAPITAL PROJECTS AND EXPENDITURES....	19
RISK MANAGEMENT.....	19
NON-INVESTMENT GRADE HOLDINGS AND	
HIGHLY LEVERAGED TRANSACTIONS.....	23
CASH FLOWS.....	25
LITIGATION.....	25
RECENT DEVELOPMENTS.....	26

-----

-----  
 INTRODUCTION  
 -----

On August 26, 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn Inc. ("Midland") in a share exchange. Each Midland shareholder received either 0.24 shares of ML & Co. common stock or 0.24 exchangeable shares of Merrill Lynch & Co., Canada Ltd. for every Midland share held. The merger has been accounted for as a pooling-of-interests. As a result, this Management's Discussion and Analysis has been restated as if Merrill Lynch and Midland had always been combined.

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

Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries and affiliates, "Merrill Lynch") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, and related services worldwide. Merrill Lynch conducts its businesses

in global financial markets that are influenced by numerous unpredictable factors. These factors include economic conditions and monetary policy, the liquidity of global markets, international and regional political events, regulatory developments, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility of financial markets. While greater volatility increases risk, it may also increase order flow in businesses such as trading and brokerage. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility.

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

Global financial markets continued to advance for much of 1997, after generally strong performances in 1996 and 1995. Robust economic growth, low inflation, and falling U.S. interest rates propelled U.S. equity markets to record highs and contributed to significant gains in most non-U.S. markets. The weakening of certain Asian currencies in the 1997 third quarter and further devaluation of those currencies in the 1997 fourth quarter, however, caused significant volatility and overall declines in global equity markets, particularly in Asia. These events also resulted in the widening of credit spreads and sharply reduced liquidity in a number of markets, particularly in emerging markets. Subsequently, many markets recovered, while Asian markets continued to decline.

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

-----  
2

Management's Discussion and Analysis  
-----  
-----

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

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

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

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

Strategic services had its third consecutive year of record volume in 1997, as a result of a continuation of the high level of merger and acquisition activity since 1995. Driven by a generally favorable stock market, regulatory and technological changes, and ongoing industry consolidations, companies

continued to seek strategic alliances to increase earnings growth and expand into new markets and businesses.

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

-----  
RESULTS OF OPERATIONS  
-----

(in millions, except per share amounts)	1997	1996	1995	1997 vs.	
				1996	1995
Total revenues	\$32,499	\$25,713	\$22,060	26.4%	47.3%
Net revenues	16,256	13,621	10,615	19.3	53.2
Net earnings	1,935	1,648	1,126	17.4	71.9
Net earnings applicable to common stockholders	1,896	1,602	1,078	18.4	75.8
Earnings per common share:					
Basic	5.57	4.63	2.98	20.3	86.9
Diluted	4.79	4.08	2.68	17.4	78.7
Return on average common stockholders' equity	26.5%	26.6%	19.8%		

-----  
3  
-----

Management's Discussion and Analysis  
-----

Merrill Lynch's record 1997 net earnings of \$1.9 billion surpassed its previous record of \$1.6 billion in 1996 by 17%. Record revenues in commissions, principal transactions, investment banking, and asset management and portfolio service fees, partially offset by increased costs, particularly in compensation and technology, led to the record net earnings.

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

-----  
COMMISSIONS  
-----

<TABLE>  
<CAPTION>

(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Listed and over-the-counter	\$2,759	\$2,207	\$1,780
Mutual funds	1,594	1,302	969
Other	642	576	559
Total	\$4,995	\$4,085	\$3,308

</TABLE>

Commissions revenues advanced 22% in 1997 to a record \$5.0 billion, primarily due to higher levels of listed securities transactions and mutual fund commissions.

Commissions from listed securities were up 25% from 1996 as a result of higher trading volumes on many exchanges around the world. Mutual fund commissions revenues rose 22%, benefiting from strong sales of both U.S. and non-U.S. funds. Other commissions revenues advanced 12% in 1997, largely due to increased sales of over-the-counter options and third party annuity contracts and higher processing fees.

Commissions revenues in 1996 rose 23% over 1995 levels. Increased trading volume led to higher listed and over-the-counter securities transaction revenues, while strong sales of U.S. funds and greater distribution fees from



deferred-charge funds increased mutual fund commissions.

-----  
 INTEREST AND DIVIDENDS  
 -----

<TABLE>  
 <CAPTION>

(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Interest and dividend revenues			
Trading assets	\$ 5,240	\$ 4,208	\$ 3,854
Resale agreements and securities borrowed transactions	8,121	5,930	5,893
Margin lending	2,207	1,556	1,409
Other	1,731	1,431	1,293
	-----	-----	-----
	17,299	13,125	12,449
	-----	-----	-----
Interest expense			
Borrowings	4,623	3,064	2,515
Repurchase agreements and securities loaned transactions	7,306	5,508	5,632
Trading liabilities	2,983	2,492	2,229
Other	1,331	1,028	1,069
	-----	-----	-----
	16,243	12,092	11,445
	-----	-----	-----
Net interest and dividend profit	\$ 1,056	\$ 1,033	\$ 1,004
	-----	-----	-----

</TABLE>

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

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

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

-----  
 4

Management's Discussion and Analysis  
 -----

-----  
 PRINCIPAL TRANSACTIONS  
 -----

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

<TABLE>  
 <CAPTION>

(in millions)	Principal Transactions Revenues	Net Interest Revenues (Expense)	Net Trading Revenues
<S>	<C>	<C>	<C>
1997			
Equities and equity derivatives	\$1,317	\$ (127)	\$1,190
Interest rate and currency swaps	1,042	(161)	881
Taxable fixed-income	993	262	1,255
Municipals	305	15	320

Foreign exchange and commodities	170	8	178
Total	\$3,827	\$ (3)	\$3,824
-----			
1996			
Equities and equity derivatives	\$1,178	\$ (86)	\$1,092
Interest rate and currency swaps	893	(74)	819
Taxable fixed-income	1,004	239	1,243
Municipals	324	13	337
Foreign exchange and commodities	132	4	136
Total	\$3,531	\$ 96	\$3,627
-----			
1995			
Equities and equity derivatives	\$ 951	\$ (75)	\$ 876
Interest rate and currency swaps	732	(82)	650
Taxable fixed-income	556	228	784
Municipals	275	1	276
Foreign exchange and commodities	87	7	94
Total	\$2,601	\$ 79	\$2,680
-----			

</TABLE>

Principal transactions revenues rose 8% from 1996 to a record \$3.8 billion in 1997. The increase resulted from favorable market conditions, including rising U.S. stock prices, low interest rates, and narrowing credit spreads, as well as increased customer demand for higher-yielding securities, for most of the year. These gains were partially offset by declines in values during the fourth quarter for certain non-U.S. equity and debt positions triggered by the Asian market decline late in 1997.

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

Equities and equity derivatives trading revenues were up 12% from 1996. Increased profitability from equity derivative transactions, higher transaction volume, and price appreciation in the U.S. and non-U.S. equity markets contributed to higher revenues.

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

Taxable fixed-income trading revenues decreased 1% from 1996. Lower trading revenues from U.S. and non-U.S. governments and mortgage-backed products were partially offset by increased revenues from high-yield debt, corporate bonds and preferred stock, and money markets. The decrease in trading revenues from U.S. Government and agencies securities was due to the falling interest rate environment in the U.S., while the decline in trading revenues from non-U.S. governments and agencies securities was primarily attributable to lower interest rates and reduced market volatility in certain countries. Lower trading revenues from mortgage-backed products resulted from a less favorable market environment compared to 1996. The increase in trading revenues from high-yield debt and corporate bonds and preferred stock was attributable to investors seeking greater returns as interest rates generally remained low. Trading revenues from money market instruments benefited in part from increased floating-rate note activity in European markets.

Municipal securities trading revenues were down 6% from 1996, primarily due to lower margins on sales of shorter-term instruments. Foreign exchange and commodities trading revenues rose 29% from 1996, primarily due to increased volume resulting from higher market share and fluctuations in the U.S. dollar versus the German mark and Japanese yen.

In 1996, principal transactions revenues were up 36% from 1995. Improved market conditions, increased capacity related to the acquisition of Smith New Court, and record NASDAQ volume led to gains in equities and equity derivatives trading revenues, particularly in Europe (up 24%). Customer demand for higher-yielding instruments related to derivative products led to increases in interest rate and currency swaps (up 22%). Lower interest rates and improved economic conditions in many emerging markets in 1996 increased demand for and inventory values of taxable fixed-income products (up 81%), while strong investor demand for tax-advantaged products increased municipal securities revenues (up 18%). Higher volume led to an increase in foreign exchange and commodities trading revenues (up 52%).

INVESTMENT BANKING

<TABLE>  
<CAPTION>

(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Underwriting revenues	\$2,079	\$1,592	\$ 997
Strategic services revenues	797	430	346
Total	\$2,876	\$2,022	\$1,343

</TABLE>

Investment banking revenues soared 42% in 1997 to a record \$2.9 billion, benefiting from record levels of equity underwriting and merger and acquisition activity industrywide. During 1997, Merrill Lynch became the only securities firm ever to be ranked first in the U.S. in debt underwriting, equity underwriting, and completed mergers and acquisitions in the same year, with market shares of 15.8%, 15.9%, and 28.7%, respectively, according to SDC. In addition, Merrill Lynch retained its position as top underwriter of total debt and equity securities for the tenth consecutive year in the U.S. and for the ninth consecutive year globally. Merrill Lynch's underwriting market share information based on transaction value follows:

<TABLE>  
<CAPTION>

	1997		1996		1995	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Proceeds						
Debt	15.8%	1	15.7%	1	18.0%	1
Equity	15.9	1	13.6	2	14.7	2
Debt and Equity	16.1	1	16.0	1	17.8	1
Global Proceeds						
Debt	13.1	1	12.2	1	13.5	1
Equity	15.4	1	12.1	2	13.1	2
Debt and Equity	13.6	1	12.7	1	13.7	1

</TABLE>

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

Strategic services fees increased 86% from 1996 to a record \$797 million, benefiting from strong merger and acquisition activity attributable in part to consolidation across various industries. Merrill Lynch's merger and acquisition market share information based on transaction value follows:

<TABLE>  
<CAPTION>

	1997		1996		1995	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Completed transactions						
U.S.	28.7%	1	24.4%	2	8.9%	8

Global	19.6	3	16.2	3	6.6	10
Announced transactions						
U.S.	28.7	1	28.2	1	16.4	4
Global	19.0	3	18.2	2	10.5	4

</TABLE>

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

Investment banking revenues increased 50% in 1996 from 1995 due to higher levels of equity and debt underwriting and increased merger and acquisition activity.

6

Management's Discussion and Analysis

ASSET MANAGEMENT AND  
PORTFOLIO SERVICE FEES

<TABLE>  
<CAPTION>

(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Asset management fees	\$1,232	\$1,010	\$ 864
Portfolio service fees	844	609	477
Account fees	422	383	347
Other fees	326	281	219
Total	\$2,824	\$2,283	\$1,907

</TABLE>

Revenues from asset management and portfolio service fees rose 24% in 1997 to a record \$2.8 billion, primarily due to strong growth in client assets and market appreciation. Year-end client assets and assets under management for the last three years are summarized as follows:

<TABLE>  
<CAPTION>

(in billions)	1997	1996	1995	1997 vs.	
<S>	<C>	<C>	<C>	<C>	<C>
U.S. client assets	\$985(1)	\$ 792(2)	\$ 665	24%	48%
Non-U.S. client assets	249(3)	72	58	246	329
Total client assets	\$1,234	\$864	\$723	43	71

Assets under management:

MLAM(4):					
Money market	\$107	\$ 90	\$ 82	18	30
Equity	72	59	47	21	53
Fixed-income	48	43	41	12	19
Private portfolio	49	38(2)	22	28	117
Insurance	3	4	4	(10)	(19)
Total	279	234	196	19	42
Mercury	167	-	-	N/A	N/A
Midland	2	1	-	64	N/A
Total assets under management	\$448	\$235	\$196	91	129
Merrill Lynch Consults(R)	\$27	\$ 21	\$ 17	30	59
Mutual Fund Advisor(SM) and Asset Power(R)	\$15	\$ 9	\$ 6	78	167

</TABLE>

(1) Includes \$17 billion of assets related to the acquisition of MasterWorks, a 401(k) service provider.

(2) Includes \$10 billion of assets related to the acquisition of Hotchkis and Wiley, a Los Angeles-based asset management company.

(3) Includes \$167 billion of assets related to the December 1997 acquisition of

Mercury Asset Management.  
 (4) Merrill Lynch Asset Management.

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

<TABLE>  
 <CAPTION>

(in billions)	Net changes due to			
	Dec. 27, 1996	New Money(1)	Asset Appreciation	Dec. 26, 1997
<S>	<C>	<C>	<C>	<C>
Client assets	\$864	\$258(2)	\$112	\$1,234
Assets under management	235	193	20	448

</TABLE>

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

Asset management fees increased 22% in 1997 due to net asset appreciation and strong inflows of client assets. Portfolio service fees were up 39% in 1997, benefiting from the growth in client accounts and asset levels for various fee products, including Merrill Lynch Consults, Merrill Lynch Mutual Fund Advisor, and Asset Power services. Account fees rose 10% principally as a result of increases in the number of customer and custodial accounts. Other fee-based revenues were up 16%, due in part to higher revenues from transfer agency and mortgage servicing activities.

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

-----  
 OTHER REVENUES  
 -----

Other revenues were \$678 million in 1997, up 2% from 1996. Other revenues include investment gains and losses, partnership distributions, and fees from transaction processing and proxy activities. In 1997, other revenues included realized investment gains, income from the outsourcing of Merrill Lynch's beneficial proxy operation, and gains from sales of mortgages to Real Estate Mortgage Investment Conduits ("REMICs"), while other revenues in 1996 contained a \$155 million pretax gain from the partial sale of a minority interest in Bloomberg L.P.

In 1996, other revenues rose 48% from 1995 to \$667 million due to the partial sale of the Bloomberg investment and an increase in gains from real estate transactions, primarily sales of mortgages to REMICs.

Management's Discussion and Analysis  
 -----

-----  
 NON-INTEREST EXPENSES  
 -----

<TABLE>  
 <CAPTION>

(in millions)	1997	1996	1995
<S>	<C>	<C>	<C>
Compensation and benefits	\$ 8,333	\$ 7,012	\$5,478
Non-interest expenses, excluding compensation and benefits:			
Communications and technology(1)	1,255	1,010	814
Occupancy and related depreciation(1)	736	742	671
Professional fees(1)	520	385	312
Advertising and market development	613	527	408
Brokerage, clearing, and exchange fees	525	433	377
Goodwill amortization(1)	65	50	19
Other(1)	1,098	834	700

Total non-interest expenses, excluding compensation and benefits	4,812	3,981	3,301
Total non-interest expenses	\$13,145	\$10,993	\$8,779
Compensation and benefits as a percentage of net revenues	51.3%	51.5%	51.6%
Compensation and benefits as a percentage of pretax earnings before compensation and benefits	72.8%	72.7%	74.9%

</TABLE>

(1) The presentation of certain non-interest expenses has been revised from the original 1997 presentation.

Non-interest expenses in 1997 were up 20% over the prior year. The largest expense category, compensation and benefits, increased 19% from 1996 due to higher incentive and production-related compensation and a 13% increase in the number of full-time employees. Incentive compensation rose as a result of increased profitability, while production-related compensation was up due to strong business volume. Full-time employees totaled 59,700 at year-end 1997, compared with 52,600 at the previous year-end. Headcount increased due to acquisitions, strategic business expansion, and growth in existing businesses. The ratio of support employees and sales assistants to producers increased from 1.48 in 1996 to 1.54 in 1997.

Communications and technology expense was up 24% from 1996 due to increased systems consulting costs, higher technology-related depreciation, and increased maintenance costs. Occupancy and related depreciation expense decreased 1%, reflecting a nonrecurring pretax charge in 1996 of \$40 million related to the resolution of Olympia & York's bankruptcy that affected ML & Co.'s long-term sublease agreement in the World Financial Center, partially offset by increased costs related to international growth.

Higher management consulting costs related to various strategic market studies led to a 35% increase in professional fees. Advertising and market development expense rose 16%, primarily due to increased global travel related to business development and client promotion costs. Brokerage, clearing, and exchange fees were up 21% as a result of higher global securities trading volume. Goodwill amortization increased 32% from 1996 due to recent acquisitions including Smith New Court. Other expenses increased 32% from 1996 due to increases in provisions for various business activities and legal matters, and higher office and postage costs.

In 1996, non-interest expenses increased 25% from 1995 to \$11.0 billion. Higher incentive and production-related compensation and an 8% growth in full-time employees led to a 28% increase in compensation and benefits expense. Communications and technology expense was up 24% due to increased systems consulting costs related to systems initiatives, as well as higher technology-related depreciation. Occupancy and related depreciation expense increased 11%, primarily as a result of the 1996 nonrecurring \$40 million pretax charge related to the resolution of Olympia & York's bankruptcy. Professional fees increased 24% as a result of higher management consulting costs. Advertising and market development expense rose 29% due to increased international travel and higher production-related recognition programs. Brokerage, clearing, and exchange fees were up 15% because of higher securities volume, particularly in non-U.S. markets. Goodwill amortization increased from \$19 million in 1995 to \$50 million in 1996 primarily as a result of the Smith New Court acquisition. Other expenses rose 19% due in part to provisions related to various business activities.

8

Management's Discussion and Analysis

Presented is a bar graph illustrating fee-based revenues as a percentage of Fixed and semi-fixed expenses for the years ended 1997, 1996, 1995, 1994, and 1993.

<TABLE>  
<CAPTION>

Fee-Based Revenues As a Percentage of  
Fixed and Semi-Fixed Expenses

Fixed and

	Fee-Based Revenues	Semi-Fixed Expenses	%
<S>	<C>	<C>	<C>
1997	\$4,145	\$6,569	63%
1996	3,562	5,585	64
1995	3,083	4,671	66
1994	2,886	4,275	68
1993	2,444	4,110	59

</TABLE>

-----  
INCOME TAXES  
-----

Merrill Lynch's 1997 income tax provision of \$1.1 billion represented a 36.3% effective tax rate. In 1996 and 1995, income tax provisions were \$980 million and \$710 million, respectively, resulting in effective tax rates of 37.3% in 1996 and 38.7% in 1995. The effective tax rate decreased in 1997 due to a reduction in state and local taxes associated with the settlement of many prior-year tax audits.

Deferred tax assets are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assessed its ability to realize deferred tax assets primarily based on a strong earnings history and the absence of negative evidence as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. During the last 10 years, average pretax earnings were \$1.5 billion per year. Accordingly, management believes that it is more likely than not that the deferred tax assets will be realized.

-----  
ACQUISITIONS  
-----

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

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

Acquisitions made or substantially completed in 1996, which included McIntosh Securities Limited and Hotchkis and Wiley, were for aggregate consideration of \$232 million, of which \$167 million represented goodwill. In 1995, Merrill Lynch acquired Smith New Court PLC, a U.K.-based global securities firm, for \$803 million and recorded \$533 million of goodwill related to the acquisition.

Management's Discussion and Analysis  
-----

-----  
STRATEGIC PRIORITIES  
-----

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

Presented is a pie chart for the year ended December 26, 1997 illustrating Merrill Lynch's percentage of net revenues by strategic priority.

<TABLE>  
<CAPTION>

Percentage of Net Revenues  
by Strategic Priority

<S>	<C>
Corporate and Institutional Client	42%
U.S. Private Client	43
International Private Client	8
Asset Management	7
	----
	100%
	----

</TABLE>

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

Corporate and Institutional Client

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

U.S. Private Client

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

International Private Client

The International Private Client group provides financial planning, private banking, and trust and investment services to individuals outside the U.S., through a network of 2,400 relationship managers and other specialists in more than 30 countries worldwide. The group offers clients investing and advisory services similar to those provided in the U.S.

Asset Management

The Asset Management group provides investment advisory and portfolio management services to clients, principally through Merrill Lynch Asset Management. Investment research and various advisory programs are offered to clients, including the Merrill Lynch Consults(R), Merrill Lynch Mutual Fund Advisor(SM), and Merrill Lynch Mutual Fund Advisor Selects(SM) services. As one of the largest mutual fund managers, the group had assets under management of \$448 billion at year-end 1997. The group also provides portfolio management services to large domestic and international institutional clients. In December 1997, Merrill Lynch

10

Management's Discussion and Analysis

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

GLOBAL OPERATIONS

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



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

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

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

-----  
 Europe, Middle East, and Africa

<TABLE>  
 <CAPTION>  
 (in millions)

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

</TABLE>

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

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

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

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

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

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

Management's Discussion and Analysis  
 -----

Asia and Pacific

<TABLE>  
 <CAPTION>  
 (in millions)

	1997	1996	1995
--	------	------	------

<S>	<C>	<C>	<C>
Total revenues	\$ 586	\$ 395	\$ 228
Net revenues	\$ 582	\$ 394	\$ 227
Earnings before income taxes	\$ 16	\$ 41	\$ 7
Total assets	\$ 797	\$ 335	\$ 240
Total full-time employees	1,690	1,300	1,060

</TABLE>

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

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

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

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

#### Australia and New Zealand

<S>	<C>	<C>	<C>
Total revenues	\$ 272	\$151	\$163
Net revenues	\$ 229	\$88	\$66
Earnings before income taxes	\$ 39	\$24	\$14
Total assets	\$1,899	\$1,115	\$976
Total full-time employees	780	160	130

</TABLE>

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

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

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

Total revenues in the Australia and New Zealand region in 1996 were down 7%, while net revenues were up 33% from 1995. Earnings before income taxes rose 71% from 1995. Equities trading revenues increased as a result of improved corporate earnings and market conditions.

## Management's Discussion and Analysis

## Japan

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

&lt;/TABLE&gt;

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

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

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

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

## Canada and Latin America

<TABLE> <CAPTION> (in millions)			
	1997	1996	1995
<S>	<C>	<C>	<C>
Total revenues	\$ 1,816	\$1,528	\$1,251
Net revenues	\$ 1,325	\$ 977	\$ 697
Earnings before income taxes	\$ 288	\$ 190	\$ 152
Total assets	\$11,215	\$9,455	\$7,592
Total full-time employees	4,180	3,800	3,375

&lt;/TABLE&gt;

In Canada and Latin America, Merrill Lynch provides a broad range of financial products and services to retail and institutional clients. In Canada, Merrill Lynch provides financial services including investment banking, brokerage, and asset management. Merrill Lynch has expanded its broad-based capabilities in the Canadian region as a result of its merger with Midland, a Canadian diversified financial services firm. In Latin America, Merrill Lynch provides varied brokerage and investment services. Included in the Latin America region are certain U.S. offices that primarily serve Latin American clients. Latin America experienced strong growth during the first half of the year due to low inflation and significant foreign capital inflows. This growth was significantly affected in the second half of the year as the uncertainty of the Asian markets spread to Latin American markets.

Total and net revenues for the region increased 19% and 36% from 1996, respectively. Canadian results increased due to strong investment banking activity led by a favorable interest rate environment, and higher commissions revenues. Trading and underwriting activities in Latin America were up from 1996 levels due to increased investor demand for higher-yielding securities, despite the volatility that occurred late in the year. In addition, Latin American

results benefited from increased commissions due to higher mutual fund sales.

Earnings before income taxes rose 52%. Higher revenues from sales and underwriting activities were partially offset by increases in variable expenses, such as compensation costs and brokerage, clearing, and exchange fees. The additional commitment of resources to the region in 1997 also contributed to higher compensation costs.

Total and net revenues in the Canada and Latin America region in 1996 increased 22% and 40% from 1995, respectively, while earnings before income taxes increased 25% from 1995. A strong economic environment combined with higher revenues from high-yield financing and rising bond prices led to these increases. The advance in revenues was offset by higher compensation and infrastructure costs.

Management's Discussion and Analysis

BALANCE SHEET

Trading-related balances accounted for approximately 86% of assets and 64% of liabilities at December 26, 1997. As presented below, securities trading, derivatives dealing, and related activities result in trading asset/liability, resale/repurchase agreement, securities borrowed/loaned transaction, and certain receivable/payable balances.

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

Assets

<TABLE>	
<CAPTION>	
<S>	<C>
Trading Related:	
Trading Assets	37%
Resale Agreements	24
Securities Borrowed	12
Receivables	13
	----
	86
Non-Trading-Related	14
	----
	100%
	----

Liabilities

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

</TABLE>

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

Trading Assets and Liabilities

Trading assets and liabilities principally represent securities purchased ("long" positions) and securities sold but not yet purchased ("short" positions), respectively. Trading assets and liabilities also include

receivables and payables that represent the fair value of derivatives (see Note 1 to the Consolidated Financial Statements).

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

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

-----  
Resale/Repurchase Agreements and  
Securities Borrowed/Loaned Transactions

Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a significant portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. "Matched-book" repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different counterparties using the same underlying securities in order to generate a spread between the interest revenue on the resale agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Exposures on these transactions are limited by their typically short-term nature and collateral maintenance policies (see Collateral section). The following graph illustrates the balances related to these activities at December 26, 1997.

-----  
14

Management's Discussion and Analysis  
-----

-----  
Presented is a bar graph illustrating the nature of resale/repurchase agreements and securities borrowed/loaned transactions, differentiating between matched-book and non-matched-book for total resale agreements, repurchase agreements, securities borrowed, and securities loaned balances of \$71,904, \$72,127, \$35,539, and \$7,040, respectively.

-----  
<TABLE>  
<CAPTION>

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

-----

	Matched- Book	Non-Matched- Book
	-----	-----
<S>	<C>	<C>
Resale Agreements	64%	36%
Repurchase Agreements	63	37
Securities Borrowed Transactions	11	89
Securities Loaned Transactions	54	46

-----

</TABLE>

Trading-Related Receivables and Payables

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

Interest receivable and payable balances related to trading inventory

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

-----  
 Collateral

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

-----  
 <TABLE>  
 <CAPTION>

(in millions)	Balance Sheet	Collateral Maintained
<S>	<C>	<C>
Cash and cash equivalents	\$ 5,046	\$ -
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	12,384	-
Marketable investment securities	3,309	-
Trading assets(a)	108,091	4,750
Receivables under resale agreements(b)	71,904	72,840
Receivables under securities borrowed transactions(b)	35,539	33,285
Other receivables(c)	40,686	27,848
Investments of insurance subsidiaries	4,833	-
Loans, notes, and mortgages(d)	4,310	4,105
Other investments	1,829	-
Property, leasehold improvements, and equipment	2,099	-
Goodwill	5,467	-
Other assets	1,483	-
	-----	-----
Total Assets	\$296,980	\$142,828
	-----	-----

-----  
 </TABLE>

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

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

Management's Discussion and Analysis

-----  
 Average Assets and Liabilities

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

In 1997, average daily assets were \$289 billion, up 31% from \$220 billion in 1996. Average daily liabilities in 1997 rose 32% to \$280 billion from \$213 billion in 1996. The major components in the growth of average assets and liabilities are summarized as follows:

<TABLE>  
<CAPTION>

(in millions)	Increase in Average Assets	Percent Increase
Trading assets	\$33,911	46%
Receivables under resale agreements and securities borrowed transactions	21,176	22
Customer receivables	7,247	31

	Increase in Average Liabilities	Percent Increase
Payables under repurchase agreements and securities loaned transactions	\$18,599	21%
Trading liabilities	15,353	36
Long-term borrowings	12,610	55
Commercial paper and other short-term borrowings	12,098	38

</TABLE>

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

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

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

#### Stockholders' Equity

Stockholders' equity at December 26, 1997 increased 21% to \$8.5 billion from \$7.1 billion at year-end 1996. The 1997 increase resulted from net earnings and the net effect of employee stock transactions, partially offset by common share repurchases and dividends. In 1997 and 1996, Merrill Lynch repurchased 13.7 million and 37.2 million common shares at average prices of \$48.91 and \$31.30 per share, respectively. Merrill Lynch will continue to consider share repurchases, taking into account capital needs and the effect of issuances under employee stock plans.

In the second quarter of 1997, Merrill Lynch's Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. The par value of the common stock remained at \$1.33 1/3 per share. Accordingly, an adjustment from paid-in capital to common stock was made to preserve the par value of the post-split shares. All share and per share data have been restated for the effect of the split.

At December 26, 1997, total common shares outstanding were 339.3 million, 2% higher than the

Total outstanding shares exchangeable into common stock at December 26, 1997 and December 27, 1996 issued in connection with the Midland merger, were 4.7 and 4.1, respectively.

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

-----  
LIQUIDITY AND LIABILITY  
MANAGEMENT  
-----

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

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

Merrill Lynch's primary alternative funding sources to unsecured borrowings are repurchase agreements and secured bank loans, which require pledging unhypothecated marketable securities. Other funding alternatives include liquidating cash equivalents; securitizing loan assets; and drawing on committed, unsecured bank credit facilities that, at December 26, 1997, totaled \$9.2 billion. To finance the purchase of Mercury, Merrill Lynch obtained additional short-term bank credit facilities totaling 2.0 billion British pounds (approximately \$3.3 billion), which as of year end had not been drawn upon. Subsequently, Merrill Lynch drew upon these facilities. These borrowings are expected to be repaid during 1998 with proceeds from long-term financing.

Merrill Lynch regularly reviews the level and mix of its assets and liabilities to assess its ability to conduct core business activities without issuing new unsecured debt or drawing upon its bank credit facilities. The mix of assets and liabilities provides flexibility in managing liquidity since a significant portion of assets turns over frequently and is typically match-funded with liabilities having similar maturities and cash flow characteristics. At December 26, 1997, substantially all of Merrill Lynch's assets were considered readily marketable by management.

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

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

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

Outstanding long-term debt at December 26, 1997 increased to \$43.1 billion from \$26.2 billion at December 27, 1996. Major components of the change in long-term debt for 1997 and 1996 follow:

-----  
<TABLE>  
<CAPTION>

(in billions)	1997	1996
<S>	<C>	<C>
Beginning of year	\$26.2	\$17.4
Issuances	25.1	16.5
Maturities	(8.2)	(7.4)
Other	-	(.3)
End of year(1)	\$43.1	\$26.2
Average maturity in years of long-term debt, when measured to:		
Maturity	3.5	3.5
Earlier of the call or put date	3.1	3.2



</TABLE>

(1) At year-end 1997 and 1996, \$31.2 and \$20.2 billion of long-term debt had maturity dates beyond one year, respectively.

17

Management's Discussion and Analysis

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

<TABLE>

<CAPTION>

Rating Agency	Senior Debt Ratings	Preferred Stock and TOPrS Ratings
<S>	<C>	<C>
Duff & Phelps Credit Rating Co.	AA	AA-
Fitch IBCA, Inc.	AA	AA-
The Japan Bond Research Institute	AA	Not Rated
Moody's Investors Service, Inc.	Aa3	aa3
Standard & Poor's	AA-	A
Thomson BankWatch, Inc.	AA+	Not Rated

</TABLE>

Approximately \$75.3 billion of indebtedness at December 26, 1997 is considered senior indebtedness as defined under various indentures.

As part of an overall liquidity management strategy, Merrill Lynch's insurance subsidiaries regularly review the funding requirements of their contractual obligations for in-force, fixed-rate life insurance and annuity contracts as well as expected future acquisition and maintenance expenses for all contracts. The insurance subsidiaries market primarily variable life insurance and variable annuity products. These products are not subject to the interest rate, asset/liability matching, or credit risks attributable to fixed-rate products, thereby reducing the insurance subsidiaries' risk profile and liquidity demands. At December 26, 1997, approximately 84% of invested assets of insurance subsidiaries were considered liquid by management.

CAPITAL RESOURCES AND CAPITAL ADEQUACY

Among U.S. institutions engaged primarily in the global securities business, Merrill Lynch is one of the most highly capitalized, with \$8.1 billion in common equity and \$425 million in preferred stock at December 26, 1997 (see Stockholders' Equity in the Balance Sheet section). In 1997, a trust subsidiary of ML & Co. issued \$300 million of TOPrS. These subsidiary-issued preferred securities, along with \$327 million of preferred securities outstanding in other subsidiaries, further strengthen Merrill Lynch's equity capital base. Subsequent to year-end 1997, \$750 million of TOPrS were issued by another trust subsidiary (see Note 6 to the Consolidated Financial Statements).

Merrill Lynch's leverage ratios were as follows:

<TABLE>

<CAPTION>

	Leverage Ratio(1)	Adjusted Leverage Ratio(2)
<S>	<C>	<C>
Year End		
December 26, 1997	32.4x	20.7x
December 27, 1996	29.4x	17.9x
Average for Year Ended(3)		
December 26, 1997	35.3x	21.3x
December 27, 1996	33.3x	19.8x

</TABLE>

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

- (2) Total assets less receivables under resale agreements and securities borrowed transactions to total stockholders' equity and preferred securities issued by subsidiaries.
- (3) Computed using month-end balances.

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

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 11 to the Consolidated Financial Statements and Business of Merrill Lynch-Regulation). Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels, making affiliated investments, and entering into management and service agreements with affiliated companies.

-----  
18

Management's Discussion and Analysis  
-----

-----  
CAPITAL PROJECTS AND  
EXPENDITURES  
-----

Merrill Lynch continually prepares for the future by expanding its operations and investing in new technology to improve service to clients. To support business expansion, for example, Merrill Lynch plans to build a new European headquarters in London for approximately \$650 million. Completion of this facility is expected in 2001. During 1997, Merrill Lynch also approved a plan to construct an office complex in central New Jersey to consolidate certain operations. Construction costs are estimated at approximately \$325 million, and completion of this facility is anticipated in 2000.

Significant technology initiatives include Merrill Lynch Trusted Global Advisor(SM) ("TGA" (SM)) and Year 2000 systems compliance. The TGA system, a technology platform for Financial Consultants, is expected to be available to all U.S. Financial Consultants by the end of the 1998 third quarter. New system applications will be added to the platform at various times throughout 1998. The projected remaining cost for the TGA system is approximately \$200 million.

The modifications for Year 2000 systems compliance are proceeding according to plan and are expected to be completed in early 1999. Based on information currently available, the remaining expenditures are estimated at \$215 million and will cover hardware and software upgrades, systems consulting, and computer maintenance. These expenditures are not expected to have a material adverse impact on Merrill Lynch's financial position, results of operations, or cash flows in future periods. However, the failure of Merrill Lynch's securities exchanges, clearing organizations, vendors, clients, or regulators to resolve their own processing issues in a timely manner could result in a material financial risk. Merrill Lynch is devoting necessary resources to address all Year 2000 issues in a timely manner.

-----  
RISK MANAGEMENT  
-----

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

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

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

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

Management's Discussion and Analysis  
 -----

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

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

The Reserve Committee monitors valuation and certain other risks associated with assets and liabilities. Merrill Lynch establishes reserves in the Consolidated Balance Sheets for existing conditions, events, or circumstances that may indicate that the realizable value of an asset has been reduced below its carrying value or that a liability has been incurred. The Reserve Committee, chaired by the Chief Financial Officer, reviews and approves firmwide reserve levels, as well as changes in reserve methodologies. The Reserve Committee meets monthly to review current market conditions and to act on specific issues. Merrill Lynch's reserves take into account management's judgment and are generally based on:

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

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

Market Risk

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

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

Approximately ten years ago, Merrill Lynch implemented a firmwide risk process based on the belief that there is more to risk management than

identifying and measuring risk. The process itself has been strengthened by experience, but the underlying philosophy is essentially unchanged. This philosophy is based on the following six principles:

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

-----  
20

Management's Discussion and Analysis  
-----

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

Risk Management Process

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

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

Risk Management uses several risk technology tools, including a risk inventory database, a trading limit monitoring system, and trading system access. The risk inventory database provides daily consolidation of securities inventory exposure by product, credit rating, country, etc., along with concentrations of exposure. The trading limit monitoring system enables Risk Management to review compliance with established limits. Access to trading systems allows Risk Management to monitor positions and perform computerized analytics.

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

Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. For these disclosures, Merrill Lynch uses a historical simulation approach to estimate value-at-risk using a one-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical weekly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level value-at-risk.

The reader should be aware that a number of assumptions must be made to obtain the sensitivities and simulated profits and losses. There is no reason to believe that the historically simulated profits and losses have any predictive

power for the future distribution of profits and losses. Hypothetical gains and losses from simulated changes in risk factors for the trading portfolio would be reflected in earnings since these instruments are accounted for at fair value. Hypothetical gains and losses from simulated changes in risk factors for the non-trading portfolio generally would not be reflected in earnings since these instruments are typically accounted for at historical cost.

-----  
21

Management's Discussion and Analysis  
-----

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

-----  
<TABLE>  
<CAPTION>  
(in millions)  
-----  
<S>                    <C>  
Market risks:  
  Interest rate     \$60  
  Equity             37  
  Commodity         17  
  Currency          13  
-----

</TABLE>

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

-----  
<TABLE>  
<CAPTION>  
(in millions)  
-----  
<S>                    <C>  
Market risks:  
  Currency          \$32  
  Interest rate     10  
  Equity             5  
-----

</TABLE>

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

-----  
Credit Risk

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

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

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

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

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

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

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

-----  
22

Management's Discussion and Analysis  
-----

-----  
Operating Risk

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

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

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

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

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

Other Risks

Liquidity risk arises in the course of Merrill Lynch's general funding activities and in the management of the balance sheet. It includes both the risk of being unable to raise funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at a reasonable price. For more information on how Merrill Lynch manages liquidity risks, see the Liquidity and Liability Management section.

Other risks Merrill Lynch encounters include political, tax, and regulatory risks. These risks revolve around the impact that changes in local laws, regulatory requirements, or tax statutes would have on the viability, profitability, or cost-effectiveness of existing or future transactions. To help mitigate the effects of these risks, Merrill Lynch constantly reviews new and

pending legislation and regulations by employing professionals in the jurisdictions in which the company operates to actively follow these issues and participate in related interest groups.

-----  
NON-INVESTMENT GRADE HOLDINGS AND  
HIGHLY LEVERAGED TRANSACTIONS  
-----

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

-----  
23

Management's Discussion and Analysis  
-----

-----  
Non-Investment Grade Holdings

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. During the past year, non-investment grade trading inventories increased to satisfy growing client demand for higher-yielding investments, including emerging market and other non-U.S. securities.

Non-investment grade securities have been defined as debt and preferred equity securities rated as BB+ or lower, or equivalent ratings by recognized credit rating agencies, certain sovereign debt in emerging markets, amounts due under various derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade. Non-investment grade trading inventories are carried at fair value. Merrill Lynch's insurance subsidiaries also hold non-investment grade investment securities that are classified as available-for-sale and are carried at fair value.

A summary of positions with non-investment grade issuers (for cash instruments) or counterparties (for derivatives in a gain position) follows:

-----  
<TABLE>  
<CAPTION>

(in millions)	1997	1996
<S>	<C>	<C>
Trading assets:		
Cash instruments	\$13,049	\$7,667
Derivatives(1)	3,084	2,470
Trading liabilities - cash instruments	2,970	907
Marketable investment securities	648	-
Insurance subsidiaries' investments	192	206

</TABLE>

(1) Collateral of \$599 and \$848 was obtained at December 26, 1997 and December 27, 1996, respectively, to reduce risk related to these derivative balances.

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 26, 1997 and December 27, 1996, the carrying value of such debt and equity securities totaled \$142 million and \$133 million, of which 56% and 58% resulted from Merrill Lynch's market-making activities in such securities, respectively.

In addition, Merrill Lynch held distressed bank loans totaling \$432 million and \$351 million at year-end 1997 and 1996, respectively.

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

<TABLE>  
<CAPTION>

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

</TABLE>

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

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

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

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

<TABLE>  
<CAPTION>

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

</TABLE>

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

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

24

#### Management's Discussion and Analysis

#### Highly Leveraged Transactions

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

Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will be determined on a select basis. A summary of loans, investments, and commitments related to highly leveraged transactions follows:

<TABLE>  
<CAPTION>

(in millions)	1997	1996
<S>	<C>	<C>
Loans (net of allowance for loan losses) (1)	\$467	\$340
Equity investments (2)	170	113
Partnership interests	82	104
Bridge loan	-	31
Additional commitments to invest in partnerships	60	82



Unutilized revolving lines of credit and other  
lending commitments 485 301

</TABLE>

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

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

#### CASH FLOWS

Merrill Lynch's cash flows are principally associated with operating and financing activities related to Merrill Lynch's trading, customer, and investment banking transactions. Merrill Lynch's cash and cash equivalents totaled \$5.1 billion at December 26, 1997, up \$1.7 billion and \$2.0 billion from year-end 1996 and 1995, respectively.

Cash of \$17.6 billion in 1997 was used for operating activities, primarily to fund higher net trading assets generated by increased levels of business activity. Merrill Lynch's investing activities used cash of \$1.6 billion in 1997, partially due to the purchase of technology-related equipment.

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

In 1996, cash and cash equivalents increased \$293 million to \$3.4 billion at year-end. Cash used for operating and investing activities totaled \$8.8 billion and \$617 million, respectively, while cash provided by financing activities totaled \$9.7 billion.

In 1995, cash and cash equivalents increased \$781 million to \$3.1 billion at year-end. Cash provided by financing activities totaled \$8.2 billion, while cash used for operating and investing activities totaled \$6.5 billion and \$901 million, respectively.

#### LITIGATION

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

25

#### Management's Discussion and Analysis

that were underwritten by Merrill Lynch's subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated (see Business of Merrill Lynch-Legal Proceedings for further information). Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition or the results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements contained herein.

#### RECENT DEVELOPMENTS

##### New Accounting Pronouncements

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

however, total assets and total liabilities are expected to increase significantly upon adoption of these provisions. For a discussion of the provisions of SFAS No. 125 adopted in 1997, see Note 2 to the Consolidated Financial Statements.

-----  
26

-----  
Independent Auditors' Report  
-----

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

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 1997 and December 27, 1996 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 26, 1997. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of Merrill Lynch and Midland Walwyn Inc., which has been accounted for as a pooling-of-interests as described in Note 1 to the consolidated financial statements.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 26, 1997 and December 27, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 26, 1997 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

New York, New York  
February 23, 1998  
(December 10, 1998 as to Note 1, paragraphs 1 and 2)

-----  
27

Consolidated Statements of Earnings  
(Dollars in Millions, Except Per Share Amounts)

-----  
<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
REVENUES			
Commissions	\$ 4,995	\$ 4,085	\$ 3,308
Interest and dividends	17,299	13,125	12,449
Principal transactions	3,827	3,531	2,601
Investment banking	2,876	2,022	1,343
Asset management and portfolio service fees	2,824	2,283	1,907
Other	678	667	452
	-----	-----	-----
Total Revenues	32,499	25,713	22,060
Interest Expense	16,243	12,092	11,445
	-----	-----	-----
Net Revenues	16,256	13,621	10,615
	-----	-----	-----
NON-INTEREST EXPENSES			
Compensation and benefits	8,333	7,012	5,478
Communications and technology	1,255	1,010	814
Occupancy and related depreciation	736	742	671

Professional fees	520	385	312
Advertising and market development	613	527	408
Brokerage, clearing, and exchange fees	525	433	377
Goodwill amortization	65	50	19
Other	1,098	834	700
	-----	-----	-----
Total Non-Interest Expenses	13,145	10,993	8,779
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES AND DIVIDENDS ON PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	3,111	2,628	1,836
Income Tax Expense	1,129	980	710
Dividends on Preferred Securities Issued by Subsidiaries	47	-	-
	-----	-----	-----
NET EARNINGS	\$ 1,935	\$ 1,648	\$ 1,126
	-----	-----	-----
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	\$ 1,896	\$ 1,602	\$ 1,078
	-----	-----	-----
Earnings Per Common Share			
Basic	\$ 5.57	\$ 4.63	\$ 2.98
	-----	-----	-----
Diluted	\$ 4.79	\$ 4.08	\$ 2.68
	-----	-----	-----

</TABLE>

See Notes to Consolidated Financial Statements

28

Consolidated Balance Sheets  
(Dollars in Millions, Except Per Share Amounts)

<TABLE>

<CAPTION>

	December 26, December 27,	
	1997	1996
	-----	-----
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	\$ 5,046	\$ 3,395
	-----	-----
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	12,384	5,628
	-----	-----
Marketable investment securities	3,309	2,180
	-----	-----
Trading assets, at fair value		
Corporate debt and preferred stock	32,537	24,507
Equities and convertible debentures	24,031	13,374
Contractual agreements	21,205	13,465
U.S. Government and agencies	9,848	9,308
Non-U.S. governments and agencies	10,221	8,068
Mortgages, mortgage-backed, and asset-backed	7,312	5,189
Other	2,937	2,779
	-----	-----
Total	108,091	76,690
	-----	-----
Receivables under resale agreements	71,904	60,080
	-----	-----
Receivables under securities borrowed transactions	35,539	24,991
	-----	-----
Other receivables		
Customers (net of allowance for doubtful accounts of \$50 in 1997 and \$39 in 1996)	27,319	19,177
Brokers and dealers	5,182	6,314
Interest and other	8,185	5,345
	-----	-----
Total	40,686	30,836
	-----	-----
Investments of insurance subsidiaries	4,833	5,107
	-----	-----
Loans, notes, and mortgages (net of allowance for loan losses of \$130 in 1997 and \$117 in 1996)	4,310	3,334
	-----	-----
Other investments	1,829	1,126
	-----	-----
Property, leasehold improvements, and equipment (net of accumulated depreciation and amortization of \$2,955 in 1997 and \$2,566 in 1996)	2,099	1,680
	-----	-----
Goodwill (net of accumulated amortization of \$136 in 1997 and		

\$73 in 1996)	5,467	633
Other assets	1,483	1,586
TOTAL ASSETS	\$296,980	\$217,266

</TABLE>

29

<TABLE>  
<CAPTION>

	December 26, 1997	December 27, 1996
LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY		
LIABILITIES		
<S>	<C>	<C>
Payables under repurchase agreements and securities loaned transactions	\$ 79,167	\$ 66,822
Commercial paper and other short-term borrowings	45,052	36,647
Trading liabilities, at fair value		
Contractual agreements	20,632	11,221
U.S. Government and agencies	18,186	13,971
Equities and convertible debentures	15,817	8,399
Non-U.S. governments and agencies	10,460	7,826
Corporate debt and preferred stock	5,764	2,780
Other	355	247
Total	71,214	44,444
Other payables		
Customers	17,514	12,783
Brokers and dealers	4,224	3,825
Interest and other	22,784	14,135
Total	44,522	30,743
Liabilities of insurance subsidiaries	4,716	5,010
Long-term borrowings	43,143	26,206
Total Liabilities	287,814	209,872
PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	627	327
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity	425	619
Common Stockholders' Equity		
Shares exchangeable into common stock	66	46
Common stock (par value \$1.33 1/3 per share; authorized: 500,000,000 shares; issued: 472,660,324 shares)	630	630
Paid-in capital	1,001	925
Accumulated other comprehensive income (net of tax)	(47)	16
Retained earnings	9,579	7,938
Less: Treasury stock, at cost:	11,229	9,555
(1997 - 133,400,971 shares; 1996 - 137,234,132 shares)	2,677	2,769
Unallocated ESOP reversion shares, at cost:		
(1996 - 3,077,556 shares)	-	24
Employee stock transactions	438	314
Total Common Stockholders' Equity	8,114	6,448
Total Stockholders' Equity	8,539	7,067
TOTAL LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY	\$296,980	\$217,266

</TABLE>

Consolidated Statements of Changes in Stockholders' Equity  
(Dollars in Millions, Except Per Share Amounts)

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
<b>PREFERRED STOCKHOLDERS' EQUITY</b>			
9% Cumulative Preferred Stock, Series A			
\$10,000 liquidation preference per share			
Balance, beginning and end of year (42,500 shares in 1997, 1996, and 1995)	\$ 425	\$ 425	\$ 425
Remarketed Preferred Stock, Series C			
\$100,000 liquidation preference per share			
Balance, beginning of year (3,000 shares issued and 1,062 shares held in treasury in 1997, 1996, and 1995)	\$ 194	\$ 194	\$ 194
Redeemed (1,938 shares in 1997)	(194)	-	-
Balance, end of year (1,938 shares in 1996 and 1995)	\$ -	\$ 194	\$ 194
<b>TOTAL PREFERRED STOCKHOLDERS' EQUITY</b>	<b>\$ 425</b>	<b>\$ 619</b>	<b>\$ 619</b>
<b>COMMON STOCKHOLDERS' EQUITY</b>			
Shares Exchangeable into Common Stock			
Balance, beginning of year (4,134,035 shares in 1997; 3,931,683 in 1996; 3,785,794 in 1995)	\$ 46	\$ 44	\$ 42
Net activity (583,744 shares in 1997; 202,352 in 1996; 145,889 in 1995)	20	2	2
Balance, end of year (4,717,779 shares in 1997; 4,134,035 in 1996; 3,931,683 in 1995)	\$ 66	\$ 46	\$ 44
Common Stock, par value \$1.33 1/3			
Balance, beginning and end of year (472,660,324 shares in 1997, 1996, and 1995)	\$ 630	\$ 630	\$ 630
Paid-In Capital			
Balance, beginning of year	\$ 925	\$ 858	\$ 817
Issuance of stock:			
To employees	(3)	(8)	(2)
For other activity, including employee stock grants	(16)	(8)	(13)
To ESOP, including share allocations	95	83	56
Balance, end of year	\$1,001	\$ 925	\$ 858
Accumulated Other Comprehensive Income			
Foreign Currency Translation Adjustment (net of tax):			
Balance, beginning of year	\$ 7	\$ 8	\$ (3)
Translation adjustment (net of deferred income taxes)	(92)	(1)	11
Balance, end of year	(85)	7	8
Net Unrealized Gains on Investment Securities Available-for-Sale (net of tax):			
Balance, beginning of year	9	25	(57)
Net unrealized gains (losses) on investment securities available-for-sale	34	(97)	335
Other adjustments(a)	(5)	81	(253)
Balance, end of year	38	9	25
Balance, end of year	\$ (47)	\$ 16	\$ 33

</TABLE>

31

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
Retained Earnings			
Balance, beginning of year	\$ 7,938	\$ 6,535	\$ 5,640
Net earnings	1,935	1,648	1,126
Cash dividends declared:			
9% Cumulative Preferred stock	(38)	(38)	(38)
Remarketed Preferred stock	(1)	(9)	(10)
Common stock (\$.75 per share in 1997; \$.58 in 1996; and \$.505 in 1995)	(255)	(198)	(183)
	-----	-----	-----
Balance, end of year	\$ 9,579	\$ 7,938	\$ 6,535
	-----	-----	-----
Common Treasury Stock, at cost			
Balance, beginning of year (137,234,132 shares in 1997; 117,681,492 in 1996; 92,670,824 in 1995)	\$ (2,769)	\$ (2,114)	\$ (1,501)
Treasury stock purchased (13,741,116 shares in 1997; 37,157,634 in 1996; 40,023,642 in 1995)	(672)	(1,163)	(939)
Issued out of treasury (net of reacquisitions):			
Employees (1,293,262 shares in 1997; 1,689,774 in 1996; 1,645,636 in 1995)	60	51	37
Employee stock grants (16,281,015 shares in 1997; 15,915,220 in 1996; 13,367,338 in 1995)	704	457	289
	-----	-----	-----
Balance, end of year (133,400,971 shares in 1997; 137,234,132 in 1996; 117,681,492 in 1995)	\$ (2,677)	\$ (2,769)	\$ (2,114)
	-----	-----	-----
Unallocated ESOP Reversion Shares, at cost			
Balance, beginning of year (3,077,556 shares in 1997; 8,025,038 in 1996; 12,854,182 in 1995)	\$ (24)	\$ (63)	\$ (101)
Allocation of shares to participants (3,077,556 shares in 1997; 4,947,482 in 1996; 4,829,144 in 1995)	24	39	38
	-----	-----	-----
Balance, end of year (3,077,556 in 1996; 8,025,038 in 1995)	\$ -	\$ (24)	\$ (63)
	-----	-----	-----
Employee Stock Transactions			
Balance, beginning of year	\$ (314)	\$ (254)	\$ (137)
Net issuance of employee stock grants	(351)	(251)	(192)
Amortization of employee stock grants	218	183	68
Repayment of employee loans	9	8	7
	-----	-----	-----
Balance, end of year	\$ (438)	\$ (314)	\$ (254)
	-----	-----	-----
TOTAL COMMON STOCKHOLDERS' EQUITY	\$ 8,114	\$ 6,448	\$ 5,669
	-----	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$ 8,539	\$ 7,067	\$ 6,288
	-----	-----	-----

</TABLE>

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

See Notes to Consolidated Financial Statements

32

Consolidated Statements of Comprehensive Income

(Dollars in Millions)

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
Net Earnings	\$1,935	\$1,648	\$1,126
Other Comprehensive Income:			
Foreign currency translation adjustment:			
Foreign currency translation losses, net of gains	(96)	(17)	(8)
Deferred income taxes	4	16	19
Total	(92)	(1)	11
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	50	(68)	333
Reclassification adjustment for (gains) losses included in net earnings	(16)	(29)	2
Net unrealized gains (losses) on investment securities	34	(97)	335
Adjustments for:			
Policyholder liabilities	10	64	(137)
Deferred policy acquisition costs	-	9	(72)
Deferred income taxes	(15)	8	(44)
Total	29	(16)	82
Total Other Comprehensive Income	(63)	(17)	93
Comprehensive Income	\$1,872	\$1,631	\$1,219

</TABLE>

See Notes to Consolidated Financial Statements

33

Consolidated Statements of Cash Flows  
(Dollars in Millions)

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1997	1996	1995
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Earnings	\$ 1,935	\$ 1,648	\$ 1,126
Noncash items included in earnings:			
Depreciation and amortization	473	436	389
Policyholder reserves	240	269	297
Other	1,401	919	672
(Increase) decrease in operating assets(a):			
Trading assets	(31,246)	(15,574)	(6,666)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(6,333)	(198)	(459)
Receivables under securities borrowed transactions	(10,548)	(4,346)	348
Customer receivables	(7,957)	(3,845)	(842)
Maturities and sales of trading investment securities	177	98	-
Purchases of trading investment securities	(636)	(67)	-
Other	(3,466)	1,112	1,036
Increase (decrease) in operating liabilities(a):			
Trading liabilities	26,770	10,219	(2,410)
Payables under securities loaned transactions	4,163	19	677
Customer payables	4,731	686	(1,221)
Liabilities of insurance subsidiaries	(524)	(587)	(732)
Other	3,197	442	1,288
Cash Used for Operating Activities	(17,623)	(8,769)	(6,497)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from (payments for):			
Maturities of available-for-sale securities	3,376	3,057	1,453

Sales of available-for-sale securities	2,198	1,341	1,029
Purchases of available-for-sale securities	(6,383)	(4,374)	(2,387)
Maturities of held-to-maturity securities	1,081	920	1,217
Purchases of held-to-maturity securities	(752)	(555)	(1,094)
Acquisitions, net of cash acquired	(13)	(135)	(601)
Other investments and other assets	(240)	(388)	(147)
Property, leasehold improvements, and equipment	(863)	(483)	(371)
	-----	-----	-----
Cash Used for Investing Activities	(1,596)	(617)	(901)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (payments for):			
Resale agreements, net of repurchase agreements	(3,642)	(8,428)	4,887
Commercial paper and other short-term borrowings	8,355	9,926	2,031
Issuance and resale of long-term borrowings	25,087	16,509	10,355
Settlement and repurchase of long-term borrowings	(8,242)	(7,440)	(7,971)
Issuance of subsidiaries' preferred securities	300	276	-
Redemption of Remarketed Preferred Stock	(194)	-	-
Common stock transactions	(500)	(919)	(892)
Dividends	(294)	(245)	(231)
	-----	-----	-----
Cash Provided by Financing Activities	20,870	9,679	8,179
	-----	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	1,651	293	781
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,395	3,102	2,321
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,046	\$ 3,395	\$ 3,102
	-----	-----	-----

(a) Net of effects of acquisitions.

#### Supplemental Disclosures

Cash paid for:			
Income taxes	\$ 910	\$ 1,139	\$ 566
Interest	15,390	11,801	11,425

</TABLE>

#### Noncash Investing and Financing Activity

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

See Notes to Consolidated Financial Statements

34

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

#### Table of Contents

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	35
NOTE 2. OTHER SIGNIFICANT EVENTS ...	40
NOTE 3. TRADING ACTIVITIES .....	41
NOTE 4. INVESTMENTS AND OTHER NON-TRADING ASSETS.....	46
NOTE 5. SHORT-TERM AND LONG-TERM BORROWINGS AND OTHER NON-TRADING LIABILITIES.....	48
NOTE 6. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES AND STOCKHOLDERS' EQUITY.....	50
NOTE 7. COMMITMENTS AND CONTINGENCIES .....	53
NOTE 8. EMPLOYEE BENEFIT PLANS.....	55
NOTE 9. EMPLOYEE INCENTIVE PLANS.....	58
NOTE 10. INCOME TAXES .....	61
NOTE 11. REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS...	62
NOTE 12. INDUSTRY AND GLOBAL OPERATIONS.....	63

Note 1. SUMMARY OF SIGNIFICANT



## Basis of Presentation

These Consolidated Financial Statements of Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries (collectively, "Merrill Lynch") have been restated to reflect the merger of Midland Walwyn Inc. ("Midland") with Merrill Lynch. The merger has been accounted for as a pooling-of-interests, and accordingly, the Consolidated Financial Statements reflect the results of operations, financial position, changes in stockholders' equity, and cash flows as if Merrill Lynch and Midland had always been combined.

On August 26, 1998, Merrill Lynch acquired the outstanding shares of Midland in a share exchange. Each Midland shareholder received either 0.24 shares of ML & Co. common stock or 0.24 exchangeable shares of Merrill Lynch & Co., Canada Ltd. ("Exchangeable Shares") for each Midland share held (see Note 6). Each Midland optionholder received 0.24 options on ML & Co. common stock for each Midland option held (see Note 9).

All material intercompany balances have been eliminated. Certain limited reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

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

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

The Consolidated Financial Statements are presented in accordance with generally accepted accounting principles and prevailing industry practices, both of which require management to make estimates regarding certain trading inventory valuations, the outcome of litigation, goodwill, the realization of deferred tax assets, insurance deferred acquisition costs, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. As such, actual results could differ materially from those estimates.

## Trading Instruments

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

35

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

## Derivatives

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument or index, such as a future, forward,

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

Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities, currencies, or commodities). Different types of derivatives can also be combined to meet specialized needs (e.g., swaptions).

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

Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts that would be received from or paid to a third party in settlement of these instruments. These amounts are determined using pricing models based on the present value of estimated future cash flows employing mid-market valuations with appropriate adjustments. These adjustments are integral components of the mark-to-market process and relate to credit quality and concentration, market liquidity, and exposure close-out costs associated with unmatched positions. Adjustments are also made for administrative costs incurred to service periodic cash flows and maintain hedges over the life of the contract. A portion of income related to longer-term contracts is recognized as the related administrative costs are incurred.

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

Derivatives are reported separately as assets and liabilities unless a legal right of setoff exists under a master netting agreement enforceable at law. Balances related to swap and forward transactions and foreign currency options are included in Contractual agreements on the Consolidated Balance Sheets. All other derivative balances are recorded in the related cash instrument caption. The fair value of equity options purchased, for example, is recorded in the Equities and convertible debentures trading asset caption.

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

---

#### Revenue Recognition

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

36

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

---

---

#### Financing and Related Activities

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

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

deferred amounts related to terminated contracts.

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts, plus accrued interest. Merrill Lynch's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Substantially all repurchase and resale activities are transacted under master netting agreements that give Merrill Lynch the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Merrill Lynch offsets certain repurchase and resale agreement balances with the same counterparty on the Consolidated Balance Sheets.

Securities borrowed and loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require Merrill Lynch to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. Merrill Lynch receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fee received or paid by Merrill Lynch is recorded as interest revenue or expense. On a daily basis, Merrill Lynch monitors the market value of securities borrowed or loaned against the collateral value. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, Merrill Lynch does not offset such receivables and payables with the same counterparty on the Consolidated Balance Sheets.

-----  
Investment Securities

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

Held-to-maturity investments are debt securities that Merrill Lynch has the positive intent and ability to hold to maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. The amortization of premiums or accretion of discounts and any unrealized losses deemed other-than-temporary are included in current period earnings.

Debt and equity securities purchased principally for the purpose of resale in the near-term are classified as trading investments and are reported at fair value. Unrealized gains or losses on these investments are included in current period earnings.

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

Restricted equity investment securities or equity investment securities without available market quotations

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

-----  
-----  
are reported at the lower of cost or estimated net realizable value. Adjustments in carrying values are included in current period earnings.

Realized gains and losses on investments are included in current period earnings. The cost basis of each investment sold is specifically identified for purposes of computing realized gains and losses.

-----  
Lending Activities

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

Loans held for investment purposes, including consumer and small business loans and the residual portion of commercial loans syndicated by Merrill Lynch, are carried at their principal amount outstanding. The allowance for loan losses is established through provisions that are based on management's assessment of the collectibility of the loan portfolio. Loans are charged off against the allowance for loan losses when management determines that collection of principal is unlikely.

Loans held for sale, which include certain residential mortgage and home equity loans, are reported at the lower of cost (less allowance for loan losses) or estimated fair value determined on a portfolio basis. Mortgage servicing assets and residual interests in mortgage loans underlying Real Estate Mortgage Investment Conduits and revolving trusts are (1) recognized upon sales of loans when servicing is retained, and (2) amortized into income in proportion to and over the estimated life of the net servicing revenue. Mortgage servicing assets are periodically evaluated for impairment and are included in Other assets on the Consolidated Balance Sheets. Residual interests are reported in Other investments on the Consolidated Balance Sheets.

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

-----  
Commissions and Related Expenses

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

-----  
Investment Banking

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

-----  
Receivables from and Payables to Customers

Customer securities and commodities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheets.

-----  
Insurance

Insurance liabilities are future benefits payable under annuity and interest-sensitive life contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale. Liabilities for unpaid claims consist of the mortality benefit for reported claims and an estimate of unreported claims based upon prior experience.

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when

38

Notes to Consolidated Financial Statements

(Dollars in Millions, Except Per Share Amounts)

-----  
-----  
combined, are equal to the adjustment that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of Accumulated other comprehensive income, net of applicable income taxes.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred, to the extent deemed recoverable, and amortized over the lives of the contracts in proportion to the estimated gross profit for each group of contracts.

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with Merrill Lynch's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of Merrill Lynch.

-----  
Property, Leasehold Improvements, and Equipment

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

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

Facilities-related depreciation and amortization expense was \$167, \$163, and \$152, in 1997, 1996, and 1995, respectively. Non-facilities-related depreciation and amortization expense for 1997, 1996, and 1995 was \$306, \$273, and \$237, respectively.

---

#### Stock-Based Compensation

Merrill Lynch accounts for stock-based compensation plans in accordance with the intrinsic value-based method in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, rather than the fair value-based method in Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. Compensation expense for stock options is not recognized since Merrill Lynch grants stock options without any intrinsic value. Compensation expense related to other stock-based compensation plans is recognized over the vesting period. For certain stock-based compensation grants, the unamortized portion of the grant value is reflected as a reduction of stockholders' equity in Employee stock transactions on the Consolidated Balance Sheets.

---

#### Goodwill

Goodwill, which represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition, is amortized on a straight-line basis over periods not exceeding fifteen years. Beginning in 1998, goodwill associated with the purchase of Mercury Asset Management Group Holdings PLC will be amortized over 30 years (see Note 2 for additional information). Goodwill is evaluated periodically for impairment.

---

#### Income Taxes

ML & Co. and certain of its wholly-owned subsidiaries file a consolidated Federal income tax return. Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income

39

---

#### Notes to Consolidated Financial Statements (Dollars in Millions, Except Per Share Amounts)

---

tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. No deferred Federal income taxes have been provided for the undistributed earnings of foreign subsidiaries to the extent that such earnings are considered to be permanently reinvested in Merrill Lynch's foreign operations.

---

#### Translation of Foreign Currencies

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

---

#### Cash Flows

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

---

Fair Value of Financial Instruments

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

Interest Expense

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

NOTE 2. OTHER SIGNIFICANT EVENTS

Accounting Changes

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

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

In 1995, Merrill Lynch adopted:

~ SFAS No. 114, Accounting by Creditors for Impairment of a Loan;

~ SFAS No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures; and

~ SFAS No. 122, Accounting for Mortgage Servicing Rights.

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

Disclosure Changes

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

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

40

Notes to Consolidated Financial Statements

(Dollars in Millions, Except Per Share Amounts)

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

Acquisitions

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

Merrill Lynch completed several acquisitions in 1996, including two non-U.S. securities firms and a U.S. asset manager. Aggregate consideration of \$232 was paid and goodwill of \$167 was recorded in connection with these acquisitions. In August 1995, Merrill Lynch acquired Smith New Court PLC, a U.K.-based global securities firm, for \$803, and recorded \$533 of related goodwill.

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

-----  
NOTE 3. TRADING ACTIVITIES  
-----

As part of its trading activities, Merrill Lynch provides to clients brokerage, dealing, and underwriting services for securities and derivative products. While trading activities are primarily generated by client order flow, Merrill Lynch also takes proprietary positions based on expectations of future market movements and conditions. Merrill Lynch's trading strategies rely on the integrated management of its client-driven and proprietary transactions, along with the hedging and financing of these positions.

Principal transactions revenues by product category follow(1):

<TABLE>  
<CAPTION>

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Equities and equity derivatives	\$1,317	\$1,178	\$ 951
Interest rate and currency swaps	1,042	893	732
Taxable fixed-income	993	1,004	556
Municipals	305	324	275
Foreign exchange and commodities	170	132	87
	-----	-----	-----
Total	\$3,827	\$3,531	\$2,601
	-----	-----	-----

</TABLE>

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

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate. For further information on Merrill Lynch's net trading results, see Management's Discussion and Analysis (unaudited)-Principal Transactions.

Certain trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures that are described in Management's Discussion and Analysis (unaudited)-Risk Management.

-----  
Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, and credit spreads. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

Merrill Lynch seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. Merrill Lynch uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by Merrill Lynch.

-----  
Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial

opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Interest rate swap agreements used by Merrill Lynch include caps, collars, floors, basis swaps, and leveraged swaps. Interest rate caps and floors provide the purchaser protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Basis swaps are a type of interest rate swap agreement where rates received and paid are variable based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month LIBOR (London Interbank Offered Rate). Merrill Lynch's exposure to interest rate risk resulting from these leverage factors is typically hedged with other financial instruments.

-----

#### Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to over 70 currencies, including the Japanese yen, German mark, Swiss franc, British pound, and Italian lira. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward market is not available or where the end-user needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

-----

#### Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by Merrill Lynch to manage equity price risk include equity options and warrants. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

-----

#### Commodity Price Risk

Merrill Lynch views its commodity contracts as financial instruments since they are generally settled in cash and not by delivery of the underlying commodity. Commodity price risk results from the possibility that the price of the underlying commodity may rise or fall. Cash flows from commodity contracts are based on the difference between an agreed-upon fixed price and a price that varies with changes in a specified commodity price or index. Commodity contracts held by Merrill Lynch principally relate to energy, precious metals, and base metals.

-----

#### Credit Spread Risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality, i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example,

42

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

-----

-----

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

-----

#### Credit Risk

Merrill Lynch is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms and the collateral held, if any, is deemed worthless ("default risk"). Both cash instruments and derivatives expose Merrill Lynch to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market Risk section.



Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. For further information, see Management's Discussion and Analysis (unaudited)-Risk Management-Credit Risk.

In the normal course of business, Merrill Lynch executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by Merrill Lynch. These activities may expose Merrill Lynch to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, Merrill Lynch may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. In addition, Merrill Lynch seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Merrill Lynch may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Merrill Lynch uses resale and repurchase agreements and securities borrowed and loaned transactions to finance securities, to facilitate settlement processes, and to meet customers' needs. Under these agreements and transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. When providing collateral for these transactions, Merrill Lynch delivers its own securities, securities borrowed from counterparties, and securities owned by customers collateralizing margin loans and other obligations.

The market value of securities owned by Merrill Lynch that have been loaned or pledged to counterparties as collateral for obligations of Merrill Lynch, primarily related to repurchase agreements, were \$28,658 and \$28,136 at December 26, 1997 and December 27, 1996, respectively.

-----  
Concentrations of Credit Risk

Merrill Lynch's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 26, 1997, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from taking trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to \$11,708 and \$10,336 at December 26, 1997 and December

43

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)  
-----  
-----

27, 1996, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the resale agreement or securities borrowed transaction counterparty. Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral at December 26, 1997 and December 27, 1996 totaled \$60,868 and \$33,321, respectively.

At December 26, 1997, Merrill Lynch had concentrations of credit risk with other counterparties, including a European sovereign rated AA by recognized credit rating agencies and an investment company whose holdings primarily consist of various European sovereign debt instruments. Total exposure to these counterparties, excluding collateral held, was \$3,405, or 1.1% of total assets. At December 27, 1996, Merrill Lynch had concentrations of credit risk with a European and a South American sovereign and an investment company totaling

\$3,912, or 1.8% of total assets, excluding collateral held.

Merrill Lynch's most significant industry credit concentration is with U.S. and non-U.S. financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and mutual funds. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Within these regions, sovereign governments represent the most significant concentration, followed by financial institutions.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties. See Management's Discussion and Analysis (unaudited)-Non-Investment Grade Holdings and Highly Leveraged Transactions for further information.

-----  
 Derivatives Used in Trading Activities

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

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

-----  
 <TABLE>  
 <CAPTION>

	December 26, 1997		December 27, 1996	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	\$16,189	\$15,703	\$11,553	\$9,370
Forward contracts	3,805	3,539	1,304	1,403
Options	5,987	10,970	2,621	3,211

-----

</TABLE>

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

-----  
 <TABLE>  
 <CAPTION>

	Average Fair Value			
	1997		1996	
	Assets	Liabilities	Assets	Liabilities
Swap agreements	\$13,888	\$12,002	\$9,872	\$8,404
Forward contracts	2,340	2,181	1,192	1,260
Options	4,946	7,131	2,576	1,971

-----

</TABLE>

The notional or contractual amounts of derivatives provide only a measure of involvement in these types of transactions and represent neither the amounts subject to the various types of market risk nor the future cash requirements under these instruments. The notional or

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

-----  
 <TABLE>  
 <CAPTION>

(in billions)	Interest Rate Risk(1)(2)	Currency Risk(3)	Equity Price Risk	Commodity Price Risk
<S>	<C>	<C>	<C>	<C>
December 26, 1997				
Swap agreements	\$1,482	\$159	\$17	\$ 2
Forward contracts	59	196	1	15
Futures contracts	202	1	15	2
Options purchased	99	71	60	3
Options written	133	73	44	3
December 27, 1996				
Swap agreements	\$1,212	\$140	\$13	\$ 3
Forward contracts	24	147	1	17
Futures contracts	126	2	7	5
Options purchased	85	76	21	3
Options written	118	72	31	3

</TABLE>

- (1) Certain derivatives subject to interest rate risk are also exposed to the credit spread risk of the underlying financial instrument.
- (2) Forward contracts subject to interest rate risk principally represent "To Be Announced" mortgage pools that bear interest rate as well as principal prepayment risk.
- (3) Included in the currency risk category are certain contracts that are also subject to interest rate risk.

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

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

</TABLE>

The notional or contractual values of derivatives do not represent default risk exposure. Default risk is limited to the current cost of replacing derivative contracts in a gain position.

Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of accounting loss is generally limited to a one-day net positive change in market value. Option contracts can be exchange-traded or OTC-transacted contracts. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk.

Merrill Lynch attempts to enter into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure.

To reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. Presented below is a summary of counterparty credit ratings for the replacement cost (net of \$4,750 of collateral) of trading derivatives in a gain position by maturity at December 26, 1997.

<TABLE>  
<CAPTION>

Credit Rating(1)	Years to Maturity				Cross-Maturity Netting(2)	Total
	0-3	3-5	5-7	Over 7		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AAA	\$ 684	\$ 274	\$ 364	\$ 371	\$ (191)	\$ 1,502
AA+/AA	3,951	406	164	558	(623)	4,456
AA-	2,351	755	492	666	(802)	3,462
A+/A	2,802	518	383	703	(427)	3,979
A-	1,982	730	160	239	(380)	2,731
BBB	1,946	676	262	169	(437)	2,616
BB	887	314	36	293	(556)	974
Other	1,116	232	110	321	(268)	1,511
Total	\$15,719	\$3,905	\$1,971	\$3,320	\$(3,684)	\$21,231

</TABLE>

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

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

NOTE 4. INVESTMENTS AND OTHER  
NON-TRADING ASSETS

Investments

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

Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Marketable investment securities consist of equity and debt securities, including those held for rating agency purposes or to manage cash flows related to certain liabilities of Merrill Lynch's banking subsidiaries. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities. Certain merchant banking investments are subject to restrictions that may limit Merrill Lynch's ability to realize its investment until such restrictions expire.

Marketable investment securities and certain investments of insurance subsidiaries and other investments are carried as held-to-maturity, trading, or available-for-sale securities as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 26, 1997 and December 27, 1996 are presented below:

<TABLE>  
<CAPTION>

	1997	1996
<S>	<C>	<C>
Investments of insurance subsidiaries		
Available-for-sale	\$3,338	\$3,624
Trading	16	-
Non-qualifying(1) (2)	1,479	1,483
Total	\$4,833	\$5,107
Marketable investment securities		
Available-for-sale	\$2,392	\$1,523
Held-to-maturity	322	653
Trading	595	4
Total	\$3,309	\$2,180

Other investments		
Available-for-sale	\$ 500	\$ 142
Held-to-maturity	233	328
Trading	-	3
Non-qualifying(1) (3)	1,096	653
Total	\$1,829	\$1,126

</TABLE>

- (1) Non-qualifying for SFAS No. 115 purposes.  
(2) Primarily consists of insurance policy loans.  
(3) Includes merchant banking investments and investments hedging deferred compensation liabilities.

46

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

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

<TABLE>  
<CAPTION>

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

</TABLE>

<TABLE>  
<CAPTION>

	December 26, 1997				December 27, 1996		
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Held-to-Maturity Value							

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

</TABLE>

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

<TABLE>  
<CAPTION>

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$1,147	\$1,148	\$166	\$167
Due after one year through five years	1,835	1,875	104	120
Due after five years through ten years	1,105	1,129	159	174
Due after ten years	744	753	7	19
	4,831	4,905	436	480
Mortgage-backed securities	1,036	1,082	119	121
Total(1)	\$5,867	\$5,987	\$555	\$601

</TABLE>

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

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

<TABLE>  
<CAPTION>

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

</TABLE>

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

Other Non-Trading Assets

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

(Dollars in Millions, Except Per Share Amounts)

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

<TABLE>  
<CAPTION>

	December 26, 1997		December 27, 1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<S>	<C>	<C>	<C>	<C>
Merchant banking equity investment and loan portfolio(1)	\$ 275	\$ 403	\$ 203	\$ 363
Loans, notes, and mortgages(2)	4,197	4,230	3,313	3,347

</TABLE>

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

(2) Excludes loans related to merchant banking activities.

Fair value for merchant banking equity investments, including partnership interests (both included in Other investments on the Consolidated Balance Sheets), is estimated using a number of methods, including earnings multiples, cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., consent of other investors) that may limit Merrill Lynch's ability to realize currently the estimated fair value. Accordingly, Merrill Lynch's current estimate of fair value and the ultimate realization on these instruments may differ.

Fair value for loans made in connection with merchant banking activities, consisting primarily of senior and subordinated debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

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

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

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

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

Short-Term and Long-Term Borrowings

Merrill Lynch issues U.S. and non-U.S. dollar-denominated debt instruments with both variable and fixed interest rates, primarily at the ML & Co. level. These financing activities may create exposure to market risk, most notably interest rate and currency risk. To better match the interest rate characteristics of assets and liabilities, Merrill Lynch generally enters into swap agreements to convert fixed-rate interest payments on its debt obligations

into variable-rate payments. Interest obligations on variable-rate long-term borrowings and commercial paper may also be modified through swap agreements that change the underlying

48

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

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

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

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

<TABLE>  
<CAPTION>

	1997	1996
	-----	-----
<S>	<C>	<C>
Payables under repurchase agreements and securities loaned transactions		
Repurchase agreements	\$72,127	\$63,946
Securities loaned transactions	7,040	2,876
	-----	-----
Total	\$79,167	\$66,822
	-----	-----

Commercial paper and other short-term borrowings

Commercial paper	\$30,379	\$23,558
Demand and time deposits	10,712	9,376
Bank loans and other	3,961	3,713
	-----	-----
Total	\$45,052	\$36,647
	-----	-----

Long-term borrowings

Fixed-rate obligations(1):		
U.S. dollar-denominated	\$ 7,136	\$ 5,874
Non-U.S. dollar-denominated	1,878	1,737
Variable-rate obligations(2) (3):		
U.S. dollar-denominated	2,803	1,944
Non-U.S. dollar-denominated	1,276	690
Medium-term notes(4):		
U.S. dollar-denominated	20,090	10,532
Non-U.S. dollar-denominated	9,960	5,429
	-----	-----
Total	\$43,143	\$26,206
	-----	-----

</TABLE>

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

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

<TABLE>  
<CAPTION>

<S>	<C>
1998	\$12,042



1999	7,226
2000	5,178
2001	4,012
2002	5,397
2003 and thereafter	9,288
Total	\$43,143

</TABLE>

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

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

</TABLE>

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

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

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

<TABLE>			
<CAPTION>			
	1997	1996	
	----	----	
<S>	<C>	<C>	
Commercial paper and other short-term borrowings	5.43%	5.44%	
Long-term borrowings			
Fixed-rate obligations	7.00%	7.41%	
Variable-rate obligations	5.84%	5.82%	
Medium-term notes	5.86%	5.68%	

</TABLE>

49

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

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

<TABLE>					
<CAPTION>					
	December 26, 1997		December 27, 1996		
	Carrying Value	Fair Value	Carrying Value	Fair Value	
	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	
Commercial paper and other short-term borrowings	\$45,052	\$45,059	\$36,647	\$36,646	
Related derivative:					
Assets	(28)	(29)	(15)	(12)	
Liabilities	3	4	5	5	
Total	\$45,027	\$45,034	\$36,637	\$36,639	
	-----	-----	-----	-----	
Long-term borrowings	\$43,143	\$43,706	\$26,206	\$26,958	
Related derivative:					

Assets	(811)	(1,953)	(257)	(773)
Liabilities	921	1,032	370	448
	-----	-----	-----	-----
Total	\$43,253	\$42,785	\$26,319	\$26,633
	-----	-----	-----	-----

</TABLE>

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Management believes, however, that a significant portion of such borrowings may remain outstanding beyond their earliest redemption date.

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

#### Borrowing Facilities

Merrill Lynch has obtained committed, unsecured revolving credit facilities aggregating \$9.2 billion under agreements with 79 banks. The agreements contain covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreements, on the date of an advance. At December 26, 1997, \$466 million of these credit facilities had been drawn upon, all of which pertained to Midland.

The credit quality, amounts, and terms of the credit facilities are continually monitored and modified as warranted by business conditions. Under the existing agreements, the credit facilities mature as follows: \$1.2 billion in February 1998; \$1.6 billion in May 1998; \$2.0 billion in June 1998; \$2.0 billion in October 1999, and \$2.4 billion that does not have a maturity date. At maturity, Merrill Lynch may convert amounts borrowed, if any, into term loans that would mature in two years.

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

#### Other Non-Trading Liabilities

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

#### Note 6. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES AND STOCKHOLDERS' EQUITY

#### Preferred Securities Issued by Subsidiaries

Trust Originated Preferred Securities (SM) ("TOPrS" (R)) are issued to investors by trusts created by Merrill Lynch. Using the issuance proceeds, the trusts purchase Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extend loans to ML & Co. and one or more subsidiaries of ML & Co. The trusts and partnerships are consolidated subsidiaries of Merrill Lynch. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPrS to the extent that the trusts have funds legally available. This guarantee and the partnership distribution guarantee are subordinated to

50

#### Notes to Consolidated Financial Statements (Dollars in Millions, Except Per Share Amounts)

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

In December 1996, Merrill Lynch Capital Trust I ("TOPrS I") issued \$275 of 7.75% TOPrS, consisting of 11,000,000 securities with a \$25 liquidation amount per security, and in February 1997, Merrill Lynch Capital Trust II ("TOPrS II") issued \$300 of 8% TOPrS, consisting of 12,000,000 securities with a \$25 liquidation amount per security. Both TOPrS I and TOPrS II securities are redeemable at the option of the trusts, in whole or in part, at a redemption

price equal to \$25 per security on or after December 30, 2006 and March 30, 2007, respectively. Distributions are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

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

-----  
Preferred Equity

ML & Co. is authorized to issue 25,000,000 shares of undesignated preferred stock, \$1.00 par value per share. All shares of currently outstanding preferred stock constitute one and the same class that have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

-----  
9% Cumulative Preferred Stock, Series A

ML & Co. has issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, \$10,000 liquidation preference per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of \$425.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly when declared by the authority of the Board of Directors. The 9% Preferred Stock is redeemable on or after December 30, 2004 at the option of ML & Co., in whole or in part, at a redemption price equal to \$10,000 per share, plus accrued and unpaid dividends (whether or not declared) to the date fixed for redemption.

-----  
Remarketed Preferred(SM) Stock, Series C

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

-----  
Shares Exchangeable into Common Stock

In August 1998, Merrill Lynch & Co., Canada Ltd. issued Exchangeable Shares in connection with Merrill Lynch's merger with Midland (see Note 1). Holders of Exchangeable Shares receive dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares are exchangeable at any time, at the option of the holder, on a one-for-one basis into ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

-----  
Common Stock Split

In 1997, the Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. The par value of the common stock remained at \$1.33 1/3 per share. Accordingly, an adjustment from paid-in capital to common stock of \$315 was made to preserve the par value of the post-split shares. All share and per share data have been restated for the effect of the split.

-----  
Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)  
-----

-----  
Accumulated Other Comprehensive Income

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

-----  
<TABLE>  
<CAPTION>

	1997	1996
	-----	-----
<S>	<C>	<C>
Foreign currency translation adjustment		
Unrealized losses, net of gains	\$ (110)	\$ (14)
Deferred income taxes	25	21
	-----	-----
Total	(85)	7
	-----	-----

Unrealized gains on investments available-for-sale		
Unrealized gains, net of losses	116	82
Adjustments for:		
Policyholder liabilities	(54)	(64)
Deferred policy acquisition costs	(4)	(4)
Deferred income taxes	(20)	(5)
	-----	-----
Total	38	9
	-----	-----
Total accumulated other comprehensive income	\$ (47)	\$16
	-----	-----

</TABLE>

#### Stockholder Rights Plan

In December 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock ten days following: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co.; or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase 1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value \$1.00 per share, at an exercise price of \$300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire December 2, 2007, and are redeemable at the option of a majority of the directors of ML & Co. at \$.01 per Right at any time until the tenth day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

#### Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128 (see Note 2). Under SFAS No. 128, basic and diluted EPS replace primary and fully diluted EPS. Basic EPS is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of potential common shares. The following table presents the computations of basic and diluted EPS:

	1997	1996	1995
	-----	-----	-----
Net earnings	\$1,935	\$1,648	\$1,126
Preferred stock dividends	39	46	48
	-----	-----	-----
Net earnings applicable to common stockholders	\$1,896	\$1,602	\$1,078
Interest on convertible debt	-	1	1
	-----	-----	-----
	\$1,896	\$1,603	\$1,079
	-----	-----	-----
(shares in thousands)			
Weighted-average shares outstanding	340,096	346,043	361,193
	-----	-----	-----
Effect of dilutive instruments(1)			
Employee stock options	29,748	21,934	19,934
FCCAAP shares	20,574	19,570	18,671
Restricted units	5,258	4,727	2,363
ESPP shares	45	56	63
Convertible debt	134	660	628
	-----	-----	-----
Dilutive potential common shares	55,759	46,947	41,659
	-----	-----	-----

Total weighted-average

diluted shares(2)	395,855	392,990	402,852
	-----	-----	-----
-----			
Basic EPS	\$5.57	\$4.63	\$2.98
Diluted EPS	4.79	4.08	2.68
-----			

</TABLE>

- (1) See Note 9 for a description of these instruments and issuances subsequent to December 26, 1997.
- (2) At year-end 1997, 1996, and 1995, there were 7, 58, and 3,050 instruments, respectively, that were considered antidilutive and were not included in the above calculations.

52

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

NOTE 7 . COMMITMENTS AND  
CONTINGENCIES

Litigation

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

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

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

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

Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Consolidated Financial Statements of Merrill Lynch contained herein.

Lending

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking and loan syndication transactions. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. Merrill Lynch also issues various guarantees to counterparties in connection with certain leasing, agency securities lending, securitization, and other transactions. These commitments and guarantees usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon or guarantees are issued, Merrill

Lynch may require the counterparty to post collateral depending upon the counterparty's creditworthiness and market conditions.

The contractual amounts of these commitments and guarantees represent the amounts at risk should the contract be fully drawn upon, the client default, and the value of the existing collateral become worthless. The

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

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

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

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

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

Leases

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

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

	WFC	Other	Total
1998	\$ 125	\$ 295	\$ 420
1999	140	291	431
2000	144	263	407
2001	144	233	377
2002	150	195	345
2003 and thereafter	1,936	809	2,745
Total	\$2,639	\$2,086	\$4,725

The minimum rental commitments shown above have not been reduced by \$824 of minimum sublease rentals to be received in the future under noncancelable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

Net rent expense for each of the last three years is presented below:

	1997	1996	1995
Rent expense	\$ 468	\$438	\$417
Sublease revenue	(104)	(48)	(87)
Net rent expense	\$ 364	\$390	\$330

</TABLE>

Other Commitments

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

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

<TABLE>

<CAPTION>

	1997	1996
<S>	<C>	<C>
Resale agreements	\$3,440	\$3,653
Repurchase agreements	4,469	976

</TABLE>

Merrill Lynch also obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated \$1,063 and \$2,082 at December 26, 1997 and December 27, 1996, respectively.

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

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

54

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

NOTE 8. EMPLOYEE BENEFIT PLANS

Merrill Lynch provides retirement and other postemployment benefits to its employees worldwide through defined contribution and defined benefit pension plans and other postretirement and postemployment benefit plans. Merrill Lynch reserves the right to amend or terminate these plans at any time.

Defined Contribution Pension Plans

The domestic defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("401K"). The RAP, ESOP, and 401K cover substantially all U.S. employees who have met age and service requirements.

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

In 1989, the ESOP trust purchased from Merrill Lynch 47,851,236 shares of ML & Co. common stock with residual funds from a terminated defined benefit pension plan ("Reversion Shares") and loan proceeds from a subsidiary of Merrill Lynch ("Leveraged Shares").

Merrill Lynch credits a participant's account and records pension expense under the Retirement Program based on years of service and eligible compensation. This expense is funded by quarterly allocations of Leveraged and Reversion Shares and, if necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares are released in accordance with the terms of the ESOP. If the fair market value of the shares released is less than the formula allocation to participants' accounts, cash contributions are made to the RAP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in June 1997. Leveraged Shares are allocated to participants' accounts as principal is repaid on the loan to the ESOP, which matures in 1999. Principal and interest on the loan are payable

quarterly upon receipt of dividends on certain shares of common stock or other cash contributions.

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

-----

	Reversion Shares	Leveraged Shares
Allocated	38,962,348	6,104,498
Committed	-	173,188
Unallocated	-	2,611,202

-----

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

Additional information on ESOP activity follows:

-----

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

-----

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

Employees can participate in the 401K by contributing, on a tax-deferred basis, up to 15% of their eligible compensation but not more than the maximum annual amount allowed by law. Merrill Lynch's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the 401K, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 9).

Merrill Lynch also sponsors various non-U.S. defined contribution plans. The costs of benefits under the RAP, 401K, and non-U.S. plans are expensed during the related service period.

55

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

-----

#### Defined Benefit Pension Plans

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At December 26, 1997 and December 27, 1996, a substantial portion of the assets supporting the annuity contract was invested in U.S. Government and agencies securities. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of these annuity assets. Merrill Lynch also maintains supplemental defined benefit plans for certain U.S. employees.

Employees of certain non-U.S. subsidiaries participate in various local defined benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. Merrill Lynch's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

The funded status of the defined benefit plans (including the terminated plan) follows:



<TABLE>  
<CAPTION>

	1997		1996	
	Pension plans in which:		Pension plans	
	Assets	Accumulated	Assets	
	Exceeded	Benefits	Exceeded	
	Accumulated	Exceeded	Accumulated	
	Benefits	Assets(1)	Benefits	
<S>	<C>	<C>	<C>	<C>
Accumulated benefit obligation				
Vested	\$ (1,756)	\$ (68)	\$ (1,447)	
\$(134)				
Non-vested	(5)	(8)	(3)	
(8)				
Total	(1,761)	(76)	(1,450)	
(142)				
Effect of assumed increase in compensation levels	(95)	(16)	(24)	
(26)				
Projected benefit obligation	(1,856)	(92)	(1,474)	
(168)				
Plan assets at fair value	2,137	43	1,673	
99				
Plan assets in excess of (less than) projected benefit obligation	281	(49)	199	
(69)				
Unrecognized net liability at transition	2	1	3	
2				
Unrecognized prior service cost (benefit)	3	(1)	(3)	
(1)				
Unrecognized net (gain) loss	(118)	1	(4)	
16				
Prepaid (accrued) benefit cost	\$ 168	\$ (48)	\$ 195	
\$ (52)				

</TABLE>

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

56

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

Pension cost included the following components:

<TABLE>  
<CAPTION>

	1997	1996	1995
	<C>	<C>	<C>
Defined contribution plan cost	\$ 216	\$ 224	\$ 169

Defined benefit plans(1)			
Service cost for benefits earned during the year	32	25	20
Interest cost on projected benefit obligation	109	104	106
Actual return on plan assets	(313)	18	(482)
Deferral and amortization of unrecognized items	194	(133)	374
Total defined benefit plan cost	22	14	18
Total pension cost	\$ 238	\$ 238	\$ 187

</TABLE>

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

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

</TABLE>

#### Postretirement Benefits Other Than Pensions

Merrill Lynch provides health and life insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care component is contributory, with retiree contributions adjusted periodically; the life insurance component of the plan is noncontributory. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 26, 1997, none of these plans had been funded.

Postretirement benefit cost included the following components:

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

</TABLE>

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

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

</TABLE>

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

<TABLE>  
<CAPTION>

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

</TABLE>

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

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

#### Postemployment Benefits

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are

57

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by state and Federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized \$30, \$31, and \$79 in 1997, 1996, and 1995, respectively, of postemployment benefits expense, which included severance costs for terminated employees of \$18, \$14, and \$57 in 1997, 1996, and 1995, respectively. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 26, 1997 since future severance costs are not estimable.

#### NOTE 9. EMPLOYEE INCENTIVE PLANS

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase shares. The total compensation cost recognized in earnings for stock-based compensation plans for 1997, 1996, and 1995 was \$318, \$269, and \$131, respectively. Merrill Lynch also sponsors deferred cash compensation plans for eligible employees.

#### Long-Term Incentive Compensation Plans ("LTIC Plans") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans and ECAP provide for grants of equity and equity-related instruments to certain key employees. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Nonqualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Stock Appreciation Rights, and other securities of Merrill Lynch. ECAP provides for the issuance of Restricted Shares, as well as Performance Shares. As of December 26, 1997, no instruments other than Restricted Shares, Restricted Units, and Nonqualified Stock Options had been granted.

#### Restricted Shares and Units

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock, is payable in cash, and receives cash payments equivalent to dividends. Under these plans, such shares are restricted from sale, transfer, or assignment until the end of the restricted period, and such shares and units are subject to forfeiture during the vesting period for grants

under LTIC Plans or the restricted period for grants under ECAP.

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

	LTIC Plans		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
<S>	<C>	<C>	<C>
Authorized for issuance at:			
December 26, 1997	200,000,000	N/A	52,400,000
December 27, 1996	200,000,000	N/A	52,400,000
Available for issuance at(1):			
December 26, 1997	44,703,329	N/A	2,935,408
December 27, 1996	61,891,210	N/A	2,698,830
Outstanding, end of 1995	6,543,520	6,647,548	1,211,982
Granted - 1996	2,914,844	3,110,570	3,355,708
Paid, forfeited, or released from contingencies	(495,402)	(483,218)	(435,946)
Outstanding, end of 1996	8,962,962	9,274,900	4,131,744
Granted - 1997	3,662,390	3,819,904	48,747
Paid, forfeited, or released from contingencies	(2,779,206)	(3,197,062)	(299,926)
Outstanding, end of 1997(2)	9,846,146	9,897,742	3,880,565

</TABLE>

- (1) Includes shares reserved for issuance upon the exercise of stock options.  
(2) Subsequent to year end through February 1, 1998, 2,287,501 and 2,497,175 Restricted Shares and Units under LTIC Plans, respectively, and 1,980 ECAP Restricted Shares were granted to eligible employees.

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

	1997	1996	1995
LTIC Plans			
Restricted Shares	\$46.31	\$28.97	\$20.85
Restricted Units	44.47	28.69	20.72
ECAP Restricted Shares	66.99	28.76	26.23

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

58

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

granted to employees and non-employee directors.

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

	Restricted Shares	Restricted Units
<S>	<C>	<C>
Authorized for issuance at:		
December 26, 1997	6,300,000	400,000
December 27, 1996	1,700,000	400,000
Outstanding at:		
December 26, 1997	258,929	31,862
December 27, 1996	121,490	16,134

</TABLE>

#### Nonqualified Stock Options

Nonqualified Stock Options granted under LTIC Plans in 1989 through 1995 generally become exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 and thereafter generally are exercisable over five years. The exercise price of these options is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Nonqualified Stock Options expire ten years after their grant date.

The activity for Nonqualified Stock Options under LTIC Plans for 1997, 1996, and 1995 follows:

<TABLE>

<CAPTION>

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

</TABLE>

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

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

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

<TABLE>

<CAPTION>

<S>	Options Outstanding			Options Exercisable	
	<C>	<C>	<C>	<C>	<C>
Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (years) (1)	Number Exercisable	Weighted-Average Exercise Price
\$5.00 - \$10.99	12,278,961	\$ 5.57	2.62	12,278,961	\$ 5.57
\$11.00 - \$19.99	21,287,249	16.62	5.69	16,664,361	16.35
\$20.00 - \$29.99	19,252,779	24.88	7.48	7,023,277	22.61
\$30.00 - \$39.99	1,156,924	31.03	7.77	400,768	31.03
\$40.00 - \$68.125	14,731,379	42.24	9.26	13,575	40.59

</TABLE>

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

At consummation of Merrill Lynch's merger with Midland (see Note 1), each Midland optionholder received 0.24 options on ML & Co. common stock, with the vesting period and contractual life identical to the terms of the original grant. Information at year-end 1997, 1996, and 1995 related to these options follows:

<TABLE>

<CAPTION>

<S>	<C>	<C>
	Options Outstanding	Weighted-Average Exercise Price

1995	603,249	\$ 23.04
1996	688,146	28.08
1997	743,634	31.04

</TABLE>

At December 26, 1997, December 27, 1996, and December 29, 1995, such options exercisable were 284,578, 243,404, and 338,411, respectively.

59

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

The weighted-average fair value of LTIC options granted in 1997, 1996, and 1995 was \$14.62, \$7.58, and \$5.67 per option, respectively. Fair value is estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted-average assumptions:

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

</TABLE>

The weighted-average fair value of options granted by Midland in 1997, 1996, and 1995 were \$15.01, \$15.28, and \$15.23, respectively.

See Pro Forma Compensation Expense in the following Employee Stock Purchase Plans section for additional information.

#### Employee Stock Purchase Plans ("ESPP")

ESPP plans allow eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 50,300,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 1997, 1996, and 1995 follows:

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

</TABLE>

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 1997, 1996, and 1995 was \$7.66, \$4.38, and \$3.60 per right, respectively.

#### Pro Forma Compensation Expense

No compensation expense has been recognized for Merrill Lynch's grants of stock options or ESPP purchase rights (see Note 1 for accounting policy). Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of \$56, \$27, and \$12 for 1997, 1996, and 1995, respectively, resulting in pro forma net earnings and earnings per share as follows:

	1997	1996	1995
Net earnings			
As reported	\$1,935	\$1,648	\$1,126
Pro forma	1,879	1,621	1,114

Earnings per common share

As reported:

Basic	\$5.57	\$4.63	\$2.98
Diluted	4.79	4.08	2.68
Pro forma:			
Basic	5.41	4.55	2.95
Diluted	4.65	4.01	2.65

</TABLE>

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

Financial Consultant Capital Accumulation  
Award Plans ("FCCAAP")

Under FCCAAP, eligible employees in Merrill Lynch's Private Client groups are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The award is generally payable ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. FCCAAP may also provide for the issuance of Restricted Shares that vest ten years from the date of the original award and carry voting and dividend rights.

A total of 60,415,284 shares of common stock are authorized for issuance under FCCAAP. Only shares of common stock held as treasury stock may be issued

60

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

under FCCAAP. At December 26, 1997, shares subject to outstanding awards totaled 32,469,188, while 24,658,543 shares were available for issuance through future awards. The fair value of awards granted under FCCAAP during 1997, 1996, and 1995 was \$42.09, \$25.34, and \$18.06 per award, respectively.

Incentive Equity Purchase Plan ("IEPP")

IEPP allowed selected employees to purchase shares of ML & Co. common stock ("Book Value Shares") at a price equal to book value per common share. Book Value Shares, which otherwise may not be resold, may be sold back to Merrill Lynch at book value or exchanged at any time for a specified number of freely transferable common shares. Book Value Shares outstanding under IEPP were 2,164,600 and 2,274,400 at December 26, 1997 and December 27, 1996, respectively. In 1995, IEPP was amended to reduce the authorized shares to zero and prohibit the reuse of any surrendered shares. No further offerings will be made under this plan.

Merrill Lynch Investment Certificate Program  
("MLICP")

Under MLICP, eligible employees in Merrill Lynch's Private Client groups are issued investment certificates based on their performance. The certificates mature ten years from the date issued and are payable in cash if certain performance criteria are achieved and the employee is continuously employed for the ten-year period, with certain exceptions. The certificates bear interest commencing with the date on which the performance requirements are achieved. As of December 26, 1997 and December 27, 1996, \$292 and \$235, respectively, were accrued under this plan.

Other Deferred Compensation Plans

Merrill Lynch sponsors other deferred compensation plans in which eligible employees may participate. Generally, contributions to the plans are made on a tax-deferred basis to participants. Contributions are invested by Merrill Lynch, principally in mutual and other funds sponsored by Merrill Lynch, and the plans may include a leverage feature. The plans' investments and the amounts accrued by Merrill Lynch under the plans are both included in the Consolidated Balance Sheets. Plan investments totaled \$554 and \$211, respectively, at December 26, 1997 and December 27, 1996. Accrued liabilities at those dates were \$441 and \$220, respectively.

NOTE 10. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

	1997	1996	1995
Federal			
Current	\$ 856	\$ 515	\$ 788
Deferred	(94)	(119)	(164)
State and local			
Current	(15)	198	81
Deferred	7	(54)	(30)
Foreign			
Current	400	496	(24)
Deferred	(25)	(56)	59
Total	\$1,129	\$ 980	\$ 710

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

	1997	1996	1995
Federal income tax at statutory rate	\$1,089	\$920	\$643
State and local income taxes, net	(5)	94	33
Pension plan transaction	6	12	13
Foreign operations	41	3	-
Tax-exempt interest	(26)	(21)	(14)
Dividends received deduction	(33)	(34)	(19)
Other, net	57	6	54
Income tax expense	\$1,129	\$980	\$710

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

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

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

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

	1997	1996	1995
Deferred tax assets			
Valuation and other reserves(1)	\$ 940	\$ 895	\$ 700
Deferred compensation	478	351	230
Employee benefits	109	115	94
Other	90	255	274
Total deferred tax assets	1,617	1,616	1,298

Deferred tax liabilities			
Lease transactions	116	114	100
Employee benefits	58	54	47
Accelerated tax depreciation	26	44	70



Unrealized gains on inventory	-	9	18
Other	178	79	45
	-----	-----	-----
Total deferred tax liabilities	378	300	280
	-----	-----	-----
Net deferred tax asset	\$1,239	\$1,316	\$1,018
	-----	-----	-----

</TABLE>

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

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

Earnings before income taxes included approximately \$805, \$800, and \$153 of earnings attributable to foreign entities for 1997, 1996, and 1995, respectively. Cumulative undistributed earnings of foreign subsidiaries were approximately \$1,739 at December 26, 1997. No deferred Federal income taxes have been provided for the undistributed earnings to the extent that such earnings have been permanently reinvested in Merrill Lynch's foreign operations. Assuming utilization of foreign tax credits, Merrill Lynch estimates that approximately \$81 of Federal income taxes and \$72 of foreign withholding taxes would be incurred on the repatriation of the foreign subsidiaries' earnings.

NOTE 11. REGULATORY  
REQUIREMENTS AND  
DIVIDEND RESTRICTIONS

MLPF&S, a registered broker-dealer and a subsidiary of ML & Co., is subject to the net capital requirements of Rule 15c3-1 of the Securities Exchange Act of 1934. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 26, 1997, MLPF&S's regulatory net capital of \$2,249 was 11% of aggregate debit items, and its regulatory net capital in excess of the minimum required was \$1,845.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities and a subsidiary of ML & Co., is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 26, 1997, MLGSI's liquid capital of \$1,354 was 263% of its total market and credit risk, and liquid capital in excess of the minimum required was \$735.

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

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

Over 89 other subsidiaries are subject to regulatory requirements promulgated by the regulatory and exchange authorities of the jurisdictions in which they operate. These regulatory restrictions may limit the

62

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 26, 1997, restricted net assets of all subsidiaries were \$7,740.

In addition, to satisfy rating agency standards, a credit intermediary

subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 26, 1997, this minimum capital requirement was \$350. For additional information on Merrill Lynch's regulatory oversight and supervision, see Business of Merrill Lynch-Regulation.

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

-----  
NOTE 12. INDUSTRY AND GLOBAL  
OPERATIONS  
-----

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

Merrill Lynch operates in both U.S. and non-U.S. markets. Merrill Lynch's non-U.S. business activities are conducted through offices in five regions:

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

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

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

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

Merrill Lynch's Japan region operates as a dealer in a full range of debt and equity products. In addition, the Japan region provides investment banking and research services to a predominately institutional client base.

In Canada, Merrill Lynch provides financial services including investment banking, brokerage, and asset management. Merrill Lynch has expanded its broad-based capabilities in the Canadian region as a result of its merger with Midland, a Canadian diversified financial services firm. In Latin America, Merrill Lynch provides international banking, brokerage, and trust services and has been instrumental in the privatization of many Latin American companies. For further information on these regions, see Management's Discussion and Analysis (unaudited)-Global Operations.

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

- ~ Commission revenues are recorded based on the location of the sales force;
- ~ Trading revenues are principally recorded based on the location of the trader;
- ~ Investment banking revenues are recorded based on the location of the client;
- ~ Asset management and portfolio service fees are recorded based on the location of the fund manager;
- ~ Earnings before income taxes include the allocation of certain shared expenses among regions; and
- ~ Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated amounts.

-----

Notes to Consolidated Financial Statements  
(Dollars in Millions, Except Per Share Amounts)

<TABLE>  
<CAPTION>

	1997	1996	1995	1997	1996	1995
	Total Revenues			Net Revenues		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Europe, Middle East, and Africa	\$ 6,750	\$ 5,336	\$ 3,981	\$ 2,284	\$ 1,837	\$ 1,319
Asia and Pacific	586	395	228	582	394	227
Australia and New Zealand	272	151	163	229	88	66
Japan	1,108	993	841	598	502	408
Canada and Latin America	1,816	1,528	1,251	1,325	977	697
Total Non-U.S.	10,532	8,403	6,464	5,018	3,798	2,717
United States	25,046	19,221	16,107	12,462	10,603	8,092
Eliminations	(3,079)	(1,911)	(511)	(1,224)	(780)	(194)
Total	\$32,499	\$25,713	\$22,060	\$ 16,256	\$ 13,621	\$ 10,615
	Earnings Before Income Taxes			Total Assets		
Europe, Middle East, and Africa	\$ 405	\$ 357	\$ 155	\$111,404	\$ 75,901	\$ 56,948
Asia and Pacific	16	41	7	797	335	240
Australia and New Zealand	39	24	14	1,899	1,115	976
Japan	140	119	60	15,294	16,455	15,698
Latin America and Canada	288	190	152	11,215	9,455	7,592
Total Non-U.S.	888	731	388	140,609	103,261	81,454
United States	2,223	1,897	1,448	175,477	126,784	105,702
Eliminations	-	-	-	(19,106)	(12,779)	(7,704)
Total	\$ 3,111	\$ 2,628	\$ 1,836	\$296,980	\$217,266	\$179,452

</TABLE>

64

Selected Financial Data  
(Dollars in Millions, Except Per Share Amounts)

In 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn Inc. ("Midland"), in a transaction accounted for as a pooling-of-interests. The following information has been restated, except as noted in note (a) below, as if Merrill Lynch and Midland had always been combined.

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December				
	1997	1996	1995	1994	1993
(a)	(52 Weeks)	(52 Weeks)	(52 Weeks)	(52 Weeks)	(53 Weeks)
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING RESULTS					
Total Revenues	\$ 32,499	\$ 25,713	\$ 22,060	\$ 18,573	\$ 16,588
Interest Expense	16,243	12,092	11,445	8,614	6,030
Net Revenues	16,256	13,621	10,615	9,959	10,558
Non-Interest Expenses	13,145	10,993	8,779	8,212	8,133
Earnings Before Income Taxes, Dividends on Preferred Securities Issued by Subsidiaries, and Cumulative Effect of Change in Accounting Principle	3,111	2,628	1,836	1,747	2,425
Income Tax Expense	1,129	980	710	717	1,031
Dividends on Preferred Securities Issued by Subsidiaries	47	-	-	-	-
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 1,935	\$ 1,648	\$ 1,126	\$ 1,030	\$ 1,394

-					
Net Earnings	\$ 1,935	\$ 1,648	\$ 1,126	\$ 1,030	\$ 1,359
-					
Net Earnings Applicable to Common Stockholders	\$ 1,896	\$ 1,602	\$ 1,078	\$ 1,017	\$ 1,354
-					
-----					
FINANCIAL POSITION					
Total Assets	\$296,980	\$217,266	\$179,452	\$165,920	\$152,910
Short-Term Borrowings (b)	\$124,219	\$103,469	\$ 86,969	\$ 78,735	\$ 79,632
Long-Term Borrowings	\$ 43,143	\$ 26,206	\$ 17,389	\$ 14,911	\$ 13,469
Preferred Securities Issued by Subsidiaries	\$ 627	\$ 327	\$ 51	\$ 51	\$ 51
Total Stockholders' Equity	\$ 8,539	\$ 7,067	\$ 6,288	\$ 5,951	\$ 5,486
-					
-----					
COMMON SHARE DATA (c)					
(In Thousands, Except Per Share Amounts)					
Basic:					
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 5.57	\$ 4.63	\$ 2.98	\$ 2.55	\$ 3.31
-					
Net Earnings	\$ 5.57	\$ 4.63	\$ 2.98	\$ 2.55	\$ 3.23
-					
Diluted:					
Earnings Before Cumulative Effect of Change in Accounting Principle	\$ 4.79	\$ 4.08	\$ 2.68	\$ 2.37	\$ 3.06
-					
Net Earnings	\$ 4.79	\$ 4.08	\$ 2.68	\$ 2.37	\$ 2.98
-					
Weighted-Average Shares Outstanding:					
Basic	340,096	346,043	361,193	399,209	418,553
Diluted	395,855	392,990	402,852	430,092	453,585
Shares Outstanding at Year-End (d)	343,977	336,483	350,885	370,921	407,979
Shares Repurchased	13,741	37,158	40,024	59,977	32,691
Average Share Repurchase Price	\$ 48.91	\$ 31.30	\$ 23.48	\$ 18.98	\$ 21.28
Book Value	\$ 23.63	\$ 19.24	\$ 16.25	\$ 14.48	\$ 13.09
Dividends Paid	\$ 0.75	\$ 0.58	\$ 0.505	\$ 0.445	\$ 0.35
-					
-----					
FINANCIAL RATIOS					
Pretax Margin (e)	19.1%	19.3%	17.3%	17.5%	
23.0%					
Profit Margin (f)	11.9%	12.1%	10.6%	10.3%	
13.2%					
Common Dividend Payout Ratio	13.4%	12.5%	17.0%	17.6%	10.9%
Return on Average Assets	0.7%	0.7%	0.5%	0.6%	1.0%
Return on Average Common Stockholders' Equity	26.5%	26.6%	19.8%	18.4%	27.3%
Average Leverage (g)	35.3x	33.3x	32.1x	31.3x	27.1x
Average Adjusted Leverage (h)	21.3x	19.8x	19.4x	18.6x	16.4x
-					
-----					
EMPLOYEE STATISTICS					
Full-Time Employees:					
U.S.	45,800	42,100	39,250	38,750	37,500
Non-U.S.	13,900	10,500	9,250	7,550	4,400
-					
Total	59,700	52,600	48,500	46,300	41,900
-					
Financial Consultants and Account Executives Worldwide	16,600	15,600	14,900	14,500	13,200
-					

</TABLE>

- (a) 1993 information has not been restated for the Midland merger. The effect of combining Midland into the information presented would not be material.
- (b) Includes payables under repurchase agreements and securities loaned transactions and commercial paper and other short-term borrowings.
- (c) All share and per share data have been restated for the two-for-one common stock split (see Note 6 to the Consolidated Financial Statements).
- (d) Includes 4,718, 4,134, 3,932, and 3,786 shares exchangeable into common stock, which were issued in connection with the Midland merger at year-end 1997, 1996, 1995 and 1994, respectively. Does not include 3,078, 8,026, 12,854, and 17,864 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1996, 1995, 1994, and 1993, respectively, which are not considered outstanding for accounting purposes.

- (e) Earnings Before Income Taxes, Dividends on Preferred Securities Issued by Subsidiaries, and Cumulative Effect of Change in Accounting Principle to Net Revenues.
- (f) Earnings Before Cumulative Effect of Change in Accounting Principle to Net Revenues.
- (g) Average total assets to average total stockholders' equity and preferred securities issued by subsidiaries.
- (h) Average total assets less average receivables under resale agreements and securities borrowed transactions to average total stockholders' equity and preferred securities issued by subsidiaries.