SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13

OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 27, 2002 Commission file number 1-7182

Merrill Lynch & Co., Inc.

(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code: (212) 449-1000
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $1.33 1/3 and attached Rights to Purchase Series A Junior Preferred Stock.	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Paris Stock Exchange; London Stock Exchange; and Tokyo Stock Exchange
Depositary Shares representing 1/400th share of 9% Cumulative Preferred Stock, Series A; S&P 500® Market Indexed Target-Term Securities® (MITTS® Securities) due September 28, 2005; Top Ten Yield MITTS Securities due August 15, 2006; and S&P 500 Inflation Adjusted MITTS Securities due September 24, 2007.	New York Stock Exchange
MITTS Securities based upon the Russell 2000® Index due March 30, 2009; Nikkei 225® MITTS Securities due March 30, 2009; S&P 500 MITTS Securities due June 29, 2009; MITTS Securities based upon the Dow Jones Industrial Average℠ due August 7, 2009; S&P 500 MITTS Securities due September 4, 2009; MITTS Securities Linked to the USD/ EUR Exchange Rate due September 13, 2005; Russell 2000 MITTS Securities due September 30, 2004; Global MITTS Securities due December 22, 2004; S&P 500 MITTS Securities due July 1, 2005; Nikkei 225 MITTS Securities due September 21, 2005; Energy Select Sector SPDR® Fund MITTS Securities due February 21, 2006; EuroFund MITTS Securities due February 28, 2006; S&P 500 MITTS Securities due March 27, 2006; Consumer Staples Select Sector SPDR Fund MITTS Securities due April 19, 2006; Select Sector SPDR Fund Growth Portfolio MITTS Securities due May 25, 2006; Major 11 International MITTS Securities due May 26, 2006; MITTS Securities based upon the Dow Jones Industrial Average due June 26, 2006; Russell 2000 MITTS Securities due July 21, 2006; Nikkei 225 MITTS Securities due August 4, 2006; S&P 500 MITTS Securities due August 4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; MTN, Series B, Stock-Linked Notes due November 28, 2003; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; MTN, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Telebrás Indexed Callable Protected Growth Securities (ProGroS® Securities) due May 19, 2005; 1% Convertible Securities Exchangeable into McDonald's Corporation common stock due May 28, 2009; Market Recovery Notes℠ Linked to the Dow Jones Industrial Average due January 31, 2005; Callable MITTS Securities due October 5, 2007 based upon Semiconductor HOLDRS®; Callable MITTS Securities due September 13, 2007 based upon Broadband HOLDRS; Callable Nasdaq-100® MITTS Securities due August 3, 2007; Callable MITTS Securities due May 4, 2009 Linked to the S&P 500 Index; Callable MITTS Securities due May 4, 2009 Linked to the Amex Biotechnology Index ℠ ; Callable MITTS Securities due June 1, 2009 Linked to the Amex Defense Index ℠; Callable MITTS Securities due August 3, 2007 based upon Biotech HOLDRS; Medium-Term Notes, Series B, 2% Callable and Exchangeable Stock-Linked Notes due July 26, 2005 (Linked to the performance of the common stock of Johnson & Johnson); Medium-Term Notes, Series B, 7% Stock-Linked Notes due July 8, 2002 (Linked to the performance of the common stock of The Gap, Inc.); Nikkei 225 MITTS Securities due March 30, 2007; Callable MITTS Securities due March 5, 2007 based upon Internet HOLDRS; Medium-Term Notes, Series B, 0.50% Callable and Exchangeable Stock-Linked Notes due February 3, 2005 (Linked to the performance of a specified portfolio of common stocks); Global MITTS Securities due December 22, 2004; Medium-Term Notes, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due January 7, 2008 (Linked to the performance of Wells Fargo & Company); Nikkei 225 MITTS Securities due June 27, 2007; Strategic Return Notes® Linked to the Nasdaq-100 Index® due November 30, 2004; Strategic Return Notes Linked to the Industrial 15 Index due February 1, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due February 8, 2007; Strategic Return Notes Linked to the Select Ten Index due March 1, 2007; Strategic Return Notes Linked to the Oil and Natural Gas Index due March 28, 2007;	American Stock Exchange

(continued on next page)

Strategic Return Notes Linked to the Industrial 15 Index due May 3, 2007; Strategic Return Notes Linked to the Select Ten Index due May 3, 2007; Strategic Return Notes Linked to the Select European 50 Index due June 11, 2007; Strategic Return Notes Linked to the Select Ten Index due June 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due August 30, 2007; Strategic Return Notes Linked to the Select Ten Index due October 25, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due November 1, 2007; Strategic Return Notes Linked to the Select Ten Index due May 30, 2006; Strategic Return Notes Linked to the Industrial 15 Index due June 26, 2006; Strategic Return Notes Linked to the Institutional Holdings Index due June 28, 2006; Strategic Return Notes Linked to the Select Ten Index due July 31, 2006; Strategic Return Notes Linked to the Select Ten Index due November 2, 2006; 8% Callable STock Return Income DEbt Securities® due October 23, 2003, payable at maturity with Cisco Systems, Inc. common stock; 9% Callable STock Return Income DEbt Securities due October 23, 2003, payable at maturity with Sun Microsystems, Inc. common stock; 8% Callable STock Return Income DEbt Securities due November 21, 2003, payable at maturity with EMC Corporation common stock; 8% Callable STock Return Income DEbt Securities due January 29, 2004, payable at maturity with Xilinx, Inc. common stock; 6% Callable STock Return Income DEbt Securities due February 11, 2004, payable at maturity with Bed Bath & Beyond Inc. common stock; 8% Callable STock Return Income DEbt Securities due February 23, 2004, payable at maturity with Applied Materials, Inc. common stock; 8% Callable STock Return Income DEbt Securities due March 22, 2004, payable at maturity with The Gap, Inc. common stock; 7% Callable STock Return Income DEbt Securities due March 22, 2004, payable at maturity with Texas Instruments Incorporated common stock; 7% Callable STock Return Income DEbt Securities due March 29, 2004, payable at maturity with Dell Computer Corporation common stock; 6% Callable STock Return Income DEbt Securities due May 7, 2004, payable at maturity with The Boeing Company common stock; 8% Callable STock Return Income DEbt Securities due May 14, 2004, payable at maturity with Adobe Systems Incorporated common stock; 7% Callable STock Return Income DEbt Securities due August 23, 2004, payable at maturity with Starbucks Corporation common stock; 7% Callable STock Return Income DEbt Securities due September 1, 2004, payable at maturity with Citigroup Inc. common stock; 8% Callable STock Return Income DEbt Securities due October 1, 2004, payable at maturity with Hewlett-Packard Company common stock; 8% Callable STock Return Income DEbt Securities due October 29, 2004, payable at maturity with Bank of America Corporation common stock; and 7% Callable STock Return Income DEbt Securities due November 18, 2004, payable at maturity with Amgen, Inc. common stock.

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

S&P 500 MITTS Securities due June 29, 2007; S&P 500 MITTS Securities due November 20, 2007; S&P 500 MITTS Securities due August 29, 2008; MITTS Securities based upon the Dow Jones Industrial Average due September 29, 2008; Enhanced Return Notes Linked to the Nasdaq-100 Index due March 1, 2004; MITTS Securities based upon the Dow Jones Industrial Average due January 16, 2009; 7% Callable STock Return Income DEbt Securities due January 3, 2005, payable at maturity with General Electric Company common stock; 6.5% Callable STock Return Income DEbt Securities due February 1, 2005, payable at maturity with International Business Machines Corporation common stock; 7% Callable STock Return Income DEbt Securities due February 28, 2005, payable at maturity with Cisco Systems, Inc. common stock; Market Recovery Notes Linked to the Nasdaq-100 Index due March 31, 2005; and Strategic Return Notes Linked to the Select Ten Index due February 28, 2008.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes☒ No ☐

As of the close of business on June 28, 2002, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately $34.9 billion.

As of the close of business on February 27, 2003, there were 923,464,781 shares of Common Stock and 3,756,255 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting and other rights equivalent to Common Stock.

Documents Incorporated By Reference: Portions of the Merrill Lynch 2002 Annual Report to Shareholders are incorporated by reference in this Form 10-K in response to Parts I, II, III and IV. Portions of the Merrill Lynch Proxy Statement dated March 14, 2003 for its 2003 Annual Meeting of Shareholders to be held April 28, 2003 are incorporated by reference in this Form 10-K in response to Part III.

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PART I

Item 1. *Business*

Overview

Merrill Lynch & Co., Inc.,[1] a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides broker-dealer, financing, advisory, wealth management, asset management, insurance, lending and related products and services on a global basis. The foregoing products and services include:

- securities brokerage, trading and underwriting
- investment banking, strategic services (including mergers and acquisitions) and other corporate finance advisory activities
- wealth management products and services, including financial, retirement and generational planning
- asset management and investment advisory services
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange products
- securities clearance, settlement financing services and prime brokerage
- equity, debt, foreign exchange and economic research
- private equity and other principal investment activities
- banking, trust and lending services, including deposit taking, commercial and mortgage lending and related services
- insurance and annuities sales and annuity underwriting services
- investment advisory and related record keeping services.

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

Merrill Lynch's business has three business segments: the Global Markets & Investment Banking Group (GMI), Global Private Client (GPC), and Merrill Lynch Investment Managers (MLIM). Merrill Lynch provides financial services worldwide through various subsidiaries and affiliates that frequently participate in the facilitation and consummation of a single transaction. This organizational structure is designed to enhance the delivery of services to Merrill Lynch's diverse global client base and position Merrill Lynch to continue its long-term growth.

Merrill Lynch has organized its operations outside the United States into five regions: Europe, Middle East, and Africa; Japan; Asia Pacific; Canada; and Latin America. Merrill Lynch conducts its business from various locations throughout the world. Its world headquarters is located at the World Financial Center in The City of New York and its other principal United States business and operational centers are located in New Jersey, Utah and Florida. Merrill Lynch has a presence in 35 countries outside the United States, including offices in Buenos Aires, Dubai, Dublin, Frankfurt, Geneva, Hong Kong,

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[1] Unless the context otherwise requires, the term "Merrill Lynch" means Merrill Lynch & Co., Inc. and its consolidated subsidiaries. The term "ML & Co." is used herein where appropriate to refer solely to Merrill Lynch & Co., Inc., the parent holding company.

Johannesburg, London, Madrid, Melbourne, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Tokyo, Toronto and Zurich.

Merrill Lynch employed approximately 50,900[2] people at the end of 2002. Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December 2002, 2001 and 2000, including a description of the principal sources of consolidated net revenues, the amount of total net revenues contributed by classes of similar services that accounted for 10% or more of its consolidated net revenues in any one of these fiscal periods, as well as information with respect to Merrill Lynch's operations by segment and geographic area, is set forth in Merrill Lynch's Management's Discussion and Analysis, Consolidated Financial Statements and the Notes thereto in the Merrill Lynch 2002 Annual Report to Shareholders (2002 Annual Report). Management's Discussion and Analysis, Consolidated Financial Statements and the Notes thereto are included as an exhibit to this Form 10-K.

At the end of 2002, total assets in client accounts or under management were approximately $1.3 trillion.

Available Information

ML & Co.'s internet address is www.ml.com. ML & Co. makes available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and our proxy statements. Investors can find this information under "Financial Reports — SEC Reports" through the investor relations section of our website or directly at www.ir.ml.com. These reports are available through our website as soon as reasonably practicable after ML & Co. electronically files such material with, or furnishes it to, the SEC. Additionally, Merrill Lynch's Guidelines for Business Conduct, Corporate Governance Guidelines and charters for the committees of our Board of Directors are filed as exhibits to this report and are also available at www.ml.com. The information on Merrill Lynch's websites are not incorporated by reference into this report.

Business Environment

The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment and investor sentiment. In addition to these factors, Merrill Lynch and other financial services companies may be affected by regulatory and legislative initiatives which could affect the conduct of their business, including increased regulation, and by the outcome of legal and regulatory proceedings, including those described under *Legal Proceedings* in Part I, Item 3 of this report. These conditions or events can significantly affect the volatility of the financial markets as well as volumes and revenues in businesses such as brokerage, trading, investment banking, wealth management and asset

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[2] Excludes 1,500 full-time employees on salary continuation severance at year-end 2002.

management. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and trading volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers, competition from new and established competitors using the internet or other technology to provide financial services and diminishing margins in many mature products and services. Commercial and investment bank consolidations, which were made possible by the enactment of the Gramm-Leach-Bliley Act, have also increased the competition for investment banking business in part through the extension of credit in conjunction with investment banking and capital raising activities.

The global financial markets had a difficult year in 2002. Equity markets experienced the sharpest declines since the 1970s. The equity markets fell sharply as the combination of a global slowdown in economic activity, political unrest in the Middle East, widespread corporate downsizing, regulatory probes, accounting and corporate governance scandals and seven of the twelve largest ever U.S. bankruptcies caused investors to reduce equity market activity and shift to less volatile, fixed-income investments and money market instruments. Credit rating agencies also took negative rating actions in 2002 with respect to several financial institutions, including Merrill Lynch.

In 2002, the U.S. Congress passed the Sarbanes-Oxley Act of 2002 which is a broad overhaul of existing corporate and securities laws. In addition, various Federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange) and industry participants reviewed and in many cases adopted sweeping changes to their established rules, including rules in the areas of corporate governance, research analyst conflicts of interest and auditor independence. Changes pertaining to the role of research analysts in connection with providing financial services may also affect how financial services companies interact with their clients and the cost structure for such services. Outside of the United States, there is continued focus by regulators and legislators on regulatory supervision of both banks and investment firms on a consolidated and individual basis, especially in the area of risk management.

Certain statements contained in this report may constitute forward-looking statements, including, for example, statements about management expectations, strategic objectives, business prospects, anticipated expense savings and financial results, anticipated results of litigation and regulatory proceedings, and other similar matters. These forward-looking statements are not statements of historical fact and represent only Merrill Lynch's beliefs regarding future events, which are inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, that affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, the factors listed in the previous four paragraphs, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending and future legislation and regulation and the other risks and uncertainties detailed in Management's Discussion and Analysis in the 2002 Annual Report and throughout this Item 1. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures Merrill

Lynch may make in its future filings of its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K.

Description of Business Activities

Merrill Lynch's business activities are grouped into three business segments: GMI, GPC and MLIM and are conducted through numerous U.S. and non-U.S. subsidiaries. See Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements in the 2002 Annual Report for further information about Merrill Lynch's business segments, business activities, services, and the geographic markets within which Merrill Lynch operates. Businesses within a particular segment can provide services and products to clients of a different business segment. For example, certain MLIM and GMI products are distributed through GPC distribution channels, and, to a lesser extent, certain MLIM products are distributed through GMI.

GLOBAL MARKETS & INVESTMENT BANKING (GMI)

GMI provides equity and debt trading, capital markets services, investment banking and strategic merger and acquisition advisory services to its clients around the world. These activities are conducted through a network of subsidiaries, including Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), Merrill Lynch International (MLI) and a number of other subsidiaries located in and outside the United States. GMI raises capital for its clients through securities underwritings, private placements and loan syndications. It also makes a market in securities, derivatives, currencies and other financial instruments to satisfy client demand for these instruments, and for proprietary trading. Merrill Lynch, through the GMI segment, has one of the largest equity trading and underwriting operations of any firm in the world and is a leader in the origination and distribution of equity products. It is also a leader in the global origination and distribution of debt market products and provides clients with financing, securities clearing, settlement and custody services. During 2002, GMI continued to focus on reducing expenses, creating efficiencies and strategically reallocating resources to businesses such as debt trading, which posted record revenues and profits for the year. While maintaining expense discipline, GMI invested in profitable growth opportunities where it believed it could leverage its scale and complement its business mix and client reach. These growth opportunities included derivatives, mortgages, foreign exchange and prime brokerage.

GMI's operations in the United States are conducted primarily from Merrill Lynch's headquarters in The City of New York and from other office locations throughout the United States. Merrill Lynch's GMI activities outside the United States are primarily conducted through MLI, with a significant presence in London, and through locally established affiliates strategically located in 26 countries.

According to league table results based on *Thomson Financial Securities Data* statistics, in 2002 Merrill Lynch ranked third in both global debt underwriting and global equity and equity-linked underwriting with market shares of 7.9% and 11.0%, respectively. Merrill Lynch's debt underwriting focus has shifted toward higher margin businesses and away from the achievement of aggregate market share goals; however, debt transactions remain highly competitive and not all transactions are profitable. Merrill Lynch ranked third in global completed mergers and acquisitions in 2002 with a market share of 24.5%. Deteriorating market conditions continued to have a negative impact on global merger and acquisition activity and on client demand for strategic advisory services. Additional market share information is disclosed in Management's Discussion and Analysis on page 20 of the 2002 Annual Report.

Investment Banking Activities:

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

In connection with its investment banking activities, including the underwriting and private placement of securities, Merrill Lynch has from time to time taken principal positions in transactions and has extended credit to clients in the form of senior and subordinated debt, provided bridge financing on a select basis, participated in syndicated loans and in credit lines for commercial paper programs for certain corporate issuers. Before engaging in any of these financing activities, an analysis is performed to ascertain the underlying creditworthiness of the particular client and the liquidity of the market for securities that may be issued in connection with any such financings and to determine the likelihood of refinancing within a reasonable period. In addition, equity interests in the subject companies are from time to time acquired as part of, or in connection with, such activities.

Brokerage, Dealer and Related Activities:

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

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

At the beginning of 2002, two of Merrill Lynch's U.S. broker-dealers, MLPF&S and Herzog, Heine, Geduld, LLC (HHG), together made markets in substantially all Nasdaq and over-the-counter equity securities. In March of 2002, Merrill Lynch announced a strategy of consolidating trading activities in the 750 most active Nasdaq stocks on its New York trading floor. The firm also consolidated its trading activities in the remaining domestic Nasdaq and over-the-counter securities on its New Jersey trading floor. In November of 2002, Merrill Lynch announced the consolidation of all Nasdaq and over-the-counter trading into MLPF&S. Shortly thereafter, the operations of HHG and MLPF&S were combined and at year-end 2002, Merrill Lynch made markets in approximately 2,100 domestic Nasdaq securities and approximately 7,400 non-U.S. issuers. Outside the United States, MLI is a registered market maker in the equity securities of approximately 845 non-U.S. corporations. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed and corporate and governmental fixed-income securities.

Historically, the Nasdaq market has been primarily a dealer market. Market makers in dealer markets can realize profits by earning a "spread," which is the difference between the prices at which dealers buy and sell securities. The introduction of decimalization in the pricing of equity securities and various other factors in 2001 decreased the ability of market makers to earn these spreads. In late 2001, MLPF&S instituted a program for providing enhanced brokerage services to certain customers with large-size Nasdaq orders in exchange for an agreed-upon per share commission in lieu of the traditional spread. The vast majority of these institutional clients now avail themselves of enhanced brokerage services and nearly all Nasdaq institutional client trades are now executed on an agency, rather than principal, basis.

Merrill Lynch Government Securities Inc. (MLGSI) is a primary dealer in obligations issued or guaranteed by the U.S. Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, such as Government National Mortgage Association, Fannie Mae and Freddie Mac, among others. MLGSI deals in mortgage-backed pass-through certificates issued by certain of these entities and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers' transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York (FRBNY) in the conduct of open market operations and regularly reports positions and activities to the FRBNY.

An integral part of MLGSI's business involves entering into repurchase agreements and securities lending transactions. These transactions aid in financing MLGSI's inventory and provide short-term investment vehicles for customers, including Merrill Lynch affiliates. As part of MLGSI's business as a dealer in governmental obligations, MLGSI also enters into reverse repurchase transactions whereby MLGSI buys securities from counterparties and simultaneously agrees to sell them back at a future date. Such agreements provide MLGSI with access to desired securities and provide customers with temporary liquidity for their investments in U.S. Government and agency securities.

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

Derivative Dealing and Foreign Exchange Activities:

Merrill Lynch, through MLPF&S, MLI, Merrill Lynch Capital Services, Inc. (MLCS) and Merrill Lynch Derivative Products AG (MLDP), acts as an intermediary and principal in a variety of interest rate, currency and other over-the-counter derivative transactions. MLI engages in equity and credit derivatives business in the over-the-counter markets. MLCS and MLDP are Merrill Lynch's primary interest rate and currency derivative product dealers. MLI is Merrill Lynch's primary credit and equity derivatives product dealer.

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

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

Merrill Lynch Capital Markets Bank Limited (MLCMBL), an Irish bank with branch offices in Frankfurt and Milan, acts primarily as a credit intermediary (with market risk hedged through various affiliates) for swap, options and other derivative transactions, and secondarily, as principal for a variety of debt derivative transactions. In addition to its derivatives activities, MLCMBL engages in advisory, lending and institutional sales activities and, for both Merrill Lynch affiliates as well as non-Merrill Lynch entities, provides clearing services for futures and options on the Eurex exchange through its Frankfurt branch.

GMI's Global Foreign Exchange Group provides foreign exchange trading services to corporations, other institutional investors and high-net-worth individuals in various countries principally through Merrill Lynch International Bank Limited (MLIB). MLIB has its head offices in London and affiliated agents in New York and Tokyo.

Mortgage Dealing Activities:

Merrill Lynch Mortgage Capital Inc. (MLMCI) is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing and syndicated commercial loans. MLMCI, through its CMO Passport® service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations, mortgage pass-through certificates and asset-backed securities. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI's inventory and serve as short-term investments for MLMCI's customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing them with temporary liquidity. Merrill Lynch Mortgage Lending, Inc. (MLML) is a commercial mortgage conduit that makes, and purchases from lenders, both commercial and multi-family mortgage loans and then securitizes these loans for sale to investors. MLML purchases subprime residential mortgage loans from originators of these loans and aggregates these loans for sale in the securitization market.

Principal Investing and Structured Finance Activities:

Merrill Lynch, through various subsidiaries, provides to its qualified institutional clients term, mezzanine and bridge financing which may be secured by performing, sub-performing and non-performing commercial real estate, portfolios of residential real estate, consumer receivables or other assets. Merrill Lynch also makes proprietary investments in all levels of the capital structure of U.S. and non-U.S. companies, and in special purpose companies owning performing, sub-performing and non-performing real estate, mortgages, consumer receivables and other assets.

Money Markets and Related Activities:

Merrill Lynch, through various subsidiaries including Merrill Lynch Money Markets Inc. (MLMMI) and MLPF&S, provides a full range of origination, trading and marketing services with respect to money market instruments, such as commercial paper, and institutional and retail certificates of deposit, and with respect to medium-term notes, bank notes and auction rate preferred securities.

Futures Business Activities:

Merrill Lynch's futures business activity is conducted through MLPF&S and other subsidiaries. MLPF&S holds memberships and/or has third party clearing relationships with respect to all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States. Other Merrill Lynch subsidiaries also hold memberships on major commodity and financial futures exchanges and clearing associations outside the United States and may also carry positions in proprietary and customer accounts. All futures and futures options transactions are executed by, cleared through and/or carried by MLPF&S or other Merrill Lynch subsidiaries engaged in futures activities. However, in certain contracts, or on certain exchanges, third party brokers are utilized to execute and clear trades. MLPF&S and several of its affiliates may also take proprietary market positions in futures and futures options in certain instances.

Securities Finance, Settlement and Clearance:

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

Merrill Lynch provides securities clearing services for its own account and for the account of its customers, third party broker-dealers and other professional trading entities, through its subsidiaries including MLPF&S and Merrill Lynch Professional Clearing Corp. (MLPCC). Broadcort Capital Corp., a subsidiary through which securities clearing services were previously provided, was merged into MLPF&S in June 2002. MLPF&S provides these services to approximately 100 unaffiliated broker-dealers. While the introducing broker-dealer firm retains all sales functions with its customers, MLPF&S services the customers' accounts and handles all settlement and credit aspects of transactions. MLPCC clears transactions for specialists and market makers on various national and regional stock exchanges and clears futures transactions for clients through a divisional clearing arrangement with MLPF&S. In addition, MLPCC clears transactions of arbitrageurs, customers and other professional trading entities. MLPCC also clears transactions for broker-dealers engaged in proprietary trading, for introducing brokers whose accounts are carried on a fully disclosed basis and for selected institutional accounts as direct accounts of MLPCC that transact business primarily on a prime brokerage basis. During 2002, GMI's Securities Services Division, which historically has provided securities finance, settlement and clearing services, was merged into GMI's Equity Division.

In December 2002, Merrill Lynch launched MLPrime^{SM}, a global technology platform set up to service all of the needs of Merrill Lynch's hedge fund clients through a single relationship with GMI's prime brokerage group. Services offered to eligible clients include financing alternatives, risk management, portfolio accounting, profit and loss analytics, global securities lending and capital introduction.

Private Equity Investing Activities:

Merrill Lynch makes investments for its own account in private companies and also engages in taking public companies private. Merrill Lynch sponsors and manages private equity funds that invest principally in equity and debt securities of various private companies. In Merrill Lynch-sponsored funds, a Merrill Lynch entity serves as the general partner or manager of the funds and may also invest its own capital or monies as a limited partner. The other limited partners of the Merrill Lynch-sponsored funds are corporate and institutional investors as well as Merrill Lynch's high-net-worth client base and its eligible employees. Private equity investments are also offered to clients in the MLIM and GPC business segments. Merrill Lynch also invests as a limited partner in third party funds.

Merrill Lynch may underwrite, trade, invest and make markets in certain securities of companies in which Merrill Lynch or Merrill Lynch-sponsored funds have invested, and may also provide financial advisory services to these companies or maintain a commercial relationship with them. The Merrill Lynch employees who invest and manage the investment assets of Merrill Lynch or Merrill Lynch-sponsored funds may participate in the gains on those investment assets.

GLOBAL PRIVATE CLIENT (GPC)

At the end of 2002, Merrill Lynch created GPC, formerly known as the Private Client Group. While encompassing the same business as the Private Client Group, GPC intends to more fully integrate the U.S. and non-U.S. businesses into a global organization to bring the full resources of GPC together as Merrill Lynch continues to enhance its services to clients. The formation of GPC will also provide more efficient leverage of technology platforms and reduced costs as the management structure is streamlined.

GPC provides wealth management products and services to assist clients in building financial assets and maximizing returns relative to risk tolerance and investment objectives. GPC offers a wide range of products and services, including retail brokerage, asset and liability management, banking, trust and generational planning, consumer and small business loans and insurance products. GPC serves individual investors and middle market corporations and institutions principally through approximately 14,000 Financial Advisors (FAs) in approximately 670 offices around the world as of year-end 2002. In an effort to align asset account structure with each client's specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services and self-directed online accounts.

Brokerage, Dealer and Related Activities:

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

MLPF&S provides financial services to investors in the United States principally through its FAs. MLPF&S offers to its clients Unlimited Advantage®, which is a non-discretionary brokerage service offering transaction and non-transaction services for an annual asset-based fee. Unlimited Advantage clients may receive a wide array of services, including FA advice and guidance, Merrill Lynch research, no per-trade commissions on most transactions, the Cash Management Account®; (CMA® account) financial service, the Merrill Lynch Visa® Signature℠ program and the Merrill Lynch electronic bill payment service.

MLPF&S provides a wide range of client services, including trading in equity and debt, and other securities through its securities account services, such as its CMA® account. In January 2003, Merrill Lynch introduced Beyond Banking®, a new securities account offered by MLPF&S for everyday transactions, savings and short-term cash management. The account, a companion to the CMA account, combines VISA, check writing and ATM access with access to advice and guidance from a FA to assist clients in managing their cash. Beyond Banking also gives clients the ability to separate everyday cash and savings from longer-term investments while having the convenience of a single point of contact. At the end of 2002, there were more than 2.6 million CMA accounts with aggregate assets of approximately $560 billion. MLPF&S also offers various investment advisory products, including Merrill Lynch Mutual Fund Advisor® program, Merrill Lynch Mutual Fund Advisor Selects® program, the Financial Foundation® report and Merrill Lynch Consults® Service, a fee-based investment advisory service that offers clients access to one or more participating investment managers, Merrill Lynch execution services and FA advice and guidance. Through Merrill Lynch OnLine®, clients can access their Merrill Lynch accounts, including account information, real time quotes, Merrill Lynch research and a variety of other investment information. MLPF&S also provides financing to clients, including margin lending and other extensions of credit. See "*Securities Finance, Settlement and Clearance*" in this Item 1.

MLPF&S provides a wide range of securities account and cash management services for small- and medium-sized businesses through its Working Capital Management Account® (WCMA® account) and related services. The WCMA account combines business checking, borrowing (through MLPF&S or its affiliate, Merrill Lynch Business Financial Services Inc.), investment, and electronic funds transfer services into one account for participating business clients. At the end of 2002, there were more than 134,000 WCMA accounts that, in the aggregate, had investment assets of more than $116 billion.

To be more responsive to client needs and enhance the quality of its clients' experience, Merrill Lynch offers a multi-channel service model in the United States, more closely aligning its FAs with clients based on levels of investable assets. For example, ultra-high-net-worth clients will be aligned with Private Wealth Advisors (PWAs). PWAs are FAs who have completed a rigorous accreditation program and who focus on clients with more than $10 million of investable assets.

GPC also structures and sponsors a wide variety of alternative investment products for qualified high-net-worth clients. These products include hedge funds, private equity funds, managed futures and exchange funds that are managed by non-affiliated third party managers. Through its HedgeAccess℠ product, Merrill Lynch offers qualified clients the opportunity to invest in a select, diverse group of single manager hedge funds with consistent terms and exchange privileges. These products are sold to both U.S. and non-U.S. high-net-worth investors. At the end of 2002, GPC acted as sponsor of alternative investment products in which a total of approximately $6.4 billion of client capital was invested.

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

For clients in the U.S. with less than $100,000 of investable assets, Merrill Lynch utilizes its Financial Advisory Center (FAC) to more effectively serve these clients. All FAC customers receive a team-based advisory service relationship, with 24-hour-a-day, seven-day-a-week access by telephone or online.

Merrill Lynch also provides electronic brokerage service through Merrill Lynch Directsup®, an internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct offers online equity and fixed income trading, mutual funds, access to Merrill Lynch research, and a variety of online investing tools.

During the fourth quarter of 2002, Merrill Lynch signed a contract with Thomson Financial, an operating unit of The Thomson Corporation, to jointly develop and implement the Wealth Management Workstation (WMW), a new financial workstation and related client websites. It is anticipated that the new WMW, to be managed by Thomson, will replace the technology infrastructure and desktop hardware of Merrill Lynch's current proprietary Trusted Global Advisor (TGA) workstation system. The new workstation system will provide enhanced desktop technology to FAs, Client Associates, the FAC and call centers. In addition, Merrill Lynch's GPC client websites will be redesigned to enable greater collaboration between FAs and clients.

Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products, including the CMA account, in a number of countries to private clients. During 2002, Merrill Lynch continued to refocus and consolidate certain of its GPC offices outside the United States. See "Significant Strategic Initiatives" in this Item 1. At the end of 2002, there were more than 125,000 international accounts with aggregate assets of approximately $89 billion. These brokerage services, investment services and related products are made available through a network of offices located in 30 countries. In certain countries such as the United Kingdom and Japan, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services as well as asset management services are also offered to private clients in many countries, as described in this Item 1. By the end of 2002, Merrill Lynch extended the U.S. multi-channel service model to clients outside the U.S., more closely aligning FAs with clients based on levels of investable assets. This included focusing wealth management services on high-net-worth clients with a single point of contact, and creating International Financial Advisory Centers to more effectively serve clients with lower levels of investable assets.

In May 2002, Merrill Lynch and HSBC Holdings plc (HSBC) agreed to exit their joint venture, Merrill Lynch HSBC (MLHSBC), and integrate it into the HSBC Group. MLHSBC was a 50/50 joint venture formed by Merrill Lynch and HSBC in April 2000 to create a global online investment and banking services company, serving individual self-directed customers outside the United States. As the decline in worldwide equity markets reduced the demand for online trading, MLHSBC did not achieve the growth that was forecast when the venture was formed and never achieved profitability. Although Merrill Lynch exited the joint venture in 2002, MLHSBC will continue to operate using Merrill Lynch as part of its name through 2004 and clients will have access to Merrill Lynch research during that time.

Retirement Services:

The Merrill Lynch Retirement Group is responsible for approximately $263 billion in retirement assets for approximately 5.6 million individuals. These assets are held either in individual accounts or through one of approximately 21,000 workplace-based retirement programs covered by the group. Through the Merrill Lynch Howard Johnson subsidiary, this business provides specialized custom administrative services to large corporations which in the aggregate represent 674,000 participants.

MLPF&S provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts (IRAs) and through small business retirement programs such as the Merrill Lynch Simplified Employee Pension Plan and the Merrill Lynch Simple Retirement Account Plan. MLPF&S also provides investment, administration, communications and consulting services to corporations and their employees for their retirement programs. These programs include 401(k), pension, profit-sharing and non-qualified deferred compensation plans, as well as other retirement benefit plans. In October 2002, Merrill Lynch announced that in early 2003 it will launch AdviceAccess, an investment advisory service for individuals in retirement plans that provides plan participants with the option of obtaining advice through their local FA, an advisor at the FAC or through Merrill Lynch’s Benefits Online® website.

Insurance Activities:

During 2002, Merrill Lynch’s insurance activities consisted of the underwriting of life insurance and annuity products by Merrill Lynch Life Insurance Company (MLLIC) and ML Life Insurance Company of New York (ML Life) and the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States. In April 2002, Roszel Advisors, LLC was formed as an investment advisor under the Investment Advisors Act of 1940 to be responsible for the overall management of the MLIG Variable Insurance Trust (MLIG VIT), an open-ended investment management company registered with the Securities and Exchange Commission. MLIG VIT offers selected portfolios of variable annuity products underwritten by MLLIC and ML Life. As of February 2003, MLLIC and ML Life discontinued the underwriting of life insurance products although they continue to underwrite annuity products.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, Puerto Rico, the District of Columbia, Guam and the United States Virgin Islands. These products are marketed to MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 2002, MLLIC had approximately $12.7 billion of life insurance in force. At year-end 2002, MLLIC had annuity contracts in force of more than $7.6 billion in value.

ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities and accident and health insurance in nine states; however, it does not presently underwrite accident and health insurance. At year-end 2002, ML Life had approximately $724 million of life insurance in force. At year-end 2002, ML Life had annuity contracts in force of approximately $679 million in value.

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

MERRILL LYNCH INVESTMENT MANAGERS (MLIM)

MLIM is among the world's largest asset managers with $462 billion of assets under management at the end of 2002. The principal subsidiaries engaged in asset management activities conducted through the Merrill Lynch Investment Managers (MLIM) brand name are Merrill Lynch Investment Managers, L.P. (MLIM LP) and Merrill Lynch Investment Managers Limited (MLIM Limited). Current industry standards typically measure investment results for institutional accounts against a benchmark (such as the S&P 500 Index) and investment results for retail mutual funds against competitor results ranked by quartile within investment category as reported by third-party organizations. Approximately 70% of MLIM's global assets under management were above benchmark or median for the 1-, 3- and 5-year periods ending December 2002.

With portfolio managers located in the United States, the United Kingdom, Japan and Australia, MLIM manages a wide variety of investment products. These range from money market funds and other forms of short-term fixed income investments to long-term taxable and tax-exempt fixed income funds or portfolios, along a broad spectrum of quality ratings and maturities. MLIM offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele. MLIM also offers a wide assortment of index-based equity and alternative investment products. MLIM's clients include institutions, high-net-worth individuals, mutual funds and other investment vehicles. MLIM maintains a significant sales and marketing presence in both the United States and overseas that is focused on acquiring and maintaining institutional investment management relationships. MLIM markets its services both directly to these investors and through pension consultants.

In the United States, the MLIM brand of mutual funds (except for its money market funds) is generally offered pursuant to the Merrill Lynch Select Pricing℠ system, which allows investors to choose from various pricing alternatives. MLIM offers all of its brands of mutual funds to clients in the global markets through both the Merrill Lynch distribution network and through unaffiliated financial intermediaries. At the end of 2002, MLIM provided global advisory services for mutual funds, unit investment trusts and other non-U.S. equivalent products totaling approximately $189 billion. MLIM-branded mutual fund products are available through third-party distribution networks and the GPC distribution channel. MLIM also distributes its products through GMI. During 2002, MLIM merged its three separate international mutual fund families into a single mutual fund family, Merrill Lynch International Investment Funds (MLIIF). This merger resulted in the elimination of nine funds separately marketed under the Mercury and MLAM brands. The MLIIF merger also permitted MLIM to rationalize its various fee structures and introduce a wider range of share classes aligned to investor requirements.

MLIM also structures and manages a wide variety of alternative investment products, including hedge funds, hedge fund of funds, private equity fund of funds, managed futures and exchange funds. These products are sold to both U.S. and non-U.S. high-net-worth and institutional investors. At the end of 2002, MLIM acted as sponsor or trading manager of alternative investment products, including its fund of funds product, in which a total of approximately $3.6 billion of client capital was committed and approximately $3.1 billion was invested. During 2002, MLIM transferred approximately $6.3 billion in single-manager alternative investment products to GPC.

MLIM's Quantitative Advisers Group manages assets for institutional investors who seek to track the performance of an index or outperform an index using risk-controlled enhanced indexing and allocation strategies. The Quantitative Advisers Group also manages the Merrill Lynch QA family of hedge funds, which are distributed primarily through direct sales to institutions and other sophisticated investors in the United States and through Merrill Lynch's non-U.S. brokerage businesses to high-net-worth individuals. The Merrill Lynch QA hedge funds collectively held approximately $400 million in assets as of the end of 2002. The Quantitative Advisers Group also manages mutual funds for individual investors that pursue index and asset allocation strategies. At the end of 2002, the Quantitative Advisers Group managed a total of approximately $28 billion.

The following two business activities, Global Banking and Research, are conducted through various business segments:

Global Banking Activities:

In 2002, Merrill Lynch formed the Merrill Lynch Global Bank Group, through which the lending and deposit-taking businesses of the existing Merrill Lynch Bank Group, including Merrill Lynch Bank USA (MLBUSA) and Merrill Lynch Bank & Trust Co. (MLBT and with MLBUSA, the ML U.S. Banks), and Merrill Lynch's international banks, including MLIB, MLCMBL, Merrill Lynch Bank (Suisse) S.A. and Merrill Lynch Bank and Trust Company (Cayman) Limited (MLBT Cayman), were brought under one common management team, improving consistency and efficiency. It is anticipated that the creation of the Global Bank Group will allow Merrill Lynch to leverage the experience gained through the creation and growth of the ML U.S. Banks, create uniformity in its approach to lending and apply stable bank deposit funding for key lending business initiatives across both GPC and GMI. GMI is responsible for managing the investment portfolio of the ML U.S. Banks and earns a spread on these activities. At year-end 2002, MLBUSA (including its subsidiaries, Merrill Lynch Credit Corporation and Merrill Lynch Business Financial Services Inc.) had total outstanding loans and unfunded loan commitments of approximately $42.6 billion.

GMI Lending Activities

Merrill Lynch's lending activities in GMI include providing syndicated and bridge financing to corporate clients and providing standby or "backstop" credit in various forms (including lines of credit, bilateral credit facilities and standby letters of credit) to large institutional clients generally in connection with their commercial paper programs. Merrill Lynch offers its standby or "backstop" credit primarily through its affiliate, MLBUSA. These facilities are utilized typically as "backstop" liquidity to repay outstanding commercial paper as it matures or in the event of an inability to "rollover" its commercial paper. Lending activities outside the United States are conducted primarily through MLCMBL, MLIB and other Merrill Lynch affiliates.

GPC Deposit Taking and Lending Services

MLBUSA and MLBT are state-chartered depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). MLBUSA originates and purchases secured and unsecured loans made to both individuals and business entities. Both banks offer certificates of deposit, transaction accounts and money market deposit accounts (including deposit accounts offered through the Merrill Lynch Banking bank deposit program for the CMA service, the Retirement Asset Savings Program^{SM} for certain Merrill Lynch retirement accounts and a deposit account program offered for Merrill Lynch Direct accounts). They also issue VISA® cards.

The ML U.S. Banks offer tiered deposit rates for certain deposit products based on the scope of the clients' relationships with Merrill Lynch as defined by the value of the deposits and other assets in their accounts. The combined ML U.S. Banks' deposits were approximately $66 billion at year-end 2002. The ML U.S. Banks' deposits are invested primarily in a high credit quality investment securities portfolio, and in addition, are utilized by MLBUSA for its own lending activities and for the lending activities of its subsidiaries, including Merrill Lynch Credit Corporation and Merrill Lynch Business Financial Services Inc.

MLIB, an authorized credit institution under the UK Financial Services and Markets Act 2000, provides collateralized lending, letter of credit and foreign exchange services to, and accepts deposits from, international private clients. It also provides global foreign exchange and lending services to institutional clients. In addition, it has a number of branch offices in which FAs are located who provide services to various GPC affiliated entities or their customers.

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

Trust and Mortgage Activities

Merrill Lynch provides personal trust, employee benefit trust and custodial services to clients in the United States. Trust services in the United States are provided by Merrill Lynch Trust Company, FSB, a federally chartered savings bank. Trust services outside of the United States are provided by MLBT Cayman, Merrill Lynch Trust Services S.A. and Merrill Lynch Corporate (New Zealand) Limited.

Merrill Lynch Credit Corporation (MLCC), a wholly owned subsidiary of MLBUSA, headquartered in Jacksonville, Florida, offers a broad selection of real estate-based lending products enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate, fixed-to-adjustable-rate and fixed-rate mortgages throughout the United States, including LIBOR-based, interest-only loans (PrimeFirst^{SM} mortgage), 100% financing with a securities-based pledge (Mortgage100^{SM}), construction-to-permanent financing, home equity loans (Equity Access®) and lines of credit (Omega^{SM} credit line). These products are delivered primarily through a long-term "private-label" outsourcing arrangement with Cendant Mortgage Corporation (Cendant) in which Cendant performs substantially all of the origination processing functions on behalf of MLCC. Additionally, MLCC acquires a small portion of its loans pursuant to its correspondent lending program. Merrill Lynch employees remain engaged in the sales, marketing and distribution of MLCC mortgages and these financing solutions are offered to Merrill Lynch clients through Merrill Lynch's FAs, the FAC and websites. In 2002, MLCC was a major participant in the residential jumbo mortgage market in the U.S. originating approximately $18 billion in residential mortgage loans and additionally acquiring approximately $2.8 billion of loans through its correspondent lending program. All of MLCC's loans are serviced or sub-serviced by Cendant at its servicing headquarters located in Mt. Laurel, New Jersey.

Business Financial Services

Merrill Lynch, through both GPC and GMI, provides financing services to small-, medium- and large-sized businesses through Merrill Lynch Business Financial Services Inc. (MLBFS), a wholly owned subsidiary of MLBUSA.

MLBFS provides qualifying small- and medium-sized business clients with short-term working capital financing through Working Capital Management Account (WCMA) commercial lines of credit. MLBFS also assists its qualifying business clients with their term lending, equipment and other commercial financing needs, including financing for owner-occupied commercial real estate. In 2002, MLBFS (exclusive of its Merrill Lynch Capital division) originated more than $2.5 billion in new commercial loans and commitments and, at the end of 2002, total outstanding loans and commitments held by MLBFS and its affiliates were more than $7.6 billion, of which approximately 98% were secured by personal property and other assets pledged by clients.

MLBFS provides corporate finance, commercial real estate and equipment financing to qualifying medium- and large-sized business clients through Merrill Lynch Capital, a new business group and a division of MLBFS that was formed in June 2002. Merrill Lynch Capital originated more than $1.8 billion in new loans and commitments in 2002 of which approximately 98% were secured by personal property and other assets pledged by clients.

Research Services:

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

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 19 countries cover approximately 2,500 companies. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch's individual and institutional customers through their FAs and account executives and various electronic sources, including Merrill Lynch's websites.

During 2002, the research function at integrated broker-dealers was the subject of substantial regulatory and media attention. As a result of regulatory mandates and firm initiatives, Merrill Lynch enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming a new Research Recommendations Committee; appointing a Research Compliance Monitor; adopting a new simplified securities rating system; and adding disclosure on research reports regarding potential conflicts of interest.

The compensation system for research analysts was modified in June 2002 and provides that an analyst's pay will be based on an evaluation of how the analyst's insights and recommendations benefit investors. Measures used to evaluate analyst performance include the analyst's industry expertise, the quality of the analyst's research and performance of their recommendations, the quality of client service to individual and institutional investors and to Merrill Lynch sales personnel and the results of surveys and inputs from investor clients. Merrill Lynch's Investment Banking Group does not have input into research analyst compensation.

Additionally, in September 2002, the new rating system for equity securities became effective. The new simplified rating system offers investors three components to consider in assessing stocks: (1) the 0-to-12-month investment recommendation based on clearly defined levels of price appreciation potential; (2) the projected risk as measured by potential price volatility; and (3) the dividend outlook.

Significant Strategic Initiatives

During 2001 and continuing into 2002, Merrill Lynch undertook a variety of actions to position the company for improved profitability and growth, including a detailed review of all businesses with a focus on improving profit margins and aligning capacity with the current business environment and opportunities for future growth. Merrill Lynch continually evaluates its businesses for profitability and performance under varying market conditions and, in light of changes in its competitive environment, for alignment with its long-term strategic objectives.

As a result of this continuing review, Merrill Lynch refocused and consolidated its GPC business in Japan throughout 2002, consolidated its GPC branch offices in Europe, the Middle East and Asia Pacific, sold its GPC business in South Africa in March 2002, sold its Canadian retail investment management operations in January 2002 and eliminated certain overlaps of investment management activities between the U.S. and London offices of MLIM. Also, in January of 2002, Merrill Lynch sold its Securities Pricing Service business (SPS) to FT Interactive Data Corporation (FT) for $48 million. SPS provides information on global financial instruments and provides price evaluations on equity and fixed income securities. SPS clients (including mutual funds, banks and investment advisors) utilize these price evaluations to calculate net asset values and conduct investment research. Simultaneously with the sale of SPS, Merrill Lynch entered into an agreement with FT for the receipt of ongoing pricing services.

In the future, opportunities may exist to realize further efficiencies, although it is anticipated that much of any savings realized going forward will be reinvested into priority growth initiatives and necessary incremental expenses. Priority growth initiatives are currently anticipated to include foreign exchange, derivatives and prime brokerage for GMI, private wealth, retirement and small business banking services for GPC and third party distribution in Europe and the United States and alternative investment products for MLIM. Necessary incremental expenses are currently anticipated to include compliance with the Patriot Act and contingency planning.

Competition

All aspects of Merrill Lynch's business are intensely competitive, particularly underwriting, trading and advisory activities, and have been affected by consolidation within the financial services industry and by the entry of several new and non-traditional competitors, such as commercial banks, insurance companies and online financial services providers.

Merrill Lynch competes for clients, market share and human talent in every aspect of its business.

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

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

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

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

Regulation

Certain aspects of Merrill Lynch's business, as with that of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. governmental agencies or regulatory bodies, securities exchanges and central banks, each of which has been charged with the protection of the financial markets and the interests of those participating in those markets. These regulatory agencies in the United States include, among others, the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the FDIC, the Municipal Securities Rulemaking Board (MSRB), the State of New York Banking Department (NYSBD) and the Office of Thrift Supervision (OTS). Outside the United States, these regulators include the Financial Services Authority (FSA) in the United Kingdom, which in 2001 assumed the regulatory responsibilities of the Securities and Futures Authority, the Personal Investment Authority and the Investment Management Regulatory Organization; the Central Bank of Ireland; the Federal Banking Supervisory Authority in Germany; the Commission Bancaire Comite des Establissements de Credit des Enterprises d'Investissement and the Conseil des Marches

Financiers in France; the Swiss Federal Banking Commission; the Johannesburg Securities Exchange; the Japanese Financial Supervisory Agency; the Monetary Authority of Singapore; the Office of Superintendent of Financial Institutions in Canada; the Canadian Securities Administrators; the Securities Commission in Argentina; the Securities Commission in Brazil; the National Securities and Banking Commission in Mexico; and the Securities and Futures Commission in Hong Kong, among many others.

Additional legislation and regulations and changes in rules promulgated by the SEC or other U.S. Federal and state governmental regulatory authorities and self-regulatory organizations and by non-U.S. government and governmental regulatory agencies may directly affect the manner of operation and profitability of Merrill Lynch. Certain of the operations of Merrill Lynch are subject to compliance with privacy regulations enacted by the U.S. Federal and state governments, the European Union, other jurisdictions and/or enacted by the various self-regulatory organizations or exchanges.

United States Regulatory Oversight and Supervision:

MLPF&S and certain other subsidiaries of ML & Co. are registered as broker-dealers with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, such as securities exchanges (including The New York Stock Exchange, Inc. (NYSE)) and the National Association of Securities Dealers, Inc. (NASD). Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S and the MLIM entities, are registered as investment advisers with the SEC.

The Merrill Lynch entities that are broker-dealers registered with the SEC are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (Exchange Act) which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, these entities are required to maintain the minimum net capital deemed necessary to meet broker-dealers' continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of such broker-dealers to allow withdrawal of such capital by ML & Co. or other Merrill Lynch affiliates. Additional information regarding certain net capital requirements is set forth in Note 18 to the Consolidated Financial Statements on page 83 of the 2002 Annual Report.

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

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

Additionally, broker-dealers and certain other financial institutions are subject to the USA PATRIOT Act of 2001, which amends the Bank Secrecy Act and was designed to detect and deter money laundering and terrorist financing activity. The USA PATRIOT Act requires broker-dealers and other financial institutions to establish anti-money laundering compliance programs which must include policies and procedures to verify client identity at account opening and to detect and report suspicious transactions to the government. Institutions subject to the Act must also implement specialized employee training programs, designate an anti-money laundering compliance officer and submit to independent audits of the effectiveness of the compliance program. Merrill Lynch has established policies, procedures and systems designed to comply with these new regulations. Compliance with the Act may result in additional financial expenses for financial institutions, including Merrill Lynch, and may subject firms to additional liability.

Aspects of Merrill Lynch’s public disclosure, corporate governance principles and the roles of auditors and counsel are subject to the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and certain related regulations and rules proposed and/or adopted by the SEC and the NYSE. Sarbanes-Oxley requirements include requiring our Chief Executive Officer and Chief Financial Officer to certify that Merrill Lynch’s financial information is fairly presented and fully complies with disclosure requirements. Additionally, they must evaluate the effectiveness of disclosure controls and procedures and disclose the results of their evaluation. Additional areas of focus as a result of Sarbanes-Oxley include: disclosures of off-balance sheet arrangements and contractual obligations; management’s assessment of internal controls and procedures for financial reporting; the adoption of a code of ethics for the Chief Executive Officer and senior financial and accounting officers; and disclosure of whether the audit committee of our Board of Directors includes a financial expert. NYSE proposed rules include: requiring the adoption of corporate governance guidelines and a code of business conduct; having the Chief Executive Officer and Chief Financial Officer certify compliance with NYSE corporate governance standards; tightening the criteria for determining director independence and audit committee member independence; requiring that a majority of the directors be independent; and increasing the authority and responsibilities of the audit committee.

In response to regulatory initiatives regarding research practices, Merrill Lynch formed a Research Recommendations Committee in 2002 to promote the objectivity and integrity of the research recommendation process and to ensure that U.S. based equity recommendations are based on a rigorous analytical framework. In September 2002, Merrill Lynch appointed a Compliance Monitor to ensure compliance with the terms of Merrill Lynch’s agreement with the New York State Attorney General and to address issues of actual or perceived conflicts of interest affecting research. Additionally, throughout the year, Merrill Lynch added disclosure on research reports to provide investors with additional information about potential conflicts of interest that might arise from the firm’s investment banking or other business relationships with companies covered in research reports.

The SEC, various banking regulators, the Financial Accounting Standards Board and Congress, among others, have launched a number of initiatives which have the effect of increasing regulation and requiring greater disclosure of financial instruments, including derivatives positions and activities. Merrill Lynch, along with certain other major U.S. securities firms, has implemented a voluntary oversight framework to address issues related to capital, management controls and counterparty relationships arising out of the over-the-counter derivatives activities of unregulated affiliates of SEC-registered broker-dealers and CFTC-registered futures commission merchants. Merrill Lynch formed its Risk Oversight Committee as an extension of its risk management process to provide general oversight of risk management for all of its institutional trading activities and to monitor compliance with its commitments respecting this voluntary oversight initiative. See “Risk Management” on page 32 of Management’s Discussion and Analysis in the 2002 Annual Report.

MLPF&S and MLPCC are registered futures commission merchants and, as such, are regulated by the CFTC and the National Futures Association (NFA). The CFTC and the NFA impose net capital requirements on these companies. In addition, these companies are subject to the rules of the futures exchanges and clearing associations of which they are members.

Each of MLIM Alternative Strategies LLC and Merrill Lynch Investment Managers LLC is registered with the CFTC as a commodity pool operator and a commodity trading advisor and each is a member of the NFA in such capacities.

MLGSI is subject to regulation by the NASD and, as a member of the Chicago Board of Trade, is subject to the rules of that exchange. It is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch’s municipal finance professionals are subject to various trading and underwriting regulations of the MSRB.

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

MLBUSA is regulated primarily by the State of Utah and by the FDIC. MLBFS and MLCC are wholly-owned subsidiaries of MLBUSA, and certain of their activities are regulated and subject to examination by the FDIC and the Utah Department of Financial Institutions. In addition to Utah and the FDIC, MLCC is also licensed or registered to conduct its lending activities in 30 other jurisdictions and MLBFS is licensed or registered in eight jurisdictions, subjecting each to regulation and examination by the appropriate authorities in those jurisdictions. Merrill Lynch Trust Company, FSB, a federal savings bank, is subject to regulation by the OTS and, in addition, is an investment adviser subject to regulation by the SEC.

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

Non-U.S. Regulatory Oversight and Supervision:

Merrill Lynch’s business is also subject to extensive regulation by various non-U.S. governments, securities exchanges, central banks and regulatory bodies, particularly in those countries where it has established an office. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the United States are regulated by various governmental entities in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activities.

Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission and the NYSBD. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking. Banco Merrill Lynch S.A. is also regulated by the Brazilian Central Bank. Additionally, Merrill Lynch Reinsurance Solutions

Ltd. and Merrill Lynch Credit Reinsurance Limited, subsidiaries engaged in insurance, reinsurance and financial products activities, are regulated by the Bermuda Registrar of Companies.

MLI and MLIB are regulated and supervised in the United Kingdom by the FSA and in other jurisdictions, by local regulators. MLCMBL, which engages in the derivatives business, is regulated by the Central Bank of Ireland. MLIB and MLCMBL are also subject to regulation by the NYSBD. Merrill Lynch's activities in Australia are regulated by the Australian Securities and Investment Commission or the Australian Prudential Regulation Authority, and its Hong Kong and Singapore operations are regulated and supervised by the Hong Kong Securities and Futures Commission and The Monetary Authority of Singapore, respectively. Merrill Lynch's Japanese business is subject to the regulation of the Financial Supervisory Agency as well as other Japanese regulatory authorities. Merrill Lynch Phatra Securities is regulated primarily by the Securities and Exchange Commission of Thailand and the Stock Exchange of Thailand.

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

The business of MLIM Limited and other non-U.S. investment advisors is regulated by a number of non-U.S. regulatory agencies or bodies. Their activities in the United Kingdom are regulated by the FSA and, in other jurisdictions, by local regulators.

Merrill Lynch's activities in Mexico, Brazil and Argentina are regulated by their respective securities commissions and exchanges as well as other regulatory authorities.

Item 2. *Properties*

Merrill Lynch has offices in various locations throughout the world. Other than those described below as being owned, substantially all Merrill Lynch offices are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is the location and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities support various Merrill Lynch business segments, other than the property on King William Street in London referred to below which is utilized solely by MLIM. Information regarding Merrill Lynch's property lease commitments is set forth in "Leases" in Note 14 to the Consolidated Financial Statements in the 2002 Annual Report.

Principal Facilities in the United States:

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in The City of New York. Merrill Lynch affiliates lease the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower. As of December 2002, Merrill Lynch occupies the entire North Tower and approximately 20% of the South Tower.

In The City of New York, MLPF&S leases 662,000 square feet in lower Manhattan. The lease for these premises expires in 2007. Merrill Lynch occupies 70% of a 760,000 square foot building at 222 Broadway that is owned by a Merrill Lynch subsidiary; as third party leases expire, Merrill Lynch intends to occupy the entire building. In New Jersey, a Merrill Lynch affiliate owns a 389,000 square foot hotel, conference and training center and a 669,000 square foot office building in Plainsboro. Another Merrill Lynch affiliate owns a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset that was vacated in 2001 and is currently being marketed for sale. MLPF&S holds a 590,000 square foot lease at 101 Hudson Street in Jersey City, which expires in 2007 if certain renewal rights are not exercised. A Merrill Lynch affiliate owns and occupies facilities of 1,251,000 square feet of office space and 273,000 square feet of ancillary buildings in Hopewell, New Jersey. These facilities consolidated existing operations and allow for potential future expansion. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings (a large portion of one is leased to a third party) and a 70-acre campus in Englewood, Colorado with two buildings that were closed in June 2002. The Colorado property and buildings are currently being marketed for sale.

Principal Facilities Outside the United States:

Merrill Lynch occupies various sites in London. In 1998, Merrill Lynch purchased a freehold site in the City of London. Construction of a new 560,000 square foot headquarters complex (known as Merrill Lynch Financial Centre) on this site was completed in 2001 and employees began occupying it in May 2001. Merrill Lynch occupies all of this new headquarters facility which replaced a facility on Ropemaker Place that was returned to the landlord in April 2002. Merrill Lynch holds a lease of 137,000 square feet on 33 King William Street expiring in 2014 and a lease of 74,000 square feet on 33 Chester Street expiring in 2006. In addition, Merrill Lynch occupies leased support facilities of 204,000 square feet at Farringdon Road expiring in 2015. In April 2001, Merrill Lynch entered into a commitment to lease 350,000 square feet in Tokyo to house Merrill Lynch's new headquarters in Japan. This building is under construction and it is expected to be occupied in 2004. It is planned that the new headquarters will replace certain other leased facilities in Tokyo.

Item 3. *Legal Proceedings*

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

IPO Allocation Class Actions:

Between March and December 2001, purported class actions involving the allocation of securities in initial public offerings (IPOs) were brought against over a thousand defendants, including Merrill Lynch, in the United States District Court for the Southern District of New York. On April 19 and 20, 2002, plaintiffs filed amended consolidated securities law complaints against the defendants, including Merrill Lynch. As amended, the consolidated complaints allege that investment firms, including Merrill Lynch, violated securities laws by allegedly requiring or inducing customers who were allocated IPO securities to pay back some of their profits in the form of higher commissions and/or to buy the IPO securities in the aftermarket. The complaints also allege that research issued by the financial services firms, including Merrill Lynch, improperly increased the prices of the IPO securities in the aftermarket. The complaints seek unspecified damages and other relief. Approximately 108 of the more than 300 amended consolidated complaints name Merrill Lynch as one of the defendants, which is based on its involvement as one of the underwriters for the issuers named in each of those complaints. A similar action is pending which alleges violations of the antitrust laws. The underwriter defendants, including Merrill Lynch, filed motions to dismiss. On or about February 19, 2003, the motion to dismiss the consolidated securities law complaints was denied. The motion to dismiss the antitrust action is pending.

Research Class Actions/ Investigations:

Since April 2002, approximately 170 class actions have been filed against various Merrill Lynch-related entities, including ML & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Merrill Lynch Canada Inc., FAM Distributors, Inc., Fund Asset Management, L.P., Merrill Lynch B2B Internet HOLDRS Trust, Merrill Lynch Internet Infrastructure HOLDRS Trust, Merrill Lynch Internet Architecture HOLDRS Trust, Merrill Lynch Internet Strategies Fund Inc., Merrill Lynch Global Technology Fund, Inc. and the Merrill Lynch Focus Twenty Fund Inc., challenging the independence and objectivity of Merrill Lynch's research recommendations and related disclosures. Almost all of the complaints are pending in the United States District Court for the Southern District of New York. The complaints seek unspecified damages and other relief. Many of these class actions make virtually identical allegations, and we expect that they will eventually be consolidated into approximately 30 separate actions. Merrill Lynch expects to file a motion to dismiss these actions.

In December 2002, Merrill Lynch joined with nine other major financial services institutions in a settlement-in-principle with the U.S. Securities and Exchange Commission, the National Association of Securities Dealers and the New York Stock Exchange to resolve matters arising from their research-related inquiries, including inquiries into potential conflicts that may arise from the relationship between research and investment banking within securities firms. This settlement-in-principle calls for Merrill Lynch, among other things, to contribute $100 million for the funding of independent research and investor education over the next five years but does not require Merrill Lynch to pay any fines or make any additional civil payments. Earlier in the year, Merrill Lynch agreed to pay $100 million to settle allegations by the Attorney General of the State of New York challenging the independence of its research. Additional information with respect to this matter is disclosed in Note 3 to the Consolidated Financial Statement on pages 59 to 60 of the 2002 Annual Report.

Enron Actions/ Investigations:

On April 8, 2002, Merrill Lynch and others were added as defendants in two class actions related to the collapse of Enron Corp., which filed for protection under U.S. bankruptcy laws on or about December 2, 2001. The cases are pending in the United States District Court for the Southern District of Texas, and each case names more than seventy defendants. One of the cases is brought on behalf of investors who purchased Enron debt or equity securities on or after October 1, 1998. The other is brought on behalf of 24,000 Enron employees who were participants in the Enron Corp. Savings Plan, the Enron Corp. Employee Stock Ownership Plan or the Cash Balance Plan, or who received "phantom stock" as compensation. Merrill Lynch underwrote securities for Enron, served as private placement agent for an Enron-related partnership known as LJM2, issued research related to Enron and engaged in other transactions involving Enron. Plaintiffs allege that as a result of these and other activities related to Enron, Merrill Lynch engaged in securities fraud and violations of the Racketeer Influenced and Corrupt Organizations Act. Merrill Lynch, along with other defendants, has filed motions to dismiss these actions. On December 20, 2002, the Court denied most of the motions to dismiss, including the motion filed by Merrill Lynch, in the investor action. The motion to dismiss the employee action is pending.

Numerous other actions have been brought against Merrill Lynch and other investment firms in connection with their Enron-related activities, including actions by state pension plans and other state investment entities that purchased Enron securities and actions by other purchasers of Enron securities.

Merrill Lynch, along with other investment banks, has received inquiries and requests for information from Congressional committees, governmental and regulatory agencies and others regarding certain transactions and business relationships with Enron and related entities. We continue to cooperate with these governmental and regulatory agencies and bodies reviewing Enron's activities. On February 20, 2003, Merrill Lynch agreed with the staff of the Securities and Exchange Commission to a settlement-in-principle resolving the Commission's investigation regarding two transactions between Merrill Lynch and Enron in 1999. Without admitting or denying any wrongdoing, Merrill Lynch would consent to an injunction enjoining it from violations of the anti-fraud provisions of the federal securities laws. This settlement would conclude the SEC's investigation into Enron-related matters with respect to Merrill Lynch. Under the settlement, Merrill Lynch would pay a total of $80 million in disgorgement, penalties and interest. Merrill Lynch recorded this payment in its fourth quarter 2002 financial results, as it represented a subsequent event according to accounting principles. The agreement is subject to the drafting of settlement papers and Commission authorization.

IPO Underwriting Spread Litigation:

Merrill Lynch is one of approximately two dozen defendants that have been named in purported class actions alleging that underwriters conspired to fix the "fee" paid to purchase initial public offering securities at 7% in violation of antitrust laws. These actions are pending in the United States District Court for the Southern District of New York. On February 9, 2001, the district court dismissed the action brought by the investor plaintiffs, but not the action brought by issuer plaintiffs. On December 13, 2002, the Second Circuit reversed the dismissal of the action brought by the investor plaintiffs and remanded for further proceedings. Merrill Lynch plans to file a new motion to dismiss the action. An earlier investigation by the Department of Justice into related practices was closed without action.

Global Crossing Class Action:

On or about January 28, 2003, Merrill Lynch was named as one of several dozen defendants in a purported class action captioned *In re Global Crossing, Ltd. Securities Litigation*, which is pending in federal court in the Southern District of New York. The complaint alleges that the defendants, including Merrill Lynch, violated the federal securities laws in connection with the purchase and sale of securities of Global Crossing between February 1, 1999 and January 28, 2002. Global Crossing is in bankruptcy. Merrill Lynch intends to file a motion to dismiss or an answer denying the allegations in the complaint.

Allegheny Energy Litigation:

On September 24, 2002, Merrill Lynch filed an action in federal court in the Southern District of New York against Allegheny Energy, Inc. (Allegheny). The complaint alleges that Allegheny owes Merrill Lynch the final $115 million payment in connection with Allegheny's purchase of Merrill Lynch's energy trading business and assets in 2001. The following day, Allegheny filed an action against Merrill Lynch in the Supreme Court of the State of New York. Based on alleged misrepresentations by Merrill Lynch, the complaint seeks rescission of Allegheny's purchase of the energy business and assets from Merrill Lynch, damages alleged to be in excess of $605 million and other relief.

Unilever Case:

In December 2001, Merrill Lynch settled an action brought by the Unilever Superannuation Trustees Limited as corporate trustee of the Unilever Fund in the Commercial Division of the High Court in London, England. The plaintiff alleged that Mercury Asset Management Ltd. (Mercury), which Merrill Lynch acquired in December 1997, had invested assets of the fund negligently between January 1997 and March 1998. The matter was settled without any finding or admission of liability. On August 6, 2002, Merrill Lynch reached an out-of-court settlement with J Sainsbury PLC, which claimed that Mercury had invested assets of its pension fund improperly. Merrill Lynch is in discussions with a small number of other former Mercury clients related to potential claims that they may assert, principally related to 1997 investments.

Shareholder Derivative Actions:

In the shareholder derivative actions discussed below, ML & Co. is named as a nominal defendant because the action purports to be brought on behalf of ML & Co. Any recovery obtained by plaintiffs would be for the benefit of ML & Co.

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

Spear v. Conway, et al., a derivative action instituted on or about August 1, 2002, in the Supreme Court of the State of New York, County of Kings, alleges breach of fiduciary duty by ML & Co. directors in connection with, among other things, allegedly failing to establish internal controls sufficient to ensure that the company's business activities were carried out in a lawful manner. The complaint alleges the breach in connection with Merrill Lynch's research practices, as well as in connection with its Enron-related business activities. Damages in an unspecified amount are sought. Merrill Lynch has filed a motion to dismiss the action, which is pending.

Fink v. Komansky, et al., a derivative action instituted on or about January 17, 2003 in the United States District Court for the Southern District of New York, alleges breach of fiduciary duty by ML & Co. directors in connection with Merrill Lynch's involvement with Enron. Damages in an unspecified amount are sought. Merrill Lynch intends to file a motion to dismiss the action.

Other:

Merrill Lynch also has been named as a defendant in various other legal actions, including arbitrations, class actions and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices that began in 2000 has resulted in increased legal actions against many firms, including Merrill Lynch and will likely result in higher professional fees and litigation expenses than those incurred in the past.

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

Some of these legal actions, investigations and proceedings may result in adverse judgments, penalties, injunctions or fines. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, any of the actions described above that have not already been dismissed or settled. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch often cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch believes, based on information available to us as of the date of this report, that the resolution of the above actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may have an impact on ML & Co.'s credit ratings.

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

There were no matters submitted to a vote of security holders during the 2002 fourth quarter.

EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

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

David H. Komansky (63)

Chairman of the Board since April 1997, retiring immediately following the 2003 Annual Meeting of Shareholders on April 28, 2003; Chief Executive Officer from December 1996 to December 2002; President and Chief Operating Officer from January 1995 to April 1997.

E. Stanley O'Neal (51)

Chairman of the Board-elect since July 2002; Chief Executive Officer since December 2002; President and Chief Operating Officer since July 2001; Executive Vice President from April 1997 to July 2001; President of U.S. Private Client Group (recently integrated with the International Private Client Group to form Global Private Client) from February 2000 to July 2001; Chief Financial Officer from March 1998 to February 2000; Co-Head of Global Markets and Investment Banking from April 1997 to March 1998; Managing Director and Head of Global Capital Markets Group from April 1995 to April 1997.

Rosemary T. Berkery (49)

Executive Vice President since October 2001; General Counsel since September 2001; Senior Vice President and Head of U.S. Private Client Group Marketing and Investments from June 2000 until September 2001; Co-Director of Global Securities Research and Economics Group from April 1997 to June 2000; Senior Vice President and Associate General Counsel from 1995 to April 1997.

Robert C. Doll (48)

Senior Vice President since April 2002; Chief Investment Officer and President of Merrill Lynch Investment Managers (MLIM) since September 2001; Co-Head MLIM Americas from November 1999 to September 2001; Chief Investment Officer for Equities for MLIM Americas from June 1999 to November 1999; prior to joining Merrill Lynch, Chief Investment Officer of Oppenheimer Funds, Inc. from 1998 to June 1999.

Ahmass L. Fakahany (44)

Executive Vice President since December 2002; Chief Financial Officer since November 2002; Chief Operating Officer for Global Markets and Investment Banking from October 2001 to November 2002; Senior Vice President and Finance Director from December 1998 to October 2001.

James P. Gorman (44)

Executive Vice President since July 1999; President of Global Private Client since September 2001; Head of U.S. Private Client Relationship Group from May 2000 to September 2001; Chief Marketing Officer from July 1999 to May 2000; Joined Merrill Lynch in July 1999. Prior to joining Merrill Lynch, Senior Partner, Financial Institutions Practice of McKinsey & Company, Inc. from 1997 to July 1999 and Partner, Financial Institutions Practice of McKinsey & Company, Inc. from 1992 to 1997.

Thomas H. Patrick (59)

Executive Vice Chairman, Finance and Administration since November 2002; Executive Vice President from July 1989 to November 2002; Chief Financial Officer from February 2000 to November 2002; Chairman of Special Advisory Services from March 1993 to February 2000.

Arshad R. Zakaria (41)

Executive Vice President since October 2001; President of Global Markets and Investment Banking since February 2003; Co-President of Global Markets and Investment Banking from October 2001 to February 2003; Senior Vice President and Head of Corporate Risk Management from May 2000 to October 2001; Managing Director and Head of Corporate Finance Group from March 1999 to May 2000; Managing Director and Chief Operating Officer of Corporate Finance Group from May 1996 to March 1999.

PART II

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

The principal market on which our common stock is traded is the New York Stock Exchange. Our common stock is also listed on the Chicago Stock Exchange, Pacific Exchange, Paris Stock Exchange, London Stock Exchange and Tokyo Stock Exchange. Information relating to the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of common stock, and the frequency and amount of any cash dividends declared for the two most recent fiscal years, is set forth under the captions "Dividends Per Common Share" and "Stockholder Information" on page 85 of the 2002 Annual Report and such information is incorporated herein by reference.

Item 6. *Selected Financial Data*

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table "Selected Financial Data" on page 12 of the 2002 Annual Report (excluding for this purpose the financial ratio, leverage and employee information set forth under the headings "Financial Ratios" and "Other Statistics"). Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 42 to 84 of the 2002 Annual Report.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 13 to 40 of the 2002 Annual Report under the caption "Management's Discussion and Analysis" and is incorporated herein by reference. All of such information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 42 to 84 of the 2002 Annual Report.

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

Quantitative and qualitative disclosure about market risk is set forth on pages 33 to 34 of the 2002 Annual Report under the caption "Management's Discussion and Analysis" and in Note 7 to the Consolidated Financial Statements, and is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

The Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Auditors thereon, are contained in the 2002 Annual Report on pages 42 to 84, and are incorporated herein by reference. In addition, the information on page 85 of the 2002 Annual Report under the caption "Quarterly Information" is incorporated herein by reference.

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

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

PART III

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

Information relating to Directors of the Registrant is set forth under the caption “Election of Directors” on pages 6 to 9 of ML & Co.’s Proxy Statement dated March 14, 2003 for its 2003 Annual Meeting of Shareholders to be held on April 28, 2003 (2003 Proxy Statement) and is incorporated herein by reference. Information relating to ML & Co.’s executive officers is set forth at the end of Part I of this Form 10-K on pages 28 and 29 under the caption “Executive Officers of Merrill Lynch & Co., Inc.” Also incorporated herein by reference is the information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” on page 45 of the 2003 Proxy Statement.

Item 11. ***Executive Compensation***

Information relating to ML & Co. executive officer and director compensation set forth on pages 25, 26 and 32 to 41 of the 2003 Proxy Statement is incorporated herein by reference.

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

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on page 31 of the 2003 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on page 30 of the 2003 Proxy Statement is incorporated herein by reference. Information concerning compensation plans under which ML & Co. equity securities are authorized for issuance is as follows:

The table below outlines the shares that are available under the Company’s stock compensation plans and, in the case of plans where stock options may be granted, the number of shares of common stock issuable upon exercise of those stock options.

Merrill Lynch has three shareholder approved plans — the Long-Term Incentive Compensation Plan for executive officers (for stock grants made to executive officers) (LTICP-Executive), the Equity Capital Accumulation Plan (for restricted share grants made to a broad group of employees) (ECAP) and the Merrill Lynch & Co., Inc. 1986 Employee Stock Purchase Plan (Employee Stock Purchase Plan).

Merrill Lynch has adopted stock compensation plans that are used to compensate non-executive employees — the Financial Advisor Capital Accumulation Award Plan (stock based compensation to the financial advisor population) (FACAAP) and the Long-Term Incentive Compensation Plan for Managers and Producers (for stock grants made to key managers and producers) (LTICP-M&P). Merrill Lynch is seeking approval at its 2003 Annual Meeting of Shareholders of the Merrill Lynch & Co., Inc. Employee Stock Compensation Plan, which will be the successor to LTICP-M&P, a broad-based stock compensation plan approved by the Board of Directors in 1996. Information about the proposed plan is included on pages 10 through 17 of the 2003 Proxy Statement.

Merrill Lynch has also adopted the Merrill Lynch & Co., Inc. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors (Non-Employee Director Plan) which provides for the issuance of deferred stock units and non-qualified stock options to the Merrill Lynch non-employee directors as compensation for their director services.

The information presented in the table is as of February 28, 2003.

Equity Compensation Plan Category	(A) Securities issuable on exercise of outstanding options, warrants and rights(2)	(B) Weighted average exercise price of outstanding options, warrants and rights	(C) Securities that remain available for issuance under Plans (excluding securities reflected in column (A))
Plans approved by shareholders	**41,505,132**	**$ 24.142**	**73,623,526**
Plans not approved by shareholders(1)	**193,736,201**	**$ 46.235**	**65,872,720**
Total	**235,241,333**	**$ 42.336**	**139,496,246(3)**

(1) These plans are (i) FACAAP, (ii) LTICP-M&P and (iii) the Non-Employee Director Plan. The material features of these plans are described in Note 16 to the Consolidated Financial Statements included in the 2002 Annual Report and are incorporated herein by reference. Those descriptions do not purport to be complete and are qualified in their entirety by reference to the plan documents that are exhibits to this Form 10-K.

(2) Merrill Lynch has also made the following grants under its stock compensation plans that remain outstanding as of February 28, 2003: 47,306,106 units (payable in stock) under FACAAP that vest over an 8-10 year period and 43,495,941 Restricted Shares and Restricted Units granted under LTICP- Executive and LTICP-M&P.

(3) This amount includes: 36,193,014 shares available under LTICP-Executive; 44,595,539 shares available under LTICP-M&P; 10,851,604 shares available under ECAP; 26,578,908 shares available under the Employee Stock Purchase Plan; 20,628,614 shares available for issuance under FACAAP; and 648,567 shares available for issuance under the Non-Employee Director Plan.

Item 13. *Certain Relationships and Related Transactions*

Information regarding certain relationships and related transactions set forth under the caption "Certain Transactions" on page 42 of the 2003 Proxy Statement is incorporated herein by reference.

Item 14. *Controls and Procedures*

In 2002, ML & Co. formed a Disclosure Committee to assist with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.'s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.'s disclosure controls and procedures as of a date within ninety days prior to the filing date of this Form 10-K. Based on this evaluation, ML & Co.'s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.'s disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) **Documents filed as part of this Report:**

1. Consolidated Financial Statements

   The consolidated financial statements required to be filed hereunder are listed on page F-1 hereof by reference to the corresponding page number in the 2002 Annual Report.

2. Financial Statement Schedule

   The financial statement schedule required to be filed hereunder is listed on page F-1 hereof and the schedule included herewith appears on pages F-2 through F-8 hereof.

3. Exhibits

   Certain exhibits were previously filed by Merrill Lynch as exhibits to other reports or registration statements and are incorporated herein by reference as indicated parenthetically below. ML & Co.'s Exchange Act file number is 001-07182. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K and Registration Statements on Form S-3 are designated herein as "10-Q," "10-K," "8-K" and "S-3," respectively.

   Articles of Incorporation and By-Laws

   3.1 Restated Certificate of Incorporation of ML & Co., effective as of May 3, 2001 (Exhibit (3)(i) to 10-Q for the quarter ended March 30, 2001 (First Quarter 2001 10-Q)).

   3.2 By-Laws of ML & Co., effective as of December 2, 2002 (Exhibit (3) to 8-K dated December 2, 2002).

Instruments Defining the Rights of Security Holders, Including Indentures
ML & Co. hereby undertakes to furnish to the SEC, upon request, copies of any agreements not filed defining the rights of holders of long-term debt securities of ML & Co., none of which authorize an amount of securities that exceed 10% of the total assets of ML & Co.

4.1	Senior Indenture dated as of April 1, 1983, as amended and restated as of April 1, 1987 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (1983 Senior Indenture) and the Supplemental Indenture thereto dated as of March 15, 1990 (filed as Exhibit 4(i) to 1999 10-K for fiscal year ended December 29, 1999 (1999 10-K)).
4.2	Sixth Supplemental Indenture dated as of October 25, 1993 to the 1983 Senior Indenture (filed as Exhibit 4(ii) to 1999 10-K).
4.3	Twelfth Supplemental Indenture to the 1983 Senior Indenture dated as of September 1, 1998 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (Exhibit 4(a) to 8-K dated October 21, 1998).
4.4	Senior Indenture dated as of October 1, 1993 between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (1993 Senior Indenture)(Exhibit (4)(iv) to 10-K for fiscal year ended December 25, 1998 (1998 10-K)).
4.5	First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (Exhibit 4(a) to 8-K dated July 2, 1998).
4.6	Form of certificate representing Preferred Stock of ML & Co. (Exhibit 4(d) to S-3 (file no. 33-55363)).
4.7	Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (filed as Exhibit (3)(i)(c) to 1999 10-K).
4.8	Deposit Agreement dated as of November 3, 1994 among ML & Co., Citibank, N.A., as Depositary, and the holders from time to time of the Depositary Receipts (filed as Exhibit (3)(i)(e) to 1999 10-K).
4.9	Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and ChaseMellon Shareholder Services, L.L.C. (Exhibit 4 to 8-K dated December 2, 1997).

Material Contracts

10.1†	ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to Second Quarter 1999 10-Q).
10.2†	Written description of retirement programs for non-employee directors (page 20 of ML & Co.'s Proxy Statement for the 2002 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 15, 2002).

10.3†	Form of Severance Agreement between ML & Co. and certain of its directors and executive officers (Exhibit 10(x) to 10-K for fiscal year ended December 29, 1995).
10.4	Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10(viii) to 1998 10-K).
10.5†	Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).
10.6†	Written description of ML & Co.'s compensation policy for executive officers and directors (pages 13 to 15 and page 20 of ML & Co.'s Proxy Statement for the 2002 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 15, 2002).
10.7	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
10.8	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
10.9	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
10.10	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
10.11	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).
10.12	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).
10.13	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-59143)).
10.14†	ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 (1996 10-K)).
10.15†	Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 (1997 10-K)).
10.16†	ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 1997 10-Q for the quarter ended March 28, 1997).
10.17†	Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1999 10-K).

10.18†	ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xix) to 1999 10-K).
10.19†	ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).
10.20†	ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
10.21†	ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997 (Third Quarter 1997 10-Q)).
10.22†	ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 25, 1998 (Third Quarter 1998 10-Q)).
10.23†	ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiv) to 1999 10-K).
10.24†	ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiii) to 2001 10-K for the fiscal year ended December 28, 2001 (2001 10-K).
10.25†	ML & Co. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxv) to 2001 10-K).
10.26†*	ML & Co. 2003 Deferred Compensation Plan for a Select Group of Eligible Employees.
10.27†	ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).
10.28†	Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10 (xxxii) to 1996 10-K).
10.29†	Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996 and 1997 (Exhibit 10.31 to 1997 10-K).
10.30†*	Merrill Lynch Financial Advisor Capital Accumulation Award Plan.
10.31†	ML & Co. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors (Exhibit 10 to 10-Q for the quarter ended March 30, 2001).
10.32†	ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended April 27, 2001 (Exhibit 10(xxx) to 2001 10-K).
10.33†	ML & Co. Long-Term Incentive Compensation Plan for executive officers, as amended April 27, 2001 (Exhibit 10(i) to 10-Q for the quarter ended June 29, 2001 (Second Quarter 2001 10-Q)).

10.34†	Executive Annuity Agreement dated as of January 27, 1997 by and between ML & Co. and David H. Komansky (Exhibit 10(xxxi) to 1996 10-K).
10.35†	Form of Executive Annuity Agreement by and between ML & Co. and certain of its high level senior executive officers (Exhibit 10(xxxii) to 2001 10-K).
12*	Statement re: computation of ratios.
13*	Excerpt of 2002 Annual Report to Shareholders.
21*	Subsidiaries of ML & Co.
23*	Consent of Independent Auditors, Deloitte & Touche LLP.

Additional Exhibits

99.1*	Opinion of Deloitte & Touche LLP with respect to the Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends, which is included in Exhibit 12.
99.2*	Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Part II, Item 6.
99.3*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.4*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.5*	Charter of the Audit Committee of the ML & Co. Board of Directors.
99.6*	Charter of the Finance Committee of the ML & Co. Board of Directors.
99.7*	Charter of the Management Development and Compensation Committee of the ML & Co. Board of Directors.
99.8*	Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors.
99.9*	Charter of the Public Policy and Responsibility Committee of the ML & Co. Board of Directors.
99.10*	ML & Co. Corporate Governance Guidelines.
99.11*	ML & Co. Guidelines for Business Conduct: Merrill Lynch's Code of Ethics for Directors, Officers and Employees.

* Filed herewith
† Management contract or compensatory plan or arrangement

(b) Reports on Form 8-K

The following Current Reports on Form 8-K were filed by the Registrant during the fourth quarter of 2002 with the Commission under the caption "Item 5. Other Events:"

1. Current Report on Form 8-K dated October 1, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s 8% Callable STock Return Income DEbt Securities due October 1, 2004.

2. Current Report on Form 8-K dated October 16, 2002 for the purpose of filing Merrill Lynch & Co.'s Preliminary Unaudited Earnings Summary for the three and nine-month periods ended September 27, 2002.

3. Current Report on Form 8-K dated October 17, 2002 for the purpose of reporting ratings actions taken by Standard & Poor's Rating Services.

4. Current Report on Form 8-K dated October 25, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s Strategic Return Notes Linked to the Select Ten Index due October 25, 2007.

5. Current Report on Form 8-K dated October 29, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s 8% Callable STock Return Income DEbt Securities due October 29, 2004.

6. Current Report on Form 8-K dated November 1, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due November 1, 2007.

7. Current Report on Form 8-K dated November 18, 2002 for the purpose of announcing Thomas H. Patrick as Executive Vice Chairman and Ahmass L. Fakahany as Chief Financial Officer of Merrill Lynch & Co.

8. Current Report on Form 8-K dated November 18, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s 7% Callable STock Return Income DEbt Securities due November 18, 2004.

9. Current Report on Form 8-K dated November 29, 2002 for the purpose of filing the form of Merrill Lynch & Co.'s Market Recovery Notes Linked to the Dow Jones Industrial Average due January 31, 2005.

10. Current Report on Form 8-K dated December 2, 2002 for the purpose of filing the By-Laws of Merrill Lynch & Co., reflecting amendments to Article V, Sections 1, 2, 6-7, 9-12 and 15, effective as of December 2, 2002.

11. Current Report on Form 8-K dated December 24, 2002 for the purpose of announcing Merrill Lynch & Co.'s settlement-in-principle with the U.S. Securities and Exchange Commission, the National Association of Securities Dealers and the New York Stock Exchange to resolve matters arising from their research related inquiries.

MERRILL LYNCH & CO., INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
ITEMS 14(A)(1) AND 14(A)(2)

Page Reference

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 2002 Annual Report to Stockholders, which are incorporated herein by reference.

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

MERRILL LYNCH & CO., INC.
(Parent Company Only)
CONDENSED STATEMENTS OF EARNINGS
(dollars in millions)

	Year Ended Last Friday in December		
	2002	2001	2000
REVENUES			
Interest (principally from affiliates)	$ 1,865	$ 3,397	$ 5,314
Management service fees (from affiliates)	444	448	448
Other	15	14	16
Total Revenues	2,324	3,859	5,778
Interest Expense	1,838	3,694	5,401
Net Revenues	486	165	377
NON-INTEREST EXPENSES			
Compensation and benefits	387	316	435
Restructuring and other charges	57	239	—
September 11 related	(55)	71	—
Other	306	375	605
Total Non-Interest Expenses	695	1,001	1,040
EQUITY IN EARNINGS OF AFFILIATES	2,626	1,095	4,127
EARNINGS BEFORE INCOME TAXES	2,417	259	3,464
Income Tax Benefit	96	314	320
NET EARNINGS	$ 2,513	$ 573	$ 3,784
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(202)	(23)	45
COMPREHENSIVE INCOME	$ 2,311	$ 550	$ 3,829
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 2,475	$ 535	$ 3,745

See Notes to Condensed Financial Statements

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

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

	December 27, 2002	December 28, 2001
ASSETS		
Cash and cash equivalents	$ 939	$ 822
Cash pledged as collateral	375	—
Investment securities	7,569	2,392
Loans to, receivables from and preference securities of affiliates	73,825	80,621
Investments in affiliates, at equity	25,194	22,238
Equipment and facilities (net of accumulated depreciation and amortization of $236 in 2002 and $201 in 2001)	109	120
Other receivables and assets	4,982	3,232
TOTAL ASSETS	$ 112,993	$ 109,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Commercial paper and other short-term borrowings	$ 3,371	$ 1,909
Loans from and payables to affiliates	9,246	10,237
Other liabilities and accrued interest	4,050	4,666
Long-term borrowings	73,451	72,605
Total Liabilities	90,118	89,417
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity	425	425
Common Stockholders' Equity:		
Shares exchangeable into common stock	58	62
Common stock, par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2002 – 983,502,078 shares; 2001 – 962,533,498 shares	1,311	1,283
Paid-in capital	5,315	4,209
Accumulated other comprehensive loss (net of tax)	(570)	(368)
Retained earnings	18,072	16,150
	24,186	21,336
Less: Treasury stock, at cost:		
2002 – 116,211,158 shares; 2001 – 119,059,651 shares	961	977
Unamortized employee stock grants	775	776
Total Common Stockholders' Equity	22,450	19,583
Total Stockholders' Equity	22,875	20,008
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 112,993	$ 109,425

See Notes to Condensed Financial Statements

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

MERRILL LYNCH & CO., INC.
(Parent Company Only)
CONDENSED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended Last Friday in December		
	2002	2001	2000
Cash Flows from Operating Activities:			
Net Earnings	$ 2,513	$ 573	$ 3,784
Noncash items included in earnings:			
Equity in earnings of affiliates	(2,626)	(1,095)	(4,127)
Depreciation and amortization	35	65	53
Amortization of stock-based compensation	58	84	23
Restructuring charge	57	144	-
Other	(189)	(303)	(98)
(Increase) decrease in			
Cash pledged as collateral	(375)	-	-
Operating assets, net of operating liabilities	714	(316)	956
Dividends and partnerships distributions from affiliates	1,014	1,113	1,332
Cash Provided by Operating Activities	1,201	265	1,923
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Loans to affiliates, net of payments	5,943	3,162	5,121
Sales of available-for-sale securities	8,738	7,447	124
Purchases of available-for-sale securities	(13,935)	(2,449)	(6,315)
Investments in affiliates, net of dispositions	(1,448)	(886)	(7,178)
Equipment and facilities	(20)	(104)	(18)
Cash Provided by (Used for) Investing Activities	(722)	7,170	(8,266)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	1,462	(11,069)	(11,079)
Issuance and resale of long-term borrowings	23,754	35,380	25,888
Settlement and repurchase of long-term borrowings	(25,866)	(31,211)	(9,507)
Common stock transactions	879	861	1,182
Dividends to shareholders	(591)	(579)	(515)
Cash (Used for) Provided by Financing Activities	(362)	(6,618)	5,969
Increase (Decrease) in Cash and Cash Equivalents	117	817	(374)
Cash and Cash Equivalents, beginning of year	822	5	379
Cash and Cash Equivalents, end of year	$ 939	$ 822	$ 5

Supplemental Disclosure			
Cash paid for:			
Income taxes	$ 487	$ 313	$ 85
Interest	1,858	3,746	5,109

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

NOTE 1. BASIS OF PRESENTATION

The condensed unconsolidated financial statements of Merrill Lynch & Co., Inc. ("ML&Co." or the "Parent Company") should be read in conjunction with the Consolidated Financial Statements of Merrill Lynch & Co., Inc. and subsidiaries (collectively, "Merrill Lynch") and the Notes thereto in the Merrill Lynch 2002 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation.

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

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

- Summary of Significant Accounting Policies (Note 1)
- Loans, Notes and Mortgages (Note 9)
- Commercial Paper and Short- and Long-Term Borrowings (Note 10)
- Stockholders' Equity and Earnings Per Share (Note 13)
- Commitments, Contingencies and Guarantees (Note 14)
- Employee Benefit Plans (Note 15)
- Employee Incentive Plans (Note 16)
- Income Taxes (Note 17)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations and investments in and loans to foreign subsidiaries. See Note 10 and the "Derivatives" section of Note 1 to the Consolidated Financial Statements in the Annual Report, respectively, for additional information on these hedges.

NOTE 2. OTHER SIGNIFICANT EVENTS

Restructuring Charge

During the fourth quarter of 2001, Merrill Lynch's management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth which included the resizing of selected businesses and other structural changes.

As a result, in 2001 ML&Co. incurred a fourth quarter pre-tax restructuring charge to earnings of $239 million. In 2002, ML&Co. incurred an additional pre-tax restructuring charge of $57 million related to changes in the 2001 estimates.

Structural changes include targeted workforce reductions of 225 through a combination of involuntary and voluntary separations, across various business groups. At December 28, 2001, the majority of employee separations were completed or announced and all had been identified. Substantially all employee separations were completed in 2002. Management expects the remaining employee separations to be completed in 2003.

Any unused portion of the original restructuring reserve will be reversed. Utilization of the restructuring reserve and a rollforward of the staff reductions at December 27, 2002 is as follows:

(dollars in millions)

	Initial Balance	Utilized in 2001	Balance Dec. 28, 2001	Utilized in 2002	Net Change in Estimate	Balance Dec. 27, 2002
Category:						
Severance costs	$ 95	$ (10)	$ 85	$ (66)	$ (6)	$ 13
Facilities costs	120	—	120	(24)	68	164
Technology and fixed asset write-offs	17	(17)	—	4	(4)	—
Other costs	7	—	7	(4)	(1)	2
	$ 239	$ (27)	$ 212	$ (90)	$ 57	$ 179
Staff reductions	225	(1)	224	(215)	(1)	8

For information on the consolidated restructuring charges, refer to Note 3 to the Consolidated Financial Statements in the Annual Report.

September 11-Related Expenses

On September 11, 2001 terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North Tower of the World Financial Center, the South Tower of the World Financial Center and from offices at 222 Broadway to back-up facilities.

ML&Co. is insured for loss caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. In 2002, ML&Co. recorded and received September 11-related insurance recoveries of $55 million, net of September 11-related expenses. In 2001, ML&Co. recorded September 11-related expenses of $71 million, net of insurance recoveries. Expenses related to September 11 were $95 million and $176 million in 2002 and 2001, respectively. ML&Co. has received a total of $255 million of insurance recoveries, $165 million in 2002 and $90 million in 2001. For a variety of reasons, the expense recognition and insurance reimbursements will not be equal.

For information on the consolidated September 11-related expenses, refer to Note 3 to the Consolidated Financial Statements in the Annual Report.

NOTE 3. GUARANTEES

ML&Co. guarantees certain senior debt instruments issued by subsidiaries, which totaled $5.8 billion and $8.9 billion in 2002 and 2001, respectively.

In the normal course of business, ML&Co guarantees certain of its subsidiaries' obligations under derivative contracts. The notional value of the derivatives subject to this type of guarantee was approximately $6,020 billion dollars at December 27, 2002. The maximum payout is not quantifiable because, for example, changes in the value of the underlying of the derivative contract could be unlimited. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value generally overstates ML&Co.'s exposure to these contracts. Under FIN 45, ML&Co. is not required to record a liability for its exposure to guarantees of its subsidiaries' obligations. Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. (See the "Derivatives" section of Note 1 to the Consolidated Financial Statements in the Annual Report for discussion of risk management of derivatives).

In addition to the derivative contracts described above, ML&Co. guarantees certain liquidity facilities and residual value guarantees issued by its subsidiaries (see Note 14 to the Consolidated Financial Statements in the Annual Report for further information).

ML&Co. also guarantees obligations related to Trust Originated Preferred Securities[SM] ("TOPrS[SM]") issued by subsidiaries (see Note 5 below and Note 12 to the Consolidated Financial Statements in the Annual Report for further information).

NOTE 4. INVESTMENT SECURITIES

The balance in investment securities represents securities held in a portfolio for liquidity management purposes. Additional securities are held for liquidity management purposes in an unregulated consolidated subsidiary of Merrill Lynch (see Management's Discussion and Analysis and Note 6 to the Consolidated Financial Statements in the Annual Report for further information).

NOTE 5. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Loans from and payables to affiliates include $2.6 billion in proceeds borrowed from the consolidated Merrill Lynch subsidiaries that issued TOPrS[SM] (See Note 12 to the Consolidated Financial Statements in the Annual Report for further information).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of

Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 27, 2002 and December 28, 2001, and for each of the three years in the period ended December 27, 2002, and have issued our report thereon dated February 24, 2003; such consolidated financial statements and our report are included in your 2002 Annual Report to Stockholders and are included and incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch, listed in Item 15. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

NEW YORK, NEW YORK

FEBRUARY 24, 2003

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 14th day of March 2003.

Merrill Lynch & Co., Inc.
Registrant

JUDITH A. WITTERSCHEIN	**/s/ Judith A. Witterschein** **Judith A. Witterschein** **Secretary**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 14th day of March 2003.

DAVID H. KOMANSKY	**/s/ David H. Komansky** **David H. Komansky** **Director and Chairman of the Board**
E. STANLEY O'NEAL	**/s/ E. Stanley O'Neal** **E. Stanley O'Neal** **Director and Chief Executive Officer** **(Principal Executive Officer)**
AHMASS L. FAKAHANY	**/s/ Ahmass L. Fakahany** **Ahmass L. Fakahany** **Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
JOHN J. FOSINA	**/s/ John J. Fosina** **John J. Fosina** **Controller** **(Principal Accounting Officer)**
W. H. CLARK	**/s/ W. H. Clark** **W. H. Clark** **Director**
JILL K. CONWAY	**/s/ Jill K. Conway** **Jill K. Conway** **Director**
GEORGE B. HARVEY	**/s/ George B. Harvey** **George B. Harvey** **Director**
ROBERT P. LUCIANO	**/s/ Robert P. Luciano** **Robert P. Luciano** **Director**
HEINZ-JOACHIM NEUBÜRGER	**/s/ Heinz-Joachim Neubürger** **Heinz-Joachim Neubürger** **Director**
DAVID K. NEWBIGGING	**/s/ David K. Newbigging** **David K. Newbigging** **Director**
AULANA L. PETERS	**/s/ Aulana L. Peters** **Aulana L. Peters** **Director**
JOHN J. PHELAN, JR.	**/s/ John J. Phelan, Jr.** **John J. Phelan, Jr.** **Director**
JOSEPH W. PRUEHER	**/s/ Joseph W. Prueher** **Joseph W. Prueher** **Director**

Certification

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

1. I have reviewed this annual report on Form 10-K of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chief Executive Officer and President

Dated: March 14, 2003

Certification

I, Ahmass L. Fakahany, certify that:

1. I have reviewed this annual report on Form 10-K of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Ahmass L. Fakahany

Ahmass L. Fakahany
Executive Vice President and
Chief Financial Officer

Dated: March 14, 2003

Exhibit 10.26

MERRILL LYNCH & CO., INC.

2003 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF SEPTEMBER 9, 2002

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ARTICLE I

GENERAL

1.1 Purpose and Intent.

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

1.2 Definitions.

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

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

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

"Adjusted Compensation" means the financial advisor incentive compensation, account executive incentive compensation or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 2003, and payable after January 1, 2003, as a result of the Participant's production credit level, or such other similar items of compensation as the Administrator shall designate as "Adjusted Compensation" for purposes of this Plan.

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

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

"Annual Charge" means the charge to a Participant's Account provided for in Section 3.4(g).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Election Year" means the 2002 calendar year.

"Eligible Compensation" means (1) for persons eligible for the Variable Incentive Compensation Program or other similar programs: (A) a Participant's 2001 base earnings plus (B) any cash bonus awarded in early 2002, and (2) for persons ineligible for such bonus programs, a Participant's 2001 Adjusted Compensation.

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

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

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

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

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

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

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

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

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

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

"Leverage-Eligible Participants" means persons who (1) are accredited investors within the meaning of the Securities Act of 1933, and (2) received Cash Compensation of at least $300,000 in 2001, and (3) received Cash Compensation of at least $200,000 in 2000 and otherwise qualify, in accordance with standards determined by the Administrator, to select a ML Ventures Return Option on a leverage basis.

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

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

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

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

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

“ML & Co.” means Merrill Lynch & Co., Inc.

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

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

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

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

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

“Plan” means this Merrill Lynch & Co., Inc. 2003 Deferred Compensation Plan for a Select Group of Eligible Employees.

“Plan Year” means the Fiscal Year ending in 2003.

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

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

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

"Rule of 45" means a Participant's termination of employment with the Company for reasons other than cause (1) on or after (A) having completed at least five (5) years of service and (B) reaching any age, that, when added to service with the Company (in each case, expressed as completed years and completed months), equals at least 45; or (2) as the result of (A) becoming employed by an unconsolidated affiliate of the Company (as specified by the Head of Human Resources) or (B) being a part of a divestiture or spin-off designated by the Head of Human Resources as eligible, provided that, a Participant shall not qualify for the Rule of 45 if he or she engages in a business which the Administrator, in his or her sole discretion, determines to be in competition with the business of the Company.

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

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

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

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

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

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

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) **General Rule.** An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least $300,000 of Eligible Compensation for the year prior to the Election Year, and (iii) has attained the title of Vice President or higher.

(b) **Individuals First Employed During Election Year or Plan Year.** Subject to the approval of the Administrator in his or her sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation, together, if applicable, with the amount of any Variable Incentive Compensation that will be payable to such individual in the next annual bonus cycle pursuant to a written bonus guarantee, is greater than $300,000, and he or she is employed as or is to be nominated for the title of Vice President or higher at the first opportunity following his or her commencement of employment with the Company.

(c) **Disqualifying Factors.** An individual shall not be an Eligible Employee if either (i) as of the deadline for submission of elections specified in Section 3.1(a), the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process, or (ii) within 13 months prior to the deadline for submission of elections specified in Section 3.1(a), the individual has made a hardship withdrawal of Elective 401(k) Deferrals as defined under the 401(k) Plan.

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) **Timing and Manner of Making of Elections.** An election to defer Compensation for payment in accordance with Article V shall be made by submitting to the Administrator such forms as the Administrator may prescribe in whatever manner that the Administrator directs. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he or she may designate for the purpose by no later than September 30 of the Election Year (or such later date as the Administrator, in his or her sole discretion, may specify in any particular instance) or, in the event such date is not a business day, the immediately preceding business day; provided, however, that the Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

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

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

3.2 Crediting to Accounts.

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

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

3.3 Minimum Requirements for Deferral.

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

(i) the Participant is not an Eligible Employee as of December 31, 2002,

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

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

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

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

3.4 Return Options; Adjustment of Accounts.

(a) **Selection of Private Fund Return Options.** In any year that a Private Fund partnership is offered as a return option, eligible Participants may select the Private Fund Return Option, provided that the selection that Merrill Lynch will have the discretion to alter the Participant's payout elections if this option is chosen. **Participants should be aware that once the closing of the relevant fund has occurred, Participants will not be able to change their elections. Participants should also be aware that in the event of a Capital Call Default, for certain Private Equity Funds, they may be penalized by having their Accounts adjusted downward in accordance with Section 3.4 (d).**

(b) **Selection of Mutual Fund Return Options**. Coincident with the Participant's election to defer Compensation, the Participant must select the percentage of the Participant's Account to be adjusted to reflect the performance of Mutual Fund Return Options, for use when a Participant's

Account has a Liquid Balance. All elections shall be in multiples of 1%. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than 12 times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

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

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

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

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

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

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

(f) **Adjustment of Mutual Fund Return Balances.** While the Participant's Balances do not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Balances attributable to Mutual Fund Return Options shall be adjusted to reflect credits or debits relating to distributions from any Private Fund Return Options or chargeoffs against the Debit Balance and to reflect the investment experience of the Participant's Mutual Fund Return Options in the same manner as if investments or dispositions in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the Participant will give instructions to the ML Benefit Services Platform which will be reflected as credits or debits as of the weekly processing of such instructions through the ML II System. This processing shall control the timing and pricing of the notional investments in the Participant's Mutual Fund Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments or dispositions were actually to be made on the transaction processing date. In connection with the crediting of Deferred Amounts or distributions to the Participant's Account and distributions from or debits to the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant transaction processing date. Each Mutual Fund Return Option shall be valued using the Net Asset Value of the Mutual Fund Return Option as of the relevant transaction processing date; provided, that, in valuing a Mutual Fund Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant transaction processing date, without giving effect to any transaction charges or costs associated with such transactions; provided, further, that, if there are no such transactions effected through the ML II System on the relevant day, the value of the security shall be:

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

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

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

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

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

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

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

(iii) In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date upon which the Annual Charge is assessed, a pro rata Annual Charge will be deducted from amounts to be paid to the Participant to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a <u>pro rata</u> reduction of the portion of the Account Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(f) will be followed.

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

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

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

3.5 Rescission of Deferral Election.

(a) **Prior to December 1, 2002.** A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 2002, and (ii) if the Administrator, in his or her sole discretion and upon evidence of such basis that he or she finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 31, 2002 and November 30, 2002), agrees to the rescission of the election. In the event that the Administrator agrees to the rescission, the Deferred Amounts, if any, credited to the Participant's Account will be paid to the Participant as soon as practicable thereafter, subject to reduction for any applicable withholding taxes.

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

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

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

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

4.2 Non-Assignability.

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

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

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

ARTICLE V

PAYMENT OF ACCOUNT

5.1 Manner of Payment.

(a) **Regular Payment Elections**. A Participant's Account Balance will be paid by the Company, as elected by the Participant at the time of his or her deferral election, either in a single payment to be made, or in the number of annual installments (not to exceed 15) chosen by the

Participant to commence, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by the Participant after the end of 2003, or (iii) in any month in the calendar year following the Participant's Retirement; provided that, if a Participant's election would result in payment (in the case of a single payment) or commencement of payment (in the case of installment payments) after the Participant's 70th birthday, then, notwithstanding the Participant's elections, the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's 70th birthday unless the Participant continues to be an active full time employee at such time, in which case the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's cessation of active service (to the extent payment has not already been made or commenced). The amount of each annual installment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made). **In the event that immediately prior to the lump sum payment or the initial installment payment, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such payment shall be adjusted, if necessary, for the liquidity restraints of the Benchmark Return Option and, in the case of an election of 11 or more installment payments commencing upon Retirement or a date certain coincident with Retirement, shall be delayed until such Account Balance is fully liquid.**

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

(c) **Merrill Lynch's Right to Alter Payment Date.** Notwithstanding the provisions of Sections 5.1(a) and (b), if the Participant chooses an illiquid private equity benchmark, the Administrator may, in his or her sole discretion, direct that the Account Balance be paid as amounts are distributed by the underlying private equity fund rather than in accordance with the Participant's original elections.

5.2 Termination of Employment.

(a) **Death, Retirement, Rule of 45**. Upon a Participant's death or Retirement (as defined in this Plan), or termination when the Participant complies with the Rule of 45 (as defined in this Plan) prior to payment, the Account Balance will be paid, in accordance with the Participant's elections and as provided in Section 5.1(a) or (b), as applicable, to the Participant or to the Participant's beneficiary (in the event of death); provided, however, that (1) in the event that the Participant enters into competition with the business of Merrill Lynch, he or she will not be eligible for Retirement treatment under this Section 5.2 (a) and (2) in the event that a beneficiary of the Participant's Account is the Participant's estate or is otherwise not a natural person, then (i) if the Participant has elected a regular payment election pursuant to Section 5.1(a), the applicable portion of the Account Balance will be paid in a single payment to such beneficiary notwithstanding any election of installment payments, and (ii) if the Participant has elected modified installment payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be payable as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the Participant's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

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

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

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

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

(d) **Discretion to Alter Payment Date.** Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any reason, the Administrator may, in his or her sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments; provided that no such direction that adversely affects the rights of the Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary.

5.3 Withholding of Taxes.

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

5.4 Beneficiary.

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

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

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

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

5.5 Hardship Distributions.

ML & Co. has the sole discretion, but shall not be required to, pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he or she may, in his or her sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his or her sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his or her sole discretion to be immediate and substantial.

5.6 Domestic Relations Orders.

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

5.7 No Actions Permitted that Would Cause Constructive Receipt.

Notwithstanding any provision of the Plan to the contrary, no acceleration or other modification of the time or form of payment of any amount under the Plan shall be permitted to the extent that such acceleration or modification would cause any Participant or Beneficiary to be in constructive receipt of any amount hereunder.

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

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

6.2 Grantor Trust.

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

6.3 Payments on Behalf of an Incompetent.

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

6.4 No Right of Set-Off.

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

6.5 Corporate Books and Records Controlling.

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

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

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

7.2 Headings Are Not Controlling.

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

7.3 Governing Law.

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

7.4 Amendment and Termination.

ML & Co., through the Administrator, reserves the right to amend or terminate this Plan at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance (as reduced by the Annual Charge, the Debit Balance or the Leveraged Principal Amount and Interest thereon, as set forth in Section 3.4) as of the date of such amendment or termination.

Exhibit 10.30

MERRILL LYNCH FINANCIAL ADVISOR
CAPITAL ACCUMULATION AWARD PLAN

As amended through January 1, 2002

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MERRILL LYNCH FINANCIAL ADVISOR
CAPITAL ACCUMULATION AWARD PLAN

MERRILL LYNCH FINANCIAL ADVISOR
CAPITAL ACCUMULATION AWARD PLAN

The Merrill Lynch Financial Advisor Capital Accumulation Award Plan reflects MLPF&S's commitment to reward top producing Private Client Employees. The purpose of the Award is to establish and retain a strong sales force and professional managers by recognizing the benefits of their contributions to MLPF&S.

The terms and conditions of the Merrill Lynch Financial Advisor Capital Accumulation Award Plan are as follows:

I. DEFINITIONS

1. Definitions.

"Account" means a book reserve established in the name of an eligible employee by MLPF&S, to which the Award or Awards granted to such eligible employee will be credited.

"Account Balance" as of a particular date means the vested portion of the Awards, plus any accrued Appreciation, in the Account as of that date.

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

"Appreciation" means the amounts accrued on the Awards under Section 3.

"Awards" means the amounts awarded pursuant to Section 3 of the Plan.

"Award Date" means a date, established by the Committee with respect to each Award, as of which such Award will be credited to the Account.

"Award Year" means the calendar year in which an Award Date falls.

"Committee" means the Management Development and Compensation Committee of the Board of Directors of ML & Co.

"Common Stock" means Merrill Lynch & Co., Inc. Common Stock, par value $1.33 1/3 per share.

"Common Stock Amount" means the number derived by dividing the amount of an Award by the Fair Market Value of Common Stock as of the last day of the Performance Period, or such other date or period as may be established by the Committee, rounded to the nearest whole number. Such number represents the total number of shares of Common Stock you may receive on the Payment Date.

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

"Disability." You will be deemed to have incurred a "Disability" if you are entitled to receive benefits under the Merrill Lynch & Co., Inc. Long-Term Disability Plan.

"Fair Market Value" of Common Stock on any given date(s) shall be: (a) the mean of the high and low sales prices on the New York Stock Exchange Composite Tape on the date(s) in question, or, if the Common Stock shall not have been traded on any such date(s), the mean of the high and low sales prices on the New York Stock Exchange Composite Tape on the first day prior thereto on which the Common Stock was traded; provided, however, if the Distribution Date (as defined in the Rights Agreement) shall have occurred and the Rights shall then be represented by separate certificates rather than by certificates representing the Common Stock, there shall be added to such value calculated in accordance with (a) above, the mean of the high and low sales prices of the Rights on the New York Stock Exchange Composite Tape on the date(s) in question, or if the Rights shall not have been traded on any such date(s), the mean of the high and low sales prices on the New York Stock Exchange Composite Tape on the first day prior thereto on which the Rights were so traded; or (b) such other amount as may be determined by the Committee by any fair and reasonable means.

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

"Forfeited Amount" means, with respect to an Award Date, the amount of Awards credited to Accounts as of such Award Date that have been forfeited by participants pursuant to Section 9.

"Junior Preferred Stock" means ML & Co.'s Series A Junior Preferred Stock, par value $1.00 per share.

"Minimum Value" means the dollar amount obtained by applying a per annum rate of 1%, compounded annually, to the amount of an Award, from and including the last day of the Performance Period, or such other date as may be established by the Committee, to and including the Payment Date.

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

"MLPF&S" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, a subsidiary of ML & Co.

"Payment Calculation Date" means, with respect to an Award, the first day of the month in which an Award first becomes payable under Section 8 or 9.

"Payment Date" means, with respect to any amount payable under the Plan, the date on which such amount first becomes payable.

"Plan" means this Merrill Lynch Financial Advisor Capital Accumulation Award Plan.

"Performance Period" means the period, generally a fiscal year of ML & Co., during which you generate the production/revenue or achieve the goals that are the basis of an Award.

"Private Client Employee" means a Financial Advisor (including a resident manager or producing manager), life market estate planning and business insurance specialist (EPBIS), broad market EPBIS, insurance planning specialist or mortgage and credit specialist, or any other employee group that the Committee, in its sole discretion, determines are private client employees for purposes of eligibility for awards under the Plan, as evidenced in the applicable Committee resolutions or instrument of grant.

"Proportional Amount" means the proportion that the amount of an Award credited to an Account with respect to an Award Date bears to the total amount of Awards credited to all Accounts with respect to such Award Date that have not been forfeited or paid pursuant to Section 9.

"Retirement." You will be deemed to have reached "Retirement" if your employment with the Company terminates (i) on or after you have attained your 65th birthday, (ii) when you cease employment on or after your 55th birthday and you have completed at least 10 years of service, including approved leaves of absence of one year or less, or (iii) at any age with the express approval of the Committee, in its sole discretion, upon a recommendation by the management of MLPF&S, in its sole discretion. (Participants should be aware that such recommendations will be considered only in exceptional cases.)

"Rights" means the Rights to Purchase Units of Series A Junior Preferred Stock issued pursuant to the Rights Agreement.

"Rights Agreement" means the Rights Agreement dated as of December 16, 1987 between ML & Co. and Manufacturers Hanover Trust Company, Rights Agent.

"Rule of 65." You will be deemed to be eligible for the Rule of 65 contained in Section 9(c)(iv) of FACAAP if, after December 31, 2001, your employment with the Company terminates other than for cause (i) on or after you have completed at least 20 years of service with the Company, including approved leaves of absence of one year or less, and (ii) your combined length of service with the Company and your age equals at least 65, and (iii) you are not eligible for "Retirement" under the Plan.

"You" means the individual participant in this Plan.

II. ELIGIBILITY

2. Eligible Employees.

You are eligible for an Award if (i) you were, during the Performance Period, a Private Client Employee (regardless of whether you continue to be a Private Client Employee at the time of grant), (ii) you meet the applicable Award criteria determined pursuant to Section 3 (a) and (iii) as of the date of grant, your employment with the Company has not terminated for any reason other than death or Retirement.

III. THE AWARDS; APPRECIATION

3. The Awards.

(a) Criteria for Awards. The criteria for Awards will be established periodically by the Committee, upon the recommendation of the management of the Company. The criteria for Awards may vary from Performance Period to Performance Period and according to type of performance, and may be announced prior to, during, or following the applicable Performance Period. An Award will generally be stated as an amount equal to a percentage of achievement against established goals during a Performance Period. An Award may, however, be a fixed dollar amount and the amount of Awards may vary according to such factors as are established periodically by the Committee. Awards granted will be credited to the Account as of the Award Date.

(b) Calculation of Amounts Payable for Awards Made Prior to January 2003. There shall be computed, with respect to each Award, both the cash amount and the Common Stock Amount of such Award. If, as of the Payment Calculation Date, the then Fair Market Value of the Common Stock Amount is equal to or greater than the Minimum Value of the Common Stock Amount, you will receive the Common Stock Amount in shares of Common Stock; however, if such Fair Market Value of the Common Stock Amount as of such date is less than such Minimum Value, you will receive such Minimum Value in cash. If shares of Common Stock are unavailable for payment under the Plan or if the Committee shall otherwise, in its sole discretion, so direct, the

Fair Market Value of such shares as of the Payment Calculation Date will instead be paid in cash. Fractional shares shall be paid in cash. Until receipt by you of any share of Common Stock hereunder, you will have no right, title, or interest in such share, including, without limitation, the right to receive dividends and to vote any shares.

(c) Calculation of Amounts Payable for Awards Made in January 2003 and Thereafter. Each award shall be converted into a Common Stock Amount of such Award. When the award is payable under the terms of the Plan, you will receive the Common Stock Amount in shares of Common Stock. Fractional shares shall be paid in cash. Until receipt by you of any share of Common Stock hereunder, you will have no right, title, or interest in such share, including, without limitation, the right to receive dividends and to vote any shares.

4. Shares Available Under the Plan.

The total number of shares of Common Stock that may be issued under the Plan shall be 104,000,000 subject to adjustment as provided in Section 14. Shares of Common Stock issued under the Plan shall be treasury shares.

IV. STATUS OF THE AWARD

5. No Trust or Fund Created.

Neither the Plan nor any grant made hereunder shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and you or any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to a grant under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

6. Non-transferability.

Your rights under the Plan, including the right to any amounts or shares payable, may not be assigned, pledged, or otherwise transferred except, in the event of your death, to your designated beneficiary or, in the absence of such a designation, by will or the laws of descent and distribution.

7. Relationship to Other Benefits.

No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, group insurance, or other employee benefit plan of the Company. The Plan shall not preclude the stockholders of ML & Co., the Board of Directors or any committee thereof, or the Company from authorizing or approving other employee benefit plans or forms of incentive compensation, nor shall it limit or prevent the continued operation of other incentive compensation plans or other employee benefit plans of the Company or the participation in any such plans by participants in the Plan.

V. PAYMENT OF THE AWARD

8. In General.

(a) Subject to the provisions of Section 9, the Common Stock Amount or Minimum Value (other than for awards granted in or after January 2003) with respect to an Award as appropriate, will be paid to you in a lump sum (in shares of Common Stock or in cash, as determined under Section 3, in the case of the Common Stock Amount; or in cash, in the case of the Minimum Value) as soon as practicable following January 1 of the tenth year following the Award Year, provided that, for Awards made in and after January 2003 for Performance Years 2002 and thereafter, you will receive only the Common Stock Amount and such Common Stock Amount will be paid to you as soon as practicable following January 1 of the eighth year following the Award Year; and provided further that for Awards made in January 2001 and January 2002 to Financial Advisors employed by International Private Client, such awards will be paid to you, in the case of Awards for the 2000 Performance Period, as soon as practicable following January 1 of the fifth year following the Award Year, and, in the case of Awards made for the 2001 Performance Period, as soon as practicable following January 1 of the seventh year following the Award Year.

(b) If you (i) (A) are 65 years of age or older and (B) have completed 10 years or more of service; (ii) (A) are 60 years of age or older and (B) have completed 15 years or more of service, or (iii) (A) are 55 years of age or older and (B) have completed 20 years or more of service, you will be given a one-time option to cause the acceleration of the vesting of 50% of the total number of shares represented by the Common Stock Amount of all Awards granted to you under the Plan (in the order and in accordance with procedures determined by the Administrator) provided that you (1) sign a contract with the Corporation agreeing not to compete in any way with the business of the Corporation following your termination of employment and (2) agree to a formal account transition plan with Advisory Division, and provided further that in the event your employment terminates as a result of Retirement all non-accelerated Awards granted to you under the Plan that have not been paid and become payable as a result of such Retirement, shall (notwithstanding the Performance Period to which they relate) be payable in two equal installments the first of which shall be in January after the date of your Retirement and the second of which shall be one year after the first payment. In the event that you satisfy the requirements of the preceding sentence the “Payment Calculation Date” for such vested awards shall be the first day of the month following the date that such conditions were met and the payment shall be made as soon as practicable following the Payment Calculation Date. This provision shall not apply to awards made to Financial Advisors employed by International Private Client in January 2001 and January 2002.

(c) Notwithstanding the foregoing or any other provision of this Plan (except Section 9(e), which shall control in the event of a conflict), the Committee directs that in the event of any allegation of any misconduct on your part, including any violation of any law, regulation, or Company policy, that payment of the Account Balance will be delayed until the Committee or the management of the Company, upon consultation with the General Counsel, either (i) has determined that payment is appropriate under the circumstances, or (ii) has made a determination that the Account Balance shall be forfeited by you.

9. Termination of Employment.

(a) Death. If you die prior to payment pursuant to Section 8, then your Award(s) will be deemed to be 100% vested and the Account Balance will be paid to your beneficiary as soon as practicable. In such event, the "Payment Calculation Date" will be deemed to be the first day of the month in which the death occurred.

(b) Retirement; Employment by Competitor. Termination of your employment as a result of Retirement or a change in your status in anticipation of Retirement shall have the following effect:

(i) Awards for Performance Periods Prior to 1995. With respect to Awards granted prior to and for the 1994 Performance Period (i.e., the Performance Period ended December 30, 1994), your Award(s) will vest and be paid to you as soon as practicable after your Retirement, in which case the "Payment Calculation Date" will be deemed to be the first day of the month in which the Retirement occurred. In addition, if you have entered into a formal account transition plan with Advisory Division that does not exceed one year and transferred to an IA code for not more than one year from Retirement, your Awards will be vested and paid to you as soon as practicable after such transfer, in which case the "Payment Calculation Date" will be deemed to be the first day of the month in which such transfer occurred.

(ii) Awards for Performance Periods After 1994. With respect to Awards granted for Performance Periods after the 1994 Performance Period, your Account Balance will vest and become payable in two installments, the first payable as of the end of the year in which Retirement occurs (or, in the case of any Award granted after Retirement, as of the Award Date) and the second vested and payable as of the end of the year following the year in which Retirement occurs (subject to paragraph 9(b)(iii) below). Each such installment payment will be calculated based on 50% of the Award. The Payment Calculation Date for each installment will be deemed to be the first business day of January of the year following the year in which the installment becomes payable (except that the Payment Calculation Date for the first installment in respect of any Award granted after Retirement shall be deemed to be the Award Date), and the payment shall be made as soon thereafter as practicable. Notwithstanding the foregoing, if the value of any Award as of the first day of the month in which the Retirement occurs is less than $500, such Award will be paid in a lump sum as soon as practicable after Retirement and the Payment Calculation Date will be deemed to be the first day of the month in which the Retirement occurs.

(iii) Employment by Competitor. Notwithstanding the foregoing, if, within two years of the date of your Retirement, or at any time after such two-year period if amounts are still payable to you as provided in subsection (ii) above, you commence employment or become affiliated in any way with a company determined by the Committee (or its designee) to be a retail brokerage competitor of the Company or an Affiliate, any amount paid to you under this section shall be forfeited by you and returned to the Company and all amounts that have not yet vested under this section shall cease to vest and no longer be payable.

(iv) Rule of 65. If your employment terminates after December 31, 2001, and you qualify for the Rule of 65, your awards will continue to be outstanding and to vest in accordance with their original terms, provided that your awards will cease to be eligible for continued vesting and you will lose your award if you commence employment or become affiliated in any way with a company determined by the Committee (or its designee) to be a retail brokerage competitor of the Company or an Affiliate.

(c) Other Termination of Your Employment. Termination of your employment for any reason other than death or Retirement shall have the following effect:

(i) Awards for Performance Periods Prior to 1995. With respect to Awards granted prior to and for the 1994 Performance Period (i.e., the Performance Period ended December 30, 1994), you will receive only partial payment of an Award based upon the percentage of such Award that has vested as of December 31st of the year prior to the year in which the termination occurs and the remainder of the Award shall be deemed forfeited. Vesting of your Award(s) shall occur as of the end of the day on December 31st of each year in accordance with the following schedule:

Year	Percentage of Total Award Vested at Year-End
Award Year	0%
Second Year	0%
Third Year	0%
Fourth Year	0%

Fifth Year	50%
Sixth Year	60%
Seventh Year	70%
Eighth Year	80%
Ninth Year	90%
Tenth Year	100%

The vested amount will be paid to you in a lump sum as soon as practicable following such termination. In addition, (A) the "Payment Calculation Date" will be deemed to be the first day of the month in which such termination occurred and (B) anything else in this Plan to the contrary notwithstanding, you will receive no more than the Minimum Value with respect to an Award.

(ii) Awards for Performance Periods After 1994. With respect to Awards granted for Performance Periods after the 1994 Performance Period excluding Awards made to Financial Advisors employed by International Private Client with respect to Performance Periods in 2000 and 2001 (which shall become vested in accordance with the terms of such Awards), your Award will become 100% vested at the end of the day on December 31st of the tenth year following the Award Year, and the vested amount will be payable in accordance with Section 8 hereof. If your employment terminates for any reason other than death or Retirement on or prior to such date, you shall immediately forfeit your entire Award, unless the Committee, in its sole discretion, finds that the circumstances in the particular case so warrant and allows you to retain any portion or all of your Award, in which case it may, in its sole discretion, specify that you shall receive payment of no more than the Minimum Value with respect to the portion of the Award it allows you to retain.

(iii) Disability, Leave of Absence or Transfer. Your employment will not be considered as terminated if you are on an approved leave of absence, have incurred a Disability, or if you transfer or are transferred but remain in the employ of the Company.

(d) Alternative Payments on Termination. If your employment terminates and amounts become payable pursuant to Sections 9(a), 9(b), or 9(c), the Committee may, in its sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments (on which delayed payment(s) the Committee may determine that Appreciation will not accrue and/or that some other appreciation rate will be applied), which determination (including the manner of payment and application of an appreciation rate) may be changed by the Committee at any time.

(e) Termination of Employment After a Change in Control.

(i) Payment Upon Change in Control. Any other provision of this Plan to the contrary notwithstanding, in the event that a Change in Control of

ML & Co. occurs and thereafter your employment is terminated by the Company without cause or by you for Good Reason, your Award(s) will be deemed to be 100% vested and your entire Account Balance will be paid to you (or to your beneficiary in the event of death) in cash in a lump sum, as promptly as possible after such termination of employment. Your Common Stock Amount shall have a cash value equal to the highest of such Common Stock Amount's (A) Minimum Value on the date of your termination, (B) Fair Market Value on the date of your termination, or (C) highest Fair Market Value for any day during the 90-day period ending on the date of the Change in Control, and, if such termination occurs before the Payment Date, the "Payment Calculation Date" shall be deemed to be the date on which such termination occurs. Payment shall be calculated according to Section 3 (as modified by this subsection (e)), regardless of whether a termination under this subsection (e) occurs on or before December 31 of the ninth year following an Award Year.

(ii) Definition of "Change in Control". A "Change in Control" means a change in control of ML & Co. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not ML & Co. is then subject to such reporting requirement; provided, however, that, without limitation, a Change in Control shall be deemed to have occurred if:

(A) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of ML & Co. representing 30% or more of the combined voting power of ML & Co.'s then outstanding securities entitled to vote in the election of directors of ML & Co.; or

(B) during any period of two consecutive years individuals who at the beginning of such period constituted the Board of Directors of ML & Co. and any new directors, whose election by the Board of Directors or nomination for election by the stockholders of ML & Co. was approved by a vote of at least 3/4 of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

(C) all or substantially all of the assets of ML & Co. are liquidated or distributed.

(iii) Agreement Concerning a Change in Control. If ML & Co. executes an agreement, the consummation of which would result in the occurrence of the Change in Control as described in subparagraph (ii), then, with respect to a termination of employment, unless such termination is by the

Company for Cause, or by you other than for Good Reason, occurring after the execution of such agreement (and, if such agreement expires or is terminated prior to consummation, prior to such expiration or termination of such agreement), a Change in Control shall be deemed to have occurred as of the date of the execution of such agreement.

(iv) Amendments Subsequent to Change in Control. In the event of a Change in Control, no changes in the Plan and no adjustments, determinations or other exercises of discretion by the Committee or the Board of Directors, that were made subsequent to the Change in Control and that would have the effect of diminishing your rights or payments under the Plan or this Section 9(e), or of causing you to recognize income (for federal income tax purposes) with respect to your Account Balance prior to the actual distribution in cash to you of such Account Balance, shall be effective.

(v) Cause. Termination of your employment by the Company for "Cause" shall mean termination upon:

(A) your willful and continued failure substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure resulting from termination by you for Good Reason) after a written demand for substantial performance is delivered to you by the Board of Directors, which demand specifically identifies the manner in which the Board of Directors believes that you have not substantially performed your duties; or

(B) the willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise.

No act or failure to act by you shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that this action or omission was in the best interest of the Company.

Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board of Directors at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, you were guilty of conduct set forth above in clause (A) or (B) of the first sentence of this Subsection and specifying the particulars thereof in detail.

(vi) "Good Reason" shall mean your termination of your employment with the Company if, without your written consent, any of the following circumstances shall occur:

(A) a meaningful and detrimental alteration in your position or in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control;

(B) a reduction by the Company of your base salary as in effect just prior to the Change in Control;

(C) the relocation of the office of the Company where you were employed at the time of the Change in Control (the "CIC Location") to a location more than fifty miles away from the CIC Location, or the Company's requiring you to be based more than fifty miles away from the CIC Location (except for required travel on the Company's business to an extent substantially consistent with your business travel obligations just prior to the Change in Control);

(D) the failure of the Company to continue in effect any benefit or compensation plan, including, but not limited to, this Plan, the Company's retirement program, or the Company's Long-Term Incentive Compensation Plan, Employee Stock Purchase Plan, 1978 Incentive Equity Purchase Plan, cash incentive compensation or other plans adopted prior to the Change in Control, in which you are participating at the time of the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue your participation therein on at least as favorable a basis, in terms of both the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control; or

(E) the failure of the Company to continue to provide you with benefits at least as favorable as those enjoyed by you under any of the Company's pension, life insurance, medical, health and accident, disability, deferred compensation or savings plans in which you were participating at the time of the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control, or the failure by the Company to provide you with the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control.

10. Payment of Forfeited Amounts.

(a) Calculation of Payment. With respect to any Award Date prior to December 27, 1991, a Proportional Amount of the Forfeited Amount with respect to such Award Date, plus Appreciation on such Proportional Amount, will be distributed to each participant (or, in the event of death, to his or her beneficiary) who has become 100% vested, at the same time that the Award credited to an Account as of such Award Date is paid to such participant (or beneficiary). For purposes of calculating the Proportional Amounts and Appreciation thereon (i) the Payment Calculation Date for a Proportional Amount will be deemed to be the Payment Calculation Date with respect to the Award to which the Proportional Amount relates, and (ii) the Proportional Amount payable to a participant will be determined as of the date such participant becomes 100% vested, without adjustment for amounts of Awards forfeited after such date.

(b) Limitations on Payment of Forfeited Amounts. With respect to Award Dates after December 27, 1991, you shall no longer become entitled to receive a Proportional Amount of any Forfeited Amounts forfeited on or after such date, and no adjustments shall be made to your Account for any Forfeited Amounts.

11. Withholding.

The Company shall have the right, before any payment is made or a certificate for any shares is delivered or any shares are credited to any brokerage account, to deduct or withhold from any payment under the Plan any Federal, state, or local taxes, including transfer taxes, required by law to be withheld or to require you or your beneficiary or estate, as the case may be, to pay any amount, or the balance of any amount, required to be withheld.

12. Arbitration.

Any claim or dispute concerning your individual rights or entitlements under or otherwise relating to this Plan shall be settled by arbitration before either the American Arbitration Association (“AAA” or JAMS (formerly the “Judicial Arbitration and Mediation Services”)) depending upon which of these forums you choose, in accordance with the Commercial Dispute Resolutions Procedures of the AAA or the Comprehensive Arbitration Rules and Procedures of JAMS, provided, however, that: (1) the arbitrator shall be required to adhere to established principles of substantive law and the governing burdens of proof; (2) the arbitrator shall be prohibited for disregarding, adding to or modifying the terms of the Plan; (3) the arbitrator shall be an attorney licensed to practice law who is experienced in similar matters; and (4) more than one employee or former employee may consolidate their claims and join in the same arbitration proceeding only with the consent of all the parties to the proceeding. No claim or dispute concerning rights or entitlements under or otherwise relating to the Plan may be brought or litigated in a class action. The award rendered in this arbitration shall be final and binding, and judgment upon the award may be entered in any court of competent jurisdiction.

13. Designation of Beneficiary.

(a) Designation of Beneficiary and Alternate Beneficiary. You may designate, in writing delivered to ML & Co. before your death, a beneficiary to receive payments in the event of your death. You may also designate an alternate beneficiary to receive payments if the primary beneficiary does not survive you. You may designate more than one person as your beneficiary or alternate beneficiary, in which case such persons would receive payments as joint tenants with a right of survivorship as to the amounts not yet paid from your Account. If you die without a surviving beneficiary, then your estate will be considered your beneficiary.

(b) Change in Beneficiary. You may change your beneficiary or alternate beneficiary (without the consent of any prior beneficiary) in writing delivered to ML & Co. before your death. Unless you state otherwise in writing, any change in beneficiary or alternate beneficiary will automatically revoke prior designations only of your beneficiary or only of your alternate beneficiary, as the case may be, under this Plan only; designations under other Plans will remain unaffected.

(c) In the Event of Death of the Beneficiary During Payment. If a beneficiary who is receiving payments hereunder dies before all of the payments have been made and if there is no surviving joint tenant, the Account Balance will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any alternate beneficiary you may have designated.

VI. ADMINISTRATION OF THE PLAN

14. Powers of the Committee.

The Committee has full power and authority to interpret, construe, and administer the Plan and to adopt, amend and rescind such rules and regulations as, in its opinion, may be advisable for the administration of the Plan. The Committee's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments and whether any amount of Common Stock payable hereunder will instead be paid in the equivalent amount of cash, will be binding and conclusive on all persons for all purposes. The Committee will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to its willful misconduct or lack of good faith.

VII. MISCELLANEOUS PROVISIONS

15. Changes in Capitalization.

Any other provision of the Plan to the contrary notwithstanding (except for Section 9(e), which shall control in the event of a conflict), if any change shall occur in or affect Common Stock on account of a merger, consolidation, reorganization, stock dividend, stock split or combination, reclassification, recapitalization or distribution to holders of Common Stock (other than cash dividends) or, if in the opinion of the Board of Directors of ML & Co. (the "Board of Directors"), after consultation with ML & Co.'s independent public accountants, changes in ML & Co.'s accounting policies, acquisitions, divestitures, distributions or other unusual or extraordinary items have disproportionately and materially affected the value of Common Stock, the Board of Directors may make such adjustments, if any, that it may deem necessary or equitable, in its sole discretion, in order to preserve the benefit of this Plan for ML & Co. and its employees and stockholders, in the number of shares subject to or reserved for issuance under this Plan and in the method of calculating Appreciation. In the event of a change in the presently authorized Common Stock that is limited to a change in the designation thereof or a change of authorized shares with par value into the same number of shares with a different par value or into the same number of shares without par value, the shares resulting from any such change shall be deemed to be Common Stock within the meaning of this Plan and in the method of calculating Appreciation. In the event of any other change affecting the Common Stock, such adjustment may be made as may be deemed equitable by the Board of Directors to give proper effect to such event, in its sole discretion, in order to preserve the benefit of this Plan for ML & Co. and its employees and stockholders.

16. Tax Litigation.

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

17. Employment Rights.

Neither the Plan nor any action taken hereunder shall be construed as giving any employee of the Company the right to become a participant, and a grant under the Plan shall not be construed as giving any participant any right to be retained in the employ of the Company.

18. Amendment of the Plan.

The Board of Directors or the Committee (but no other committee of the Board of Directors) may modify, amend or terminate the Plan at any time. No such modification, amendment or termination will, without your consent, adversely affect your rights in relation to an Award after it has been granted to you.

19. Governing Law.

This Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction and performance.

EXHIBIT 12

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollars in millions)

	Year Ended Last Friday in December				
	2002	**2001**	**2000**	**1999**	**1998**
	(52 weeks)	**(52 weeks)**	**(52 weeks)**	**(53 weeks)**	**(52 weeks)**
Pre-tax earnings	$ 3,757	$ 1,377	$ 5,717	$ 4,206	$ 2,120
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	9,818	17,097	18,307	13,235	17,237
Pre-tax earnings before fixed charges	13,575	18,474	24,024	17,441	19,357
Fixed charges:					
Interest	9,613	16,843	18,052	12,987	17,014
Other (a)	396	451	465	451	354
Total fixed charges	10,009	17,294	18,517	13,438	17,368
Preferred stock dividend requirements	53	55	55	56	58
Total combined fixed charges and preferred stock dividends	$10,062	$17,349	$18,572	$13,494	$17,426
Ratio of earnings to fixed charges	**1.36**	**1.07**	**1.30**	**1.30**	**1.11**
Ratio of earnings to combined fixed charges and preferred stock dividends	**1.35**	**1.06**	**1.29**	**1.29**	**1.11**

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

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Selected Financial Data

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December				
	2002	2001	2000	1999	1998
Results of Operations					
Total Revenues	$ 28,253	$ 38,757	$ 44,852	$ 35,332	$ 34,828
Less Interest Expense	9,645	16,877	18,086	13,019	17,038
Net Revenues	18,608	21,880	26,766	22,313	17,790
Non-Interest Expenses	14,851	20,503	21,049	18,107	15,670
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	3,757	1,377	5,717	4,206	2,120
Income Tax Expense	1,053	609	1,738	1,319	725
Dividends on Preferred Securities Issued by Subsidiaries	191	195	195	194	124
Net Earnings	$ 2,513	$ 573	$ 3,784	$ 2,693	$ 1,271
Net Earnings Applicable to Common Stockholders[(a)]	$ 2,475	$ 535	$ 3,745	$ 2,654	$ 1,233
Financial Position					
Total Assets	$447,928	$435,692	$423,831	$327,292	$301,033
Short-Term Borrowings[(b)]	$180,213	$178,154	$187,176	$115,707	$ 99,186
Long-Term Borrowings	$ 78,524	$ 76,572	$ 70,223	$ 54,043	$ 57,599
Preferred Securities Issued by Subsidiaries	$ 2,658	$ 2,695	$ 2,714	$ 2,725	$ 2,627
Total Stockholders' Equity	$ 22,875	$ 20,008	$ 18,304	$ 13,004	$ 10,264
Common Share Data[(c)]					
(in thousands, except per share amounts)					
Earnings Per Share:					
Basic	$ 2.87	$ 0.64	$ 4.69	$ 3.52	$ 1.69
Diluted	$ 2.63	$ 0.57	$ 4.11	$ 3.11	$ 1.49
Weighted-Average Shares Outstanding:					
Basic	862,318	838,683	798,273	754,672	728,929
Diluted	942,222	938,555	911,416	853,499	830,276
Shares Outstanding at Year-End[(d)]	867,291	843,474	807,955	752,501	729,981
Book Value Per Share	$ 25.69	$ 23.03	$ 21.95	$ 16.49	$ 13.31
Dividends Paid Per Share	$ 0.64	$ 0.64	$ 0.61	$ 0.53	$ 0.46
Financial Ratios					
Pre-tax Profit Margin[(e)]	20.2%	6.3%	21.4%	18.8%	11.9%
Common Dividend Payout Ratio	22.3%	100.0%	13.0%	15.1%	27.2%
Return on Average Assets	0.5%	0.1%	1.0%	0.8%	0.4%
Return on Average Common Stockholders' Equity	11.7%	2.7%	24.2%	23.8%	13.4%
Average Leverage Ratio[(f)]	19.0x	19.3x	19.8x	22.4x	30.9x
Average Adjusted Leverage Ratio[(g)]	13.2x	13.7x	14.0x	15.1x	20.0x
Other Statistics					
Full-Time Employees:					
U.S.	40,000	43,400	51,700	49,700	47,900
Non-U.S.	10,900	13,700	19,900	18,200	17,300
Total[(h)]	50,900	57,100	71,600	67,900	65,200
Private Client Financial Advisors	14,000	16,400	20,200	18,600	17,800
Client Assets *(dollars in billions)*	$ 1,288	$ 1,458	$ 1,681	$ 1,696	$ 1,446

(a) Net earnings less preferred stock dividends.
(b) Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Deposits.
(c) All share and per share data have been restated for the two-for-one common stock split paid in August 2000 (see Note 13 to the Consolidated Financial Statements).
(d) Does not include 3,911; 4,195; 4,654; 8,019; and 9,012 shares exchangeable into common stock (see Note 13 to the Consolidated Financial Statements) at year-end 2002, 2001, 2000, 1999, and 1998, respectively.
(e) Earnings before income taxes and dividends on Preferred securities issued by subsidiaries to Net revenues.
(f) Average total assets to average total stockholders' equity and Preferred securities issued by subsidiaries.
(g) Average total assets less average (i) Receivables under resale agreements (ii) Receivables under securities borrowed transactions, and (iii) Securities received as collateral to average total stockholders' equity and Preferred securities issued by subsidiaries.
(h) Excludes 1,500 and 3,500 full-time employees on salary continuation severance at year-end 2002 and 2001, respectively.

Management's Discussion and Analysis

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Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") is a holding company that, through its subsidiaries, provides broker-dealer, investment banking, financing, advisory, wealth management, asset management, insurance, lending, and related products and services on a global basis. In addition, Merrill Lynch makes principal investments for market making on behalf of its clients and for its own account. The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment, and investor sentiment. In addition to these factors, Mer-rill Lynch and other financial services companies may be affected by the regulatory and legislative initiatives which may affect the conduct of its business, including increased regulation, and by the outcome of legal and regulatory proceedings. These conditions or events can significantly affect the volatility of the financial markets as well as the volumes and revenues in businesses such as brokerage, trading, investment banking, wealth management and asset management. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and trading volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers, competition from new and established competitors using the internet or other technology to provide financial services and diminishing margins in many mature products and services. Commercial and investment bank consolidations, which were made possible by the enactment of the Gramm-Leach-Bliley Act, have also increased the competition for investment banking business in part through the extension of credit in conjunction with investment banking and capital raising activities. In 2002, the U.S. Congress passed the Sarbanes-Oxley Act of 2002 which is a broad overhaul of existing corporate and securities laws. In addition, various Federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange) and industry participants reviewed and in many cases adopted sweeping changes to their established rules including rules in the areas of corporate governance, research analyst conflicts of interest and auditor independence. Changes pertaining to the role of research analysts in connection with providing financial services may also affect how financial services companies interact with their clients and the cost structure for such services. Outside the United States, there is continued focus by regulators and legislators on regulatory supervision of both banks and investment firms on a consolidated and individual basis, especially in the area of risk management. Credit rating agencies also took negative rating actions in 2002 with respect to several financial institutions, including Merrill Lynch.

Certain statements contained in this Report may be considered forward-looking, including statements about management expectations, strategic objectives, business prospects, anticipated expense savings and financial results, anticipated results of litigation and regulatory proceedings, and other similar matters. These forward-looking statements are not statements of historical fact and represent only Management's beliefs regarding future events, which are inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, the factors listed in the previous two paragraphs, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending and future legislation and regulation, and the other risks and uncertainties detailed in Merrill Lynch's Form 10-K and in the following sections. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates the forward-looking statements are made. The reader should, however, consult any further disclosures Merrill Lynch may make in its Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K.

Business Environment

The global financial markets had a difficult year in 2002. Equity markets experienced the sharpest declines since the 1970s. The equity markets fell sharply as the combination of a global slowdown in economic activity, political unrest in the Middle East, widespread corporate downsizing, regulatory probes, accounting and corporate governance scandals and seven of the twelve largest ever U.S. bankruptcies caused investors to reduce equity market activity and shift to less volatile, fixed-income investments and money market instruments.

The yield on the 10-year U.S. Treasury bond, used as a benchmark for long-term interest rates, started the year at 5.06% and moved as high as 5.40% in late March, amid rising expectation for a recovery in the economy. Throughout the balance of 2002, the 10-year yield declined dramatically, reaching a 44-year low in October and finishing the year at 3.82%. This was the third consecutive year in which bond prices rose sharply while stocks declined in value. The U.S. Federal Reserve Bank cut interest rates during the fourth quarter of 2002, bringing the federal funds rate and the discount rate to 40-year lows of 1.25% and 0.75%, respectively.

Despite a fourth quarter rally that moved broad equity indices up sharply from five-year lows, U.S. equity indices declined for the third consecutive year. Technology and telecommunication stocks remained the hardest hit and most volatile. The Nasdaq Composite Index, dominated by large-cap technology stocks, fell 31.5% for the year after declining 21.1% in 2001. That performance left the index 73.6% off its record high set in early 2000. The Dow Jones Industrial Average dropped 16.8% in 2002 and the S&P 500 fell 23.4%, marking the sharpest declines since 1977 and 1974, respectively.

Global stocks were also affected by financial crisis in Latin America, economic uncertainty in Japan and a further decline in the technology sector across most of Europe. The Dow Jones World Index, excluding the United States, declined 15.6% during the year, leaving it down 45% over the past three years. European stock markets contributed significantly to that global decline as reflected by a 32% reduction in the Dow Jones Stock Index of 600 European blue chips in 2002. Each of the 18 industry sectors of the index ended the year with double-digit declines, one of the worst annual performances ever. Depressed by weak regional economies and dragged lower by the U.S. benchmarks, in U.S. dollar terms, major markets in Asia also fell heavily: in Japan, the Nikkei 225 index slipped 17.3% during the year and Hong Kong’s Hang Seng declined by 17.4%. Latin American markets also performed poorly, led by Argentina and Brazil, where local political and economic turmoil exacerbated stock losses. For the second straight year, emerging markets, led by Thailand, South Korea and Eastern European economies, outperformed the developed world.

The volume of global stock and bond underwriting fell 5.1% in 2002, according to Thomson Financial Securities Data. The decline in underwriting fees was more significant at 21% from 2001 as lower-margin debt issuance predominated capital market origination activity. The largest contributor to the decline in underwriting fees was the 28% drop in global issues of stock. According to Thomson Financial Securities Data, the value of global Initial Public Offerings (“IPOs”) fell 34% while U.S. IPOs fell 32% and activity levels hit a two-decade low of just 97 offerings.

Declining equity values, accounting scandals, the weak economy, poor earnings and global uncertainty all continued to affect the merger and acquisition market in 2002. Globally, the value of announced deals fell 28% during 2002 as the 41% drop in U.S. deals was partially mitigated by stronger activity levels in Europe. The number of U.S. deals declined to its lowest level since 1993, and the value of U.S. deals was 74% lower than its peak in 2000.

Merrill Lynch continually evaluates its businesses for profitability and performance under varying market conditions and, in light of changes in its competitive environment, for alignment with its long-term strategic objectives. Maintaining long-term client relationships, closely managing costs and carefully monitoring business and trading risks, diversifying revenue sources, and growing fee-based and recurring revenue sources all continue as objectives to mitigate the effects of a volatile market environment on Merrill Lynch’s business as a whole.

Results of Operations

(dollars in millions, except per share amounts)

	2002	2001	2000
Net revenues			
Commissions	$ 4,657	$ 5,266	$ 6,977
Principal transactions	2,340	3,930	5,964
Investment banking			
Underwriting	1,710	2,438	2,699
Strategic advisory	703	1,101	1,381
Asset management and portfolio service fees	4,914	5,351	5,688
Other	751	528	967
Subtotal	15,075	18,614	23,676
Interest and dividend revenues	13,178	20,143	21,176
Less interest expense	9,645	16,877	18,086
Net interest profit	3,533	3,266	3,090
Total net revenues	18,608	21,880	26,766
Non-interest expenses:			
Compensation and benefits	9,426	11,269	13,730
Communications and technology	1,741	2,232	2,320
Occupancy and related depreciation	909	1,077	1,006
Brokerage, clearing, and exchange fees	727	895	893
Advertising and market development	540	703	939
Professional fees	552	545	637
Office supplies and postage	258	349	404
Goodwill amortization	–	207	217
Other	611	902	903
Research and other settlement-related expenses	291	–	–
(Recoveries)/expenses related to Sept.11	(212)	131	–
Restructuring and other charges	8	2,193	–
Total non-interest expenses	14,851	20,503	21,049
Earnings before income taxes and dividends on preferred securities issued by subsidiaries	$ 3,757	$ 1,377	$ 5,717
Net earnings	$ 2,513	$ 573	$ 3,784
Earnings per common share:			
Basic	$ 2.87	$ 0.64	$ 4.69
Diluted	2.63	0.57	4.11
Annualized return on average common stockholders' equity	11.7%	2.7%	24.2%
Pre-tax profit margin	20.2	6.3	21.4
Compensation and benefits as a percentage of net revenues	50.7	51.5	51.3
Total full-time employees(1)	50,900	57,100	71,600

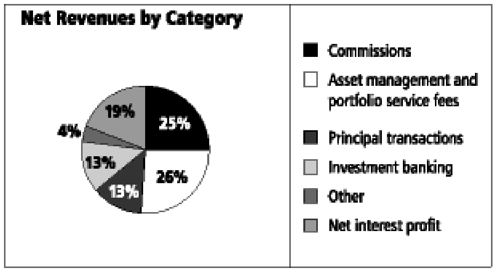
(1) Excludes full-time employees on salary continuation severance.

Consolidated Results of Operations

Merrill Lynch's net earnings were $2.5 billion in 2002, up from $573 million in 2001. Earnings per diluted share were $2.63, compared with $0.57 in 2001. Net earnings in 2001 included after-tax restructuring and other charges of $1.7 billion ($2.2 billion pre-tax) and $83 million of after-tax September 11-related expenses ($131 million pre-tax). Full year 2002 results included $126 million of September 11-related net insurance recoveries ($212 million pre-tax), research and other settlement-related expenses of $207 million ($291 million pre-tax) and $42 million of after-tax net restructuring and other charges benefits ($8 million expense pre-tax). Net earnings in 2000 were $3.8 billion, or $4.11 per diluted share.

In 2002, the return on average common stockholders' equity was 11.7% and the pre-tax profit margin was 20.2%. The 2001 return on average common stockholders' equity was 2.7% (11.7% excluding the restructuring and other charges and expenses related to September 11) and the pre-tax profit margin was 6.3% (16.9% excluding the restructuring and other charges and expenses related to September 11). Return on average common stockholders' equity for 2000 was 24.2% and the pre-tax profit margin was 21.4%.

The following chart illustrates the composition of net revenues by category in 2002.



Net revenues in 2002 were $18.6 billion, 15% lower than in 2001. Commission revenues in 2002 were $4.7 billion, down 12% due primarily to a global decline in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2002 decreased 40%, to $2.3 billion, due to lower revenues from equities and equity derivatives trading, reduced client transaction flows, and the conversion of the Nasdaq business to a commission-based structure over the past year, partially offset by higher debt trading revenues. Net interest profit in 2002 was $3.5 billion, up 8% due primarily to a steeper yield curve environment and the widening of credit spreads. Underwriting revenues in 2002 decreased 30% to $1.7 billion and Strategic advisory revenues in 2002 declined 36% to $703 million, reflecting reduced investment banking activity. Asset management and portfolio service fees in 2002 were $4.9 billion, down 8% due primarily to the market-driven decline in equity assets under management. Other revenues in 2002 increased 42%, to $751 million, due in part to increased realized gains related to sales of mortgages originated by Merrill Lynch Credit Corporation, as well as investment losses incurred in 2001.

Net revenues in 2001 were $21.9 billion, 18% lower than in 2000. Commission revenues in 2001 were $5.3 billion, down 25% due primarily to a global decline in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2001 decreased 34%, to $3.9 billion, due principally to lower revenues from equities and equity derivatives, resulting from reduced global transaction volumes, and lower volatility throughout much of the year, partially offset by improved debt trading results. Net interest profit in 2001 was $3.3 billion, up 6% from 2000. Underwriting revenues in 2001 decreased 10% to $2.4 billion due to a decline in global origination activity. Strategic advisory revenues in 2001 declined 20% to $1.1 billion, due to a reduced volume of completed merger and acquisition transactions. Asset management and portfolio service fees in 2001 were $5.4 billion, down 6%

due primarily to the market-driven decline in assets under management and assets in asset-priced accounts. Other revenues in 2001 decreased 45%, to $528 million, principally reflecting investment losses incurred in 2001.

Compensation and benefits expenses were $9.4 billion in 2002, a decrease of $1.8 billion, or 16%, from 2001. The decrease was due primarily to lower incentive compensation expenses and lower Financial Advisor compensation, as well as reduced staffing levels. Compensation and benefits expenses were 50.7% of net revenues in 2002, compared to 51.5% in 2001. Non-compensation expenses were $5.4 billion in 2002, compared to $9.2 billion in 2001. Excluding the impact of recoveries/expenses related to September 11, research and other settlement-related expenses, and restructuring and other charges, non-compensation expenses were $5.3 billion in 2002, a reduction of $1.6 billion, or 23% from the 2001 level. This decrease included the absence of amortization expense on goodwill related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. Goodwill amortization totaled $207 million in 2001.

Communications and technology costs were $1.7 billion, down 22% from 2001 due to lower technology equipment depreciation, communications costs, and systems consulting costs. Occupancy and related depreciation was $909 million, a decline of 16% from 2001 due primarily to lower rent expense resulting from the fourth quarter 2001 restructuring initiatives. Brokerage, clearing, and exchange fees were $727 million, down 19% from 2001. Advertising and market development expenses were $540 million, down 23% from 2001 due primarily to reduced spending on travel and advertising. Professional fees remained essentially unchanged at $552 million. Office supplies and postage decreased 26% from 2001, to $258 million, due to lower levels of business activity and to efficiency initiatives. Other expenses were $611 million in 2002, down 32% due to lower provisions for losses, including litigation. Research and other settlement-related expenses reflect the $100 million settlement with the New York Attorney General and related costs of $11 million, which were recorded in the second quarter of 2002, Merrill Lynch's $100 million portion of the global settlement accrued in the fourth quarter of 2002 for the funding of independent research and investor education, as well as $80 million related to a February 2003 settlement with the Securities and Exchange Commission regarding Merrill Lynch's transactions with Enron Corporation. For additional information regarding this subsequent event see Note 2 to the Consolidated Financial Statements.

Net recoveries related to September 11 were $212 million in 2002 compared with net expenses of $131 million in 2001. Restructuring and other charges were $8 million in 2002 and $2.2 billion in 2001. See Note 3 to the Consolidated Financial Statements for additional information.

In the fourth quarter of 2001, Merrill Lynch recorded a pre-tax charge of $2.2 billion ($1.7 billion after-tax) related to the resizing of selected businesses and other structural changes. This charge was recorded as Restructuring and other charges on the Consolidated Statements of Earnings. The charge was the result of a detailed review of all businesses, with a focus on improving profit margins and aligning capacity with the current business environment and opportunities for future growth. These actions were expected to result in pre-tax annual expense savings of approximately $1.4 billion. Merrill Lynch achieved these savings in the first nine months of 2002. Opportunities exist to reduce non-compensation expenses further, although many of the savings realized going forward will be reinvested into priority growth initiatives and necessary incremental expenses such as compliance with the Patriot Act and contingency planning. During 2002, Merrill Lynch recorded pre-tax restructuring and other charges of $8 million. This amount represents a charge of $17 million related to current year reductions in excess office space, which were not part of the 2001 restructuring charge, offset by a net credit of $9 million, which represents a change in estimate, related to facilities, severance, and other charges. The primary components of this change in estimate were a net increase in facilities costs, principally in the United States and a net decrease in severance and other costs principally in Japan. On an after-tax basis, restructuring and other charges resulted in a $42 million increase in earnings in 2002, which primarily reflects a tax benefit related to a reduction in the original estimate for the Global Private Client ("GPC") restructuring in Japan. For further information regarding the details of restructuring and other charges, see Note 3 to the Consolidated Financial Statements.

Non-interest expenses were $20.5 billion in 2001, compared with $21.0 billion in 2000. Excluding September 11-related expenses and restructuring and other charges, non-interest expenses were $18.2 billion in 2001. Compensation and benefits were down 18% from 2000 due to a decrease in incentive and production-related compensation resulting from lower revenues and fewer employees. Compensation and benefits were 51.5% of net revenues for 2001, relatively unchanged from 2000.

Communications and technology expense declined 4% in 2001 to $2.2 billion due to reduced systems consulting costs. Occupancy and related depreciation increased 7% in 2001, due primarily to a new London headquarters building. Brokerage, clearing, and exchange fees were $895 million in 2001, essentially unchanged from 2000. Advertising and market development expense was $703 million in 2001, down 25% from 2000 due to reduced spending on travel, advertising, and recognition programs. Professional fees decreased 14% in 2001, to $545 million, as a result of a reduction in spending on employment fees and non-technology consulting services. Office supplies and postage expense decreased 14% to $349 million due primarily to lower levels of business activity and efficiency initiatives. Other expenses were $902 million, essentially unchanged from 2000. Also included in 2001 non-compensation expenses were $2.2 billion of restructuring and other charges and $131 million of net September 11-related expenses.

Operating Earnings

Net operating earnings, which are net earnings excluding the impact of restructuring charges, research and other settlement-related expenses, and September 11-related recoveries/ expenses, were $2.6 billion in 2002, up 7% from 2001, despite a 15% decline in net revenues, to $18.6 billion. Net operating earnings per diluted share were $2.67 in 2002 compared with $2.50 in 2001. Net operating earnings should not be considered an alternative to net earnings (as determined in accordance with generally accepted accounting principles ("GAAP") in the United States), but rather as a non-GAAP measure considered relevant by management in comparing current year results with prior year results. Management believes this measure is a valuable tool for investors to judge the quality of Merrill Lynch's financial performance as it allows investors to more readily gauge earnings and identify trends.

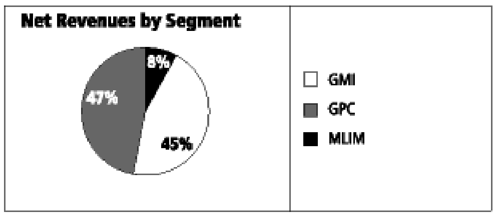
Income Taxes

Merrill Lynch's 2002 income tax provision was $1.1 billion, representing a 28.0% effective tax rate compared with 44.2% in 2001 and 30.4% in 2000. The 2002 effective tax rate declined from the prior year as the 2001 tax provision included non-deductible losses associated with the refocusing of the Japan Private Client business, which were included in the fourth-quarter 2001 charge, including a write-off of previously recognized deferred tax assets of approximately $135 million. In addition, 2002 net earnings reflected the tax benefits associated with the wind-down of the Merrill Lynch HSBC joint venture, as well as the lower tax rate associated with certain European, Asian and other international activities and a net benefit of $77 million related to prior years and settlements with various tax authorities. Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements. Merrill Lynch assesses its ability to realize deferred tax assets within each jurisdiction, primarily based on a strong earnings history and the absence of negative evidence as discussed in SFAS No. 109, "*Accounting for Income Taxes*." During the last 10 years, average pre-tax earnings were $2.9 billion. Accordingly, management believes that it is more likely than not that remaining deferred tax assets, net of the related valuation allowance, will be realized. See Note 17 to the Consolidated Financial Statements for further information.

Business Segments

The following discussion provides details of the operating performance for each Merrill Lynch business segment, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Certain prior year amounts have been restated to conform with the current year presentation.

Merrill Lynch reports its results in three business segments: The Global Markets and Investment Banking group ("GMI"), Global Private Client ("GPC"), and Merrill Lynch Investment Managers ("MLIM"). GMI provides capital markets and investment banking services to corporate, institutional, and governmental clients around the world. GPC provides global wealth management products and services to individuals, small- to mid-size businesses, and employee benefit plans. MLIM provides asset management services to individual, institutional and corporate clients.



Certain MLIM and GMI products are distributed through GPC distribution channels, and, to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these inter-segment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for shared activities between segments are in place, and the results of each segment reflect the agreed-upon portion of these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported at the corporate level. Business segment results are restated to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and structure. Management views non-interest expenses before recoveries related to September 11 and restructuring and other charges in evaluating operating performance. Included in GMI's and GPC's 2002 results are September 11-related partial business interruption insurance recoveries for forgone pre-tax profits of $90 million and $25 million, respectively. September 11-related expenses and research and other settlement-related expenses were recorded in the Corporate segment. Restructuring and other charges have been recorded in each of the business segments. See Note 4 to the Consolidated Financial Statements for further information.

Global Markets and Investment Banking

GMI provides equity and debt trading, capital markets services, investment banking and strategic merger and acquisition advisory services to its clients around the world. GMI raises capital for its clients through securities underwritings, private placements, and loan syndications. GMI makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demand for these instruments, and for proprietary trading. Merrill Lynch has one of the largest equity trading and underwriting operations of any firm in the world and is a leader in the origination and distribution of equity products. GMI is also a leader in the global origination and distribution of debt market products. GMI's client-focused strategy provides investors with opportunities to diversify their portfolios, manage risk, and enhance returns. GMI also provides clients with financing, securities clearing, settlement, and custody services.

GMI faced a 2002 environment marked by economic and geopolitical uncertainty, weaker corporate earnings and decreased investor confidence, which led to a significant deterioration in market conditions. Global equity indices posted their third consecutive year of declines, and capital markets origination and merger and acquisition activity were severely depressed. For GMI, these factors were partially offset by strength in fixed income markets due to a favorable yield curve environment and proprietary trading.

During 2002, GMI improved its pre-tax profit margin despite the deteriorating market environment through its continued focus on reducing expenses, efficiency, and strategic reallocation of resources to businesses such as debt trading, which posted record revenues and profits for the year. While maintaining expense discipline, GMI invested in profitable growth opportunities that leverage its scale and complement its business mix and client reach. These growth opportunities included derivatives, mortgages, foreign exchange, and prime brokerage. The combination of discipline in managing expenses together with investing selectively has been integral to further enhancing GMI's competitive positioning and profitability across market cycles.

In 2001, equity origination and trading activity declined and global completed merger and acquisition volumes decreased throughout the year due to the challenging market environment. Offsetting these factors were strong debt markets, as 11 interest rate cuts by the U.S. Federal Reserve were a catalyst for significant trading and origination activity for most of the year.

In 2002, Merrill Lynch formed the Merrill Lynch Global Bank Group, through which the lending and deposit-taking businesses were brought under one common management team, improving consistency and efficiency. The Global Bank Group allows Merrill Lynch to leverage the expertise developed through the creation and growth of its U.S. banks, create uniformity in its approach to lending, and apply stable bank deposit funding in pursuit of key lending business initiatives across both GPC and GMI. GMI is responsible for managing the investment portfolio of Merrill Lynch's U.S. banks, and earns a spread on these activities which is recorded in principal transactions and net interest profit.

During 2002, GMI's Securities Services Division was merged into the equity division. In early 2001, Merrill Lynch sold essentially all of its energy trading assets, effectively exiting the business.

In 2001, as part of Merrill Lynch's overall business review process, GMI completed in-depth reviews of its businesses with the goal of improving overall efficiency and operating flexibility. As a result of these reviews, GMI streamlined its management and reorganized the investment banking division by reducing the number of global industry teams, realigning sector coverage, and broadening responsibilities. In addition, GMI consolidated trading operations outside the United States to enhance client service and realize efficiencies. The completion of these reviews led to a fourth quarter 2001 pre-tax charge of $833 million, primarily related to severance. During 2002, GMI's costs related to the 2001 restructuring were adjusted to reflect a change in estimate, primarily related to facilities, resulting in an additional net pre-tax charge of $51 million.

GMI's Results of Operations

(dollars in millions)

	2002	2001	2000
Commissions	$ 2,080	$ 2,111	$ 2,398
Principal transactions and net interest profit	3,714	4,562	6,133
Investment banking	2,148	3,135	3,449
Other revenues	488	467	809
Total net revenues	8,430	10,275	12,789
Non-interest expenses before recoveries related to September 11 and restructuring and other charges	6,054	7,465	8,698
Pre-tax earnings before recoveries related to September 11 and restructuring and other charges	2,376	2,810	4,091
Recoveries related to September 11	90	–	–
Restructuring and other charges	(51)	(833)	–
Pre-tax earnings	$ 2,415	$ 1,977	$ 4,091
Pre-tax profit margin before recoveries related to September 11 and restructuring and other charges	28.2%	27.3%	32.0%
Pre-tax profit margin	28.6	19.2	32.0
Total full-time employees	10,900	11,900	14,300

In 2002, GMI's pre-tax earnings were $2.4 billion, 22% higher than in 2001, with a pre-tax profit margin of 28.6%. Excluding the September 11 recoveries and restructuring and other charges, GMI's pre-tax earnings declined 15% from 2001 to $2.4 billion. GMI's net revenues declined 18% in 2002, to $8.4 billion, driven primarily by reduced equity and investment banking revenues, partially offset by a strong increase in debt markets revenues. Included in GMI's results are net revenues related to investments, including dividend income and realized and unrealized gains and losses. Investment-related net revenues were $162 million in 2002, $291 million in 2001 and $611 million in 2000. Excluding the restructuring and other charges, GMI's 2001 net revenues and pre-tax earnings decreased 20% and 31%, respectively, from 2000 due principally to reduced equity and equity-linked trading and origination. Additionally, lower strategic advisory revenues as well as write-downs of certain credit and private equity positions contributed to the decline. These declines were partially offset by increased debt trading and origination revenues in 2001.

The September 11 terrorist attacks on the World Trade Center had a negative impact on GMI's 2001 results, as the temporary closure of markets, loss of communication with key clients, and business disruption caused by the relocation of GMI employees led to lower than normal market shares and reduced business activity in the period immediately following the attacks. During 2002, GMI recognized $90 million in business interruption insurance recoveries for forgone pre-tax profits related to September 11. For further information regarding September 11, see Note 3 to the Consolidated Financial Statements.

A detailed discussion of GMI's revenues follows:

Client Facilitation and Trading

Commissions Commissions revenues primarily arise from agency transactions in listed and over-the-counter ("OTC") equity securities, money market instruments, options and commodities. In late 2001, Merrill Lynch instituted a program for providing enhanced brokerage services to its customers with large-size Nasdaq orders in exchange for an agreed-upon per share commission in lieu of the traditional spread. Nearly all Nasdaq institutional client trades are now executed on an agency, rather than a principal, basis.

In 2002, commissions revenues were essentially unchanged from 2001 at $2.1 billion. In 2001, commissions revenues declined 12% from 2000. This decrease resulted from a global decline in client transaction volumes. The impact of lower transaction volumes in 2002 was mitigated by over $225 million of commissions generated by large-size Nasdaq orders.

Principal transactions and net interest profit

(dollars in millions)

	2002	2001	2000
Equities and equity derivatives	$ 714	$1,813	$3,807
Debt and debt derivatives	3,000	2,749	2,326
Total	$3,714	$4,562	$6,133

Principal transactions revenues include realized gains and losses from the purchase and sale of securities in which Merrill Lynch acts as principal, and unrealized gains and losses on trading assets and liabilities. In addition, principal transactions revenues include unrealized gains related to equity investments held by Merrill Lynch's broker-dealers, which amounted to $117 million, $213 million and $212 million in 2002, 2001, and 2000, respectively.

Net interest profit is a function of the level and mix of total assets and liabilities, including trading assets owned, financing and lending transactions, trading strategies associated with GMI's institutional securities business, and the prevailing level, term structure, and volatility of interest rates. Net interest profit is an integral component of trading activity. Beginning in 2002, GMI's net interest profit includes income generated by the investment portfolio of Merrill Lynch's U.S. banks, all of which was previously recorded in GPC. This change follows a transfer in responsibility for this activity, which was made to better align functional and management responsibilities. The prior year segment results have been restated to reflect this change.

In assessing the profitability of its client facilitation and trading activities, Merrill Lynch views principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate. Net trading revenues were $3.7 billion in 2002, down 19% from 2001. Debt and debt derivatives net trading revenues were $3.0 billion, up 9% from 2001, reflecting increased trading of interest rate and other products due to a favorable yield curve environment and proprietary trading. Equities and equity derivatives net trading revenues decreased 61% from 2001 to $714 million, primarily due to reduced customer flows, lower volatility during much of the year, and the conversion of the Nasdaq business to a commission-based structure over the past year.

In 2001, net trading revenues declined 26% from 2000. Equities and equity derivatives net trading revenues decreased 52% from 2000, to $1.8 billion, due to reduced global transaction volumes and lower volatility throughout much of 2001. Debt and debt derivatives net trading revenues were $2.7 billion in 2001, up 18% from 2000, as improvements in interest rate trading results were partially offset by provisions and write-downs of certain credit positions of approximately $470 million. Included in debt and debt derivatives trading revenues in 2001 are net revenues from the energy-trading business of $53 million. The 2001 energy-trading net revenues include a first quarter gain on the sale of essentially all of the assets of this business.

Investment banking

(dollars in millions)

	2002	2001	2000
Debt underwriting	$ 622	$ 693	$ 439
Equity underwriting	824	1,343	1,632
Total underwriting	1,446	2,036	2,071
Strategic advisory services	702	1,099	1,378
Total	$2,148	$3,135	$3,449

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

Total underwriting revenues were $1.4 billion in 2002, down 29% from 2001, as equity and equity-linked underwriting revenues declined 39% and debt underwriting revenues declined 10%. These decreases resulted from a reduced volume of transactions as well as lower market share. Merrill Lynch's debt underwriting focus has shifted toward higher margin businesses and away from the achievement of aggregate market share goals; however, debt transactions remain highly competitive and not all transactions are profitable. In 2001, total underwriting revenues were essentially unchanged from 2000, as a 58% increase in debt underwriting revenues was more than offset by an 18% decline in equity and equity-linked underwriting.

Merrill Lynch's underwriting market share information based on transaction value is as follows:

	2002		2001		2000	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
Global proceeds						
Equity and equity-linked	11.0%	3	13.8%	2	10.6%	2
Debt	7.9	3	10.3	2	11.6	1
Debt and equity	8.1	2	10.6	2	11.4	1
U.S. proceeds						
Equity and equity-linked	15.6%	3	18.0%	2	12.7%	4
Debt	9.4	2	11.8	2	14.2	1
Debt and equity	9.7	2	12.3	2	14.0	1

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

Strategic Advisory Services Strategic advisory services revenues, which include merger and acquisition and other advisory fees, decreased 36% in 2002, to $702 million, as deteriorating market conditions continued to have a negative impact on global merger and acquisition activity and on client demand for strategic advisory services.

Merrill Lynch's merger and acquisition market share information based on transaction values is as follows:

	2002		2001		2000	
	Market Share	Rank	Market Share	Rank	Market Share	Rank
Announced transactions						
Global	14.0%	6	25.2%	3	21.4%	4
U.S	13.5	8	31.4	3	27.1	4
Completed transactions						
Global	24.5%	3	27.5%	3	31.6%	3
U.S	32.7	4	33.2	3	29.4	3

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

Other Revenues Other revenues, which include realized investment gains and losses and distributions on equity investments, increased 5% to $488 million in 2002. Other revenues in 2002 reflected increased realized gains on the investment portfolios of Merrill Lynch's U.S. banks and a $45 million pre-tax gain on the sale of the Securities Pricing Services business. In 2001, Other revenues decreased 42% compared to 2000 and included a pre-tax gain of $50 million related to the sale of the Canadian securities clearing business, which was more than offset by write-downs of equity investments of $126 million.

Global Private Client

At the end of 2002, Merrill Lynch created GPC, formerly known as the Private Client Group ("PCG"). While encompassing the same businesses as PCG, GPC will more fully integrate the U.S. and non-U.S. businesses into a global organization to bring the full resources of GPC together as Merrill Lynch continues to enhance its services to clients. The formation of the GPC group will also provide more efficient leverage of technology platforms and reduced costs as the management structure is streamlined.

GPC provides wealth management products and services to assist clients in building financial assets, and maximizing returns relative to risk tolerance and investment objectives. GPC offers a wide range of products and services, including retail brokerage, asset and liability management, banking, trust and generational planning, consumer and small business loans and insurance products. GPC serves individual investors, and middle market corporations and institutions through approximately 14,000 Financial Advisors ("FAs") in approximately 670 offices around the world as of year-end 2002.

To align asset account structure with each client's specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services, and self-directed online accounts. Assets in GPC accounts totaled $1.1 trillion at December 27, 2002, down from $1.3 trillion at December 28, 2001, due primarily to market depreciation. In a difficult operating environment, GPC attracted net new assets from clients of $18 billion during 2002.

There was also continued progress in diversifying revenues as sales of annuity products and the volume of mortgage originations reached record levels in 2002. Mortgage origination volume more than doubled in 2002, to $21 billion.

In May 2002, Merrill Lynch and HSBC Holdings plc ("HSBC") agreed to exit their joint venture, Merrill Lynch HSBC ("MLHSBC"), and integrate it into the HSBC Group. MLHSBC was a 50/50 joint venture formed by Merrill Lynch and HSBC in April 2000 to create a global online investment and banking services company, serving individual self-directed customers outside the United States. As the decline in worldwide equity markets reduced the demand for online trading, MLHSBC did not achieve the growth that was forecast when the venture was formed and never achieved profitability. Although Merrill Lynch exited the joint venture in 2002, MLHSBC will continue to operate using Merrill Lynch as part of its name through 2004 and clients will have access to Merrill Lynch research during that time.

GPC has faced a difficult market environment as equity securities prices continued to drop and investor confidence declined. As the markets have declined, Merrill Lynch has become involved in an increased number of client claims, which is likely to result in higher professional fees and litigation expenses than those incurred in the past.

In 2001, Merrill Lynch adopted a multi-channel service model in the United States, more closely aligning FAs with clients based on levels of investable assets. This segmentation repositioned the business to provide a more comprehensive suite of financial products and services. In the United States, ultra-high-net-worth clients are aligned with Private Wealth Advisors ("PWAs"). PWAs are FAs who have completed a rigorous accreditation program and focus on clients with more than $10 million of investable assets. For clients in the United States with less than $100,000 of investable assets, Merrill Lynch developed the telephone-based Financial Advisory Center ("FAC") to more effectively serve these clients in a cost efficient manner.

During 2001, GPC conducted a detailed business review to reallocate and focus the use of resources in its businesses. In the United States, this process began in 2000 and resulted in the

completion of several actions in 2001, including: a long-term outsourcing arrangement for certain mortgage origination and servicing operations of Merrill Lynch Credit Corporation; outsourcing the administrative services for smaller U.S. 401(k) plans; and the sale of the health and welfare division of Merrill Lynch's Howard Johnson and Company. In addition, in 2001, GPC consolidated certain offices and announced the closing of one of three operations centers in the United States. These initiatives were completed in 2002. Outside the United States, GPC narrowed its focus to serving high-net-worth and ultra-high-net-worth clients, GPC's traditional strength. This resulted in several strategic actions, including: the sale of the Canadian Private Client business in 2001; the consolidation of branch offices in Europe, the Middle East, and Asia Pacific; and the refocusing of GPC's Japan business in 2002. These strategic changes were made with the goal of retaining and growing the elements of the business where GPC can make the best returns on its investments. GPC continuously looks for opportunities to reallocate resources and achieve greater efficiencies while making strategic investments and continues to scale its infrastructure to the business environment.

GPC's Results of Operations

(dollars in millions)

	2002	2001	2000
Commissions	$ 2,469	$ 3,045	$ 4,468
Principal transactions and new issue revenues	1,165	1,576	2,024
Asset management and portfolio service fees	3,532	3,676	3,911
Net interest profit	1,336	1,518	1,534
Other revenues	279	102	160
Total net revenues	8,781	9,917	12,097
Non-interest expenses before recoveries related to September 11 and restructuring and other charges	7,576	8,999	10,597
Pre-tax earnings before recoveries related to September 11 and restructuring and other charges	1,205	918	1,500
Recoveries related to September 11	25	–	–
Restructuring and other charges	66	(1,077)	–
Pre-tax earnings (loss)	$ 1,296	$ (159)	$ 1,500
Pre-tax profit margin before recoveries related to September 11 and restructuring and other charges	13.7%	9.3%	12.4%
Pre-tax profit margin	14.8	N/M	12.4
Total full-time employees	31,900	36,400	46,100
Total Financial Advisors	14,000	16,400	20,200

N/M-not meaningful.

GPC's 2002 pre-tax earnings were $1.3 billion as compared to a pre-tax loss of $159 million in 2001. Excluding the September 11 recoveries and restructuring and other charges, GPC's pre-tax earnings increased 31% from 2001 to $1.2 billion as a 16% decline in non-interest expenses more than offset an 11% reduction in net revenues. On the same basis, the pre-tax operating margin was 13.7%, up more than four percentage points from 9.3% in 2001, reflecting substantially improved performance both inside and outside the United States. The growing percentage of fee-based and recurring revenues helped stabilize overall revenues in 2002 as transaction volumes fell.

Excluding restructuring and other charges in 2001, GPC's pre-tax earnings decreased 39% and net revenues decreased 18% from 2000. The pre-tax profit margin declined to 9.3% in 2001 from 12.4% in 2000. These declines resulted from lower transaction volumes and reduced demand for mutual fund and equity products. In addition, as a result of the completion of a detailed business review, GPC recorded $1.1 billion of pre-tax restructuring and other charges in the fourth quarter of 2001, primarily related to severance and the write-down of real estate and technology assets. These charges included costs associated with a decision to focus the non-U.S. business, principally in Japan, more exclusively on high-net-worth individuals and institutional middle markets clients. During 2002, GPC's costs related to the 2001 restructuring were adjusted to reflect a change in estimate, related to facilities, severance and other costs resulting in a net pre-tax credit of $83 million, primarily related to Japan. This credit was partially offset by a $17 million real estate-related 2002 other charge. See Note 3 to the Consolidated Financial Statements for further information.

Commissions Commissions revenues primarily arise from agency transactions in listed and OTC equity securities, as well as sales of mutual funds, insurance products, and options.

Commissions revenues decreased 19% to $2.5 billion in 2002 as a result of a global decline in client transaction volumes, particularly in equity securities and mutual funds. Commissions have also been negatively affected by the ongoing transition of GPC assets to asset-priced accounts. Commissions revenues also declined in 2001 to $3.0 billion from $4.5 billion in 2000, or 32%, due to a decline in client transaction volume.

Principal transactions and new issue revenues GPC's Principal transactions and new issue revenues primarily represent bid-offer revenues in OTC equity securities, government bonds and municipal securities as well as selling concessions on underwriting of debt and equity products. GPC does not take any significant principal trading risk positions.

Principal transactions and new issue revenues declined 26% to $1.2 billion in 2002 as trading and new issue volume declined in a less favorable market environment. In 2001, Principal transactions and new issue revenues similarly declined 22% from 2000, to $1.6 billion.

Asset management and portfolio service fees Asset management and portfolio service fees include asset management fees from taxable and tax-exempt money market funds as well as portfolio fees from fee-based accounts such as Unlimited Advantage^{SM} and Merrill Lynch Consults® . Also included are servicing fees related to these accounts, as well as certain other account-related fees.

In 2002, Asset management and portfolio service fees totaled $3.5 billion, 4% lower than in 2001. In 2001, Asset management and portfolio service fees totaled $3.7 billion, down from $3.9 billion in 2000. These decreases resulted primarily from market-driven declines in asset levels.

The value of assets in GPC accounts at year-end 2002, 2001, and 2000 is summarized as follows:

(dollars in billions)

	2002	2001	2000
Assets in GPC accounts			
U.S	$1,053	$1,185	$1,337
Non-U.S	89	101	140
Total	$1,142	$1,286	$1,477
Assets in asset-priced accounts	$ 182	$ 199	$ 209
As a percentage of total assets in GPC accounts	16%	15%	14%

The changes in assets in GPC accounts from year-end 2001 to year-end 2002 are detailed below:

(dollars in billions)

		Net Changes Due To			
	Year-end 2001	New Money	Asset Depreciation	Other(1)	Year-end 2002
Assets in GPC accounts:					
U.S	$1,185	$ 19	$ (151)	$ –	$1,053
Non-U.S	101	(1)	(9)	(2)	89
Total	$1,286	$ 18	$ (160)	$ (2)	$1,142

(1) Represents business divestitures.

The decline in asset levels in 2002 was due primarily to market depreciation.

Net interest profit Net interest profit for GPC includes an allocation of the interest spread earned in Merrill Lynch's banks for deposits as well as interest earned on margin and other loans. Prior to 2002, GPC's net interest profit included all revenues and expenses associated with managing the investment portfolio of Merrill Lynch's U.S. banks. The revenues and expenses associated with managing this portfolio are now included in GMI's results. Prior year segment results have been restated for this change.

Net interest profit was $1.3 billion, down 12% from $1.5 billion in 2001. This decrease is primarily due to lower margin balances and a reduction in the related interest rates. In 2001, net interest profit was essentially unchanged from 2000 levels.

Other revenues Other revenues increased $177 million, from $102 million in 2001 to $279 million in 2002. Other revenues in 2002 reflect increased realized gains related to the sales of mortgages originated by Merrill Lynch Credit Corporation. Investment-related net revenues were a gain (loss) of $(11) million, $(52) million, and $18 million in 2002, 2001, and 2000, respectively. Investment-related net revenues in 2002 included a pre-tax gain of $39 million related to the release of provisions subsequent to the conclusion of the sale of the Canadian GPC business, which was partially offset by losses related to MLHSBC of $34 million. Investment-related net revenues in 2001 included a pre-tax gain on the sale of the Canadian GPC business of $108 million, which was more than offset by losses on various e-commerce investments, including losses related to MLHSBC of $150 million.

Merrill Lynch Investment Managers

MLIM is among the world's largest asset managers with $462 billion of assets under management at the end of 2002. MLIM offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele. MLIM also offers a wide assortment of index-based equity and alternative investment products. MLIM's clients include institutions, high-net-worth individuals, mutual funds, and other investment vehicles. MLIM-branded mutual fund products are available through third-party distribution networks and the GPC distribution channel. MLIM also distributes its products through GMI. MLIM maintains a significant sales and marketing presence in both the United States and overseas that is focused on acquiring and maintaining institutional investment management relationships. MLIM markets its services both directly to these investors and through pension consultants.

During 2002, MLIM continued to review all of its businesses. As a consequence of these reviews, certain overlap of investment management activities between the U.S. and London offices of MLIM were eliminated. Also during 2002, MLIM merged its three separate international mutual fund families into a single mutual fund family, Merrill Lynch International Investment Funds ("MLIIF"). This merger resulted in the elimination of nine funds separately marketed under the Mercury and MLAM brands. The MLIIF merger also permitted MLIM to rationalize its various fee structures and introduce a wider range of share classes aligned to investor requirements. In addition, in January 2002, MLIM sold its Cana-dian retail asset management operations.

These measures along with the impact of similar actions undertaken in 2001 contributed to MLIM's improved pre-tax profit margin in 2002. This improvement took place in a very challenging business environment for investment management in general and MLIM in particular. The equity market downturn from 2000 through 2002 has had a significant effect in the marketplace for investment management products. There has been a broad shift away from higher fee-yielding equity products towards lower fee-yielding short-duration fixed-income products. This has been observable behavior for both retail and institutional clients. Furthermore, the operating environment both inside and outside of the United States has been further constrained by the impact of media attention related to a number of corporate accounting, disclosure, governance, and litigation issues. In Europe, MLIM's sales efforts were also constrained by media attention related to several events that occurred during the latter part of 2001 and continuing into 2002. These matters included the retirement or termination of several senior executives or portfolio managers, the public trial in the United Kingdom related to claims made by a large institutional MLIM client and the possibility of similar litigation in the future.

During 2001, MLIM reviewed all of its business activities to further enhance future profit potential and target selected growth opportunities. As a result of these in-depth reviews, MLIM consolidated the management of its Japan, Asia Pacific and European activities into a single management structure. MLIM significantly reduced its global real estate footprint by selling, closing or down-sizing offices in Los Angeles, Korea, and Singapore and consolidating its New York metropolitan area-based operations. MLIM also undertook strategic outsourcing opportunities, consolidated real estate in Tokyo and London, reduced technology spending, and exited its Defined Asset Funds business. See Note 3 to the Consolidated Financial Statements for additional information.

MLIM's Results of Operations

(dollars in millions)

	2002	2001	2000
Commissions	$ 177	$ 249	$ 335
Asset management fees	1,368	1,639	1,761
Other revenues	8	44	113
Total net revenues	1,553	1,932	2,209
Non-interest expenses	1,209	1,630	1,754
Pre-tax earnings before restructuring and other charges	344	302	455
Restructuring and other charges	(23)	(283)	–
Pre-tax earnings	$ 321	$ 19	$ 455
Pre-tax profit margin before restructuring and other charges	22.2%	15.6%	20.6%
Pre-tax profit margin	20.7	1.0	20.6
Total full-time employees	2,800	3,100	4,000

Pre-tax earnings for MLIM were $321 million in 2002, up from $19 million in 2001. Excluding restructuring and other charges, pre-tax earnings were $344 million in 2002, up 14% from $302 million in 2001. On this basis, MLIM's pre-tax operating margin was 22.2%, up from 15.6% in 2001. The integration of MLIM's global investment platform and re-alignment of resources resulted in reduced expenses and improved productivity which more than offset a 20% decline in net revenues, to $1.6 billion in 2002. MLIM continued to generate strong investment performance with approximately 70% of global assets under management above benchmark or median for the 1-, 3-, and 5-year periods ending December 2002. In 2001, net revenues decreased 13%, to $1.9 billion from $2.2 billion in 2000 and pre-tax earnings, excluding restructuring and other charges, declined 34% to $302 million from $455 million in 2000. The reduction in net revenues and pre-tax earnings was primarily the result of a market-driven decline in assets under management. Pre-tax earnings in 2001 also reflected higher costs related to litigation. In 2001, as a result of the completion of the previously mentioned detailed business review, MLIM recorded $283 million of pre-tax restructuring and other charges, primarily related to severance and costs associated with the closing of certain mutual funds, including investment write-downs of $32 million principally related to mutual fund seed capital. During 2002, MLIM's costs related to the 2001 restructuring were adjusted to reflect a change in estimate, primarily related to severance and facilities, resulting in an additional net pre-tax charge of $23 million.

Commissions Commissions for MLIM principally consist of distribution fees and redemption fees related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds ("12b-1 fees"). As a result of lower transaction volumes and the impact of lower market values, commissions decreased 29% to $177 million in 2002. Commissions in 2001 declined 26% from 2000 to $249 million as a result of lower transaction volumes.

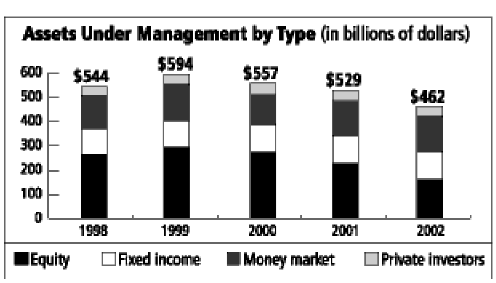
Asset management fees Asset management fees primarily consist of fees earned from the management and administration of funds as well as performance fees earned by MLIM on separately managed accounts. Asset management fees declined 17% to $1.4 billion from $1.6 billion in 2001. These fees were $1.8 billion in 2000. These reductions are due to market-driven declines in the value of equity assets under management as well as the shift of assets by clients from higher yielding equity funds to lower yielding fixed income and money market funds.

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

(dollars in billions)

	2002	2001	2000
Assets Under Management Retail(1)	$189	$220	$250
Institutional	235	266	262
Private investors(2)	38	43	45
Total	$462	$529	$557

(1) Net of outflows of $8 billion, $10 billion and $36 billion of retail money market funds.
(2) Represents segregated portfolios for individuals, small corporations, and institutions.



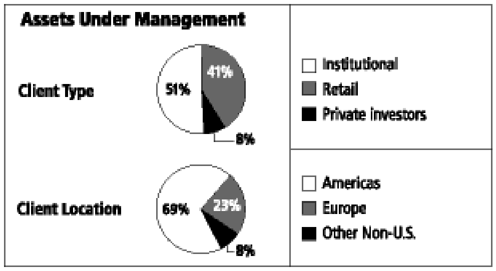
At year-end 2002, assets under management totaled $462 billion, a 13% decline from 2001. This decrease is primarily due to market-driven declines, $19 billion of global net outflows primarily from equity funds during the year, and $8 billion of outflows from retail money market funds. The outflows from retail money market funds continue to be negatively impacted by the change in the cash sweep options for certain CMA® and other types of Merrill Lynch accounts. Beginning in mid-2000, these accounts were modified to sweep most cash into interest-bearing bank deposits at Merrill Lynch's U.S. banks rather than into MLIM-managed retail money market funds.

An analysis of changes in assets under management from year-end 2001 to year-end 2002 is as follows:

(dollars in billions)

		Net Changes Due To			
	Year-end 2001	New Money	Asset Depreciation	Other(1)	Year-end 2002
Assets under management	$ 529	$(19)	$ (52)	$ 4	$ 462

(1) Includes reinvested dividends of $4 billion, $17 billion related to foreign exchange movements, net outflows of $(8) billion of retail money market funds, and other changes of $(9) billion.



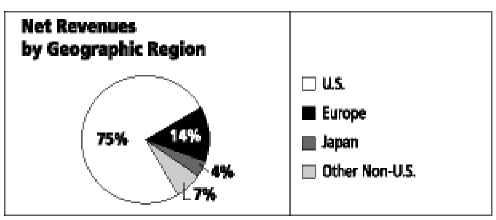
Other Revenues Other revenues, which primarily include net interest profit and investment gains and losses, decreased from $44 million in 2001 to $8 million in 2002. The 2002 Other revenues reflect investment losses and also include a $17 million pre-tax gain on the sale of the Canadian retail asset management business. Other revenues in 2001 declined $69 million from 2000 due to losses on investments.

Global Operations

Merrill Lynch's operations outside the United States are organized into five geographic regions:

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

The following chart illustrates the 2002 regional operating results excluding all items included in the corporate segment. For further geographic information, see Note 4 to the Consolidated Financial Statements.



Europe, Middle East, and Africa

(dollars in millions)

	2002	2001	2000
Net revenues	$2,641	$3,462	$4,953
Pre-tax earnings before restructuring and other charges(1)	93	261	1,261
Pre-tax earnings (loss)	69	(32)	1,261
Total full-time employees	6,400	7,200	8,600

(1) Before $24 million and $293 million of pre-tax restructuring and other charges in 2002 and 2001, respectively.

Merrill Lynch operates in Europe, the Middle East, and Africa as a broker-dealer in a wide array of equity and debt products, and also provides investment banking, asset management and private banking services. Additionally, Merrill Lynch offers its clients a broad range of equity, fixed income and economic research. Since opening its first European office in Geneva in 1952, Merrill Lynch has extended its presence across the region, with 33 offices in 16 countries.

In 2002, Merrill Lynch adjusted its resource capacity in the region to be more in line with market conditions and to achieve greater efficiencies. In May 2002, Merrill Lynch and HSBC agreed to exit their joint venture Merrill Lynch HSBC, and integrate MLHSBC into the HSBC Group. MLHSBC was a 50/50 joint venture between Merrill Lynch and HSBC that provided online financial services. The decision to exit this joint venture resulted from a review of Merrill Lynch's international retail operations in light of changed market conditions and a view that the online brokerage would not achieve a profit in the foreseeable future.

As a result of a detailed business review in the fourth quarter of 2001, GPC consolidated offices in Europe and the Middle East, MLIM consolidated its Japan, Asia Pacific and European activities into a single management structure and GMI streamlined its management and reorganized its investment banking division. These actions resulted in a fourth quarter 2001 pre-tax charge of $293 million in the region, primarily related to severance. In 2002, costs related to the 2001 restructuring were adjusted to reflect a change in estimate, primarily related to severance, resulting in a pre-tax charge of $7 million. In addition, the region recorded an other charge of $17 million in 2002 related to certain real estate leases associated with its GPC businesses.

In 2002, net revenues for the region decreased 24% from 2001. Pre-tax earnings before restructuring and other charges decreased 64% from 2001 to $93 million due primarily to decreased equity trading and origination revenues. In 2001, net revenues for the region decreased 30% from 2000. Pre-tax earnings before restructuring and other charges decreased 79% from 2000 to $261 million also due primarily to decreased equity trading and origination revenues.

Japan

(dollars in millions)

	2002	2001	2000
Net revenues	$ 761	$ 997	$1,531
Pre-tax earnings (loss) before restructuring and other charges (credits)[1]	97	(14)	237
Pre-tax earnings (loss)	217	(394)	237
Total full-time employees	1,400	2,900	3,500

(1) Before $(120) million and $380 million of pre-tax restructuring and other charges (credits) in 2002 and 2001, respectively.

In 2002, Japan's GMI business focused on high-value added, high-margin activities and adding new businesses, especially in the areas of balance sheet restructuring and capital reinforcement.

In 2002, GPC completed its restructuring program in Japan, closing 25 branch offices; outsourcing data center and technology services; and launching a direct-client Financial Service Center to serve clients with limited investable assets. These actions resulted in a significant reduction in the number of full-time employees in the region and an annual expense savings of over $200 million. GPC is now focused on small- to medium-sized business clients and high-net-worth individual investors. The restructuring program resulted in a fourth quarter 2001 pre-tax charge of $380 million and additional wind-down expenses in 2002. In 2002, costs related to the 2001 restructuring were adjusted to reflect a change in estimate, primarily related to severance, facilities and other expenses, resulting in a net pre-tax credit of $120 million. The facilities-related change in estimate is primarily related to the decision to maintain an existing data center as a back-up facility in the region.

Net revenues in the Japan region in 2002 decreased 24% from 2001 to $761 million, primarily reflecting continued weak market conditions which negatively impacted the region's GMI businesses. In addition, the downsizing of the GPC business resulted in lower revenues in the region. Pre-tax earnings before restructuring and other charges (credits) were $97 million in 2002 compared to a loss of $14 million in 2001 reflecting continued disciplined cost management and the impact of restructuring actions taken. Net revenues in the Japan region in 2001 were down 35% from 2000 to $997 million, reflecting weak market conditions, except in the GMI debt business. The corresponding decrease in pre-tax earnings before restructuring and other charges (credits) was partially alleviated by a reduction in expenses as a result of cost reduction initiatives in 2001.

Asia Pacific

(dollars in millions)

	2002	2001	2000
Net revenues	$ 612	$ 802	$1,193
Pre-tax earnings before restructuring and other charges (credits)[1]	50	59	233
Pre-tax earnings (loss)	57	(30)	233
Total full-time employees	1,900	2,100	2,700

(1) Before $(7) million and $89 million of pre-tax restructuring and other charges (credits) in 2002 and 2001, respectively.

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific region, offering a full range of GMI, GPC, and MLIM products. Merrill Lynch has an established trading presence and exchange memberships in all major financial markets in the region. The GPC business operates 11 offices serving the region, including four on the west coast of the United States, offering asset management services and wealth management products to its clients. MLIM operates offices offering a diverse mix of investment management products and services to institutional and private clients in the region.

As part of an ongoing review, in 2002, Merrill Lynch sold the Malaysian brokerage business of Smith Zain Securities, a joint venture. In addition, GMI migrated its debt trading business from Australia to Japan, completing the final stage of centralizing all Asian debt trading desks in Tokyo. GPC is in the process of closing its office in Kaohsiung, Taiwan while continuing to maintain a presence in Taipei. As part of Merrill Lynch's detailed business review in 2001, GPC restructured its operations in Australia by narrowing its focus to high-net-worth investors and consolidating offices. MLIM restructured its operations by consolidating the asset management activities for the region into its London location, and GMI sold its equity brokerage operation in the Philippines to a local management team. As a result of the completion of these detailed business reviews, a pre-tax charge of $89 million was recorded in the fourth quarter of 2001. In 2002, costs related to the 2001 restructuring were adjusted to reflect a change in estimate, primarily related to severance, resulting in a net pre-tax credit of $7 million.

Opportunities for growth in 2003 are concentrated in the North Asian markets due to ongoing financial market deregulation. Merrill Lynch is reviewing opportunities in China and planning an expansion of its debt business in Korea.

Net revenues in the Asia Pacific region in 2002 decreased 24% from 2001 to $612 million. Pre-tax earnings before restructuring and other charges were $50 million in 2002, a decline of only 15% from 2001, due primarily to strong expense management. Net revenues in the region declined 33% in 2001 to $802 million. Pre-tax earnings before restructuring and other charges declined 75% in 2001 to $59 million. These declines were due to the deterioration in business volumes resulting from the slowdown in the regional economy.

Canada

(dollars in millions)

	2002	2001	2000
Net revenues	$262	$858	$ 845
Pre-tax earnings before restructuring and other charges(1)	125	246	169
Pre-tax earnings	124	216	169
Total full-time employees	300	500	3,900

(1) Before $1 million and $30 million of pre-tax restructuring and other charges in 2002 and 2001, respectively.

During 2002, Merrill Lynch operated as a broker-dealer providing an integrated range of GMI products and services. As a result of the completion of a detailed business review, in the fourth quarter of 2001 Merrill Lynch sold its Canadian GPC and securities clearing businesses and in early 2002 sold its MLIM retail asset management business.

All GMI businesses maintained competitive margins in 2002, despite a difficult operating environment. The fixed income markets continued to perform strongly, resulting in increased debt underwriting and strong trading revenues. In 2002, Merrill Lynch continued to make significant progress in expanding its advisory business and has built a premier organization in this market. In the Brendan Woods International Survey, Merrill Lynch continued to show market share gains in the institutional equity commission business in Canada, and within the key market segment of the large institutions Merrill Lynch was ranked second.

Net revenues in the Canada region in 2002 decreased 69% from 2001 to $262 million reflecting the sales of the GPC, securities clearing, and MLIM businesses and lower revenues from GMI. Pre-tax earnings before restructuring and other charges were $125 million in 2002, down 49% from 2001, largely due to the 2001 pre-tax gain of $158 million on the sale of the GPC and securities clearing businesses. Pre-tax earnings in 2002 included a pre-tax gain of $39 million related to the release of provisions subsequent to the conclusion of the sale of the GPC business and a pre-tax gain of $17 million related to the sale of the MLIM retail asset management business. In 2001, net revenues in the region were essentially unchanged from 2000 as the gains on the sale of businesses essentially offset decreases in the net revenues of GMI and GPC. Pre-tax earnings before restructuring and other charges increased to $246 million in 2001 due to record earnings in investment banking and the pre-tax gain on the sale of businesses. The sales of businesses in 2001 and early 2002 resulted in a significant reduction in the number of full-time employees in the region.

Latin America

(dollars in millions)

	2002	2001	2000
Net revenues	$527	$ 526	$ 748
Pre-tax earnings before restructuring and other charges(1)	87	24	152
Pre-tax earnings	87	10	152
Total full-time employees	900	1,000	1,200

(1) Before $14 million of pre-tax restructuring and other charges in 2001.

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

The economies of Latin America continued to decline in 2002; in January 2002, Argentina abandoned peso convertibility to the U.S. dollar, causing a 70% devaluation of the peso. Subsequently, Argentina defaulted on $141 billion of debt, the largest sovereign default in history. Political uncertainty during 2002 caused Brazil's currency to depreciate 38% and capital inflows to slow. These and other factors have had a negative impact on the overall Latin American economy.

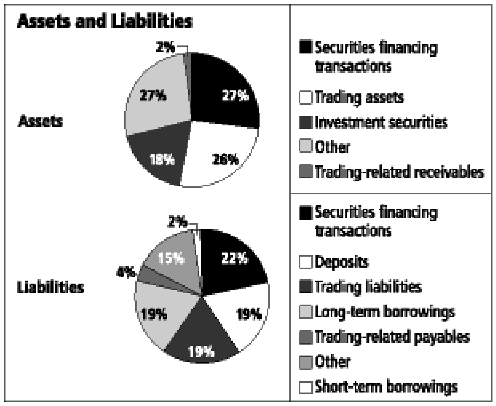
In 2002, Merrill Lynch's Latin American businesses completed their restructuring program initiated in 2001. GPC narrowed its focus to high-net-worth investors and, as a result, a Financial Advisory Center was established in Uruguay for clients with accounts with limited investable assets.

Net revenues for the region in 2002 of $527 million were essentially unchanged from 2001. Pre-tax earnings before restructuring and other charges were $87 million, up $63 million from 2001. These results reflect an improved performance in GMI's businesses in Latin America. Net revenues for the region in 2001 decreased 30% from 2000. Pre-tax earnings before restructuring and other charges in 2001 of $24 million decreased $128 million from 2000 primarily due to the volatility of the Latin American economy. Despite this economic environment, GPC's business in Latin America was strong in 2001. Pre-tax earnings in 2000 included a gain on the sale of the Puerto Rico retail brokerage business.

Consolidated Balance Sheets

Overview

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheet. The following chart illustrates the composition of the balance sheet at December 27, 2002.



In 2002, average total assets were $452 billion, up 4% from $436 billion in 2001. Average total liabilities in 2002 increased 4% to $428 billion from $413 billion in 2001, and average equity capital increased 5% to $24 billion during 2002. The major components of the increase in average total assets and liabilities are summarized as follows:

(dollars in millions)

	2002 vs. 2001	
	Increase (Decrease)	Change
Average Assets		
Receivables under securities borrowed transactions	$13,352	25%
Loans, notes and mortgages (net)	8,964	46
Customer receivables (net)	(7,607)	(17)
Average Liabilities		
Payables under repurchase agreements	$ 8,591	9%
Interest and other payables	7,613	39
Deposits	3,877	5
Payables under securities loaned transactions	(3,216)	(36)

The increase in average deposits, as well as interest and other payables, was primarily used by Merrill Lynch Bank USA and its subsidiaries to make loans, which increased significantly due to GPC mortgage and small business loan originations. Additionally, securities financing transactions rose due to increased matched-book activity. Merrill Lynch enters into matched-book transactions to accommodate clients, obtain securities for settlement and to earn residual interest rate spreads.

The discussion that follows analyzes the changes in year-end financial statement balances of the major asset and liability categories.

Trading-Related Assets and Liabilities

Trading-related balances primarily consist of trading assets (including securities pledged as collateral) and liabilities, receivables under resale agreements and securities borrowed transactions, payables under repurchase agreements and securities loaned transactions, and certain receivable/payable balances that result from trading activities. At December 27, 2002, total trading-related assets and liabilities were $245.1 billion and $191.9 billion, respectively.

Although trading-related balances comprise a significant portion of the Consolidated Balance Sheet, the magnitude of these balances does not necessarily convey a sense of the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following section. See Note 7 to the Consolidated Financial Statements for descriptions of market and credit risks.

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related assets by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies. Conversely, Merrill Lynch may be required to post cash or securities to counterparties in accordance with similar policies.

Trading Assets and Liabilities

Trading inventory principally represents securities purchased (“long” positions), securities sold but not yet purchased (“short” positions), and the fair value of derivative contracts. See Note 1 to the Consolidated Financial Statements for related accounting policies. These positions are primarily the result of market-making, hedging, and proprietary activities.

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

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

Trading assets, including securities pledged and received as collateral, at year-end 2002 were $113.6 billion, up 5% from year-end 2001, and trading liabilities increased 3% to $81.2 billion.

Securities Financing Transactions

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

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

Receivables under resale agreements and securities borrowed transactions at year-end 2002 decreased 3% from 2001 to $120.8 billion, and payables under repurchase agreements and securities loaned transactions increased 7% from year-end 2001 to $93.0 billion.

Other Trading-Related Receivables and Payables

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

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

Trading-related receivables at year-end 2002 were $10.7 billion, up 15% from 2001, and trading-related payables were $17.7 billion, up 32% from December 28, 2001.

Non-Trading Assets

Investment Securities

Investment securities consist of highly liquid debt securities, including those held for liquidity management purposes, and equity securities. Investment securities decreased to $81.8 billion at December 27, 2002 from $87.7 billion at December 28, 2001. Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities, and venture capital investments, including investments in technology companies, and investments that economically hedge employee deferred compensation liabilities. See Note 6 to the Consolidated Financial Statements for further information.

Loans, Notes, and Mortgages

Merrill Lynch's portfolio of loans, notes, and mortgages consists of residential mortgages, home equity loans, syndicated loans, small business loans and other loans to individuals, corporations, or other businesses. Merrill Lynch maintains collateral on some of these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower or other loan parties, and guarantees. Loans, notes, and mortgages increased 80% in 2002 to $34.7 billion due to increased consumer and commercial lending activities as a result of record levels of mortgage originations. Merrill Lynch maintains collateral to mitigate risk of loss in the event of default. Merrill Lynch periodically sells mortgage loans originated by GPC into the secondary market. See Note 9 to the Consolidated Financial Statements for additional information.

Other

Other non-trading assets, which include cash and cash equivalents, goodwill, equipment and facilities, separate accounts assets, and other assets, decreased $0.3 billion from year-end 2001 levels. Separate account assets are related to Merrill Lynch's insurance businesses and represent segregated funds which are invested for certain policy holders and other customers. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of Merrill Lynch.

Non-Trading Liabilities

Borrowings

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

Commercial paper remained low at $4.0 billion at year-end 2002 compared to $2.9 billion at year-end 2001. Deposits decreased $4.0 billion to $81.8 billion in 2002 as a result of lower customer deposits in U.S. banking subsidiaries. Outstanding long-term borrowings were $78.5 billion at year-end 2002, up 2% from December 28, 2001.

Major components of the changes in long-term borrowings for 2002 and 2001 are as follows:

(dollars in billions)

	2002	2001
Beginning of year	$ 76.6	$ 70.2
Issuances	25.5	38.5
Maturities	(27.2)	(32.8)
Other(1)	3.6	0.7
End of year(2)	$ 78.5	$ 76.6
Average maturity in years of long-term borrowings, when measured to:		
Maturity	4.9	4.1
Put date	4.8	4.2

(1) Primarily foreign exchange movements.
(2) At year-end 2002 and 2001, $56.4 billion and $54.1 billion of long-term borrowings had maturity dates beyond one year, respectively.

Other

Other non-trading liabilities, which include liabilities of insurance subsidiaries, separate accounts liabilities, and other payables, remained essentially unchanged from year-end 2001 levels. Separate accounts liabilities represent Merrill Lynch's obligation to its customers related to separate accounts assets. See preceding Non-Trading Assets — Other section for additional information.

Preferred Securities Issued by Subsidiaries

Preferred securities issued by subsidiaries consist primarily of Trust Originated Preferred Securities^SM ("TOPrS"^SM) (see Note 12 to the Consolidated Financial Statements for further information). TOPrS^SM proceeds are utilized as part of general balance sheet funding (see Capital Adequacy and Funding section for more information).

Stockholders' Equity

Stockholders' equity at December 27, 2002 increased 14% to $22.9 billion from $20.0 billion at year-end 2001. This increase primarily resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

At December 27, 2002, total common shares outstanding, excluding shares exchangeable into common stock, were 867.3 million, 3% higher than the 843.5 million shares outstanding at December 28, 2001. The increase was attributable principally to employee stock grants and option exercises. There were no common stock repurchases during 2002 or 2001.

Total shares exchangeable into common stock at year-end 2002, issued in connection with the 1998 merger with Midland Walwyn Inc., were 3.9 million, compared with 4.2 million at year-end 2001. For additional information, see Note 13 to the Consolidated Financial Statements.

Off Balance Sheet Arrangements, Contractual Obligations and Contingent Liabilities and Commitments

As a part of its normal operating strategy, Merrill Lynch enters into various contractual obligations, contingent liabilities and commitments which may require future payments. The table below outlines the significant contractual obligations, contingent liabilities, and commitments, as well as the future expiration as of December 27, 2002:

(dollars in millions)

		Commitment Expiration			
	Total	Less than 1 Year	1–3 Years	4–5 Years	Over 5 Years
Total commitments	$53,384	$37,269	$ 4,862	$ 6,084	$ 5,169
Long-term borrowings	78,524	22,112	21,564	15,654	19,194
Short-term borrowings	5,353	5,353	–	–	–
Contractual agreements(1)	45,202	10,002	11,321	6,049	17,830
Liquidity and credit facilities with SPEs(2)(3)	13,721	13,591	25	–	105
Residual value guarantees	1,807	88	157	275	1,287
Standby letters of credit	820	674	121	7	18

(1) Represents the liability balance of contractual agreements at December 27, 2002.
(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs.
(3) Includes $2.3 billion of guarantees provided to SPEs by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.

In February 2003, Merrill Lynch entered into an investors' agreement with UFJ Holdings (one of the four largest Japanese banks) which provides that, in exchange for Merrill Lynch's investment of 120 billion Japanese yen (approximately $960 million) into UFJ Strategic Partner Co., Ltd., a UFJ Holding's subsidiary created to hold, manage, and resolve various non-performing and sub-performing UFJ loans, Merrill Lynch will receive 100% of UFJ Strategic Partner Co.'s preferred shares. The timing of the funding of this commitment is anticipated to be in the first quarter of 2003.

Refer to Note 9 and Note 14 to the Consolidated Financial Statements for a complete discussion of commitments, contingencies and guarantees and to Note 10 to the Consolidated Financial Statements for short-term and long-term borrowings.

Capital Adequacy and Funding

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

- sufficient equity capital to absorb losses and
- liquidity at all times, across market cycles, and through periods of financial stress.

Capital Adequacy

At December 27, 2002, Merrill Lynch's equity capital was comprised of $22.5 billion in common equity, $425 million in preferred stock, and $2.7 billion of TOPrS.SM Merrill Lynch continually reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, as well as the regulatory and legal capital requirements of its subsidiaries. Merrill Lynch determines the appropriateness of its equity capital composition taking into account the perpetual nature of its preferred stock and TOPrS.SM

Merrill Lynch uses statistically based risk models, developed in conjunction with its risk management practices, to estimate potential losses arising from market and credit risks. Models and other tools used to estimate risks are continually enhanced as data and risk analytics are refined. The assumptions and data used in analytical models are reviewed regularly to ensure that they provide a reasonable and conservative assessment of risks to the firm across a stress market cycle.

Merrill Lynch also assesses the need for equity capital to support business risks that may not be adequately measured through these risk models, such as process, legal and other operating risks. When deemed prudent or when required by regulations, Merrill Lynch also purchases insurance to protect against some risks. When assessing capital adequacy, Merrill Lynch does not view insurance as a complete substitute for capital because of uncertainty and timing of insurance recovery proceeds and the need to periodically renew coverage.

Merrill Lynch also considers equity capital that may be required to support normal business growth and strategic initiatives. Merrill Lynch increasingly has opportunities to serve individual and institutional clients through the use of its own equity capital. Merrill Lynch continued to grow its equity capital base in 2002 primarily through net earnings and the net effect of employee stock transactions. Equity capital of $25.5 billion at December 27, 2002 (including common equity, preferred equity and TOPrSSM) was 12% higher than at the beginning of the year.

Merrill Lynch's capital adequacy planning also takes into account the regulatory environment in which the company operates. Many regulated businesses require various minimum levels of capital (see Note 18 to the Consolidated Financial Statements for further information). Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making affiliated investments.

Based on the risks and equity needs of its businesses, Merrill Lynch believes that its equity capital base of $25.5 billion is adequate.

Merrill Lynch's leverage ratios were as follows:

	Leverage Ratio(1)	Adjusted Leverage Ratio(2)
Year-end		
December 27, 2002	17.5x	12.7x
December 28, 2001	19.2x	13.6x
Average(3)		
Year ended December 27, 2002	19.0x	13.2x
Year ended December 28, 2001	19.3x	13.7x

(1) Total assets to Total stockholders' equity and Preferred securities issued by subsidiaries.
(2) Total assets less (a) Receivables under resale agreements (b) Receivables under securities borrowed transactions and (c) Securities received as collateral to Total stockholders' equity and Preferred securities issued by subsidiaries.
(3) Computed using month-end balances.

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

Funding

Liquidity Risk Management

Merrill Lynch manages funding globally to assure liquidity at all times, across market cycles and through periods of financial stress. Merrill Lynch's primary liquidity objective is to ensure that all unsecured debt obligations maturing within one year can be repaid without issuing new unsecured debt or requiring liquidation of business assets. In order to accomplish this objective, Merrill Lynch has established a set of liquidity practices which are outlined below:

Maintain appropriate mix of short- and long-term capital:

Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital, which includes portions of deposits, the non-current portion of long-term debt and equity capital. The following items are generally financed with long-term capital:

- The portion of trading and other current assets that cannot be self-funded in the secured financing market, considering stressed market conditions
- Long-term, less liquid assets such as goodwill, fixed assets and loans
- Regulatory capital requirements
- Collateral on derivative contracts that may be required in the event of changes in ratings or movements in underlying commodity prices

- Portions of commitments to extend credit based on the probability of drawdown

During 2002, adequate long-term capital was maintained in order to finance these and other items.

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

The vast majority of indebtedness at December 27, 2002 is considered senior debt as defined under various indentures (see Note 10 to the Consolidated Financial Statements for further information). Merrill Lynch's senior debt obligations do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

Included in its debt obligations are structured notes issued by Merrill Lynch with returns linked to other debt or equity securities, indices, or currencies. Merrill Lynch could be required to immediately settle a structured note obligation for cash or other securities under some circumstances. Merrill Lynch typically hedges these notes with positions in the underlying instrument.

Maintain sufficient alternative funding sources: Merrill Lynch seeks to ensure availability of sufficient alternative funding sources to enable the repayment of all unsecured debt obligations maturing within one year without issuing new unsecured debt or requiring liquidation of business assets. The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, and other secured borrowings, which require pledging unencumbered securities held for trading or investment purposes.

Merrill Lynch also maintains a separate liquidity portfolio of U.S. Government and agency obligations and asset-backed securities of high credit quality that is funded with debt with an average maturity greater than one year. The carrying value of this portfolio, net of related hedges, was $12.6 billion and $8.4 billion at December 27, 2002 and December 28, 2001, respectively. These assets may be sold or pledged to provide immediate liquidity to ML & Co. to repay maturing debt obligations. In addition to this portfolio, the firm monitors the extent to which other unencumbered assets are available as a source of funds during a liquidity event.

Merrill Lynch also maintains a committed, multi-currency, unsecured bank credit facility. The facility totaled $3.5 billion at December 27, 2002 and $5.0 billion at December 28, 2001. Merrill Lynch elected to reduce the amount of its credit facility in 2002 and offset this reduction by an increase in the liquidity portfolio of unencumbered securities. The facility, which expires in May 2003, is expected to be renewed although Merrill Lynch may elect to further reduce the amount of the facility. At December 27, 2002 and December 28, 2001, there were no borrowings outstanding under this credit facility. Merrill Lynch's credit facility contains covenants, including a minimum net worth requirement, with which Merrill Lynch has maintained compliance at all times. The credit facility does not, however, require Merrill Lynch to maintain specified credit ratings.

Concentrate unsecured financing at ML & Co.: ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are enhanced control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

Merrill Lynch recognizes that regulatory restrictions may limit the free flow of funds from subsidiaries, where assets are held, to ML & Co. and also between subsidiaries. For example, a portion of deposits held by Merrill Lynch bank subsidiaries fund securities that can be sold or pledged to provide immediate liquidity for the banks. However, there are regulatory restrictions on the use of this liquidity for non-bank affiliates of Merrill Lynch. Merrill Lynch takes these and other restrictions into consideration when evaluating the liquidity of individual legal entities and ML & Co.

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

Adhere to prudent governance processes: In order to ensure that both daily and strategic funding activities are appropriate and subject to senior management review and control, Merrill Lynch reviews its liquidity management in Asset/Liability Committee meetings with senior Treasury management and presents a financing plan to the Finance Committee of the Board of Directors. Merrill Lynch also closely manages the growth and composition of its assets and sets limits on the availability of unsecured funding at any time. Merrill Lynch also maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

Asset and Liability Management

Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve low cost financing and an appropriate liability maturity profile. The cost and availability of unsecured funding may also be impacted by general market conditions or by matters specific to the financial services industry or Merrill Lynch. In 2002, corporate credit spreads widened considerably with the potential to significantly impact the cost and availability of funding for financial institutions, including Merrill Lynch. Throughout the year, Merrill Lynch adhered to its established liquidity practices and had sufficient financial flexibility to avoid significant changes in the cost and availability of funding.

Merrill Lynch uses derivative transactions to more closely match the duration of borrowings to the duration of the assets being funded to enable interest rate risk to be managed within limits set by the Corporate Risk Management Group. Interest rate swaps also serve to adjust Merrill Lynch's interest expense and effective borrowing rate principally to floating rate. Merrill Lynch also enters into currency swaps to hedge non-local-currency denominated assets that are not financed through debt issuance in the same currency. Investments in subsidiaries in non-U.S. dollar currencies are also hedged to a level that minimizes translation adjustments in the Cumulative Translation Account (see Notes 1 and 7 to the Consolidated Financial Statements for further information).

Credit Ratings

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

Merrill Lynch's senior long-term debt, preferred stock, and TOPrS^{SM} were rated by several recognized credit rating agencies at February 24, 2003 as indicated below. These ratings do not reflect outlooks that may be expressed by the rating agencies from time to time, which are currently stable or negative.

Rating Agency	Senior Debt Ratings	Preferred Stock Ratings	TOPrS^{SM} Ratings
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated	Not Rated
Fitch Ratings	AA–	A+	A+
Moody's Investors Service, Inc.	Aa3	A2	A1
Rating & Investment Information, Inc. (Japan)	AA	A+	A+
Standard & Poor's Ratings Services	A+	A–	A–

On May 17, 2002, Fitch Ratings lowered its long-term debt ratings for ML & Co. (senior to "AA–" from "AA" and preferred stock and TOPrS^{SM} to "A+" from "AA–"). On October 17, 2002, Standard and Poor's Ratings Services lowered its long-term debt ratings for ML & Co. (senior to "A+" from "AA–" and preferred stock and TOPrS^{SM} to "A–" from "A") and the short-term debt rating for ML & Co. (senior to "A-1" from "A-1+"). Several other securities firms were downgraded on the same days as ML & Co.

Capital Projects and Expenditures

Merrill Lynch continually looks for opportunities to enhance client service and improve efficiency by investing in new technology to improve service to clients. During the fourth quarter of 2002, Merrill Lynch and Thomson Financial announced their intention to develop and implement the Wealth Management Workstation ("WMW"), which will be designed to enhance the capabilities currently available through GPC's Trusted Global Advisor system. The WMW will be designed to provide a new standard of desktop technology to more than 25,000 users including Financial Advisors, Client Associates, the Financial Advisory Center and call centers. Total expenditures related to this project, which are expected to approximate $300 million, will commence in 2003 and continue through 2009.

Risk Management

Risk Management Philosophy

Risk-taking is an integral part of Merrill Lynch's core business activities. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational, and other risks that are material and require comprehensive controls and ongoing management. The responsibility and accountability for these risks remain primarily with the businesses. The Corporate Risk Management ("CRM") group, along with other control units, works to ensure that these risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, CRM has established a risk management process, which includes:

- a formal risk governance organization that defines the oversight process and its components;
- a regular review of the entire risk management process by the Audit Committee of the Board of Directors;
- clearly defined risk management policies and procedures supported by a rigorous analytical framework;
- communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight; and
- clearly articulated risk tolerance levels as defined by a group composed of executive management ("the Management Group") which are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

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

Risk Governance Structure

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

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

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

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

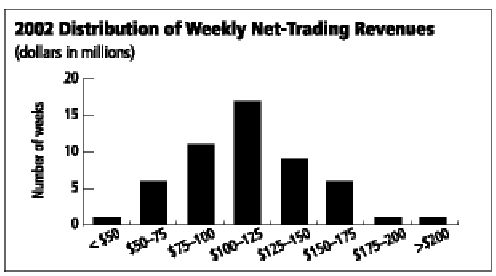
Various other governance committees exist to create policy, review activity, and ensure that new and existing business initiatives remain within established risk tolerance levels. These committees include the New Product Review Committee, the Debt and Equity Capital Commitment Committees, the Real Estate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

Corporate Risk Management

CRM is an independent control function responsible for Merrill Lynch's market and credit risk management processes both within and across the firm's business units. The co-heads of CRM report directly to the Chief Financial Officer who chairs the ROC and is a member of the Management Group. Market risk is defined to be the potential change in value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, and/or other risks. Credit risks are defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. CRM also provides Merrill Lynch with an overview of its risk for various aggregate portfolios and develops and maintains the analytics, systems, and policies to conduct all risk management functions.

CRM's chief monitoring and risk measurement tool is Merrill Lynch's Risk Framework. The Risk Framework defines and communicates Merrill Lynch's risk tolerance and establishes aggregate and broad risk limits for the firm. Market risk limits are intended to constrain exposure to specific asset classes, market risk factors, and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and tenor of exposure to individual counterparties and issuers, types of counterparties and issuers, countries, and types of financing collateral. Risk Framework exceptions and violations are reported and investigated at pre-defined and appropriate levels of management. The Risk Framework and its limits have been approved by the Management Group and the risk parameters that define the Risk Framework have been reviewed by the Audit Committee. The Management Group reviews the Risk Framework annually and approves any material changes. The ROC reports all substantive Risk Framework changes to the Audit Committee.

The overall effectiveness of Merrill Lynch's risk processes and policies can be seen on a broader level when analyzing weekly net trading revenues over time. CRM policies and procedures of monitoring and controlling risk combined with the businesses' focus on customer order-flow driven revenues and selective proprietary positioning have helped Merrill Lynch to reduce earnings volatility within its trading portfolios. While no guarantee can be given regarding future earnings volatility, Merrill Lynch will continue to pursue policies and procedures that assist the firm in measuring and monitoring its risks. A graph of Merrill Lynch's weekly revenues from trading-related activities for 2002 follows:



Market Risk

CRM's Market Risk Group is responsible for approving the products and markets in which Merrill Lynch's major business units and functions will transact and take risk. Moreover, it is responsible for identifying the risks to which these businesses and units will be exposed in these approved products and markets. The Market Risk Group uses a variety of quantitative methods to assess the risk of Merrill Lynch's positions and portfolios. In particular, the Market Risk Group quantifies the sensitivities of Merrill Lynch's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's current portfolios would have incurred throughout the historical period. From these distributions, CRM derives a number of useful risk statistics including VaR. The disclosed VaR is an estimate of the amount that Merrill Lynch's current portfolios could lose with a specified degree of confidence, over a given time interval. The VaR for Merrill Lynch's overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. CRM believes that the tabulated risk measures provide broad guidance as to the amount Merrill Lynch could lose in future periods, and CRM works continuously to improve its measurement and the methodology of the firm's VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk.

In the Merrill Lynch VaR system, CRM uses a historical simulation approach to estimate VaR using a 95% confidence level and 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 market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products, e.g., options.

VaR associated with Merrill Lynch's U.S. banks, which previously had been reported separately, has been integrated into the firm's trading and non-trading VaR tables below. Virtually all of the U.S. bank VaR is related to non-trading assets from their investment portfolio and has been reallocated to the non-trading VaR table with only a small portion reallocated to the trading-related VaR table.

The non-trading VaR table includes the interest rate risk associated with Merrill Lynch's $4.7 billion of outstanding LYONs®. At year-end 2002, the decline in price of ML & Co. stock gives LYONs® the characteristics of a fixed-income security. The December 28, 2001 VaR amounts have been restated to conform with the current presentation.

The table that follows presents Merrill Lynch's VaR for trading instruments at year-end 2002 and 2001 and the 2002 average VaR. Additionally, high and low VaR is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

(dollars in millions)

	Year-end 2002	Year-end 2001	Daily Average 2002	High 2002	Low 2002
Trading value-at-risk(1)					
Interest rate and credit spread	$ 42	$ 46	$ 45	$75	$26
Equity	36	32	35	52	24
Commodity	–	1	–	2	–
Currency	3	2	3	17	1
Volatility	19	23	18	27	7
	100	104	101		
Diversification benefit	(48)	(44)	(43)		
Overall(2)	$ 52	$ 60	$ 58	$76	$39

(1) Based on a 95% confidence level and a one-week holding period.
(2) Overall VaR using a 95% confidence level and a one-day holding period was $25 million and $22 million at year-end 2002 and 2001, respectively.

Due to the mix of the trading portfolio, overall VaR decreased in 2002 due to decreases in interest rate and credit spread VaR, volatility related VaR, and increased diversification benefits.

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

(dollars in millions)

	Year-end 2002	Year-end 2001	Quarterly Average 2002
Non-trading value-at-risk(1)			
Interest rate and credit spread	$ 89	$ 74	$ 90
Equity	27	31	29
Currency	3	7	4
Volatility	13	11	11
	132	123	134
Diversification benefit	(42)	(44)	(39)
Overall	$ 90	$ 79	$ 95

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

As mentioned above, the year-end 2001 non-trading VaR amounts have been restated to reflect the integration of the U.S. banks and LYONs®. On a comparable basis, as reflected in the table above, non-trading VaR increased modestly in 2002 due primarily to an increase in the interest rate and credit spread VaR.

Credit Risk

CRM's Credit Risk Group assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firm-wide credit risk levels within the Risk Framework limits. The Group reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. The Group is also responsible for ongoing monitoring of credit quality and limit compliance and the Group actively works with all the business units of Merrill Lynch to manage and mitigate credit risk.

The Credit Risk Group uses a variety of methodologies to set limits on exposure resulting from a counterparty or issuer failing to perform on its contractual obligations. The Group performs analysis in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, product type, and tenor to maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default protection. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view toward early problem identification and protection against unacceptable credit-related losses. In 2002, the Credit Risk Group invested additional resources to enhance its methods and policies to assist in the management of Merrill Lynch's credit risk.

Credit risk and exposure that originates from Merrill Lynch's Global Private Client business is monitored constantly by CRM. Exposures include credit risks for mortgages, home equity lines of credit, margin accounts, loans to individuals and working capital lines and other loans that Merrill Lynch maintains with certain small business clients. When required, these exposures are collateralized in accordance with regulatory requirements governing such activities. Credit risk in Merrill Lynch's U.S. banks' investment portfolios is monitored within CRM and by credit risk management analysts. In addition, Merrill Lynch's U.S. banks have independent credit approval and monitoring processes in place.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with substantially all of its derivative counterparties as soon as possible. The agreements are negotiated with each counterparty and are complex in nature. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement, and as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce default risk, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of $11.6 billion of collateral) of trading derivatives in a gain position by maturity at December 27, 2002. (Please note that the following table is inclusive of credit exposure from derivative transactions only and does not include other material credit exposures).

(dollars in millions)

Credit Rating(1)	Years to Maturity 0–3	3–5	5–7	Over 7	Cross-Maturity Netting(2)	Total
AAA	$ 4,055	$1,263	$1,020	$1,604	$ (566)	$ 7,376
AA	3,613	2,414	1,155	3,939	(2,030)	9,091
A	2,555	1,588	904	1,489	(1,273)	5,263
BBB	1,368	753	388	879	(495)	2,893
Other	1,387	540	204	454	(150)	2,435
Total	$12,978	$6,558	$3,671	$8,365	$(4,514)	$27,058

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

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

Operational Risk

Operational Risk Management is an evolving discipline. Merrill Lynch defines operational risk as the risk of loss resulting from inadequate controls or business disruption relating to employees, internal processes, systems, or external events. Examples of operational risks faced by the firm include systems failure, human error, fraud, acts of terrorism, and major fire or other disasters. Merrill Lynch manages operational risks in a variety of ways including maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring risk events, employing experienced personnel, monitoring business activities by compliance professionals, maintaining fully operational, off-site backup facilities, conducting internal audits, requiring education and training of employees, and emphasizing the importance of management oversight. In light of the terrorist attacks of September 11, 2001, Merrill Lynch has further strengthened its contingency and recovery resources throughout 2002 and will continue to do so where necessary.

Other Risks

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

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

During 2002, the research function at integrated broker-dealers was the subject of substantial regulatory and media attention. As a result of regulatory mandates and firm initiatives, Merrill Lynch enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming a new Research Recommendations Committee; appointing a Research Compliance Monitor; adopting a new simplified securities ratings system; and adding disclosure on research reports regarding potential conflicts of interest. The modification to the compensation system for research analysts provides that an analyst's pay will be based on an evaluation of how the analyst's insights and recommendations benefit investors. Merrill Lynch's Investment Banking group does not have input into research analyst compensation. In mid-2001, in an effort to ensure the independence and objectivity of its research, Merrill Lynch announced a policy which prohibited equity analysts and their staff members from buying equity shares of the companies they cover.

Non-Investment Grade Holdings and Highly Leveraged Transactions

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

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

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

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. On a selected basis, Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing 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 portion of these loans.

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

Trading Exposures

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2002 and 2001:

(dollars in millions)

	2002	2001
Trading assets:		
Cash instruments	$ 4,825	$ 4,597
Derivatives	5,016	4,478
Trading liabilities — cash instruments	(1,352)	(1,535)
Collateral on derivative assets	(2,581)	(2,934)
Net trading asset exposure	$ 5,908	$ 4,606

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 27, 2002, the carrying value of such debt and equity securities totaled $140 million, of which 29% resulted from Merrill Lynch's market-making activities in such securities. This compared with $58 million at December 28, 2001, of which 18% related to market-making activities. Also included are distressed bank loans totaling $203 million and $245 million at year-end 2002 and 2001, respectively.

Non-Trading Exposures

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2002 and 2001:

(dollars in millions)

	2002	2001
Investment securities	$ 300	$ 448
Commercial loans (net of allowance for loan losses):		
Bridge loans(1)	131	130
Other loans(1)	2,740	2,697
Other investments:		
Partnership interests(2)	1,749	1,594
Other equity investments(3)	583	323

(1) Includes accrued interest.
(2) Includes $877 million and $761 million in investments at year-end 2002 and 2001, respectively, related to deferred compensation plans, for which a portion of the default risk of the investments rests with the participating employees.
(3) Includes investments in 158 and 87 enterprises at year-end 2002 and 2001, respectively.

On March 3, 2003, Merrill Lynch and the other senior lenders to Mobilcom S.A., closed on the assignment of their loans to France Telecom S.A. Per this agreement Merrill Lynch received a subordinated perpetual convertible security of France Telecom approximating Euro 500 million. This amount represents 100% of Merrill Lynch's loan to Mobilcom, accrued and unpaid interest, and certain accrued expenses.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 2002 and 2001:

(dollars in millions)

	2002	2001
Additional commitments to invest in partnerships(1)	$ 500	$ 858
Lending and other commitments	1,594	1,853

(1) Includes $123 million and $369 million, at year-end 2002 and 2001, respectively, related to deferred compensation plans.

At December 27, 2002, the largest industry exposure was to the financial services sector, which accounted for 29% of total non-investment grade positions and highly leveraged transactions.

Merrill Lynch sponsors deferred compensation plans in which employees who meet certain minimum compensation requirements may participate. Contributions to the plans are made on a tax-deferred basis by the participants. Participants' returns on these contributions may be indexed to various Merrill Lynch mutual funds and other funds, including certain company-sponsored investment vehicles that qualify as employee securities companies. Prior to 2002, eligible participants whose deferred amounts were indexed to those company-sponsored investment vehicles could make one-time elections to augment their returns through "leverage" provided by Merrill Lynch, generally on a two-for-one basis. This leverage bears interest and is repaid as distributions are made by the investment vehicles.

Merrill Lynch also sponsors several cash-based employee award programs, under which certain employees are eligible to receive future cash compensation, generally upon fulfillment of the vesting criteria for the particular program.

Litigation

Certain actions have been filed against Merrill Lynch in connection with Merrill Lynch's business activities. Although the ultimate outcome of legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings. Refer to Note 14 to the Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

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

Use of Estimates

In presenting the Consolidated Financial Statements, Management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of goodwill, the allowance for loan losses, the realization of deferred tax assets, tax reserves, insurance reserves, recovery of insurance deferred acquisition costs, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 to the Consolidated Financial Statements.

Valuation of Financial Instruments

Fair values for exchange traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for OTC derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for non-exchange-traded derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs.

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

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires more than the simple application of the pricing models.

Assets recorded on the balance sheet can therefore be broadly categorized as follows:

1. highly liquid cash and derivative instruments for which quoted market prices are readily available (for example, exchange-traded equity securities and derivatives such as listed options)

2. liquid instruments, including a) cash instruments for which quoted prices are available but which may trade less frequently such that there is not complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds) b) derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and c) instruments that are priced with reference to comparable financial instruments whose parameters can be directly observed

3. less liquid instruments that are priced using management's best estimate of fair value, and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgement by management (for example, private equity investments, long dated or complex derivatives such as certain foreign exchange options and credit default swaps, distressed debt, and aged inventory positions).

At December 27, 2002, assets on the Consolidated Balance Sheets can be categorized as follows:

(dollars in millions)

	Category 1	Category 2	Category 3	Total
Trading assets, excluding contractual agreements	$42,752	$28,153	$ 1,927	$72,832
Contractual agreements	3,845	31,756	3,127	38,728
Loans, notes, and mortgages (net)	–	33,620	1,115	34,735
Investment securities	17,404	61,216	3,167	81,787

In addition, other trading-related assets recorded in the Consolidated Balance Sheet at December 27, 2002 include $120.8 billion of securities financing transactions (receivables under resale agreements and receivables under securities borrowed transactions) which are recorded at their contractual amounts plus accrued interest and for which little or no estimation is required by management.

Transactions Involving Special Purpose Entities ("SPEs")

SPEs are trusts, partnerships, or corporations established for a particular limited purpose. Merrill Lynch engages in transactions with SPEs for a variety of reasons. Many of these SPEs are used to facilitate the securitization of client assets whereby mortgages, loans or other assets owned by clients are transformed into securities ("securitized"). SPEs are also used to create securities with a specific risk profile desired by investors. In the normal course of business, Merrill Lynch establishes SPEs; sells assets to SPEs; provides loans to SPEs; underwrites, distributes, and makes markets in securities issued by SPEs; engages in derivative transactions with SPEs; owns notes or certificates issued by SPEs; and provides liquidity facilities or other guarantees to SPEs.

Many of the SPEs with which Merrill Lynch enters into transactions with, meet the requirements of qualifying special purpose entities ("QSPEs") as defined by SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. SPEs that are considered QSPEs by Merrill Lynch include: SPEs that convert pools of commercial and residential loans into securities; SPEs that convert pools of municipal bonds into floating rate securities; and SPEs that transform the cash flows of transferred assets in some specified manner for clients. As an example of this last type of SPE, an SPE may transform the interest rate on securities from a fixed to a floating rate for investors by entering into a derivative such as an interest rate swap. Another example is an SPE that provides an investor with exposure to a particular credit risk that does not arise from assets held by the SPE, by entering into a derivative transaction such as a credit default swap to hedge the return provided to the investor. Based on the requirements of SFAS No. 140, QSPEs are not consolidated by Merrill Lynch.

Many SPEs do not qualify as QSPEs either because the SPEs' permitted activities are not sufficiently limited, or because the SPE owns assets that are not financial instruments, or otherwise does not meet all of the conditions of a QSPE. In situations where Merrill Lynch is either the sponsor of the SPE or where it transfers assets to the SPE, Merrill Lynch relies on the guidance provided by Emerging Issues Task Force ("EITF") Topic D-14, *Transactions Involving Special-Purpose Entities,* to determine whether consolidation of these SPEs is required. Under this guidance, an SPE is not required to be consolidated by a transferor or sponsor if the SPE issues equity in legal form to unaffiliated third parties that is at least 3% of the value of the assets held by the SPE, the transferor or sponsor has not retained the substantive risks and rewards of ownership of the SPE and does not have control over the activities of the SPE. Merrill Lynch considers a number of both qualitative and quantitative factors in determining whether it is the sponsor of an SPE for purposes of applying the guidance in EITF Topic D-14, and judgment is required in making this determination.

Merrill Lynch also acts as a liquidity provider to investors in securities issued by certain SPEs and enters into other guarantees related to SPEs. Additional information regarding liquidity facilities and guarantees to SPEs is provided in Note 14 to the Consolidated Financial Statements. Merrill Lynch also retains interests in assets securitized by an SPE, and enters into derivative transactions with SPEs. These transactions are recorded at estimated fair value in the Consolidated Financial Statements. Therefore, material economic exposures to SPEs created in these transactions are recorded or disclosed in the Consolidated Financial Statements. Refer to Note 8 to the Consolidated Financial Statements for more information on interests retained in securitization transactions.

In addition to the SPEs described above, Merrill Lynch has entered into transactions with SPEs to facilitate the financing of physical property (facilities and aircraft) for its own use. The physical property is purchased or constructed by the SPE and leased to Merrill Lynch. For these structures, Merrill Lynch follows the guidance in EITF Issue No. 90-15, *Impact of Nonsubstantive Lessors, Residual Value Guarantees, and other Provisions in Leasing Transactions* and EITF Issue No. 97-10, *The Effect of Lessee Involvement in Asset Construction,* to determine whether or not consolidation of the SPE is required. Under this guidance, a company that leases property from an SPE is not required to consolidate that SPE if, among other conditions, a third-party investor has made a substantive residual equity capital investment in the SPE that is at risk during the entire term of the lease. Substantive residual equity capital is currently defined as amounting to at least 3% of the value of the assets held by the SPE. Merrill Lynch has met the requirements of EITF Issues No. 90-15 and 97-10 for these SPEs and accordingly, these SPEs are not consolidated in the Consolidated Financial Statements. See Note 8 and Note 14 to the Consolidated Financial Statements for additional detail regarding these transactions.

Merrill Lynch's U.S. banking subsidiaries have also entered into transactions with SPEs in order to improve the liquidity of their mortgage portfolios and reduce the credit risk of their investment portfolios, which resulted in reduced regulatory capital requirements. See Note 18 to the Consolidated Financial Statements for additional information about these transactions.

In January 2003, the Financial Accounting Standards Board ("FASB") issued new guidance regarding consolidation of SPEs which will supercede EITF Topic D-14 and Issue 90-15. FASB Interpretation No. ("FIN") 46, *Consolidations of Variable Interest Entities — an Interpretation of ARB No. 51,* is effective for newly created SPEs beginning February 1, 2003 and for existing SPEs as of the third quarter of 2003. See *New Accounting Pronouncements* below for additional information and Note 8 to the Consolidated Financial Statements for disclosures.

Recent Developments

New Accounting Pronouncements

On July 31, 2002, the American Institute of Certified Public Accountants ("AICPA") issued a Proposed Statement of Position ("SOP") "*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*." The proposed SOP provides guidance on accounting and reporting by insurance companies for certain nontraditional long-duration contracts and for separate accounts. A final SOP would be effective for financial statements for Merrill Lynch beginning in 2004. The SOP would require the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch employs. Depending on market conditions at the time of adoption, the impact of implementing this reserve methodology may have a material impact on the Consolidated Statement of Earnings.

On January 17, 2003, the FASB issued FIN 46, which clarifies when an entity should consolidate another entity known as a Variable Interest Entity ("VIE"), more commonly referred to as an SPE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46 requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46 does not apply to QSPEs, the accounting for which is governed by SFAS No. 140. FIN 46 is effective for VIEs created on or after February 1, 2003 and for existing VIEs as of the third quarter of 2003. See Note 8 to the Consolidated Financial Statements for disclosures regarding the expected impact of adoption of FIN 46 on Merrill Lynch's Consolidated Balance Sheet.

On December 31, 2002 the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, an amendment of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 permits three alternative methods of transition for a voluntary change to the fair value based method of accounting for employee stock-based compensation. SFAS No. 148 continues to permit prospective application for companies that adopt prior to the beginning of fiscal year 2004. SFAS No. 148 also allows for a modified prospective application, which requires the fair value of all unvested awards to be amortized over the remaining service period, as well as restatement of prior years' expense. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances.

On November 25, 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 requires guarantors to disclose their obligations under certain guarantees. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosures are effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 14 to the Consolidated Financial Statements for these disclosures.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces the guidance provided by EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In August 2001, the FASB released SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* which superceded both SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. SFAS No. 144 also amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 provides guidance on the financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of SFAS No. 144 did not have a material impact on Merrill Lynch's Consolidated Financial Statements.

In July 2001, the FASB issued SFAS No. 142. Under SFAS No. 142, intangible assets with indefinite lives and goodwill are no longer amortized. Instead, these assets are tested annually for impairment. Merrill Lynch adopted the provisions of SFAS No. 142 at the beginning of fiscal year 2002. See Note 1 to the Consolidated Financial Statements for further discussion.

In July 2001, the FASB released SFAS No. 141, *Business Combinations*. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Merrill Lynch adopted the provisions of SFAS No. 141 on July 1, 2001.

Management's Discussion of Financial Responsibility

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

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

Merrill Lynch regularly reviews its framework of internal controls which includes policies, procedures and organizational structures, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, and other opportunities for improvement are implemented as appropriate.

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards. Corporate Audit reports directly to the Audit Committee, providing independent appraisals of Merrill Lynch's internal controls and compliance with established policies and procedures. The Finance Division establishes accounting policies and procedures, measures and monitors financial risk, and prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Treasury monitors capital adequacy and liquidity management. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks. The Office of the General Counsel serves in a counseling and advisory role to Management and the business groups. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; and provides legal advice, representation, execution, and transaction support to the businesses.

ML & Co. has established a Disclosure Committee to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for overseeing the accuracy and timeliness of disclosures made by ML & Co. The Disclosure Committee is made up of senior representatives of Merrill Lynch's Finance, Investor Relations, Corporate Reporting, Corporate Law, Treasury and Risk Management groups and is responsible for implementing and evaluating disclosure controls and procedures on an ongoing basis. Meetings of the Disclosure Committee are held as needed throughout each fiscal quarter to review key events and disclosures impacting the period and prior to the filing of the 10-K and 10-Q reports and proxy statement with the SEC.

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

Several committees of the Board actively participate in setting corporate policies and procedures and overseeing controls. The Audit Committee, which consists of five independent directors, oversees Merrill Lynch's system of internal accounting controls and the internal audit function. In addition, the Audit Committee oversees adherence to risk management and compliance policies, procedures, and functions. It also reviews the annual Consolidated Financial Statements with Management and Merrill Lynch's independent auditors, and evaluates the performance, independence and fees of our independent auditors and the professional services they provide. The Audit Committee also has the sole authority to appoint or replace the independent auditors.

The Finance Committee, which consists of five independent directors, reviews, recommends, and approves policies regarding financial commitments and other expenditures. It also reviews and approves certain financial commitments, acquisitions, divestitures, and proprietary investments. In addition, the Finance Committee oversees corporate funding policies as well as reviewing procedures for implementing and adhering to such policies.

E. Stanley O'Neal
Chief Executive Officer

Thomas H. Patrick
Executive Vice President and
Executive Vice Chairman

Ahmass L. Fakahany
Executive Vice President and
Chief Financial Officer

Deloitte & Touche

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 27, 2002 and December 28, 2001 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 27, 2002. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 27, 2002 and December 28, 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 27, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2002 Merrill Lynch changed its method of accounting for goodwill amortization to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

Deloitte & Touche LLP

Deloitte & Touche LLP
New York, New York
February 24, 2003

Consolidated Statements of Earnings
(dollars in millions, except per share amounts)

	Year Ended Last Friday in December		
	2002	2001	2000
Net Revenues			
Commissions	$ 4,657	$ 5,266	$ 6,977
Principal transactions	2,340	3,930	5,964
Investment banking			
Underwriting	1,710	2,438	2,699
Strategic advisory	703	1,101	1,381
Asset management and portfolio service fees	4,914	5,351	5,688
Other	751	528	967
	15,075	18,614	23,676
Interest and dividend revenues	13,178	20,143	21,176
Less interest expense	9,645	16,877	18,086
Net interest profit	3,533	3,266	3,090
Total Net Revenues	18,608	21,880	26,766
Non-Interest Expenses			
Compensation and benefits	9,426	11,269	13,730
Communications and technology	1,741	2,232	2,320
Occupancy and related depreciation	909	1,077	1,006
Brokerage, clearing, and exchange fees	727	895	893
Advertising and market development	540	703	939
Professional fees	552	545	637
Office supplies and postage	258	349	404
Goodwill amortization	–	207	217
Other	611	902	903
Research and other settlement-related expenses	291	–	–
(Recoveries)/expenses related to September 11	(212)	131	–
Restructuring and other charges	8	2,193	–
Total Non-Interest Expenses	14,851	20,503	21,049
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	3,757	1,377	5,717
Income Tax Expense	1,053	609	1,738
Dividends on Preferred Securities Issued by Subsidiaries	191	195	195
Net Earnings	$ 2,513	$ 573	$ 3,784
Net Earnings Applicable to Common Stockholders	$ 2,475	$ 535	$ 3,745
Earnings Per Common Share			
Basic	$ 2.87	$ 0.64	$ 4.69
Diluted	$ 2.63	$ 0.57	$ 4.11

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	December 27, 2002	December 28, 2001
Assets		
Cash and cash equivalents	$ 10,211	$ 11,070
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	7,375	4,467
Securities financing transactions		
Receivables under resale agreements	75,292	69,707
Receivables under securities borrowed transactions	45,543	54,930
	120,835	124,637
Trading assets, at fair value (includes securities pledged as collateral of $11,344 in 2002 and $12,084 in 2001)		
Contractual agreements	38,728	31,040
Corporate debt and preferred stock	18,569	19,147
Mortgages, mortgage-backed, and asset-backed securities	14,987	11,526
Equities and convertible debentures	13,530	18,487
U.S. Government and agencies	10,116	12,999
Non-U.S. governments and agencies	10,095	6,207
Municipals and money markets	5,535	5,561
	111,560	104,967
Investment securities	81,787	87,672
Securities received as collateral	2,020	3,234
Other receivables		
Customers (net of allowance for doubtful accounts of $79 in 2002 and $81 in 2001)	35,317	39,856
Brokers and dealers	8,485	6,868
Interest and other	10,581	8,221
	54,383	54,945
Loans, notes, and mortgages (net of allowance for loan losses of $265 in 2002 and $201 in 2001)	34,735	19,313
Separate accounts assets	13,042	15,965
Equipment and facilities (net of accumulated depreciation and amortization of $4,671 in 2002 and $4,910 in 2001)	3,080	2,873
Goodwill (net of accumulated amortization of $984 in 2002 and $924 in 2001)	4,446	4,071
Other assets	4,454	2,478
Total Assets	$ 447,928	$ 435,692

	December 27, 2002	December 28, 2001
Liabilities		
Securities financing transactions		
Payables under repurchase agreements	$ 85,378	$ 74,903
Payables under securities loaned transactions	7,640	12,291
	93,018	87,194
Commercial paper and other short-term borrowings	5,353	5,141
Deposits	81,842	85,819
Trading liabilities, at fair value		
Contractual agreements	45,202	36,679
U.S. Government and agencies	14,678	18,674
Non-U.S. governments and agencies	7,952	5,857
Corporate debt, municipals and preferred stock	6,500	4,796
Equities and convertible debentures	4,864	9,911
	79,196	75,917
Obligation to return securities received as collateral	2,020	3,234
Other payables		
Customers	28,569	28,704
Brokers and dealers	16,541	11,932
Interest and other	20,724	18,773
	65,834	59,409
Liabilities of insurance subsidiaries	3,566	3,738
Separate accounts liabilities	13,042	15,965
Long-term borrowings	78,524	76,572
Total Liabilities	422,395	412,989
Preferred Securities Issued by Subsidiaries	2,658	2,695
Stockholders' Equity		
Preferred Stockholders' Equity *(42,500 shares issued and outstanding, liquidation preference $10,000 per share)*	425	425
Common Stockholders' Equity		
Shares exchangeable into common stock	58	62
Common stock *(par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2002 — 983,502,078 shares and 2001 — 962,533,498 shares)*	1,311	1,283
Paid-in capital	5,315	4,209
Accumulated other comprehensive loss *(net of tax)*	(570)	(368)
Retained earnings	18,072	16,150
	24,186	21,336
Less: Treasury stock, at cost *(2002 — 116,211,158 shares; 2001 — 119,059,651 shares)*	961	977
Unamortized employee stock grants	775	776
Total Common Stockholders' Equity	22,450	19,583
Total Stockholders' Equity	22,875	20,008
Total Liabilities, Preferred Securities Issued by Subsidiaries, and Stockholders' Equity	$ 447,928	$ 435,692

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2002	2001	2000	2002	2001	2000
Preferred Stock, Balance, beginning and end of year	$ 425	$ 425	$ 425	42,500	42,500	42,500
Common Stockholders' Equity						
Shares Exchangeable into Common Stock						
Balance, beginning of year	62	68	118	4,195,407	4,654,378	8,018,698
Exchanges	(4)	(6)	(50)	(284,366)	(458,971)	(3,364,320)
Balance, end of year	58	62	68	3,911,041	4,195,407	4,654,378
Common Stock						
Balance, beginning of year	1,283	1,283	1,286	962,533,498	962,533,498	964,779,105
Shares issued to employees	28	—	—	20,968,580	—	203,483
Shares retired	—	—	(3)	—	—	(2,449,090)
Balance, end of year	1,311	1,283	1,283	983,502,078	962,533,498	962,533,498
Paid-in Capital						
Balance, beginning of year	4,209	2,843	1,156			
Shares issued to employees	1,106	1,366	1,686			
Other	—	—	16			
Shares retired	—	—	(15)			
Balance, end of year	5,315	4,209	2,843			
Accumulated Other Comprehensive Loss						
Foreign Currency Translation Adjustment (net of tax)						
Balance, beginning of year	(302)	(309)	(302)			
Translation adjustment	(18)	7	(7)			
Balance, end of year	(320)	(302)	(309)			
Net Unrealized Gains (Losses) on Available-for-Sale Securities (net of tax)						
Balance, beginning of year	(92)	(36)	(88)			
Net unrealized gains (losses) on available-for-sale	(58)	(70)	110			
Other adjustments[(a)]	5	14	(58)			
Balance, end of year	(145)	(92)	(36)			
Deferred Gains on Cash Flow Hedges (net of tax)						
Balance, beginning of year	36	—	—			
Net deferred gains on cash flow hedges	104	41	—			
Reclassification adjustment to earnings	(120)	(5)	—			
Balance, end of year	20	36	—			
Minimum Pension Liability (net of tax)						
Balance, beginning of year	(10)	—	—			
Net minimum pension liability adjustment	(115)	(10)	—			
Balance, end of year	(125)	(10)	—			
Balance, end of year	(570)	(368)	(345)			
Retained Earnings						
Balance, beginning of year	16,150	16,156	12,887			
Net earnings	2,513	573	3,784			
9% Cumulative Preferred stock dividends declared	(38)	(38)	(39)			
Common stock dividends declared	(553)	(541)	(476)			
Balance, end of year	18,072	16,150	16,156			

Treasury Stock, at cost						
Balance, beginning of year	(977)	(1,273)	(1,835)	(119,059,651)	(154,578,945)	(212,278,192)
Shares issued to employees[b]	(12)	291	488	2,564,127	35,060,323	51,885,837
Other	28	5	56	284,366	458,971	3,364,320
Shares retired	—	—	18	—	—	2,449,090
Balance, end of year	(961)	(977)	(1,273)	(116,211,158)	(119,059,651)	(154,578,945)
Unamortized Employee Stock Grants						
Balance, beginning of year	(776)	(853)	(643)			
Net issuance of employee stock grants	(697)	(720)	(709)			
Amortization of employee stock grants	697	797	510			
Other	1	—	(11)			
Balance, end of year	(775)	(776)	(853)			
Total Common Stockholders' Equity	22,450	19,583	17,879			
Total Stockholders' Equity	$22,875	$20,008	$18,304			

(a) Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes.
(b) Share amounts are net of reacquisitions from employees of 2,664,083; 4,756,694; and 1,139,116 in 2002, 2001, and 2000, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(dollars in millions)

	Year Ended Last Friday in December		
	2002	2001	2000
Net Earnings	$ 2,513	$ 573	$ 3,784
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment:			
Foreign currency translation gains (losses)	(263)	127	127
Income tax (expense) benefit	245	(120)	(134)
Total	(18)	7	(7)
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	213	(51)	236
Reclassification adjustment for realized gains included in net earnings	(271)	(19)	(126)
Net unrealized gains (losses) on investment securities available-for-sale	(58)	(70)	110
Adjustments for:			
Policyholder liabilities	(16)	(10)	(15)
Deferred policy acquisition costs	1	(13)	(20)
Income tax (expense) benefit	20	37	(23)
Total	(53)	(56)	52
Deferred gain (loss) on cash flow hedges			
Deferred gain (loss) on cash flow hedges	94	65	–
Income tax (expense) benefit	10	(24)	–
Reclassification adjustment to earnings	(120)	(5)	–
Total	(16)	36	–
Minimum pension liability			
Minimum pension liability adjustment	(168)	(10)	–
Income tax (expense) benefit	53	–	–
Total	(115)	(10)	–
Total Other Comprehensive Income (Loss)	(202)	(23)	45
Comprehensive Income	$ 2,311	$ 550	$ 3,829

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(dollars in millions)

	Year Ended Last Friday in December		
	2002	2001	2000
Cash Flows from Operating Activities			
Net Earnings	$ 2,513	$ 573	$ 3,784
Noncash items included in earnings:			
Depreciation and amortization	652	888	846
Amortization of stock-based compensation	697	797	510
Deferred taxes	74	(783)	202
Policyholder reserves	168	183	193
Goodwill amortization	–	207	217
Restructuring and other charges	8	491	–
Other	125	(38)	299
Changes in operating assets and liabilities[(a)]:			
Trading assets	(7,280)	(4,378)	(4,236)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(2,908)	1,625	(14)
Receivables under resale agreements	(5,570)	9,538	(22,399)
Receivables under securities borrowed transactions	9,387	(19,589)	7,098
Customer receivables	4,533	1,741	(1,607)
Brokers and dealers receivables	(1,617)	19,553	(17,217)
Trading liabilities	3,279	7,060	1,581
Payables under repurchase agreements	10,475	(15,006)	24,947
Payables under securities loaned transactions	(4,651)	(1,691)	6,725
Customer payables	(135)	3,942	1,596
Brokers and dealers payables	4,609	2,418	(1,925)
Other, net	5,083	(1,129)	1,227
Cash Provided by Operating Activities	19,442	6,402	1,827
Cash Flows from Investing Activities			
Proceeds from (payments for):			
Maturities of available-for-sale securities	37,891	33,135	10,643
Sales of available-for-sale securities	36,697	14,138	7,036
Purchases of available-for-sale securities	(71,183)	(76,201)	(57,822)
Maturities of held-to-maturity securities	206	811	822
Purchases of held-to-maturity securities	(303)	(757)	(634)
Loans, notes, and mortgages	(15,242)	(2,190)	(6,303)
Proceeds from sale of business	–	344	–
Other investments and other assets	(1,653)	(801)	(1,262)
Equipment and facilities	(860)	(663)	(1,150)
Cash Used for Investing Activities	(14,447)	(32,184)	(48,670)
Cash Flows from Financing Activities			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	212	(10,042)	(10,413)
Deposits	(3,977)	18,171	50,046
Issuance and resale of long-term borrowings	25,493	38,781	33,839
Settlement and repurchase of long-term borrowings	(27,232)	(32,827)	(15,719)
Issuance of common stock	289	–	–
Issuance of treasury stock	6	515	658
Other common stock transactions	(54)	(372)	(3)
Dividends	(591)	(579)	(515)
Cash Provided by (used for) Financing Activities	(5,854)	13,647	57,893
Increase (Decrease) in Cash and Cash Equivalents	(859)	(12,135)	11,050
Cash and Cash Equivalents, beginning of year	11,070	23,205	12,155
Cash and Cash Equivalents, end of year	$ 10,211	$ 11,070	$ 23,205

(a) Net of effects of acquisitions and divestitures.

Supplemental Disclosures
Cash paid for:

Income taxes	$ 861	$ 887	$ 641
Interest	9,922	18,042	17,311

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements Table of Contents

Note 1. Summary of Significant Accounting Policies

Description of Business

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

- Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities and futures commission merchant;
- Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity and credit derivatives;
- Merrill Lynch Government Securities Inc. ("MLGSI"), a U.S.-based dealer in U.S. Government securities;
- Merrill Lynch Capital Services, Inc., a U.S.-based dealer in interest rate, currency, and credit derivatives;
- Merrill Lynch Investment Managers, LP, a U.S.-based asset management company;
- Merrill Lynch Investment Managers Limited, a U.K.-based asset management company;
- Merrill Lynch Bank USA ("MLBUSA"), a U.S.-based FDIC-insured depository;
- Merrill Lynch Bank & Trust Co. ("MLB&T"), a U.S.-based FDIC-insured depository;
- Merrill Lynch International Bank Limited, a U.K.-based bank;
- Merrill Lynch Capital Markets Bank Limited, an Ireland-based bank and a dealer in currency;
- Merrill Lynch Japan Securities Co., Ltd., a Japan-based broker dealer;
- Merrill Lynch Canada, Inc., a Canada-based broker-dealer; and
- Merrill Lynch Insurance Group, Inc., a U.S.-based provider of life insurance and annuity products.

Services provided to clients by Merrill Lynch include:

- securities brokerage, trading, and underwriting;
- investment banking, strategic services (including mergers and acquisitions), and other corporate finance advisory activities;
- wealth management products and services;
- asset management;
- origination, brokerage, dealer, and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, and foreign exchange products;
- securities clearance and settlement services;

- equity, debt, foreign exchange, and economic research;
- private equity and other principal investing activities;
- banking, trust, and lending services, including deposit taking, commercial and mortgage lending and related services;
- insurance underwriting and sales; and
- investment advisory and related recordkeeping services.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Merrill Lynch, whose subsidiaries are generally controlled through a majority voting interest but may be controlled by means of a significant minority ownership, by contract, lease or otherwise. Investments in entities in which Merrill Lynch does not have control, but has the ability to exercise significant influence (generally defined as 20%–50% of voting interest) are accounted for under the equity method. Investments in which Merrill Lynch has neither control nor significant influence are accounted for under the cost method, except investments held by a regulated broker-dealer which are carried at fair value.

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

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

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

Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of goodwill, the allowance for loan losses, the realization of deferred tax assets, tax reserves, insurance reserves, and recovery of insurance deferred acquisition costs and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements, and it is possible that such changes could occur in the near term. A discussion of the areas in which estimates are a significant component of the amounts reported in the Consolidated Financial Statements follows:

Trading Assets and Liabilities

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions and other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Estimating the fair value of certain illiquid securities requires significant management judgment. Merrill Lynch values trading security assets at the institutional bid price and recognizes bid-offer revenues when assets are sold. Trading security liabilities are valued at the institutional offer price and bid-offer revenues are recognized when the positions are closed.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Obtaining the fair value for OTC derivatives contracts requires the use of management judgment and estimates.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for non-exchange-traded derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than simple application of the pricing models.

Restricted Investments

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., requires consent of other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Merrill Lynch estimates the fair value of these securities taking into account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors. Such estimation may result in a fair value for a security that is less than its quoted market price.

Valuation Allowance for Deferred Tax Assets

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assesses its ability to realize deferred tax assets primarily based on the earnings history of the legal entities to which the deferred tax assets are attributable and the absence of negative evidence as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes,* such as circumstances that if unfavorably resolved would adversely affect future operations or profit levels or a history of tax credit carryforwards expiring unused. See Note 17 to the Consolidated Financial Statments for further discussion of Income Taxes.

Valuation of Loans and Allowance for Loan Losses

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

The provision for loan losses is based on management's estimate of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred loan losses. Management's estimate of loan losses is influenced by many factors, including adverse situations that may affect the borrower's ability to repay, current economic conditions, prior loan loss experience, and the estimated fair value of any underlying collateral. The fair value of collateral is generally determined by third party appraisals in the case of residential mortgages, quoted market prices for securities, and estimates of fair value for other assets. Management's estimates of loan losses include considerable judgment about collectibility based on available facts and evidence at the balance sheet date, and the uncertainties inherent in those assumptions. While management uses the best information available on which to base its estimates, future adjustments to the allowance may be necessary based on changes in the economic environment or variances between actual results and the original assumptions used by management.

Deferred Acquisition Costs Relating to Insurance Policies

Deferred insurance policy acquisition costs are amortized in proportion to the estimated future gross profits for each group of contracts over the anticipated life of the insurance contracts utilizing an effective yield methodology. These future gross profit estimates are subject to periodic evaluation by Merrill Lynch, with necessary revisions applied against amortization to date.

Legal and Other Reserves

Merrill Lynch is a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate amount of that liability until years after the litigation has been commenced, in which case no accrual is made until that time. Accruals are subject to significant estimation by management with input from outside counsel.

Consolidation and Transactions Involving Special Purpose Entities ("SPEs")

SPEs are trusts, partnerships, or corporations established for a particular limited purpose. Merrill Lynch engages in transactions with SPEs for a variety of reasons. Many of these SPEs are used to facilitate the securitization of client assets whereby mortgages, loans, or other assets owned by clients are transformed into securities ("securitized"). SPEs are also used to create securities with a specific risk profile desired by investors. In the normal course of business, Merrill Lynch establishes SPEs; sells assets to SPEs; provides loans to SPEs; underwrites, distributes, and makes markets in securities issued by SPEs; engages in derivative transactions with SPEs; owns notes or certificates issued by SPEs; and provides liquidity facilities or other guarantees to SPEs.

Many of the SPEs with which Merrill Lynch enters into transactions meet the requirements of qualifying special purpose entities ("QSPEs") as defined by SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. SPEs that are considered QSPEs by Merrill Lynch include: SPEs that convert pools of commercial and residential loans into securities; SPEs that convert pools of municipal bonds into floating rate securities; and SPEs that transform the cash flows of transferred assets in some specified manner for clients. As an example of this last type of SPE, an SPE may transform the interest rate on securities from a fixed to a floating rate for investors by entering into a derivative such as an interest rate swap. Another example is an SPE that provides an investor with exposure to a particular credit risk that does not arise from assets held by the SPE, by entering into a derivative transaction such as a credit default swap to hedge the return provided to the investor. Based on the requirements of SFAS No. 140, QSPEs are not consolidated by Merrill Lynch.

Many SPEs do not qualify as QSPEs either because the SPEs' permitted activities are not sufficiently limited, or because the SPE owns assets that are not financial instruments, or otherwise does not meet all of the conditions of a QSPE. In situations where Merrill Lynch is either the sponsor of the SPE or where it transfers assets to the SPE, Merrill Lynch relies on the guidance provided by Emerging Issues Task Force ("EITF") Topic D-14, *Transactions Involving Special-Purpose Entities,* to determine whether consolidation of these SPEs is required. Under this guidance, an SPE is not required to be consolidated by a transferor or sponsor if the SPE issues equity in legal form to unaffiliated third parties that is at least 3% of the value of the assets held by the SPE, the transferor or sponsor has not retained the substantive risks and rewards of ownership of the SPE and does not have control over the activities of the SPE. Merrill Lynch considers a number of both qualitative and quantitative factors in determining whether it is the sponsor of an SPE for purposes of applying the guidance in EITF Topic D-14, and judgment is required in making this determination.

Merrill Lynch also acts as a liquidity provider to investors in securities issued by certain SPEs and enters into other guarantees related to SPEs. Additional information regarding liquidity facilities and guarantees to SPEs is provided in Note 14 to the Consolidated Financial Statements. Merrill Lynch also retains interests in assets securitized by an SPE, and enters into derivative transactions with SPEs. These transactions are recorded at estimated fair value in the Consolidated Financial Statements. Therefore, material economic exposures to SPEs created in these transactions are recorded or disclosed in the Consolidated Financial Statements. Refer to Note 8 to the Consolidated Financial Statements for more information on interests retained in securitization transactions.

In addition to the SPEs described above, Merrill Lynch has entered into transactions with SPEs to facilitate the financing of physical property (facilities and aircraft) for its own use. The physical property is purchased or constructed by the SPE and leased to Merrill Lynch. For these structures, Merrill Lynch follows the guidance in EITF Issue No. 90-15, *Impact of Nonsubstantive Lessors, Residual Value Guarantees, and other Provisions in Leasing Transactions* and EITF Issue No. 97-10, *The Effect of Lessee Involvement in Asset Construction,* to determine whether or not consolidation of the SPE is required. Under this guidance, a company that leases property from an SPE is not required to consolidate that SPE if, among other conditions, a third-party investor has made a substantive residual equity capital investment in the SPE that is at risk during the entire term of the lease. Substantive residual equity capital is currently defined as amounting to at least 3% of the value of the assets held by the SPE. Merrill Lynch has met the requirements of EITF Issues No. 90-15 and 97-10 for these SPEs and accordingly, these SPEs are not consolidated in the Consolidated Financial Statements. See Note 8 and Note 14 to the Consolidated Financial Statements for additional detail regarding these transactions.

Merrill Lynch's U.S. banking subsidiaries have also entered into transactions with SPEs in order to improve the liquidity of their mortgage portfolios and reduce the credit risk of their investment portfolios, which resulted in reduced regulatory capital requirements. See Note 18 to the Consolidated Financial Statements for additional information about these transactions.

In January 2003, the Financial Accounting Standards Board ("FASB") issued new guidance regarding consolidation of SPEs, which will supercede EITF Topic D-14 and Issue 90-15. FASB Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51* is effective for newly created SPEs beginning February 1, 2003 and for existing SPEs as of the third quarter of 2003. See *New Accounting Pronouncements* below for additional information and Note 8 to the Consolidated Financial Statements for disclosures.

Fair Value

At December 27, 2002, $400 billion, or 89%, of Merrill Lynch's total assets and $407 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 28, 2001, $403 billion, or 92%, of Merrill Lynch's total assets and $397 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate such values. Financial instruments that are carried at fair value include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, available-for-sale and trading securities included in Investment securities, certain investments of insurance subsidiaries and certain other investments.

Financial instruments recorded at amounts that approximate fair value include receivables under resale agreements, receivables under securities borrowed transactions, other receivables, payables under repurchase agreements, payables under securities loaned transactions, commercial paper and other short-term borrowings, deposits, and other payables. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

The fair value amounts for financial instruments are disclosed in each respective footnote.

Securities Accounting

Merrill Lynch's non-broker-dealer subsidiaries follow the guidance prescribed by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* when accounting for investments in debt and publicly traded equity securities. Merrill Lynch classifies those debt securities that it has the intent and ability to hold to maturity as held-to-maturity securities, which are carried at cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. Those securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading and marked to fair value through earnings. All other qualifying securities are classified as available-for-sale with unrealized gains and losses reported in *Accumulated other comprehensive loss.* Securities held by a broker-dealer subsidiary are subject to specialized industry guidance as prescribed by the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Brokers and Dealers in Securities*. Merrill Lynch accounts for substantially all securities held by broker-dealer subsidiaries at fair value with realized and unrealized gains and losses reported in earnings.

Investment Banking and Advisory Services

Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition. Investment banking and advisory services revenues are presented net of transaction-related expenses.

Balance Sheet Captions

The following are policies related to specific balance sheet captions. Refer to the related footnotes for additional information.

Cash and Cash Equivalents

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 and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations

Cash and securities segregated for regulatory purposes or deposited with clearing organizations include cash and securities segregated in compliance with federal and other regulations and represent funds deposited by customers and funds accruing to customers as a result of trades or contracts. Also included are funds segregated in a special reserve account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission as well as funds segregated and held in separate accounts in accordance with Section 4d(2) and Regulation 30.7 of the Commodity Exchange Act.

Securities Financing Transactions

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers (also referred to as "matched-book transactions"), finance firm inventory positions, obtain securities for settlement and earn residual interest rate spreads. Merrill Lynch also engages in securities financing for customers through margin lending (see *Customer Receivables and Payables* section).

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.

Interest rate swaps may be used to modify the interest rate characteristics of long-term resale and repurchase agreements. (See the *Derivatives* section for additional information on accounting policy for derivatives.)

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

All firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are disclosed parenthetically in *Trading Assets* on the Consolidated Balance Sheets.

In transactions where Merrill Lynch acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes on the Consolidated Balance Sheets the securities received and an obligation to return those securities. The Consolidated Balance Sheets separately reflect these assets and liabilities as *Securities received as collateral* and *Obligation to return securities received as collateral*, respectively.

Trading Assets and Liabilities

Merrill Lynch's trading activities consist primarily of securities brokerage, trading, and underwriting; derivatives dealing and brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or for managing risk exposures in other trading inventory. See the *Derivatives* section for additional information on accounting policy for derivatives.

Trading securities and other cash instruments (e.g., loans held for trading purposes) are recorded on a trade date basis at fair value. Included in trading liabilities are securities that Merrill Lynch has sold but did not own and will therefore be obligated to purchase at a future date ("short sales"). Changes in fair value (i.e., unrealized gains and losses) are recognized as *Principal transactions* revenues in the current period. Realized gains and losses and any related interest amounts are included in *Principal transactions* revenues and *Interest* revenues and expenses, depending on the nature of the instrument.

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's best estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. As previously noted, estimating the fair value of long-dated derivative contracts and illiquid securities requires significant management judgment.

Derivatives

A derivative is an instrument whose value is "derived" from an underlying instrument or index such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

The fair value of all derivatives is recorded on a net-by-counterparty basis on the Consolidated Balance Sheets where management believes a legal right of setoff exists under an enforceable netting agreement. For purposes of the Consolidated Statements of Cash Flows, cash flows from trading derivatives are classified in operating activities.

In the ordinary course of trading activities, Merrill Lynch enters into certain transactions that are documented as derivatives where a significant cash investment is made by one party. These transactions can be in the form of simple interest rate swaps where the fixed leg is prepaid or may be in the form of equity-linked or credit-linked transactions where the initial investment equals the notional amount of the derivative. As these transactions are entered into by Merrill Lynch's broker-dealers as part of their normal trading operations, cash outflows from these assets and cash inflows from these liabilities are included in operating activities in the Consolidated Statements of Cash Flows.

Valuation of Derivatives

Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for OTC derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for non-exchange-traded derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. Unrealized gains for these instruments are not recognized unless the valuation model incorporates significant observable market inputs. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than the simple application of the pricing models.

Use of Derivatives

Merrill Lynch enters into derivatives in a dealing capacity, providing them to clients, and enters into them for proprietary trading and financing strategies and to manage its risk exposures arising from trading assets and liabilities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions.

Merrill Lynch also enters into derivatives in a non-dealing capacity, to manage its risk exposures arising from non-trading assets and liabilities. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to minimize interest rate risk. Merrill Lynch also enters into currency swaps to ensure that non-U.S. dollar-denominated assets are funded with like-currency-denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Derivatives used most frequently include swap agreements that:

- Convert fixed rate interest payments into variable payments
- Change the underlying interest rate basis or reset frequency
- Convert non-U.S. dollar payments into U.S. dollars.

In addition, Merrill Lynch enters into hedges on marketable investment securities to manage the interest rate risk and net duration of its investment portfolio.

Merrill Lynch also uses forward-exchange contracts, currency swaps, and foreign-currency-denominated debt to hedge its net investments in foreign operations. These derivatives and cash instruments are used to mitigate the impact of changes in exchange rates.

Risk Management of Derivatives

Derivative activity is subject to Merrill Lynch's overall risk management policies and procedures. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks. These risks include market, credit, liquidity, operational, and other risks that are material and require comprehensive controls and management. (See Note 7*, Market Risk* and *Credit Risk* sections). The Corporate Risk Management ("CRM") group, along with other control units, ensures that these risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, CRM has established a risk management process which includes:

- A formal risk governance organization that defines the oversight process and its components.
- A regular review of the entire risk management process by the Audit Committee of the Board of Directors.
- Clearly defined risk management policies and procedures supported by a rigorous analytic framework.
- Close communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight.
- Clearly articulated risk tolerance levels as defined by a group composed of executive management that are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

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

Accounting for Derivatives and Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

Derivatives entered into in a dealing capacity are recognized at fair value on the Consolidated Balance Sheets as trading assets and liabilities in *Contractual agreements* and the change in fair value is reported in current period earnings as *Principal transactions* revenues.

Derivatives entered into in a non-dealing capacity are designated, on the date they are entered into, as either (1) a hedge of the fair value of a recognized asset or liability ("fair value" hedge), (2) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) a hedge of a net investment in a foreign operation.

- Changes in the fair value of derivatives that are designated and qualify as fair value hedges, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings as interest revenue or expense.

- Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in *Accumulated other comprehensive loss* until earnings are affected by the variability of cash flows of the hedged asset or liability (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

- Changes in the fair value of derivatives that are designated and qualify as hedges of a net investment in a foreign operation are recorded in the Foreign currency translation adjustment account within *Accumulated other comprehensive loss*.

- Changes in the fair value of derivatives that are economically used to hedge non-trading assets and liabilities, but that do not meet the criteria in SFAS No. 133 to qualify as an accounting hedge are reported in current period earnings as either *Principal transactions* revenues, *Other* revenue or expense or *Interest expense* depending on the nature of the transaction.

Derivatives entered into by Merrill Lynch in a non-dealing capacity used to hedge its funding and its net investments in foreign subsidiaries are reported at fair value in *Other assets* or *Interest and other payables* in the Consolidated Balance Sheets at December 27, 2002 and December 28, 2001. Derivatives are also used to hedge Merrill Lynch's marketable investment securities portfolio.

Merrill Lynch documents its risk management objectives and strategies for undertaking various hedge transactions. The risk management objectives and strategies are monitored and managed by CRM in accordance with established risk management policies and procedures that include risk tolerance levels. Merrill Lynch also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Merrill Lynch discontinues hedge accounting. Under the provisions of SFAS No. 133, hedge effectiveness is assumed for those derivatives whose terms match the terms of the asset or liability being hedged and that otherwise meet the conditions of SFAS No. 133.

Merrill Lynch issues debt whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. The contingent payment components of these debt obligations meet the definition of an "embedded derivative." The debt instruments are assessed to determine if the embedded derivative requires separate reporting and accounting, and if so, the embedded derivative is separated and reported in *Long-term borrowings* on the Consolidated Balance Sheets with the debt obligation; changes in the fair value of the embedded derivative and related hedges are reported in *Interest expense*. The risk exposures in embedded derivatives are economically hedged with cash instruments and/or other non-trading derivatives reported at fair value.

Merrill Lynch may also purchase financial instruments that contain embedded derivatives. These instruments may be part of either trading inventory or trading marketable investment securities. These instruments are generally accounted for at fair value in their entirety; the embedded derivative is not separately accounted for, and all changes in fair value are reported in earnings.

Merrill Lynch also enters into interest rate swaps to hedge the interest rate exposure of certain investment securities. Hedge effectiveness testing is required for some of these hedging relationships and the component of each derivative's change in fair value not attributable to the change in interest rates is excluded and reported in earnings. For 2002 and 2001, the amounts excluded from hedge effectiveness not attributed to the change in interest rates was not material. In addition, the amount of hedge ineffectiveness on fair value hedges was not material in 2002 or 2001.

For the years ended 2002 and 2001, respectively, $362 million of net losses and $317 million of net gains related to non-U.S. dollar hedges of investments in non-U.S. dollar subsidiaries were included in *Accumulated other comprehensive loss* on the Consolidated Balance Sheets. These amounts were substantially offset by net gains and losses on the hedged investments.

The majority of deferred net gains (losses) on derivative instruments designated as cash flow hedges that were in *Accumulated other comprehensive loss* at December 27, 2002 are expected to be reclassified into earnings as interest income during the next twelve months and the remaining amounts will be reclassified during the following three years. The amount of ineffectiveness related to these hedges reported in earnings was not material.

Investment Securities

Investment securities consist of marketable investment securities, investments of Merrill Lynch insurance subsidiaries, and other investments.

Marketable Investment Securities

Merrill Lynch's non-broker-dealer subsidiaries hold debt and equity investments, which are primarily classified as available-for-sale.

Debt and marketable equity securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of *Accumulated other comprehensive loss*, net of income taxes and other related items. Any unrealized losses deemed other than temporary are included in current period earnings.

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

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

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

Investments of Insurance Subsidiaries and Related Liabilities

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

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when combined, are equal to the gain or loss that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of *Accumulated other comprehensive loss*, net of applicable income taxes.

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

Other Investments

Other investments primarily consist of:

- Investments held by a regulated broker-dealer carried at fair value with gains and losses reported in *Principal transactions* revenues. Certain of these investments are subject to restrictions that may limit Merrill Lynch's ability to realize currently the estimated fair value of its investment until such restrictions expire. Accordingly, Merrill Lynch estimates the fair value of these securities taking into account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors.
- Merchant banking investments held by non-broker-dealer subsidiaries carried at the lower of cost or net realizable value, or under the equity method depending on Merrill Lynch's ability to exercise significant influence over the investee. Gains and losses on these investments are reported in *Other* revenues.
- Investments economically hedging deferred compensation liabilities carried at fair value, with gains and losses reported in earnings.

Other Receivables and Payables

Customer Receivables and Payables

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

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Financial Advisors' compensation and benefits expense is accrued in the same period as revenue is recognized.

Mutual fund distribution fee revenues are accrued as earned, and redemption fee revenues are recognized upon receipt. Performance-based incentive fees are recognized prior to the end of the contract measurement period based on performance to date. Certain compensation costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition. Amortization of deferred amounts is accelerated when it is determined that deferred expenses cannot be recovered.

Brokers and Dealers Receivables and Payables

Receivables from brokers and dealers include amounts receivable for securities not delivered by Merrill Lynch to a purchaser by the settlement date ("fails to deliver"), deposits for securities borrowed, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers and dealers include amounts payable for securities not received by Merrill Lynch from a seller by the settlement date ("fails to receive"), deposits received for securities loaned, and net payables arising from unsettled trades.

Interest and Other Receivables and Payables

Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, stock borrowed transactions, receivables from commissions and fees, and income taxes. Interest and other payables include interest payable for stock loaned transactions, long-term borrowings, and amounts payable for employee compensation and benefits, restructuring reserves, and income taxes.

Loans, Notes, and Mortgages

Merrill Lynch's lending and related activities include loan originations, syndications, and securitizations. Loan originations include commercial and residential mortgages, loans to small and middle markets businesses, and credit extended to individuals. Merrill Lynch also engages in secondary market loan trading and margin lending (see *Trading assets and liabilities* and *Customer receivables and payables* sections, respectively).

Loans held for investment purposes, including some commercial loans that are syndicated and some consumer and small business loans, are carried at their principal amount outstanding. The allowance for loan losses is established through provisions that are based on management's estimate of probable incurred losses. Loans are charged off against the allowance for loan losses when management determines that the loan is uncollectible.

Loans held for sale, which include commercial loans that are syndicated and certain residential mortgage loans, are reported at the lower of cost or estimated fair value. The impact of the loan loss provision, for syndicated loans not held by Merrill Lynch's U.S. banks, is included in *Principal transactions* revenues in the Consolidated Statements of Earnings. The loan loss provision related to other loans is included in *Interest revenue* in the Consolidated Statements of Earnings. The gain or loss on the sale of mortgages into the secondary market is reflected in *Other* revenues.

Nonrefundable loan origination fees, loan commitment fees, and "draw down" fees received in conjunction with financing arrangements are generally deferred and recognized over the contractual life of the loan as an adjustment to the yield. If, at the outset, or any time during the term of the loan it becomes highly probable that the repayment period will be extended, the amortization is recalculated using the expected remaining life of the loan. When the loan contract does not provide for a specific maturity date, management's best estimate of the repayment period is used. At repayment of the loan, any unrecognized deferred fee is immediately recognized in earnings.

Separate Accounts Assets and Liabilities

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. These accounts and the related liabilities are recorded as *Separate accounts assets* and *Separate accounts liabilities* on the Consolidated Balance Sheets.

Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the *Occupancy and related depreciation* expense category was depreciation and amortization of $204 million, $245 million, and $235 million in 2002, 2001, and 2000, respectively. Depreciation and amortization recognized in the *Communications and technology* expense category was $448 million, $643 million, and $611 million for 2002, 2001, and 2000, respectively.

Qualifying costs incurred in the development of internal-use software are capitalized when costs exceed $5 million and are amortized over the useful life of the developed software, generally not exceeding three years.

Goodwill

In July 2001, the FASB issued SFAS No. 142,*Goodwill and Other Intangible Assets.* Under SFAS No. 142, intangible assets with indefinite lives and goodwill will no longer be amortized. Instead, these assets are tested annually for impairment. Merrill Lynch adopted the provisions of SFAS No. 142 at the beginning of fiscal year 2002. Prior years' pre-tax amortization expense related to goodwill totaled $207 million and $217 million for 2001 and 2000, respectively.

During the second quarter of 2002, Merrill Lynch completed its review of goodwill in accordance with SFAS No. 142 and determined that the fair value of the reporting units to which goodwill relates exceeded the carrying value of such reporting units. Accordingly, no goodwill impairment loss was recognized. The majority of the goodwill, and related accumulated amortization, is denominated in sterling, and as a result has changed from 2001 due to exchange rate changes. This goodwill is related to the 1997 purchase of the Mercury Asset Management Group and was tested for impairment at the Merrill Lynch Investment Managers ("MLIM") segment level since this business has been fully integrated into MLIM.

The following table presents a reconciliation of reported net earnings and earnings per share to the amounts adjusted for the exclusion of goodwill amortization, net of related income tax effects.

(dollars in millions, except per share amounts)

	For the Twelve Months Ended		
	Dec. 27, 2002	Dec. 28, 2001	Dec. 29, 2000
Net earnings:			
Reported amount	$ 2,513	$ 573	$ 3,784
Goodwill amortization, net of taxes	–	139	145
Adjusted	$ 2,513	$ 712	$ 3,929
Basic earnings per share:			
Reported amount	$ 2.87	$ 0.64	$ 4.69
Goodwill amortization, net of taxes	–	0.16	0.18
Adjusted	$ 2.87	$ 0.80	$ 4.87
Diluted earnings per share:			
Reported amount	$ 2.63	$ 0.57	$ 4.11
Goodwill amortization, net of taxes	–	0.15	0.16
Adjusted	$ 2.63	$ 0.72	$ 4.27

Other Assets

Other assets consists of unrealized gains on derivatives used to hedge Merrill Lynch's borrowing and investing activities. All of these derivatives are recorded at fair value with changes reflected in earnings and *Accumulated other comprehensive loss* (refer to the *Derivatives* section for more information). Other assets also include prepaid pension expense related to plan contributions in excess of obligations, other prepaid expenses, and other deferred charges. Refer to Note 15 to the Consolidated Financial Statements for further information.

Commercial Paper and Short- and Long-Term Borrowings

Merrill Lynch's unsecured general-purpose funding is principally obtained from medium-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums, adjusted for the effects of fair value hedges.

Merrill Lynch uses derivatives to manage the interest rate, currency, equity, and other risk exposures of its borrowings. See the *Derivatives* section for additional information on accounting policy for derivatives.

Deposits

Savings deposits are interest-bearing accounts that have no maturity or expiration date, whereby the depositor is not required by the deposit contract, but may at any time be required by the depository institution, to give written notice of an intended withdrawal not less than seven days before withdrawal is made. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may pay a penalty to do so.

Stock-Based Compensation

Merrill Lynch accounts for stock-based compensation in accordance with the intrinsic value-based method in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* rather than the fair value-based method in SFAS No. 123, *Accounting for Stock-Based Compensation.* For the years ended 2002, 2001, and 2000, $821 million ($509 million after-tax), $732 million ($454 million after-tax), and $633 million ($392 million after-tax), respectively, of pre-tax compensation expense related to employee stock compensation awards was recorded in earnings. Compensation expense for stock options is not recognized since Merrill Lynch grants stock options that have no intrinsic value. Had Merrill Lynch adopted the provisions of SFAS No. 123 and accounted for all employee stock awards at fair value, Merrill Lynch would have recognized additional pre-tax compensation expense related to employee stock awards of $1,212 million ($752 million after-tax), $1,378 million ($854 million after-tax), and $500 million ($310 million after-tax), respectively, for the years ended December 27, 2002, December 28, 2001, and December 29, 2000. See *New Accounting Pronouncements* section for further information on accounting for employee stock awards and Note 16 to the Consolidated Financial Statements for pro forma net income and earnings per share, as if Merrill Lynch had accounted for all stock-based awards in accordance with SFAS No. 123.

Employee stock-based awards, excluding stock options, are amortized over the vesting period. The unamortized portion of the grant value for certain of these plans is reflected as a reduction of Stockholders' Equity in *Unamortized employee stock grants* on the Consolidated Balance Sheets.

Income Taxes

ML & Co. and certain of its wholly-owned subsidiaries file a consolidated U.S. federal income tax return. Certain other Merrill Lynch entities file tax returns in their local jurisdictions.

Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. See Note 17 to the Consolidated Financial Statements for further information.

Merrill Lynch follows APB Opinion No. 28, *Interim Financial Reporting,* in accounting for interim period taxes. Pursuant to APB No. 28, the interim period is considered as an integral part of an annual reporting period. Interim period tax rates are based on the best estimate of the full year tax rate, taking into account a variety of factors, including the mix of U.S. and non-U.S. results of operations, tax contingencies, and tax audit settlements.

New Accounting Pronouncements

On July 31, 2002, the AICPA issued a Proposed Statement of Position (“SOP”)*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The proposed Statement provides guidance on accounting and reporting by insurance companies for certain nontraditional long-duration contracts and for separate accounts. A final SOP would be effective for financial statements for Merrill Lynch beginning in 2004. The SOP would require the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch currently employs. Depending on market conditions at the time of adoption, the impact of implementing this reserve methodology may have a material impact on the Consolidated Statement of Earnings.

On January 17, 2003, the FASB issued FIN 46 which clarifies when an entity should consolidate another entity known as a Variable Interest Entity ("VIE"), more commonly referred to as an SPE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46 requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46 does not apply to QSPEs, the accounting for which is governed by SFAS No. 140. FIN 46 is effective for VIEs created on or after February 1, 2003 and for existing VIEs as of the third quarter of 2003. See Note 8 to the Consolidated Financial Statements for disclosures regarding the expected impact of adoption of FIN 46 on Merrill Lynch's Consolidated Balance Sheets.

On December 31, 2002 the FASB issued SFAS No. 148,*Accounting for Stock-Based Compensation — Transition and Disclosure*, an amendment of SFAS No. 123. SFAS No. 148 permits three alternative methods of transition for a voluntary change to the fair value-based method of accounting for employee stock-based compensation. SFAS No. 148 continues to permit prospective application for companies that adopt prior to the beginning of fiscal year 2004. SFAS No. 148 also allows for a modified prospective application, which requires the fair value of all unvested awards to be amortized over the remaining service period, as well as a restatement of prior years' expense. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances.

On November 25, 2002, the FASB issued FIN 45,*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34.*FIN 45 requires guarantors to disclose their obligations under certain guarantees. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosures are effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 14 to the Consolidated Financial Statements for these disclosures.

In July 2002, the FASB issued SFAS No. 146,*Accounting for Costs Associated with Exit or Disposal Activities.* This standard requires companies to recognize certain costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 will replace the existing guidance provided by EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In August 2001, the FASB released SFAS No. 144,*Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes both SFAS No. 121,*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* and the accounting and reporting provisions of APB Opinion No. 30,*Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. SFAS No. 144 also amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 provides guidance on the financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of SFAS No. 144 did not have a material impact on Merrill Lynch's Consolidated Financial Statements.

In July 2001, the FASB issued SFAS No. 142 Under SFAS No. 142, intangible assets with indefinite lives and goodwill are no longer amortized. Instead, these assets are tested annually for impairment. Merrill Lynch adopted the provisions of SFAS No. 142 at the beginning of fiscal year 2002. See preceding *Goodwill* section for further discussion.

In July 2001, the FASB released SFAS No. 141. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Merrill Lynch adopted the provisions of SFAS No. 141 on July 1, 2001.

Note 2. Subsequent Event

On February 20, 2003, Merrill Lynch announced that it had reached a settlement-in-principle with the staff of the Securities and Exchange Commission regarding an investigation into two 1999 transactions between Merrill Lynch and Enron Corporation. As a result, a pre-tax charge of $80 million ($64 million after-tax, and $.06 per diluted share) has been included in the Consolidated Statements of Earnings in *Research and other settlement-related expenses.* See Note 14 for information regarding litigation matters.

Note 3. Other Significant Events

Research-related settlements

On May 21, 2002, Merrill Lynch executed an agreement with the New York Attorney General regarding alleged conflicts of interest between Merrill Lynch's Research and Investment Banking groups. As part of the agreement, the Attorney General terminated his investigation and Merrill Lynch agreed to implement changes to further insulate the Research Department from Investment Banking. In addition, in order to reach a resolution and settlement of the matter, Merrill Lynch agreed to make a civil payment of $48 million to New York State and an additional $52 million to the other 49 states and to Puerto Rico and the District of Columbia. Merrill Lynch admitted no wrongdoing or liability as part of this agreement. The payments were contingent on acceptance of the agreement by the appropriate state agencies in these states and in Puerto Rico and the District of Columbia. With the exception of one state, with which it is still in discussions, Merrill Lynch has concluded agreements and made the payments to every state, Puerto Rico, and the District of Columbia. The majority of these payments were made in the fourth quarter of 2002. In addition, $11 million of related legal fees were incurred.

In December 2002, Merrill Lynch joined with nine other major financial services institutions in a settlement-in-principle with the U.S. Securities and Exchange Commission, the National Association of Securities Dealers, and the New York Stock Exchange to resolve matters arising from their research-related inquiries, including inquiries into potential conflicts that may arise from the relationship between research and investment banking within securities firms. This settlement-in-principle calls for Merrill Lynch, among other things, to contribute $100 million for the funding of independent research and investor education over the next five years, but does not require Merrill Lynch to pay any fines or make any additional civil payments. The full amount of the settlement-in-principle was accrued for in 2002 as it is not possible to quantify the future benefits of this payment.

Restructuring and Other Charges

During the fourth quarter of 2001, Merrill Lynch's management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth, which included the resizing of selected businesses and other structural changes. As a result, Merrill Lynch incurred a fourth quarter pre-tax charge to earnings of $2.2 billion, which included restructuring costs of $1.8 billion and other charges of $396 million. These other charges primarily related to asset write-offs, which were recorded in 2001. In addition, a charge of approximately $135 million of deferred tax expense was recorded related to losses of the Global Private Client ("GPC") operations in Japan that are not expected to be utilized during the carryforward period.

In addition, a charge of $17 million was recorded in 2002. This charge, which was approved by management in 2002, relates to location closings related to GPC from the consolidation of office space arising from workforce reductions in Europe. This charge, in combination with the $9 million net reduction in the 2001 restructuring reserve, was recorded as a net $8 million *Restructuring and other charge* in the Consolidated Statements of Earnings in 2002.

Restructuring Charge

The 2001 restructuring charges related primarily to severance costs of $1.1 billion, facilities costs of $299 million, technology and fixed asset write-offs of $187 million, and legal, technology, and other costs of $178 million. Structural changes included workforce reductions of 6,205 through a combination of involuntary and voluntary separations across all business groups. At December 28, 2001, the majority of employee separations were completed or announced, and all had been identified. The $1.1 billion of severance costs included non-cash charges related to accelerated amortization for stock grants associated with employee separations totaling $135 million. Facilities-related costs included the closure or subletting of excess space, and the consolidation of GPC offices in the United States, Europe, Asia Pacific, and Japan. Substantially all employee separations were completed in 2002. Management expects the remaining employee separations to be completed in 2003. Office consolidations have been completed as employees have vacated the facilities. However, additional reserves remain at December 27, 2002, as remaining lease payments extend to future periods. Any unused portion of the original restructuring reserve will be reversed. Substantially all of the remaining cash payments related to real estate and severance will be funded by cash from operations. Asset write-offs primarily reflected the write-off of technology assets and furniture and equipment which resulted from management's decision to close Private Client branch offices. Utilization of the restructuring reserve and a rollforward of staff reductions at December 27, 2002 is as follows:

(dollars in millions)

	Initial Balance	Utilized In 2001	Balance Dec. 28, 2001	Utilized In 2002	Net Change In Estimate	Balance Dec. 27, 2002
Category:						
Severance costs	$1,133	$(214)	$ 919	$ (842)	$ (32)	$ 45
Facilities costs	299	—	299	(66)	51	284
Technology and fixed asset write-offs	187	(187)	—	(9)	9	—
Other costs	178	—	178	(82)	(37)	59
	$1,797	$(401)	$1,396	$ (999)	$ (9)	$ 388
Staff reductions	6,205	(749)	5,456	(5,211)	(22)	223

The changes in estimate during 2002 are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates, severance-related reserves of $32 million and other reserves of $37 million, principally related to the Japan GPC business, were reversed and recorded to the Consolidated Statements of Earnings as Restructuring credits. The estimates for facilities costs was adjusted in 2002 to reflect increased costs relating primarily to unutilized space in the World Financial Center of $70 million and certain other location closings in the United States of $22 million. These changes in estimates were partially offset by lower than anticipated costs in Japan of $41 million. Technology and fixed assets write-offs was also adjusted in 2002 to reflect increased fixed asset write-offs in various other U.S. corporate locations totaling $9 million. These additional costs have been recorded as *Restructuring and other charges* in the Consolidated Statements of Earnings.

September 11-related Recoveries/Expenses

On September 11, 2001, terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North and South Towers of the World Financial Center, and from offices at 222 Broadway to back-up facilities. Merrill Lynch maintains insurance for losses caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. In 2002, Merrill Lynch recorded September 11-related net insurance recoveries of $212 million. In 2001, Merrill Lynch recorded net September 11-related expenses of $131 million. Expenses related to September 11 were $113 million and $346 million in 2002 and 2001, respectively.

Merrill Lynch has received a total of $540 million of insurance recoveries, $440 million in 2002 and $100 million in 2001. These recoveries include $425 million for replacement and recovery costs and $115 million for partial business interruption payments for lost profits. For a variety of reasons, the expense recognition and insurance reimbursements will not be equal. Merrill Lynch continues to pursue reimbursements for replacement and recovery costs as well as for business interruption losses. Additional reimbursements will be recognized once agreed to by the insurance company.

Mergers, Acquisitions, and Divestitures

In the first quarter of 2002, Merrill Lynch sold its Securities Pricing Services business and its Canadian retail asset management business. Merrill Lynch recorded pre-tax gains of $45 million and $17 million, respectively, related to these sales, which were included in *Other* revenues on the Consolidated Statements of Earnings.

In May 2002, Merrill Lynch and HSBC agreed in principle to integrate their joint venture company, Merrill Lynch HSBC ("MLHSBC"), into the HSBC Group. MLHSBC was a 50/50 joint venture formed by Merrill Lynch and HSBC in April 2000 to create a global online investment and banking services company, serving individual self-directed customers outside the United States. Merrill Lynch recognized losses related to MLHSBC of $34 million and $150 million in 2002 and 2001, respectively, which have been recorded in *Other* revenues on the Consolidated Statements of Earnings.

On December 28, 2001, Merrill Lynch sold its Canadian Private Client and securities clearing businesses for $344 million in cash in connection with its overall global business resizing. The sale resulted in a pre-tax gain of $158 million, which was included in *Other* revenues on the Consolidated Statements of Earnings, and accounted for a reduction of approximately 3,200 full-time employees in the 2001 fourth quarter. In 2002, Merrill Lynch recorded a pre-tax gain of $39 million related to the release of provisions subsequent to the conclusion of the sale of the Canadian Private Client and securities clearing businesses.

Note 4. Segment and Geographic Information

Segment Information

In reporting to management during 2002, Merrill Lynch's operating results were categorized into three business segments: Global Markets and Investment Banking ("GMI"), GPC, and MLIM. Prior period amounts have been restated to conform to the 2002 presentation.

The principal methodology used in preparing the segment results in the table that follows is:

- Revenues and expenses are assigned to segments where directly attributable.
- Principal transactions, net interest and investment banking revenues and related costs resulting from the client activities of GPC are allocated among GMI and GPC based on production credits, share counts, trade counts, and other measures which estimate relative value.
- During 2002 and 2001, MLIM received a subadvisory fee from GPC related to certain retail money market funds, which comprised $75 billion and $81 billion in average assets under management in 2002 and 2001, respectively. During 2000, revenues and expenses related to these retail money market funds comprising an average of $105 billion in assets under management were assigned to GPC.
- MLIM receives a net advisory fee from GPC relating to certain MLIM branded products offered through GPC's 401(k) product offering.
- Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if MLIM and GPC were unrelated entities.
- Interest (cost of carry) is allocated based on management's assessment of the relative liquidity of segment assets and liabilities.

- Acquisition financing costs, September 11-related expenses, research and other settlement-related expenses and goodwill amortization are not attributed to segments because management excludes these items from segment operating results in evaluating segment performance. The elimination of intersegment revenues and expenses is also included in Corporate items.
- Residual expenses (i.e., those related to overhead and support units) are attributed to segments based on specific methodologies (e.g., headcount, square footage, intersegment agreements etc.).

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated net revenues and pre-tax earnings:

(dollars in millions)

	GMI	GPC	MLIM	Corporate Items (including intersegment eliminations)	Total
2002					
Non-interest revenues	$ 6,171	$ 7,445	$1,529	$ (70)(1)	$ 15,075
Net interest income(2)	2,259	1,336	24	(86)(3)	3,533
Net revenues	8,430	8,781	1,553	(156)	18,608
Non-interest expenses	6,015	7,485	1,232	119(4)	14,851
Pre-tax earnings (loss)	$ 2,415	$ 1,296	$ 321	$ (275)	$ 3,757
Pre-tax earnings (loss) before research and other settlement-related, September 11, and restructuring-related items	$ 2,376	$ 1,205	$ 344	$ (81)	$ 3,844
Year-end total assets	$378,836	$59,333	$5,313	$ 4,446	$447,928
2001					
Non-interest revenues	$ 8,466	$ 8,399	$1,912	$ (163)(1)	$ 18,614
Net interest income(2)	1,809	1,518	20	(81)(3)	3,266
Net revenues	10,275	9,917	1,932	(244)	21,880
Non-interest expenses	8,298	10,076	1,913	216(4)	20,503
Pre-tax earnings (loss)	$ 1,977	$ (159)	$ 19	$ (460)	$ 1,377
Pre-tax earnings (loss) before September 11 and restructuring-related items	$ 2,810	$ 918	$ 302	$ (329)	$ 3,701
Year-end total assets	$360,977	$64,912	$5,732	$ 4,071	$435,692
2000					
Non-interest revenues	$ 11,208	$10,563	$2,140	$ (235)(1)	$ 23,676
Net interest income(2)	1,581	1,534	69	(94)(3)	3,090
Net revenues	12,789	12,097	2,209	(329)	26,766
Non-interest expenses	8,698	10,597	1,754	–(4)	21,049
Pre-tax earnings (loss)	$ 4,091	$ 1,500	$ 455	$ (329)	$ 5,717
Year-end total assets	$332,942	$80,283	$6,199	$ 4,407	$423,831

(1) Primarily represents the elimination of intersegment revenues and expenses.
(2) Management views interest income net of interest expense in evaluating results.
(3) Represents acquisition financing costs.
(4) In 2002, represents research and other settlement-related expenses of $291 million, offset by net September 11-related insurance recoveries of $97 million, and elimination of intersegment expenses of $75 million. In 2001, represents goodwill amortization of $207 million, net September 11-related expenses of $131 million, partially offset by the elimination of intersegment expenses of $122 million. In 2000, represents goodwill amortization of $217 million, fully offset by the elimination of intersegment expenses of $217 million.

Geographic Information

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

- Europe, Middle East, and Africa
- Japan
- Asia Pacific
- Canada, and

- Latin America

The principal methodology used in preparing the geographic data in the table that follows is:

- Revenue and expenses are generally recorded based on the location of the employee generating the revenue or incurring the expense.
- 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 net revenues and pre-tax earnings:

(dollars in millions)

	2002	2001	2000
Net revenues			
Europe, Middle East, and Africa	$ 2,641	$ 3,462	$ 4,953
Japan	761	997	1,531
Asia Pacific	612	802	1,193
Canada	262	858	845
Latin America	527	526	748
Total Non-U.S	4,803	6,645	9,270
United States	13,961	15,455	17,825
Corporate	(156)	(220)	(329)
Total	$18,608	$21,880	$26,766
Earnings (loss) before income taxes			
Europe, Middle East, and Africa	$ 69	$ (32)	$ 1,261
Japan	217	(394)	237
Asia Pacific	57	(30)	233
Canada	124	216	169
Latin America	87	10	152
Total Non-U.S	554	(230)	2,052
United States	3,281	1,922	3,994
Corporate	(78)	(315)	(329)
Total	$ 3,757	$ 1,377	$ 5,717

Note 5. Securities Financing Transactions

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

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge these securities held as collateral (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At December 27, 2002 and December 28, 2001, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $270 billion and $246 billion, respectively, and the fair value of the portion that has been sold or repledged was $228 billion and $221 billion, respectively.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in *Trading Assets* on the Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at year-end 2002 and 2001 are as follows:

(dollars in millions)

	2002	2001
Trading asset category		
Corporate debt and preferred stock	$ 7,843	$ 6,135
Equities and convertible debentures	256	157
Mortgages, mortgage-backed, and asset-backed	11,530	7,998
U.S. Government and agencies	5,112	10,634
Municipals and money markets	337	1,074
Non-U.S. governments and agencies	812	1,073
Total	$25,890	$27,071

Note 6. Investment Securities

Investment securities on the Consolidated Balance Sheets includes highly liquid debt securities including those held for liquidity management purposes, equity securities, the investment portfolio for Merrill Lynch's U.S. banks, and investments of insurance subsidiaries. Investments of insurance subsidiaries are primarily debt securities, which are used to fund policyholder liabilities. Also included in investment securities are non-qualifying investments under SFAS No. 115, which include merchant banking investments, private equity investments, including partnership interests, and insurance policy loans. Investment securities reported on the Consolidated Balance Sheets at December 27, 2002 and December 28, 2001 are as follows:

(dollars in millions)

	2002	2001

Investment securities		
Available-for-sale	$72,229	$74,356
Trading	3,337	7,842
Held-to-maturity	638	434
Non-qualifying(1)		
Deferred compensation hedges(2)	1,927	1,666
Other(3)	3,656	3,374
Total	$81,787	$87,672

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

Investment-related net revenues which include dividend income and realized and unrealized gains and losses from private equity investments that resulted from Merrill Lynch's merchant banking and other activities were $168 million, $229 million, and $618 million in 2002, 2001, and 2000, respectively. These revenues include net gains related to investments held by broker-dealer entities of $117 million, $213 million, and $212 million, which are included in *Principal transactions* revenues in 2002, 2001, and 2000, respectively. The remaining investment-related net revenues are included in *Other* revenues in the accompanying Consolidated Statements of Earnings, and in 2002, include a $39 million residual pre-tax gain from the 2001 sale of the GPC businesses in Canada, a $17 million pre-tax gain from the sale of the MLIM retail asset management business in Canada, and a $45 million pre-tax gain from the sale of the Securities Pricing Services business in GMI. *Other* revenues in 2001 included a $158 million pre-tax gain from the sale of the GPC and securities clearing businesses in Canada.

The fair value of non-qualifying investment securities approximated the carrying amounts at year-end 2002 and 2001, respectively. Fair value for non-qualifying investments is estimated using a number of methods, including earnings multiples, discounted cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., sale requires consent of other investors to sell) 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 for these instruments may differ.

Investment securities are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 27, 2002				December 28, 2001			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale								
Mortgage- and asset-backed securities	$49,078	$ 1,085	$ (140)	$50,023	$58,880	$ 611	$ (665)	$58,826
Corporate debt	4,720	173	(57)	4,836	5,382	78	(77)	5,383
U.S. Government and agencies	13,629	686	(14)	14,301	5,130	237	(231)	5,136
Municipals	13	–	–	13	16	1	–	17
Other debt securities	1,698	1	(18)	1,681	3,149	4	(1)	3,152
Total debt securities	69,138	1,945	(229)	70,854	72,557	931	(974)	72,514
Equity securities	1,418	2	(45)	1,375	1,854	6	(18)	1,842
Total	$70,556	$ 1,947	$ (274)	$72,229	$74,411	$ 937	$ (992)	$74,356
Held-to-Maturity								
U.S. Government and agencies	$ 254	$ –	$ –	$ 254	$ 215	$ –	$ –	$ 215
Municipals	–	–	–	–	–	–	–	–
Mortgage- and asset-backed securities	26	–	–	26	34	–	–	34
Other debt securities	358	–	–	358	185	–	–	185
Total	$ 638	$ –	$ –	$ 638	$ 434	$ –	$ –	$ 434

The amortized cost and estimated fair value of debt securities at December 27, 2002 by contractual maturity, for available-for-sale and held-to-maturity investments follow:

(dollars in millions)

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,198	$ 2,199	$ 342	$ 342
Due after one year through five years	10,563	10,880	16	16
Due after five years through ten years	5,994	6,338	–	–
Due after ten years	1,305	1,414	254	254
	20,060	20,831	612	612
Mortgage- and asset- backed securities	49,078	50,023	26	26
Total(1)	$69,138	$70,854	$ 638	$ 638

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

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

(dollars in millions)

	2002	2001	2000
Proceeds	$36,697	$14,138	$7,036
Gross realized gains	331	85	247
Gross realized losses	(60)	(66)	(121)

Net unrealized gains (losses) from investment securities classified as trading included in the 2002, 2001, and 2000 Consolidated Statements of Earnings were $70 million, $47 million, and $(22) million, respectively.

Note 7. Trading Assets and Liabilities

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

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate.

Certain trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. Refer to Note 1 to the Consolidated Financial Statements for additional information on risk management.

Market Risk

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

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

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

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than 50 currencies, including the Euro, Japanese yen, Swiss franc, and British pound. 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 client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

Equity Price Risk

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

Credit Spread Risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality, (i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument)). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the Credit Risk section.

Commodity Price and Other Risks

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

Merrill Lynch is also a party to financial instruments that contain risks not correlated to typical financial risks. Merrill Lynch generally mitigates the risk associated with these transactions by entering into offsetting derivative transactions.

Credit Risk

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

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

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. Additional information about these obligations is provided in Note 14 to the Consolidated Financial Statements. 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 purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Merrill Lynch may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Concentrations of Credit Risk

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

At December 27, 2002, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to $24.2 billion and $18.5 billion at December 27, 2002 and December 28, 2001, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counter-party's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 27, 2002 and December 28, 2001 totaled $113.9 billion and $102.9 billion, respectively.

At December 27, 2002, Merrill Lynch had concentrations of credit risk with other counterparties, the largest of which was a government-sponsored agency rated AAA by recognized credit rating agencies. Total unsecured exposure to this counterparty was approximately $5.4 billion, or 1.2% of total assets.

Merrill Lynch's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and investment companies. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, hedging, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Outside the United States, sovereign governments and financial institutions represent the most significant concentrations.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties.

Derivatives

Merrill Lynch's trading derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

The 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 by type of risk follow:

(dollars in billions)

	Risk			
	Interest Rate(1)(2)	Currency(3)	Equity Price	Commodity and other
December 27, 2002				
Swap agreements	$4,643	$ 300	$ 18	$ 84
Forward contracts	153	232	7	1
Futures contracts	282	1	6	–
Options purchased	36	86	98	1
Options written	53	84	81	1
December 28, 2001				
Swap agreements	$3,512	$ 235	$ 20	$ 38
Forward contracts	120	184	1	2
Futures contracts	617	2	38	1
Options purchased	35	61	143	2
Options written	42	73	41	3

(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.

For derivatives outstanding at December 27, 2002, the following table presents the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

(dollars in billions)

	2003	2004	2005	2006	After 2006	Total
Swap agreements	$1,157	$705	$558	$512	$2,113	$5,045
Forward contracts	378	11	2	1	1	393
Futures contracts	70	62	51	29	77	289
Options purchased	133	30	12	10	36	221
Options written	118	36	18	14	33	219

Total	$1,856	$844	$641	$566	$2,260	$6,167

The notional or contractual values of derivatives do not represent default risk exposure. Default risk is primarily limited to the current cost of replacing derivative contracts in a gain position. Default risk can also occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. 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 loss is generally limited to a one-day net positive change in market value. Such receivables and payables are recorded in *Customers receivables* and *payables* on the Consolidated Balance Sheets. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk. Additional information about derivatives that meet the definition of a guarantee for accounting purposes is included in Note 14 to the Consolidated Financial Statements.

Merrill Lynch generally enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties, as soon as possible. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries, or in certain industries is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

To reduce default risk, Merrill Lynch requires collateral, principally cash and U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 27, 2002, such collateral amounted to $11.6 billion. In addition to obtaining collateral, Merrill Lynch attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract.

Many of Merrill Lynch's derivative contracts contain provisions that could, upon an adverse change in ML & Co.'s credit rating, trigger a requirement for an early payment or additional collateral support.

Note 8. Securitization Transactions and Consolidation of Special Purpose Entities (SPEs)

Securitizations

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

Merrill Lynch securitized assets of $42.8 billion for the year ended December 27, 2002. For the years ended December 27, 2002 and December 28, 2001, Merrill Lynch received $43.6 billion and $36.2 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of $34.0 million and $63.6 million, respectively in Merrill Lynch's Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

In 2002 and 2001, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	2002	2001
Asset category		
Residential mortgage loans	$26,079	$24,234
Municipal bonds	7,961	7,402
Corporate and government bonds	5,754	1,262
Commercial loans and other	3,823	3,283
	$43,617	$36,181

In certain instances, Merrill Lynch retains interests in the senior tranche, subordinated tranche, and/or residual tranche of securities issued by certain SPEs created to securitize assets. The gain or loss on sale of the assets is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, if any, based on their relative fair value at the date of transfer.

Retained interests are recorded in the Consolidated Financial Statements at fair value. To obtain fair values, observable market prices are used if available. Where observable market prices are unavailable, Merrill Lynch generally estimates fair value initially and on an on-going basis based on the present value of expected future cash flows using management's best estimates of credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests are either held as *Trading assets*, with changes in fair value recorded in the Consolidated Statements of Earnings, or as securities available-for-sale, with changes in fair value included in *Accumulated other comprehensive loss*. Retained interests held as available-for-sale are reviewed periodically for impairment.

Retained interests in SPEs were approximately $3.3 billion at December 27, 2002, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices. These retained interests include mortgage-backed securities that Merrill Lynch has committed to purchase and expects to sell to investors in the normal course of its underwriting activity. Approximately 77% of residential mortgage loan retained interests consist of interests in U.S. Government agency sponsored securitizations, which are guaranteed with respect to principal and interest. In addition, $851 million of the retained interest balance relates to municipal bond transactions where observable market prices are available for the underlying assets, which provide the inputs and parameters used to calculate the fair value of the retained interest.

The following table presents information on retained interests held by Merrill Lynch as of December 27, 2002 arising from Merrill Lynch's residential mortgage loan, commercial mortgage loan, and municipal bond securitization transactions. As noted above, most retained interests are priced based on observable market values or derive their value directly from the observable value of the underlying securities. Key economic assumptions and parameters shown in the table below represent inputs derived from these observable market values. These assumptions and parameters are as of December 27, 2002. The sensitivity of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters is also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	$ 2,227	$ 851	$ 239
Weighted average life (in years)	2.9	3.9	N/A
Range	0.1 - 21.0	0.0 - 8.0	N/A
Weighted average credit losses (rate per annum)	0.6%	0%	4.2%
Range	0.0 - 13.3%	0%	0 - 20.0%
Impact on fair value of 10% adverse change	$ (4)	$ —	$ (2)
Impact on fair value of 20% adverse change	$ (7)	$ —	$ (3)
Weighted average discount rate	4.7%	2.4%	4.3%
Range	0.3 - 30.4%	1.4 - 6.9%	1.3 - 25.0%
Impact on fair value of 10% adverse change	$ (22)	$ (50)	$ (2)
Impact on fair value of 20% adverse change	$ (43)	$ (98)	$ (4)
Weighted average prepayment speed (CPR)	30%	12%	N/A
Range	20 - 51%	6 - 30%	N/A
Impact on fair value of 10% adverse change	$ (3)	$ (2)	N/A
Impact on fair value of 20% adverse change	$ (4)	$ (4)	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate

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

The assumptions and parameters used initially to value retained interests relating to securitizations effected in 2002 that were still held by Merrill Lynch as of December 27, 2002 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Weighted average life (in years)	2.0 - 4.8	0.0 - 8.0	N/A
Credit losses (rate per annum)	0.1 - 0.4%	0%	0.0 - 2.3%
Weighted average discount rate	4.6 - 10.0%	2.4 - 6.8%	0.1 - 25.0%
Prepayment speed assumption	16.8 - 55.0%	6.0 - 18.0%	N/A

N/A=Not Applicable

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

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

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

The maximum commitment under these liquidity and credit guarantees totaled $13.6 billion at December 27, 2002. The fair value of the commitments approximate $69 million which is reflected in the 2002 Consolidated Financial Statements. Of these arrangements, $2.3 billion represent agreements where the guarantee is provided to the SPE by a third party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 14 to the Consolidated Financial Statements.

The following table summarizes principal amounts outstanding, delinquencies, and net credit losses of securitized financial assets as of December 27, 2002.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Principal Amount Outstanding	$23,107	$18,379	$2,476
Delinquencies	90	—	3
Net Credit Losses	5	—	44

Consolidation of Special Purpose Entities

In January 2003, the FASB released FIN 46, which clarifies when an entity should consolidate another entity that meets the definition of a VIE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46 requires that an entity shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses; receive a majority of the VIE's expected residual returns; or both. FIN 46 is effective for newly created VIEs beginning February 1, 2003 and for existing VIEs as of the third quarter of 2003.

Merrill Lynch is currently assessing the impact of adopting FIN 46. SPEs in which Merrill Lynch has a significant variable interest, such that Merrill Lynch may be required to consolidate the SPEs or disclose additional information regarding the SPEs, include the following:

- Merrill Lynch has entered into transactions with two SPEs to facilitate the financing of physical property (facilities and an aircraft) for its own use. The physical property was purchased or constructed by the SPEs and leased to Merrill Lynch. As of December 27, 2002, these SPEs own assets of approximately $383 million. If Merrill Lynch does not renew the leases or purchase the assets held by the SPEs, the underlying assets will be sold to a third party and the proceeds used to repay the notes and equity issued by the SPE. Merrill Lynch has guaranteed the note holders that the proceeds of such sale will amount to at least 85% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this transaction is approximately $325 million as of December 27, 2002. See Note 14 to the Consolidated Financial Statements for further information regarding these guarantees.

- In connection with Merrill Lynch's employee compensation programs, Merrill Lynch sponsors certain deferred compensation arrangements in which eligible employees, as defined in each prospectus, may participate on a tax-deferred basis. Merrill Lynch invests contributions in Merrill Lynch mutual funds and other funds including company-sponsored investment vehicles. The assets in these investment vehicles total $1.3 billion at December 27, 2002. Merrill Lynch invested $1.1 billion in these investment vehicles, which is included in Merrill Lynch's Consolidated Financial Statements. Of this amount, $885 million represents Merrill Lynch's maximum exposure to these vehicles and the remaining amount, $208 million, represents employee tax deferred contributions.

- Merrill Lynch also structures and enters into a variety of transactions with SPEs that hold financial assets, such as fixed income securities; equity securities; derivatives; and/or private equity investments. These SPEs are formed in order to isolate all or part of the benefits and risks associated with specified assets and are utilized by investors to acquire an indirect interest in certain assets, to transform the characteristics of those assets in some specified manner, and/or in connection with foreign tax planning. Merrill Lynch may enter into derivative transactions with SPEs, manage the assets of SPEs in return for management fees, and may invest in the SPE. SPEs in which Merrill Lynch has a significant variable interest hold cumulative assets of $3.5 billion at December 27, 2002. Merrill Lynch's maximum exposure to loss as a result of its involvement in these SPEs is $239 million at December 27, 2002 of which $131 million is included in the Consolidated Financial Statements. The remainder is not reflected in the Consolidated Financial Statements as Merrill Lynch believes that the potential for losses is remote. In addition, Merrill Lynch has committed to fund an additional $89 million, which will be reflected in the Consolidated Financial Statements when funded.

- Merrill Lynch also provides mezzanine financing loans to SPEs which are established to fund third party construction projects. The current cumulative asset balance held by these SPEs is $164 million; the expected size of the SPEs upon completion of all projects in this program is $262 million. Merrill Lynch's maximum exposure to loss, including irrevocable unfunded commitments, is $44 million, of which $37 million has been funded and is included in the Consolidated Financial Statements.

Merrill Lynch also structures and enters into a variety of transactions with QSPEs. Merrill Lynch is not required to consolidate these QSPEs based on the requirements of SFAS 140 but may have a significant variable interest in these QSPEs. Such QSPEs include transactions where Merrill Lynch is a derivative counterparty to an SPE that serves to synthetically expose investors to a specific credit risk. These QSPEs hold cumulative assets of approximately $4.2 billion at December 27, 2002. Merrill Lynch's maximum exposure to loss as a result of this activity is approximately $247 million which is fully reflected on the Consolidated Financial Statements. In addition, Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity facilities and credit enhancement facilities. Municipal bond securitization QSPEs hold cumulative assets of approximately $18.4 billion at December 27, 2002. Merrill Lynch's maximum exposure to loss as a result of its involvement with these SPEs is approximately $13.6 billion at December 27, 2002, and of this amount approximately $851 million, representing the fair value of Merrill Lynch's exposure to the QSPEs, is reflected on the Consolidated Financial Statements. See Note 14 to the Consolidated Financial Statements for further information on municipal bond securitization QSPEs.

Note 9. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, Notes, and Mortgages and related commitments to extend credit at December 27, 2002 and December 28, 2001, are presented below:

(dollars in millions)

	Loans		Commitments	
	2002	2001	2002	2001
Consumer and small business — secured	$23,749	$13,684	$ 8,318	$ 5,751
Commercial:				
Secured	6,679	3,293	4,540	2,259
Unsecured investment grade	3,628	1,378	10,947	6,742
Unsecured non-investment grade	679	958	302	304
Total	$34,735	$19,313	$24,107	$15,056

The loan amounts are net of an allowance for loan losses of $265 million and $201 million as of December 27, 2002 and December 28, 2001, respectively.

Consumer and small business loans, which at year-end 2002 consisted of approximately 100,000 individual loans, include residential mortgages, home equity loans, small business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at year-end 2002 consisted of approximately 6,000 individual loans, include syndicated loans and other loans to corporations and other businesses. Secured loans and commitments include lending activities made in the normal course of Merrill Lynch's securities and financing businesses. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than BBB. Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded unsecured commercial loans. The notional value of these swaps increased to $3.8 billion at December 27, 2002 from $1.2 billion at December 28, 2001. This increase partially offsets the growth in unsecured lending activity. For information on credit risk management see Note 7 to the Consolidated Financial Statements.

The above amounts include $6.5 billion and $2.8 billion of loans held for sale at December 27, 2002 and December 28, 2001, respectively. Loans held for sale are loans which management expects to sell prior to maturity. At December 27, 2002, such loans consisted of $3.2 billion of consumer loans, primarily residential mortgages, and $3.3 billion of commercial loans, approximately 45% of which are to investment grade counterparties. At December 28, 2001, such loans consisted of $319 million of consumer loans, primarily residential mortgages, and $2.5 billion of commercial loans, approximately 25% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes and mortgages, see Note 1 to the Consolidated Financial Statements.

The fair values of Loans, Notes, and Mortgages were approximately $34.8 billion and $19.2 billion at December 27, 2002 and December 28, 2001, respectively. Fair value for loans made in connection with merchant banking activities, consisting primarily of senior 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 generally maintains collateral on secured loans in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees.

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance and loan syndication transactions. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon its creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon. For a maturity profile of these and other commitments see Note 14 to the Consolidated Financial Statements.

Note 10. Commercial Paper and Short-and Long-Term Borrowings

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

Total borrowings at December 27, 2002 and December 28, 2001 consisted of the following:

(dollars in millions)

	2002	2001
Senior debt issued by ML & Co.	$76,822	$71,819
Senior debt issued by subsidiaries, guaranteed by ML & Co.	5,833	8,894
Other subsidiary financing	1,222	1,000
Total	$83,877	$81,713

Merrill Lynch issues U.S. and non-U.S. dollar-denominated debt instruments with both variable and fixed interest rates. ML & Co. also issues non-dollar denominated debt which is used to fund non-dollar business activities. These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 to the Consolidated Financial Statements*, Derivatives* section for additional information on the accounting policy for derivatives.

Borrowings at December 27, 2002 and December 28, 2001 are presented below:

(dollars in millions)

	2002	2001
Commercial paper and other short-term borrowings		
Commercial paper	$ 3,966	$ 2,950
Other	1,387	2,191
Total	$ 5,353	$ 5,141
Long-term borrowings		
Fixed-rate obligations:(1)(2)		
U.S. dollar-denominated	$10,843	$11,797
Non-U.S. dollar-denominated	1,344	1,671
Variable-rate obligations:(3)(4)		
U.S. dollar-denominated	5,313	3,720
Non-U.S. dollar-denominated	1,034	4,014
Zero-coupon contingent convertible debt:		
Fixed-rate obligations	2,437	2,383
Variable-rate obligations	2,300	—
Medium-term notes:(4)(5)(6)		
U.S. dollar-denominated	38,658	37,600
Non-U.S. dollar-denominated	16,595	15,387
Total	$78,524	$76,572

(1) At December 27, 2002, U.S. dollar-denominated fixed-rate obligations were due between 2003 and 2028 at interest rates ranging from 2.2% to 8.4%; non-U.S. dollar-denominated fixed-rate obligations were due 2003 to 2019 at interest rates ranging from 1.0% to 10.13%.
(2) All fixed rate obligations are swapped to floating rates with qualifying SFAS No. 133 hedges and are reported at fair value for interest rate risk.
(3) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.
(4) Included are various equity-linked or other indexed instruments.
(5) The medium-term note program provides for issuances that may bear fixed or variable interest rates and may have maturities that range up to 30 years from the date of issue.
(6) Embedded derivatives separated from hybrid securities under SFAS No. 133 are included at fair value.

Long-term borrowings at December 27, 2002, based on their contractual terms, mature as follows:

(dollars in millions)

2003	$22,112
2004	14,899
2005	6,665
2006	7,003
2007	8,651
2008 and thereafter	19,194
Total	$78,524

In March 2002, Merrill Lynch issued $2.3 billion aggregate original principal amount of floating rate zero-coupon contingently convertible debt (Liquid Yield Option™ notes or LYONs®) at an issue price of $1,000.00 per note, which resulted in gross proceeds of $2.3 billion. The LYONs® are unsecured and unsubordinated indebtedness of Merrill Lynch with a maturity date of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period commencing June 1, 2007, the average market price of the LYONs® for a certain period exceeds 120% or more of the accreted value of the LYONs.® In the case that payment is required, contingent interest will be equal to the greater of the common stock dividend for that period or $0.16 multiplied by the initial amount of shares into which the LYONs® are convertible. At maturity on March 13, 2032, holders will receive, for each note, a contingent principal amount equal to $1,000 increased daily by a yield of 3-month LIBOR minus 2.0% per annum, reset quarterly. Regardless of the level of 3-month LIBOR, however, the yield will never be less than 0% and, after March 13, 2007, the yield will not exceed 5.5%. For the year ending December 27, 2002, the weighted average yield of the notes was 0%. Merrill Lynch is recognizing any contingent principal amount as it is accrued over the term of the LYONs.® Each LYONs® is convertible into 13.8213 shares of common stock if certain conditions are met. Holders may require Merrill Lynch to purchase all or a portion of their LYONs® on March 13, 2005, 2007, 2012, 2017, 2022, and 2027 at the then contingent principal amount. Holders may also require Merrill Lynch to repurchase all or a portion of the LYONs® upon a change in control occurring on or before March 13, 2007 at a price equal to the then contingent principal amount. Merrill Lynch may elect to pay the purchase price in cash, shares of common stock or any combination thereof. Merrill Lynch may redeem all or a portion of the LYONs® at any time after March 13, 2007.

In May 2001, Merrill Lynch issued $4.6 billion of LYONs® at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. The LYONs® are unsecured and unsubordinated indebtedness of Merrill Lynch with a maturity date of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period commencing June 1, 2006, the average market price of the LYONs® for a certain period exceeds 120% or more of the accreted value of the LYONs.® In the case that payment is required, contingent interest will be equal to the greater of the common stock dividend for that period or $0.16 multiplied by the initial amount of shares into which the LYONs® are convertible. Each note has a yield to maturity of 2.25% with a maturity value of $1,000 on May 23, 2031. Merrill Lynch is amortizing the issue discount using the effective interest method over the term of the LYONs.® Each LYONs® is convertible into 5.6787 shares of common stock if certain conditions are met. Holders may require Merrill Lynch to purchase all or a portion of their LYONs® on May 23, 2004, 2005, 2006, 2011, 2016, 2021 and 2026 at the then accreted value. Holders may also require Merrill Lynch to repurchase all or a portion of the LYONs® upon a change in control occurring on or before May 23, 2006 at a price equal to the then accreted value. Merrill Lynch may elect to pay the purchase price in cash, shares of common stock or any combination thereof. Merrill Lynch may redeem all or a portion of the LYONs® at any time after May 23, 2006.

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 will remain outstanding beyond their earliest redemption date.

Merrill Lynch’s debt obligations do not contain provisions that could, upon an adverse change in ML & Co.’s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. Merrill Lynch may issue structured notes that, under certain circumstances, require Merrill Lynch to immediately settle the obligation for cash or other securities. A limited number of structured notes may be accelerated based on the value of the underlying securities. Merrill Lynch typically hedges these notes with positions in the underlying securities.

The effective weighted-average interest rates for borrowings, at December 27, 2002 and December 28, 2001 were:

	2002	2001
Commercial paper and other short-term borrowings	2.27%	2.54%
Long-term borrowings, contractual rate	3.26	3.82
Long-term borrowings, including the impact of hedges	1.74	2.26

The fair values of long-term borrowings and related hedges approximated the carrying amounts at year-end 2002 and 2001.

Borrowing Facilities

Merrill Lynch has a committed, senior, unsecured bank credit facility aggregating $3.5 billion under an agreement with a syndicate of banks. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 27, 2002, this credit facility was not drawn upon.

The credit quality, amounts, and terms of this credit facility are continually monitored and modified as warranted by business conditions. Under the existing agreement, the credit facility will mature in May 2003.

Note 11. Deposits

Deposits at December 27, 2002 and December 28, 2001 are presented below:

(dollars in millions)

	2002	2001
U.S.		
Savings Deposits	$67,528	$72,200
Time Deposits	1,022	1,355
Total U.S. Deposits	68,550	73,555
Non-U.S.		
Non-interest bearing	237	234
Interest bearing	13,055	12,030
Total Non-U.S. Deposits	13,292	12,264
Total Deposits	$81,842	$85,819

The effective weighted-average interest rates for deposits, which include the impact of hedges, at December 27, 2002 and December 28, 2001 were 1.32% and 1.74%, respectively. The fair values of deposits approximated carrying values at December 27, 2002 and December 28, 2001.

Note 12. Preferred Securities Issued by Subsidiaries

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, consist of perpetual trust-issued preferred securities.

Trust Originated Preferred Securities^{SM} ("TOPrS^{SM}") were issued to investors by trusts created by Merrill Lynch and are registered with the Securities and Exchange Commission. Using the issuance proceeds, the trusts purchased Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extended 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^{SM} to the extent that the trusts have funds legally available. This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co.

The following table presents data related to the issuance of TOPrS^{SM} by Merrill Lynch Capital Trust I, II, III, IV, and V. All TOPrS^{SM} issued have a liquidation value of $25 per security, have a perpetual life, and can be redeemed at the option of the trusts, in whole or in part, at the liquidation value on or after their respective optional redemption dates (see following chart). The holders of the TOPrS^{SM} do not have the right to redeem the securities. Distributions, which are deductible for U.S. federal tax purposes, are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

(dollars in millions)

TOPrS^{SM}	Annual Distribution Rate	Issue Date	Optional Redemption Date	Liquidation Value
I	7.75%	Dec. 1996	Dec. 2006	$ 275
II	8.00	Feb. 1997	Mar. 2007	300
III	7.00	Jan. 1998	Mar. 2008	750
IV	7.12	Jun. 1998	Jun. 2008	400

V	7.28	Nov. 1998	Sep. 2008	850
Other[1]	2.70	Jul. 1999	Jun. 2004	83
				$ 2,658

(1) Represents Yen-denominated TOPrS[SM] issued by Merrill Lynch Yen TOPrS Trust I.

Note 13. Stockholders' Equity and Earnings Per Share

Preferred Equity

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

9% Cumulative Preferred Stock, Series A

ML & Co. has issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, liquidation preference value of $10,000 per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of $425 million, all of which was outstanding at year-end 2002, 2001, and 2000.

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

Common Stock

In 2001, stockholders approved the proposal to amend ML & Co.'s certificate of incorporation to increase the authorized number of shares of common stock from 1 billion to 3 billion.

Dividends paid on common stock were $0.64 per share in 2002 and 2001, and $0.61 per share in 2000.

Shares Exchangeable into Common Stock

In 1998, Merrill Lynch & Co., Canada Ltd. issued 9,662,448 Exchangeable Shares in connection with Merrill Lynch's merger with Midland Walwyn Inc. Holders of Exchangeable Shares have dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares may be exchanged at any time, at the option of the holder, on a one-for-one basis for ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

During 2002 and 2001, 284,366 and 458,971 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 2002, 3,911,041 Exchangeable Shares were outstanding, compared with 4,195,407 at year-end 2001.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 27, 2002 and December 28, 2001 are as follows:

(dollars in millions)

	2002	2001
Foreign currency translation adjustment		
Unrealized (losses), net of gains	$(366)	$(103)
Income taxes	46	(199)
Total	(320)	(302)
Unrealized gains (losses) on investment securities available-for-sale		
Unrealized (losses), net of gains	(185)	(127)
Adjustments for:		
Policyholder liabilities	(44)	(28)
Deferred policy acquisition costs	3	2
Income taxes	81	61
Total	(145)	(92)
Deferred gains on cash flow hedges	20	36
Minimum pension liability	(125)	(10)
Total accumulated other comprehensive loss	$(570)	$(368)

Stockholder Rights Plan

In 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock 10 days following the earlier of: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co., or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase 1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire in 2007, and are redeemable at the option of a majority of the directors of ML & Co. at $.01 per Right at any time until the 10th day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(dollars in millions, except per share amounts)	2002	2001	2000
Net earnings	$ 2,513	$ 573	$ 3,784
Preferred stock dividends	38	38	39
Net earnings applicable to common stockholders	$ 2,475	$ 535	$ 3,745
(shares in thousands)			
Weighted-average basic shares outstanding[(1)]	862,318	838,683	798,273
Effect of dilutive instruments[(2)]			
Employee stock options	30,702	53,336	68,190
FACAAP shares	23,990	27,305	29,637
Restricted shares and units	25,141	19,173	15,251
ESPP shares	71	58	65
Dilutive potential common shares	79,904	99,872	113,143
Diluted shares[(3)]	942,222	938,555	911,416
Basic EPS	$ 2.87	$ 0.64	$ 4.69
Diluted EPS	2.63	0.57	4.11

(1) Includes shares exchangeable into common stock.
(2) See Note 16 to the Consolidated Financial Statements for a description of these instruments and issuances subsequent to December 27, 2002.
(3) At year-end 2002, 2001, and 2000, there were 118,070; 38,174; and 1,456 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations.

Note 14. Commitments, Contingencies and Guarantees

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices that began in 2000 has resulted in increased legal actions against many firms, including Merrill Lynch and will likely result in higher professional fees and litigation expenses than those incurred in the past.

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

Some of these legal actions, investigations and proceedings are likely to result in adverse judgments, penalties, injunctions or fines. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, any of these actions. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch often cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch believes, based on information available to us, that the resolution of these actions will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Commitments

At December 27, 2002, Merrill Lynch commitments had the following expirations:

(dollars in millions)		Commitment expiration			
	Total	Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years
Commitments to extend credit[(1)]	$24,107	$12,479	$3,577	$5,046	$3,005
Binding margin commitments	5,450	5,450	—	—	—
Partnership interests	544	211	40	142	151
Other commitments	2,075	1,634	235	19	187
Operating leases	4,224	511	1,010	877	1,826
Resale agreements	11,197	11,197	—	—	—
Repurchase agreements	5,787	5,787	—	—	—
Total	$53,384	$37,269	$4,862	$6,084	$5,169

(1) See Note 9 to the Consolidated Financial Statements for additional details.

Lending Commitments

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking, corporate finance, and loan syndication transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions.

In the normal course of business, Merrill Lynch enters into institutional and margin lending transactions, some of which is on a committed basis, but most of which is not. Margin lending on a committed basis only includes amounts where Merrill Lynch has a binding commitment. These binding margin lending commitments totaled $5.5 billion at December 27, 2002.

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

Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 27, 2002 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch enters into commitments related to resale and repurchase agreements.

Merrill Lynch also obtains commercial letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Commercial letters of credit aggregated $434 million and $1,687 million at December 27, 2002 and December 28, 2001, respectively.

Merrill Lynch has commitments to purchase partnership interests, primarily related to merchant banking activities, of $544 million and $990 million at December 27, 2002 and December 28, 2001, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At December 27, 2002 minimum fee commitments over the remaining life of these agreements aggregated $527 million. Merrill Lynch has entered into other purchasing commitments totaling $1.4 billion and $108 million at December 27, 2002 and December 28, 2001, respectively.

Leases

Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leases the facilities and the aircraft from the SPEs. The assets and liabilities of these SPEs are not consolidated in the financial statements of Merrill Lynch as they meet the accounting requirements of EITF Issue No. 90-15. More specifically, in addition to the other requirements of EITF No. 90-15, both of these SPEs have third-party investors who have made a substantive capital investment in the SPEs in the amount of 3% that is at risk during the entire term of the lease. The total amount of funds raised by the SPEs to finance these transactions was $325 million at December 27, 2002 and $321 million at December 28, 2001. See Note 8 to the Consolidated Financial Statements for more information.

Merrill Lynch entered into a five-year lease with two five-year renewal options with each of these SPEs. The minimum rental commitments for these transactions are included in the table that follows. Merrill Lynch also has an option to purchase the assets owned by the SPEs for the acquisition cost, upon thirty days' notice.

If Merrill Lynch does not renew the leases or purchase the assets held by the SPEs, the underlying assets will be sold to a third party. The proceeds of such sale will be used to repay the notes and equity issued by the SPEs. Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 85% of the acquisition cost of the assets. The maximum cash flow of this guarantee is reflected in the guarantees section that follows.

At December 27, 2002, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year, including lease payments to the SPEs discussed above are as follows:

(dollars in millions)

	WFC[(1)]	Other	Total
2003	$ 158	$ 353	$ 511
2004	179	336	515
2005	179	316	495
2006	179	281	460
2007	179	238	417
2008 and thereafter	1,028	798	1,826
Total	$1,902	$2,322	$4,224

(1) World Financial Center Headquarters.

The minimum rental commitments shown above have not been reduced by $664 million of minimum sublease rentals to be received in the future under noncancellable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

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

(dollars in millions)

	2002	2001	2000
Rent expense	$538	$ 651	$ 636
Sublease revenue	(92)	(106)	(108)
Net rent expense	$446	$ 545	$ 528

Guarantees

Merrill Lynch issues various guarantees to counterparties in connection with certain leasing, securitization and other transactions. In addition, Merrill Lynch enters into certain derivative contracts that meet the accounting definition of a guarantee under FIN 45. FIN 45 defines guarantees to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value of interest rates, security prices, currency rates, commodity prices, indices, etc.) that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the FIN 45 definition of guarantees include certain written options and credit default swaps (contracts that require Merrill Lynch to pay the counterparty the par value of a referenced security if that referenced security defaults). Merrill Lynch does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, Merrill Lynch has disclosed information about all credit default swaps and certain types of written options that can potentially be used by clients to protect against changes in an underlying, regardless of how the contracts are used by the client.

For certain derivative contracts such as written interest rate caps and written currency options, the maximum payout is not quantifiable, because, for example, the rise in interest or foreign exchange rates could theoretically be unlimited. In addition, Merrill Lynch does not monitor its exposure to derivatives in this manner. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value generally overstates Merrill Lynch's exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. As previously noted, Merrill Lynch does not monitor its exposure to derivative contracts in terms of maximum payout. Instead, a risk framework is used to define risk tolerances and establish limits to ensure that certain risk-related losses occur within acceptable, predefined limits. Merrill Lynch economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions. See Note 1 to the Consolidated Financial Statements, *Derivatives* section for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, default protection and residual value guarantees for equipment leasing entities. These guarantees are often collateralized via claims to assets held by the SPEs.

Merrill Lynch also enters into reimbursement agreements in conjunction with sales of loans originated under its Mortgage 100[SM] program. Under this program, borrowers can pledge marketable securities in lieu of making a cash down payment. Upon sale of these mortgage loans, purchasers may require a surety bond that reimburses for certain shortfalls in the borrowers' securities accounts. Merrill Lynch provides this reimbursement through a financial intermediary. Merrill Lynch requires borrowers to meet daily collateral calls to ensure that the securities pledged as down payment are sufficient at all times. Merrill Lynch believes that its potential for loss under these arrangements is remote. Accordingly, no liability is recorded in the Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit.

These guarantees are summarized at December 27, 2002 as follows:

(dollars in millions)

Type of Guarantee	Maximum Payout/ Notional	Carrying Value	Value of Collateral
Derivative contracts[1]	$518,814	$18,095	$ 11
Liquidity and credit facilities with SPEs[2][4]	13,721	69	8,895
Residual value guarantees[3][4][5]	1,807	—	729
Standby letters of credit and other performance guarantees[6][7]	820	—	200

(1) As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a substitute for maximum payout.
(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes $2.3 billion of guarantees provided to SPEs by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.
(3) Includes residual value guarantees associated with the Hopewell campus and aircraft SPEs of $325 million.
(4) Collateral provided by claim on assets held by the SPE.
(5) Includes $754 million of reimbursement agreements with the Mortgage 100[SM] program.
(6) Marketable securities are posted as collateral.
(7) Standby letters of credit include $600 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Expiration information for these contracts is as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years
Derivative contracts[1]	$518,814	$153,404	$152,379	$131,527	$81,504
Liquidity and credit facilities with SPEs[2]	13,721	13,591	25	—	105
Residual value guarantees[3][4]	1,807	88	157	275	1,287
Standby letters of credit and other performance guarantees	820	674	121	7	18

(1) As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a substitute for maximum payout.
(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes $2.3 billion of guarantees provided to SPEs by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.
(3) Includes residual value guarantees associated with the Hopewell campus and aircraft SPEs of $325 million.
(4) Includes $754 million of reimbursement agreements with the Mortgage 100[SM] program.

In addition to the guarantees described above, Merrill Lynch also provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for Merrill Lynch to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with its prime brokerage business, Merrill Lynch provides to counterparties guarantees of the performance of its prime brokerage clients. Under these arrangements, Merrill Lynch stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, Merrill Lynch must fulfill the customer's obligation with the counterparty. Merrill Lynch is secured by the assets in the customer's account as well as any proceeds received from the securities transaction entered into by Merrill Lynch on behalf of the customer. No contingent liability is carried in the Consolidated Financial Statements for these transactions as the potential for Merrill Lynch to be required to make payments under these arrangements is remote.

In connection with its securities clearing business, Merrill Lynch performs securities execution, clearance and settlement services on behalf of other broker-dealer clients for whom it commits to settle, with the applicable clearinghouse, trades submitted for or by such clients; trades are submitted either individually, in groups or series or, if specific arrangements are made with a particular clearinghouse and client, all transactions with such clearing entity by such client. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed any cash deposit made by a client. However, the potential for Merrill Lynch to be required to make unreimbursed payments under these arrangements is remote due to the contractual capital requirements associated with clients' activity and the regular review of clients' capital. Accordingly, no contingent liability is carried in the Consolidated Financial Statements for these transactions.

In connection with certain European mergers and acquisition transactions, Merrill Lynch, in its capacity as financial adviser, in some cases may be required by law to provide a guarantee that the acquiring entity has or can obtain or issue sufficient funds or securities to complete the transaction. These arrangements are short-term in nature, extending from the commencement of the offer through the termination or closing. Where guarantees are required or implied by law, Merrill Lynch engages in a credit review of the acquirer, obtains indemnification and requests other contractual protections where appropriate. Merrill Lynch's maximum liability cannot be quantified. Based on the review procedures performed, management believes the likelihood of being required to pay under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Financial Statements for these transactions.

In the course of its business, Merrill Lynch routinely indemnifies investors for certain taxes, including U.S. and foreign withholding taxes on interest and other payments made on securities, swaps and other derivatives. These additional payments would be required upon a change in law or interpretation thereof. Merrill Lynch's maximum exposure under these indemnifications is not quantifiable. Merrill Lynch believes that the potential for such an adverse change is remote. As such, no contingent liability is recorded in the Consolidated Financial Statements.

In connection with certain asset sales and securitization transactions, Merrill Lynch typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, Merrill Lynch may have an obligation to repurchase the assets or indemnify the purchaser against any loss. To the extent these assets were originated by others and purchased by Merrill Lynch, Merrill Lynch seeks to obtain appropriate representations and warranties in connection with its acquisition of the assets. Merrill Lynch believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with divestiture transactions, for example, the integration of MLHSBC into HSBC and the sale of the GPC business in Canada, Merrill Lynch provides an indemnity to the purchaser, which will fully compensate the purchaser for any unknown liens or liabilities (e.g., tax liabilities) that relate to prior periods but are not discovered until after the transaction is closed. Merrill Lynch's maximum liability under these indemnifications cannot be quantified. However, Merrill Lynch believes that the likelihood of being required to pay is remote given the level of due diligence performed prior to the close of the transactions. Accordingly, no liability is recorded in the Consolidated Financial Statements for these indemnifications.

Note 15. Employee Benefit Plans

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

Merrill Lynch's measurement date for both its defined benefit pension and other postretirement benefit plans is September quarter-end.

Defined Contribution Pension Plans

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

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees with a minimum of one year of service. A separate retirement account is maintained for each participant. The RAP contributions are employer funded based on compensation and years of service. Under the RAP, employees are given the opportunity to invest their retirement savings in a number of different investment alternatives. Under the ESOP, all retirement savings are in ML & Co. common stock, until employees reach the age of 55 and have five years in the plan, after which they have the ability to diversify.

In 1989, the ESOP trust purchased from Merrill Lynch 95.7 million shares of ML & Co. common stock with residual funds from a terminated defined benefit pension plan ("Reversion

Shares") and loan proceeds from a subsidiary of Merrill Lynch ("Leveraged Shares").

Merrill Lynch credited each participant's account and recorded pension expense under the Retirement Program based on years of service and eligible compensation. This expense was funded by quarterly allocations of Leveraged and Reversion Shares and, when necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares were released in accordance with the terms of the ESOP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in 1997. Leveraged Shares were allocated to participants' accounts as principal was repaid on the loan to the ESOP, which matured in 1999. Principal and interest on the loan were payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. At December 31, 1999, all Leveraged and Reversion Shares had been allocated.

On July 17, 2001 Merrill Lynch merged the assets of the Herzog ESOP with the Merrill Lynch ESOP. Merrill Lynch will allocate ESOP shares of Merrill Lynch stock to all participants of the ESOP as principal and interest are repaid. 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 27, 2002 is as follows:

Unallocated shares as of December 28, 2001	1,124,260
Release of escrow shares	27,597
Shares allocated/committed[1]	(223,183)
Unallocated shares as of December 27, 2002	928,674

(1) Excluding forfeited shares.

Additional information on ESOP activity follows:

(dollars in millions)

	2002	2001	2000
Compensation costs funded with ESOP shares	$17	$ 8	$11
Dividends used for debt service	1	—	—

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. Employees are given the opportunity to invest their 401K contributions in a number of different investment alternatives including ML & Co. common stock. Merrill Lynch's contributions are made in cash, and are equal to one-half of the first 6% of each participant's eligible compensation contributed to the 401K, up to a maximum of two thousand dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 16 to the Consolidated Financial Statements).

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

Defined Benefit Pension Plans

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 2002 and 2001, 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, actual experience and investment performance of the annuity assets. Merrill Lynch also maintains supplemental defined benefit plans for certain U.S. employees.

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

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 27, 2002 and September 28, 2001 and the amounts recognized in the Consolidated Balance Sheets at year-end 2002 and 2001:

(dollars in millions)

	2002	2001
Projected benefit obligations		
Balance, beginning of year	$2,014	$1,870
Service cost	45	43
Interest cost	140	129
Net actuarial loss	282	108
Benefits paid	(127)	(120)
Other	71	(16)
Balance, end of period	2,425	2,014
Fair value of plan assets		
Balance, beginning of year	2,500	2,379
Actual return on plan assets	273	188
Contributions	51	69
Benefits paid	(127)	(120)
Other	44	(16)
Balance, end of period	2,741	2,500

Funded status	316	486
Unrecognized net actuarial (gains)	(77)	(255)
Unrecognized prior service benefit	—	(1)
Unrecognized net transition obligation	—	1
Fourth-quarter activity, net	16	11
Net amount recognized	$ 255	$ 242
Assets	$ 290	$ 282
Liabilities	(213)	(50)
Accumulated other comprehensive loss ($125 million, net of tax in 2002)	178	10
Net amount recognized	$ 255	$ 242

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $838 million, $711 million, and $488 million, respectively, as of September 27, 2002, and $561 million, $461 million, and $416 million, respectively, as of September 28, 2001. These plans primarily represent U.S. supplemental plans not subject to ERISA or non-U.S. plans where funding strategies vary due to legal requirements and local practices.

The increase in *Accumulated other comprehensive loss* in 2002 resulted from the recognition of an additional minimum pension liability in 2002 of $168 million ($115 million, net of tax), primarily related to the U.K. pension plan. The funded assets of this plan have decreased in value due to a decline in the market value of equity securities. This decline in asset value, combined with a reduction of the interest rate used for discounting the liability, resulted in an unfunded accumulated benefit obligation.

The actuarial assumptions used in calculating the projected benefit obligation at September 27, 2002 and September 28, 2001 are as follows:

	2002	2001
Discount rate	6.2%	6.7%
Rate of compensation increase	4.3	4.3
Expected rate of return on plan assets	6.0	6.6

Pension cost for the years ended 2002, 2001, and 2000 included the following components:

(dollars in millions)

	2002	2001	2000
Defined contribution plan cost	$ 222	$ 256	$ 244
Defined benefit plans			
Service cost for benefits earned during the year	45	43	45
Interest cost on projected benefit obligations	140	129	127
Expected return on plan assets	(152)	(157)	(150)
Amortization of unrecognized items and other	6	(9)	(14)
Total defined benefit plan cost	39	6	8
Total pension cost	$ 261	$ 262	$ 252

Postretirement Benefits Other Than Pensions

Merrill Lynch provides health and life insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care component is contributory, with certain retiree contributions adjusted periodically; the life insurance component of the plan is noncontributory. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 27, 2002, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the twelve-month periods ended September 27, 2002 and September 28, 2001, and the amounts recognized in the Consolidated Balance Sheets at year-end 2002 and 2001:

(dollars in millions)

	2002	2001
Accumulated benefit obligations		
Balance, beginning of year	$ 260	$ 199
Service cost	10	8
Interest cost	23	16
Net actuarial loss	116	44
Benefits paid	(17)	(12)
Other	6	5
Balance, end of period	398	260
Fair value of plan assets		
Balance, beginning of year	—	—
Contributions	17	12
Benefits paid	(17)	(12)
Balance, end of period	—	—
Funded status	(398)	(260)
Unrecognized net actuarial (gains)/losses	110	(4)
Unrecognized prior service cost	3	3
Fourth-quarter activity, net	4	3
Accrued benefit liabilities	$(281)	$(258)

The actuarial assumptions used in calculating the postretirement accumulated benefit obligations at September 27, 2002 and September 28, 2001 are as follows:

	2002	2001
Discount rate	6.5%	7.0%
Health care cost trend rates[(1)]		
Initial	10.8	8.9
2011 and thereafter	5.0	5.0

(1) Assumed to decrease gradually until 2011 and remain constant thereafter.

Other postretirement benefits cost included the following components:

(dollars in millions)

	2002	2001	2000
Service cost	$10	$ 8	$ 7
Interest cost	23	16	14
Other	7	8	—
Total other postretirement benefits cost	$40	$32	$21

The assumed health care cost trend rate has a significant effect on the amounts reported for the postretirement health care plans. A one percent change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)

	1% Increase		1% Decrease	
	2002	2001	2002	2001
Effect on:				
Other postretirement benefits cost	$ 6	$ 5	$ (5)	$ (4)
Accumulated benefit obligation	68	45	(55)	(36)

Postemployment Benefits

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by U.S. state and federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized $358 million, $298 million, and $117 million in 2002, 2001, and 2000, respectively, of postemployment benefits expense, which included severance costs for terminated employees of $323 million, $281 million, and $70 million in 2002, 2001, and 2000, respectively. The 2001 severance costs exclude costs related to the restructuring and other charges recorded in the fourth quarter of 2001. See Note 3 to the Consolidated Financial Statements for additional information. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 27, 2002 since future severance costs are not estimable.

Note 16. 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 pre-tax compensation cost recognized in earnings for stock-based compensation plans for 2002, 2001, and 2000 was $821 million, $732 million, and $633 million, respectively. The 2001 costs exclude restructuring-related costs discussed in Note 3 to the Consolidated Financial Statements. Merrill Lynch also sponsors deferred cash compensation plans for eligible employees.

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

LTIC Plans and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ECAP, a shareholder approved plan, provides for the issuance of Restricted Shares, as well as Performance Shares. All plans under both LTIC and ECAP may be satisfied using either treasury or newly issued shares. As of December 27, 2002, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, and Performance Options had been granted.

Restricted Shares and Units

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period, and such shares and units are subject to forfeiture during the vesting period, generally three years, for grants under LTIC Plans or the restricted period for grants under ECAP. Restricted share grants made in 2003 will generally vest over a four year period.

The activity for Restricted Shares and Units under these plans during 2002 and 2001 follows:

	LTIC Plans		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
Authorized for issuance at:			
December 27, 2002	660,000,000	N/A	104,800,000
December 28, 2001	660,000,000	N/A	104,800,000
Available for issuance at:(1)			
December 27, 2002	109,612,528	N/A	10,827,789
December 28, 2001	163,316,331	N/A	10,738,237
Outstanding, end of 2000	18,711,693	35,158,489	373,301
Granted — 2001	1,254,182	9,129,715	11,759
Paid, forfeited, or released from contingencies	(7,508,504)	(9,340,931)	(8,982)
Outstanding, end of 2001	12,457,371	34,947,273	376,078
Granted — 2002	1,805,409	13,518,586	8,065
Paid, forfeited, or released from contingencies	(6,634,632)	(5,664,532)	(254,493)
Outstanding, end of 2002(2)	7,628,148	42,801,327	129,650

(1) Includes shares reserved for issuance upon the exercise of stock options.
(2) In January 2003, 13,961,189 and 1,551,734 Restricted Shares and Restricted Units under LTIC Plans, respectively, were granted to eligible employees. In addition, 18,656,866 Restricted Units were converted to Restricted Shares and remain outstanding; no change was made to the remaining vesting periods and the restricted periods were removed. Further, in January 2003, and continuing through February 24, 2003, 16,049,636 Restricted Units were released as a result of the early removal of the restricted period.

The weighted-average fair value per share or unit for 2002, 2001, and 2000 grants follows:

	2002	2001	2000
LTIC Plans			

Restricted Shares	$50.31	$75.76	$45.09
Restricted Units	52.98	74.52	46.52
ECAP Restricted Shares	48.81	60.51	52.67

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares are granted to employees and non-employee directors. At year-end 2002 and 2001, 3,800,000 restricted shares were authorized for issuance under these plans. A total of 127,195 and 99,567 shares were outstanding under these plans at year-end 2002 and 2001, respectively.

Non-qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1993 through 1995 generally became exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 through 2000 generally are exercisable over five years; options granted in 2001 and 2002 become exercisable after approximately six months. New option grants made in 2003 generally become exercisable over four 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. Non-qualified Stock Options expire ten years after their grant date.

The activity for Non-qualified Stock Options under LTIC Plans for 2002, 2001, and 2000 follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, beginning of 2000	188,004,506	$27.99
Granted — 2000	39,839,546	43.83
Exercised	(35,672,581)	15.47
Forfeited	(5,116,248)	34.47
Outstanding, end of 2000	187,055,223	27.48
Granted — 2001	35,136,631	76.49
Exercised	(23,558,452)	17.19
Forfeited	(4,182,983)	38.69
Outstanding, end of 2001	194,450,419	37.36
Granted — 2002	45,373,396	53.76
Exercised	(14,874,865)	14.78
Forfeited	(3,060,806)	49.26
Outstanding, end of 2002(1)	221,888,144	42.07

(1) In January 2003, 20,259,584 Non-qualified Stock Options were granted to eligible employees.

At year-end 2002, 2001, and 2000, options exercisable under LTIC Plans were 190,264,151, 126,979,165, and 92,776,119, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2002:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)(1)	Number Exercisable	Weighted-Average Exercise Price
$8.00 – $20.99	47,100,448	$ 14.41	2.85	47,100,448	$ 14.41
$21.00 – $40.99	61,073,396	34.60	5.80	51,085,964	34.64
$41.00 – $49.99	36,262,715	43.80	7.09	14,732,894	43.82
$50.00 – $60.99	44,076,255	53.76	9.11	43,969,515	53.76
$61.00 – $77.99	33,375,330	77.51	8.10	33,375,330	77.51

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

The weighted-average fair value of options granted in 2002, 2001, and 2000 was $22.44, $31.80, and $18.05 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:

	2002	2001	2000
Risk-free interest rate	4.61%	5.05%	6.73%
Expected life	5 yrs.	5 yrs.	5 yrs.
Expected volatility	45.88%	42.84%	40.64%
Dividend yield	1.19%	0.84%	1.23%

See the following Pro Forma Compensation Expense section for additional information.

Employee Stock Purchase Plans ("ESPP")

ESPP plans, which are shareholder approved, allow eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 100,600,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 2002, 2001, and 2000 follows:

	2002	2001	2000

Available, beginning of year	29,425,067	6,518,168	8,949,796
Authorized during year	–	25,000,000	–
Purchased through plan	(2,506,105)	(2,093,101)	(2,431,628)
Available, end of year	26,918,962	29,425,067	6,518,168

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2002, 2001, and 2000 was $6.35, $8.78, and $7.30 per right, respectively.

Pro Forma Compensation Expense

No compensation expense has been recognized for Merrill Lynch's grants of stock options under LTIC Plans or ESPP purchase rights (see Note 1 to the Consolidated Financial Statements for accounting policy). Pro forma compensation expense associated with option grants is recognized over the vesting period. Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of $752 million, $854 million, and $310 million for 2002, 2001, and 2000, respectively, resulting in pro forma net earnings (loss) and earnings (loss) per share as follows:

(dollars in millions, except per share amounts)

	2002	2001	2000
Net Earnings, as reported	$2,513	$ 573	$3,784
Less: stock-based compensation determined under Black-Scholes method, net of taxes	(752)	(854)	(310)
Pro forma net earnings (loss)	$1,761	$ (281)	$3,474
Earnings (loss) per share			
As reported:			
Basic	$ 2.87	$ 0.64	$ 4.69
Diluted	2.63	0.57	4.11
Pro forma:			
Basic	2.00	(0.38)	4.30
Diluted	1.83	(0.38)	3.77

Financial Advisor Capital Accumulation Award Plans ("FACAAP")

Under FACAAP, eligible employees in GPC are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The awards are 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 plus interest is paid in cash. Awards made in 2003 are generally payable eight years from the date of grant. Eligible participants may defer awards beyond the scheduled payment date. Only shares of common stock held as treasury stock may be issued under FACAAP. FACAAP, which was approved by the Board of Directors, has not been shareholder approved.

At December 27, 2002, shares subject to outstanding awards totaled 47,253,412, while 24,948,409 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during 2002, 2001, and 2000 was $52.67, $64.70 and $44.29 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 2,190,500 at December 27, 2002. 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.

Other Compensation Arrangements

To give employees flexibility in meeting their future income needs, Merrill Lynch sponsors deferred compensation plans in which employees who meet certain minimum compensation requirements may participate. Contributions to the plans are made on a tax-deferred basis by participants. Participants' returns on these contributions may be indexed to various Merrill Lynch mutual funds and other funds, including certain company-sponsored investment vehicles that qualify as employee securities companies. Prior to 2002, eligible participants whose deferred amounts were indexed to these company-sponsored investment vehicles could make one-time elections to augment their returns through "leverage" provided by Merrill Lynch, generally on a two-for-one basis. This leverage bears interest and is repaid as distributions are made by the investment vehicles.

Merrill Lynch also sponsors several cash-based employee award programs, under which certain employees are eligible to receive future cash compensation, generally upon fulfillment of the vesting criteria for the particular program.

Merrill Lynch maintains various investments as an economic hedge of its liabilities to participants under the deferred compensation plans and, when appropriate, for its award programs also. These investments and the payables accrued by Merrill Lynch under the various plans and grants are included on the Consolidated Balance Sheets. See Note 8 for more information regarding certain of these investments. Merrill Lynch's investments totaled $1.9 billion and $1.7 billion, respectively, at December 27, 2002 and December 28, 2001. Accrued liabilities at year-end 2002 and 2001 were $1.2 billion and $1.3 billion, respectively.

Note 17. Income Taxes

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)

	2002	2001	2000
U.S. federal			
Current	$ 502	$ 950	$ 861
Deferred	147	(573)	41
U.S. state and local			
Current	70	38	101
Deferred	17	(103)	29
Non-U.S.			
Current	407	404	574
Deferred	(90)	(107)	132
Total	$1,053	$ 609	$1,738

The corporate statutory U.S. federal tax rate was 35% for the three years presented. A reconciliation of statutory U.S. federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

(dollars in millions)

	2002	2001	2000
U.S. federal income tax at statutory rate	$1,315	$482	$2,001
U.S. state and local income taxes, net	57	(43)	85
Non-U.S. operations	(9)	8	(178)
Tax-exempt interest	(127)	(90)	(62)
Dividends received deduction	(13)	(29)	(37)
Valuation allowance	(64)	334	–
MLHSBC joint venture exit[1]	(81)	–	–
TOPrS^{SM}	(67)	(68)	(68)
Other	42	15	(3)
Income tax expense	$1,053	$609	$1,738

(1) Refer to Note 3 for information on MLHSBC joint venture.

The 2002 effective tax rate reflects a net benefit of $77 million related to prior years and settlements with various tax authorities.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Balance Sheets. These temporary differences result in taxable or deductible amounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

(dollars in millions)

	2002	2001	2000
Deferred tax assets			
Deferred compensation	$1,592	$1,268	$1,078
Valuation and other reserves	595	843	546
Employee benefits	148	124	187
Restructuring related	188	616	–
Other	877	790	578
Gross deferred tax assets	3,400	3,641	2,389
Valuation allowances	(330)	(394)	(60)
Total deferred tax assets	3,070	3,247	2,329
Deferred tax liabilities			
Lease transactions	93	178	202
Employee benefits	107	90	81
Other	409	467	364
Total deferred tax liabilities	609	735	647
Net deferred tax assets	$2,461	$2,512	$1,682

At December 27, 2002, Merrill Lynch had U.S. net operating loss carryforwards of approximately $840 million and non-U.S. net operating loss carryforwards of $660 million. The U.S. amounts are primarily state carryforwards expiring in various years after 2005. The non-U.S. amounts are primarily Japan carryforwards expiring in various years after 2003. Merrill Lynch also had approximately $36 million of state tax credit carryforwards expiring in various years after 2003.

The valuation allowance in 2002 decreased primarily due to utilization against earnings in Japan. The valuation allowance in 2001 increased primarily due to non-deductible prior and current year losses associated with the refocusing of the Japan Private Client business in connection with the restructuring. Refer to Note 3 to the Consolidated Financial Statements for additional information.

Income tax benefits of $196 million, $790 million, and $800 million were allocated to stockholders' equity related to employee stock compensation transactions for 2002, 2001, and 2000, respectively.

Earnings before income taxes included approximately $1,226 million, $755 million, and $2,293 million of earnings attributable to non-U.S. subsidiaries for 2002, 2001, and 2000, respectively. Cumulative undistributed earnings of non-U.S. subsidiaries were approximately $4.3 billion at December 27, 2002. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested in Merrill Lynch's non-U.S. operations. It is not practicable to determine the amount of additional tax that may be payable in the event these earnings are repatriated.

Note 18. Regulatory Requirements and Dividend Restrictions

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch's principal regulated subsidiaries are discussed below.

Securities Regulation

MLPF&S, a U.S. registered broker-dealer and futures commission merchant, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and capital requirements of the Commodities Futures Trading Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items ("ADI") arising from customer transactions. The CFTC also requires that minimum net capital should not be less than 4% of segregated and secured requirements. At December 27, 2002, MLPF&S's regulatory net capital of $2,660 million was approximately 18% of ADI, and its regulatory net capital in excess of the minimum required was $2,366 million at 2% of ADI. At December 27, 2002, MLPF&S's regulatory net capital of $2,660 million exceeded the CFTC minimum requirement of $186 million by $2,474 million.

MLI, a U.K. registered broker-dealer, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At December 27, 2002, MLI's financial resources were $5,414 million, exceeding the minimum requirement by $1,206 million.

MLGSI, a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 27, 2002, MLGSI's liquid capital of $2,436 million was 283% of its total market and credit risk, and liquid capital in excess of the minimum required was $1,402 million.

Banking Regulation

Two subsidiaries of ML & Co., MLBUSA and MLB&T are subject to certain minimum aggregate capital requirements under applicable federal banking laws. Among other things, Part 325 of the FDIC Regulations establishes levels of Risk-Based Capital ("RBC") each institution must maintain and identifies the possible actions the federal supervisory agency may take if a bank does not maintain certain capital levels. RBC is defined as the ratios of (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. The following table presents the actual capital ratios and amounts for MLBUSA and MLB&T at December 27, 2002 and December 28, 2001.

As shown below, MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for Tier 1 leverage — 5%, Tier 1 capital — 6% and Total capital — 10%:

(dollars in millions)

	2002		2001	
	Actual Ratio	Amount	Actual Ratio	Amount
Tier 1 leverage				
(to average assets)				
MLBUSA	5.35%	$3,740	5.61%	$3,576
MLB&T	5.42	848	6.90	1,047
Tier 1 capital				
(to risk-weighted assets)				
MLBUSA	11.48	3,740	14.30	3,576
MLB&T	20.53	848	20.47	1,047
Total capital				
(to risk-weighted assets)				
MLBUSA	12.04	3,924	15.44	3,860
MLB&T	20.54	848	20.48	1,048

In April 2001, MLBUSA entered into a synthetic securitization of specified reference portfolios of asset-backed securities ("ABS") owned by MLBUSA totaling in aggregate up to $20 billion. All of the ABS in the reference portfolios were rated AAA and all were insured as to principal and interest payments by an insurer rated AAA. This synthetic securitization allowed MLBUSA to reduce the credit risk on the respective reference portfolios by means of credit default swaps with a bankruptcy remote SPE. In turn, the SPE issued a $20 million credit linked note to unaffiliated buyers. MLBUSA retained a first risk of loss equity tranche of $1 million in the transaction.

As a result of the April 2001 transaction, MLBUSA was able to reduce risk-weighted assets by $211 million at December 28, 2001, thereby increasing its Tier 1 and Total RBC ratios by 12 basis points and 13 basis points, respectively. This structure did not result in a material change in the distribution or concentration risk in the retained portfolio. This synthetic securitization was terminated on May 15, 2002.

Insurance Regulation

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 27, 2002, $609 million, representing 85% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Other

Approximately 60 other subsidiaries are subject to regulatory and other requirements of the jurisdictions in which they operate. These regulatory restrictions may impose regulatory capital requirements and limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 27, 2002, restricted net assets of these subsidiaries were $3.8 billion.

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 27, 2002, this minimum capital requirement was $258 million.

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (1) ML & Co.'s obligation to make payments on its preferred stock and TOPrS[SM], and (2) the governing provisions of the Delaware General Corporation Law.

Supplemental Financial Information (unaudited)

Quarterly Information

The unaudited quarterly results of operations of Merrill Lynch for 2002 and 2001 are prepared in conformity with U.S. generally accepted accounting principles, which include industry practices, and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

(dollars in millions, except per share amounts)

	For the Quarter Ended							
	Dec. 27, 2002[(a)]	Sept. 27, 2002[(b)]	June 28, 2002[(c)]	Mar. 29, 2002	Dec. 28, 2001[(d)]	Sept. 28, 2001[(e)]	June 29, 2001	Mar. 30, 2001
Total Revenues	$6,478	$6,860	$7,352	$7,563	$ 7,574	$8,929	$10,320	$11,934
Interest Expense	2,273	2,498	2,401	2,473	2,822	3,784	4,747	5,524
Net Revenues	4,205	4,362	4,951	5,090	4,752	5,145	5,573	6,410
Non-Interest Expenses	3,462	3,308	4,003	4,078	6,264	4,459	4,721	5,059
Earnings (Loss) Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	743	1,054	948	1,012	(1,512)	686	852	1,351
Income Tax Expense (Benefit)	157	313	267	316	(297)	216	262	428
Dividends on Preferred Securities Issued by Subsidiaries	47	48	47	49	49	48	49	49
Net Earnings (Loss)	$ 539	$ 693	$ 634	$ 647	$(1,264)	$ 422	$ 541	$ 874
Earnings (Loss) Per Common Share:								
Basic	$ 0.61	$ 0.79	$ 0.72	$ 0.75	$ (1.51)	$ 0.49	$ 0.63	$ 1.04
Diluted	0.56	0.73	0.66	0.67	(1.51)	0.44	0.56	0.92

(a) Includes after-tax research and other settlement-related expenses of $129 million, net recoveries related to September 11 of $12 million, and net restructuring benefits of $41 million.
(b) Includes after-tax net recoveries related to September 11 of $114 million and restructuring benefits of $1 million.
(c) Includes after-tax research settlement-related expenses of $78 million.
(d) Includes after-tax restructuring and other charges of $1.7 billion, and expenses related to September 11 of $30 million.
(e) Includes after-tax expenses related to September 11 of $53 million.

Dividends Per Common Share

(declared and paid)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2002	$ .16	$ .16	$ .16	$ .16
2001	.16	.16	.16	.16

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (a) ML & Co.'s obligation to make payments on its preferred stock and TOPrS[SM], and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Note 18 to the Consolidated Financial Statements).

Stockholder Information

Consolidated Transaction Reporting System prices for ML & Co. common stock for the specified calendar quarters are noted below.

(at calendar period-end)

1st Quarter	2nd Quarter	3rd Quarter	4th Quarter

	High	Low	High	Low	High	Low	High	Low
2002	$59.32	$44.15	$55.20	$36.50	$40.71	$30.99	$44.91	$28.21
2001	80.00	50.31	71.50	51.15	59.85	33.50	54.65	38.49

The approximate number of holders of record of ML & Co. common stock as of February 27, 2003 was 19,720. As of February 27, 2003, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was $33.89.

Board of Directors

W. H. Clark

Corporate Director; former Chairman of the Board and Chief Executive Officer of Nalco Chemical Company, a producer of specialty chemicals; 70 years old; elected a Director of Merrill Lynch in 1995.

Jill K. Conway

Visiting Scholar, Massachusetts Institute of Technology; President of Smith College from 1975 to 1985; 68 years old; elected a Director of Merrill Lynch in 1978.

George B. Harvey

Corporate Director; former Chairman of the Board, President and Chief Executive Officer of Pitney Bowes Inc., a provider of mailing, office and logistics systems and management and financial services; 71 years old; elected a Director of Merrill Lynch in 1993.

David H. Komansky*

Chairman of the Board of Merrill Lynch; 63 years old; joined Merrill Lynch in 1968.

Robert P. Luciano

Corporate Director; Chairman Emeritus and former Chairman of the Board and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company; 69 years old; elected a Director of Merrill Lynch in 1989.

Heinz-Joachim Neubürger

Executive Vice President and Chief Financial Officer of Siemens AG; Member of the Executive Committee of the Managing Board of Siemens AG; 50 years old; elected a Director of Merrill Lynch in 2001.

David K. Newbigging

Chairman of the Board of Friends' Provident plc, a United Kingdom-based life assurance company; former Chairman of the Board of Equitas Holdings Limited; former Chairman of the Board of Rentokil Group plc; former Chairman of the Board and Senior Managing Director of Jardine, Matheson & Co. Limited; 69 years old; elected a Director of Merrill Lynch in 1996.

E. Stanley O'Neal*

Chairman of the Board-elect, Chief Executive Officer and President of Merrill Lynch; 51 years old; joined Merrill Lynch in 1986.

Aulana L. Peters

Corporate Director; Retired Partner in the law firm of Gibson, Dunn & Crutcher LLP; former Member, Public Oversight Board of AICPA; former Commissioner of the U.S. Securities and Exchange Commission; 61 years old; elected a Director of Merrill Lynch in 1994.

John J. Phelan, Jr.

Corporate Director; Member of the Council on Foreign Relations; former Senior Advisor, Boston Consulting Group; former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc.; former President of the International Federation of Stock Exchanges; 71 years old; elected a Director of Merrill Lynch in 1991.

Joseph W. Prueher

Corporate Director; U.S. Ambassador to the People's Republic of China from 1999 to 2001; Consulting Professor to the Stanford-Harvard Preventive Defense Project; U.S. Navy Admiral (Ret.), Commander-in-Chief of U.S. Pacific Command from 1996 to 1999; 60 years old; elected a Director of Merrill Lynch in 2001.

* Mr. Komansky will retire from the Board of Directors immediately following the 2003 Annual Meeting of Shareholders on Monday, April 28, at which time Mr. O'Neal will become Chairman of the Board.

Executive Management

David H. Komansky*
Chairman of the Board

E. Stanley O'Neal*
Chairman of the Board-elect
Chief Executive Officer
President

Rosemary T. Berkery
Executive Vice President
General Counsel

Candace Browning
Senior Vice President
Global Securities Research & Economics

Samuel R. Chapin
Senior Vice President
Global Investment Banking
Global Markets & Investment Banking

John W. Cummings
Senior Vice President
Global Technology & Services

Kevin Dolan
Senior Vice President
Public Policy

Robert C. Doll
Senior Vice President
President and Chief Investment Officer
Merrill Lynch Investment Managers

Jeffrey N. Edwards
Senior Vice President
Co-Head, Global Equity Markets
Global Markets & Investment Banking

Sergio Ermotti
Senior Vice President
Co-Head, Global Equity Markets
Global Markets & Investment Banking

Ahmass L. Fakahany
Executive Vice President
Chief Financial Officer

H. McIntyre Gardner
Senior Vice President
Chief Operating Officer
Global Private Client

James P. Gorman
Executive Vice President
President, Global Private Client

Todd Kaplan
Senior Vice President
Chief Operating Officer
Global Markets & Investment Banking

Terry Kassel
Senior Vice President
Human Resources

Dow Kim
Senior Vice President

Global Debt Markets
Global Markets & Investment Banking

Robert E. Mulholland
Senior Vice President
Head, Americas Region
Global Private Client

Thomas H. Patrick
Executive Vice Chairman
Finance and Administration

John Qua
Senior Vice President
Merrill Lynch Global Bank Group

Kevan V. Watts
Senior Vice President
Chairman, Europe, Middle East & Africa
and Pacific Regions

Raymundo A. Yu
Senior Vice President
Chairman, Asia Pacific Region
Head, Europe, Middle East & Africa
and Pacific Regions
Global Private Client

Arshad R. Zakaria
Executive Vice President
President, Global Markets & Investment Banking

International Executives

Dr. Jacob A. Frenkel
Senior Vice President
Chairman, Merrill Lynch International
Incorporated

Yoshiyuki Fujisawa
Senior Vice President
Chairman, Merrill Lynch Japan Securities
Company, Ltd.
Vice Chairman, Merrill Lynch International
Incorporated

James B. Quigley
Senior Vice President
Global Markets & Investment Banking
President, Merrill Lynch International
Incorporated

* Mr. Komansky will retire from the Board of Directors immediately following the 2003 Annual Meeting of Shareholders on Monday, April 28, at which time Mr. O'Neal will become Chairman of the Board.

Merrill Lynch & Co., Inc.

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

Common Stock

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Paris Stock Exchange, London Stock Exchange and Tokyo Stock Exchange.

Transfer Agent and Registrar

Merrill Lynch & Co., Inc. is the principal recordkeeping transfer agent for its own common stock. Questions from registered share- holders on dividends, lost or stolen certificates, changes of legal or dividend addresses (submitted in writing only) and other matters relating to registered shareholder status should be directed to:

Merrill Lynch & Co., Inc.
Shareholder Services
101 Hudson Street, 9th Floor, Jersey City, NJ 07302
Phone: 201-557-1798, Fax: 201-557-2093
E-mail: corporatesecretary@exchange.ml.com

Registered shareholders wishing to transfer their physical stock certificates may also contact our co-transfer agent and registrar:

Mellon Investor Services
P.O. Box 3310, South Hackensack, NJ 07606-1910
1-800-851-9677

Preferred Stock

Exchange Listing

Depositary Shares representing 1/400 of a share of 9% Cumulative Preferred Stock, Series A, are listed on the New York Stock Exchange.

Transfer Agent and Registrar

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

Form 10-K Annual Report for 2002

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 2002 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. For a copy of Merrill Lynch's 2002 Annual Report on Form 10-K (including financial statements and financial schedules but excluding other exhibits), visit our Investor Relations website at www.ir.ml.com or write to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038.

Equal Employment Opportunity

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees, regardless of race, national origin, religion, gender, age, disability, sexual orientation or veteran status. For more information, write to Roseanna DeMaria, First Vice President, Corporate Human Resources, 4 World Financial Center, 31st Floor, New York, NY 10080.

Charitable Contributions

A summary of Merrill Lynch's charitable contributions is available on our Global Philanthropy website at www.ml.com or upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038.

Annual Meeting

The 2003 Annual Meeting of Merrill Lynch & Co., Inc. shareholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Monday, April 28, 2003, beginning at 10:00 a.m. (local time).

Corporate Governance

Merrill Lynch has long adhered to best practices in corporate governance in fulfillment of its responsibilities to shareholders. Its policies and practices align management and shareholder interests. Highlights of our corporate governance practices include:

- A Board of Directors composed of eleven directors—nine of whom are independent—and Board Committees composed solely of independent directors
- Written Corporate Governance Guidelines that set forth specific criteria for director qualifications, Board and Committee composition, director responsibilities, orientation and education requirements and annual Board self-evaluation
- Guidelines for Business Conduct adopted by the Board of Directors on the recommendation of management as our Code of Ethics for our directors, officers and employees in conformity with announced NYSE rules and applicable law
- Specific procedures that encourage reporting of ethical concerns, misconduct or violations in a confidential manner without retribution, including concerns regarding internal accounting controls or questionable accounting or auditing matters
- Procedures for contacting one or more members of the Board of Directors by confidential or anonymous means
- A formal disclosure committee composed of senior officers for the purpose of implementing, monitoring and evaluating our disclosure controls and procedures
- Updated charters for our Board Committees reflecting current best governance practices.

Merrill Lynch's Guidelines for Business Conduct, Corporate Governance Guidelines and charters for our Board Committees are filed as exhibits to Merrill Lynch & Co.'s Annual Report on Form 10-K for the fiscal year ended December 27, 2002 and are also available on our website at www.ml.com. Shareholders may obtain copies of these materials, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038.

www.ml.com

Designed by DeSola Group, Inc.
Photography by Juliana Thomas.

EXHIBIT 21

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 27, 2003 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a “significant subsidiary” as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	State or Jurisdiction of Entity
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated[1]	Delaware
Merrill Lynch Life Agency Inc.[2]	Washington
Merrill Lynch Professional Clearing Corp.[3]	Delaware
Merrill Lynch Capital Services, Inc.	Delaware
Merrill Lynch Government Securities, Inc.	Delaware
Merrill Lynch Money Markets Inc.	Delaware
Merrill Lynch Group, Inc.	Delaware
Merrill Lynch Investment Managers Group Limited[4]	England
Merrill Lynch Investment Managers Holdings Limited	England
Merrill Lynch Investment Managers Limited	England
Merrill Lynch Investment Managers, L.P.[5]	Delaware
Merrill Lynch Alternative Investments LLC	Delaware
Merrill Lynch Bank & Trust Co.	New Jersey
ML Mortgage Holdings Inc.	Delaware
Financial Data Services, Inc.	Florida
Merrill Lynch Insurance Group, Inc.	Delaware
Merrill Lynch Life Insurance Company	Arkansas
ML Life Insurance Company of New York	New York
Roszel Advisors, LLC	Delaware
Merrill Lynch International Finance Corporation	New York
Merrill Lynch International Bank Limited	England
Merrill Lynch Bank (Suisse) S.A.	Switzerland
Merrill Lynch Group Holdings Limited	Ireland
Merrill Lynch Capital Markets Bank Limited	Ireland
Merrill Lynch Mortgage Capital Inc.[6]	Delaware
Merrill Lynch Trust Company, FSB	Federal
Merrill Lynch Fiduciary Services, Inc.	New York
MLDP Holdings, Inc.	Delaware
Merrill Lynch Derivative Products AG	Switzerland
ML IBK Positions, Inc.	Delaware
Merrill Lynch Capital Corporation	Delaware

[1] MLPF&S also conducts business as “Merrill Lynch & Co.”

[2] Similarly named affiliates and subsidiaries that engage in the sale of life insurance and annuity products are incorporated in various other jurisdictions.

[3] The preferred stock of the corporation is owned by an unaffiliated group of investors.

[4] Held through several intermediate holding companies.

[5] Merrill Lynch Investment Managers, L.P. is a limited partnership whose general partner is Princeton Services, Inc. and whose limited partner is ML & Co.

[6] Held through an intermediate subsidiary.

ML Leasing Equipment Corp.[7]	Delaware
Merrill Lynch Canada Holdings Company	Nova Scotia
Merrill Lynch Canada Finance Company	Nova Scotia
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Canada Inc.	Canada
Merrill Lynch Bank USA	Utah
Merrill Lynch Business Financial Services Inc.	Delaware
Merrill Lynch Credit Corporation	Delaware
Merrill Lynch NJ Investment Corporation	New Jersey
Merrill Lynch Utah Investment Corporation	Utah
Merrill Lynch Community Development Company, LLC	New Jersey
Merrill Lynch Commercial Finance Corp.	Delaware
Merrill Lynch International Incorporated	Delaware
Merrill Lynch (Australasia) Pty Limited	New South Wales, Australia
Merrill Lynch Finance (Australia) Pty Limited	Victoria, Australia
Merrill Lynch International (Australia) Limited[8]	New South Wales, Australia
Merrill Lynch International Holdings Inc.	Delaware
Merrill Lynch Bank and Trust Company (Cayman) Limited	Cayman Islands, British West Indies
Merrill Lynch Capital Markets AG	Switzerland
Merrill Lynch Europe PLC	England
Merrill Lynch Holdings Limited	England
Merrill Lynch International[9]	England
Merrill Lynch Capital Markets Espana S.A. S.V.B	Spain
Merrill Lynch (Singapore) Pte. Ltd.[10]	Singapore
Merrill Lynch South Africa (Pty) Ltd.[11]	South Africa
Merrill Lynch Mexico, S.A. de C.V., Casa de Bolsa	Mexico
Merrill Lynch Argentina S.A.	Argentina
Banco Merrill Lynch de Investimentos S.A.	Brazil
Merrill Lynch S.A.	Luxembourg
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France S.A.	France
Merrill Lynch Capital Markets (France) S.A.	France
Merrill Lynch, Pierce, Fenner & Smith SAF	France
Merrill Lynch (Asia Pacific) Limited	Hong Kong
Merrill Lynch Far East Limited	Hong Kong
Merrill Lynch Japan Securities Co., Ltd.	Japan
Merrill Lynch Japan Finance Co., Ltd.	Japan

[7] This corporation has more than 40 direct or indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships.

[8] Held through an intermediate subsidiary.

[9] Partially owned by another indirect subsidiary of ML & Co.

[10] Held through intermediate subsidiaries.

[11] Partially owned by another indirect subsidiary of ML & Co.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our reports dated February 24, 2003 appearing in and incorporated by reference in this Annual Report on Form 10-K of Merrill Lynch & Co., Inc. and subsidiaries for the year ended December 27, 2002.

Filed on Form S-8:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Filed on Form S-3:

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

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 14, 2003

Exhibit 99.1

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 27, 2002 and December 28, 2001, and for each of the three years in the period ended December 27, 2002, and have issued our report thereon dated February 24, 2003. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 29, 2000, December 31, 1999 and December 25, 1998, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 31, 1999 and December 25, 1998 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 27, 2002 included in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 24, 2003

Exhibit 99.2

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 27, 2002 and December 28, 2001, and for each of the three years in the period ended December 27, 2002, and have issued our report thereon dated February 24, 2003. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 29, 2000, December 31, 1999 and December 25, 1998, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 31, 1999 and December 25, 1998 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in the "Selected Financial Data" under the captions "Results of Operations," "Financial Position" and "Common Share Data" included in the 2002 Annual Report to Stockholders and included and incorporated by reference in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 24, 2003

EXHIBIT 99.3

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

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the fiscal year ended December 27, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chief Executive Officer and President

Dated: March 14, 2003

EXHIBIT 99.4

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

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the fiscal year ended December 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ahmass L. Fakahany, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ahmass L. Fakahany

Ahmass L. Fakahany
Executive Vice President and
Chief Financial Officer

Dated: March 14, 2003

EXHIBIT 99.5

Revised: February 24, 2003

MERRILL LYNCH & CO., INC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. Purpose

The Audit Committee (the "Committee") shall be appointed by the Board of Directors (the "Board" or "Board of Directors") of Merrill Lynch & Co., Inc. (together with its affiliates, the "Corporation") to:

- Assist the Board in fulfilling its oversight responsibility relating to the:

A. Preparation and integrity of the Corporation's financial statements and oversight of related disclosure matters;

B. Qualifications, independence and performance of, and the Corporation's relationship with, the independent auditor;

C. Performance of the Corporation's internal audit function;

D. Performance of the Corporation's risk management function; and

E. The Corporation's compliance with legal and regulatory requirements.

- Provide the report required by the rules of the Securities Exchange Commission (the "Commission") to be included in the Corporation's annual proxy statement.

II. Membership

The Committee's membership shall be determined by the Board of Directors on the recommendation of the Nominating and Corporate Governance Committee and shall consist of at least three (3) Board members. The Committee members shall meet the requirements for independence, experience and expertise set forth in the applicable laws and the regulations of the Commission and the New York Stock Exchange. In that regard, the Committee shall endeavor to have at least one member who either meets the Commission's definition of "audit committee financial expert" or who, in the business judgment of the Board, is capable of serving the functions expected of such financial expert. The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, shall appoint the Chair of the Committee.

Service on the Committee requires a significant time commitment from its members. In determining whether a committee member is able to meet the significant time commitment, the Board will take into consideration the other obligations of such member, including full-time employment, service on other boards of directors and audit committees.

III. Meetings and Reports

The Committee shall meet as frequently as it determines, but not less frequently than six times per year. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. Meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of

Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall meet periodically in separate private sessions with management, the internal auditors, the independent auditor and the General Counsel. The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any member of, or advisers to, the Committee.

The Committee shall report regularly to the Board with respect to such matters that are within the Committee's responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or by any other member designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

The Committee shall provide the report of the Committee to be contained in the Corporation's annual proxy statement, as required by the rules of the Commission.

IV. Authority

The Committee shall perform the following functions and may carry out additional functions and adopt additional policies and procedures in furtherance of the purpose of the Committee outlined in Section I of this Charter, as may be appropriate in light of changing business, legislative, regulatory, or other conditions, or as may be delegated to the Committee by the Board of Directors from time to time.

A. Financial Statements and Disclosure Matters

1. The Committee shall review and discuss with management and the independent auditor the Corporation's annual audited and quarterly consolidated financial statements, including the disclosures contained in the Corporation's Annual Report on Form 10-K ("Form 10-K") and its Quarterly Reports on Form 10-Q ("Form 10-Q"), under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." After review of the annual audited consolidated financial statements and the reports and discussions required by Sections A. 7. and B. 5. of this Charter, the Committee shall determine whether to recommend to the Board of Directors that such financial statements be included in the Corporation's Form 10-K.

2. The Committee shall be advised of (i) the execution by the Corporation's Chief Executive Officer and Chief Financial Officer of the certifications required to accompany the filing of the Form 10-K and the Forms 10-Q, and (ii) any other information required to be disclosed to it in connection with the filing of such certifications.

3. The Committee shall discuss with management and the independent auditor any significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy and clarity of the Corporation's disclosure

procedures and internal controls and any special steps adopted in light of material control deficiencies.

4. The Committee shall review and discuss the quarterly reports from the independent auditor on:

    (a) All critical accounting policies and practices to be used.

    (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment recommended by the independent auditor.

    (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

5. The Committee shall discuss with management the Corporation's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, and financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be conducted generally (<u>i.e.</u>, by discussing the types of information to be disclosed and the types of presentations to be made). The Committee may delegate responsibility for the review of the quarterly earnings press release to a member of the Committee.

6. The Committee shall discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.

7. The Committee shall discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information and any significant disagreements with management.

B. <u>Oversight of the Corporation's Relationship with the Independent Auditor</u>

1. The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purposes of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.

2. The Committee shall review and approve in advance the annual plan and scope of work of the independent auditor, including staffing of the audit, and shall review with the independent auditor any audit-related concerns and management's response.

3. The Committee shall pre-approve all auditing services and all permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by the independent auditor, to the extent required by law, according to established procedures. The Committee may delegate to one or more Committee members, the authority to grant pre-approvals for audit and permitted non-audit services to be performed for the Corporation by the independent

auditor, provided that decisions of such members to grant pre-approvals shall be presented to the full Committee at its next regularly scheduled meeting.

4. The Committee shall review and evaluate the experience, qualifications and performance of the senior members of the independent auditor team on an annual basis. As part of such evaluation, the Committee shall review with the lead audit partner whether any of the audit team members receive any discretionary compensation from the audit firm with respect to procurement or performance of any services, other than audit, review or attest services, by the independent auditor.

5. The Committee shall obtain and review a report from the independent auditor at least annually addressing (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues and (iv) all relationships between the independent auditor and the Corporation (in order to assess if the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal auditors.)

6. The Committee shall ensure the rotation of members of the audit engagement team, as required by law and will require that the independent auditor provide a plan for the orderly transition of audit engagement team members. The Committee shall also consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

7. The Committee shall pre-approve the Corporation's policies for the hiring by the Corporation of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.

C. <u>Oversight of the Corporation's Internal Audit Function</u>

1. The Committee shall review and discuss with the independent auditor the annual audit plan of the Corporate Audit Department, including responsibilities, budget and staffing, and, if appropriate, shall recommend changes.

2. The Committee shall review, as appropriate, the results of internal audits and shall discuss related significant internal control matters with the Corporate Audit Department and with the Corporation's management, including significant reports to management prepared by the Corporate Audit Department and management's responses.

3. The Committee shall review the adequacy of the Corporation's internal controls with the Corporate Audit Department and the independent auditor. In that regard, the Committee shall participate in the appointment and performance evaluation of the Corporation's Director of Internal Audit. The Committee shall also review the adequacy of resources to support the internal audit function, and, if appropriate, recommend changes.

D. Oversight of the Corporation’s Risk Management Function

1. The Committee shall oversee the Corporation’s risk management function and shall discuss with management the major financial, legal and reputational risk exposures of the Corporation and the steps management has taken to monitor and control such exposures, including the Corporation’s risk assessment and risk management policies.

E. Oversight of the Corporation’s Compliance Function

1. The Committee shall monitor the Corporation’s compliance function, including compliance with the Corporation’s policies, and shall review with the Corporation’s General Counsel and Director of Corporate Audit the adequacy and effectiveness of the Corporation’s procedures to ensure compliance with legal and regulatory requirements.

2. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

3. The Committee shall discuss with management, the Corporation’s General Counsel and the independent auditor any correspondence with regulators or governmental agencies and any published reports, which raise material issues regarding the Corporation’s financial statements or accounting policies.

4. The Committee shall discuss with the Corporation’s General Counsel legal matters that may have a material impact on the financial statements or the Corporation’s compliance policies.

V. Clarification of Committee’s Role

The Committee’s role is one of oversight. It is the responsibility of the Corporation’s management to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles, and it is the responsibility of the Corporation’s independent auditor to audit those financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations. The Committee does not provide any expert or other special assurance as to the Corporation’s financial statements or any expert or professional certification as to the work of the Corporation’s independent auditor.

VI. Access to Management; Retention of Outside Advisers

A. Access to Management

The Committee shall have full, free and unrestricted access to the Corporation’s senior management and employees, and to the Corporation’s internal and independent auditors.

B. Access to Outside Advisers

The Committee has the authority to retain legal counsel, consultants or other outside advisers, with respect to any issue or to assist it in fulfilling its responsibilities, without consulting or obtaining the approval of any officer of the Corporation.

The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor and to any advisers retained by the Committee.

VII. Annual Evaluation; Charter Review

A. Annual Self-Evaluation

The Committee shall perform an annual review and self-evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

B. Charter Review

The Committee shall review and assess the adequacy of this Charter on an annual basis, and, if appropriate, shall recommend changes to the Board of Directors for approval.

EXHIBIT 99.6

Revised: February 24, 2003

MERRILL LYNCH & CO., INC.

FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

I. Purpose

The Finance Committee (the "Committee") shall be appointed by the Board of Directors (the "Board") of Merrill Lynch & Co., Inc. (together with its affiliates, the "Company") to assist the Board in fulfilling its responsibilities with respect to corporate funding policy, securities offerings, budgets and financial objectives, financial commitments, dividends and related policies.

II. Membership

The Committee's membership is determined by the Board and shall consist of at least three (3) Board members who meet the criteria for independence contained in the rules of the New York Stock Exchange ("NYSE") and any other applicable regulations.

III. Meetings and Reports

The Committee shall meet as frequently as circumstances dictate. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. Meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall report regularly to the Board with respect to such matters that are within the Committee's responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or by any other member designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

IV. Authority

The Committee shall have full, free and unrestricted authority to access, and the ability to communicate with, the Company's senior management and employees, and internal and independent auditors and shall have the authority to retain outside third parties, as it determines appropriate, to assist the Committee in fulfilling its responsibilities.

The Committee shall have authority to take any and all acts that it deems necessary to carry out its purpose, including but not limited to:

1. Reviewing and making recommendations to the Board with respect to the Company's overall policies governing the financial commitments of the Company including:

A. Reviewing, and approving or disapproving the Company's Appropriations Governance Policy which governs the use of funds to acquire, create or dispose of an asset of long-term value (including but not limited to the development or major modification of systems, the acquisition, divestiture, modification and/or rehabilitation of fixed assets, and investments in other companies);

B. Reviewing, and approving or disapproving, financial commitments and transactions pursuant to the Company's Appropriations Governance Policy and, if applicable, the Company's Acquisitions, Divestitures, Joint Ventures and Other Strategic Transactions Policy (collectively, the "Policies"), on behalf of the Board, provided, however, that (a) any transaction involving the issuance of Merrill Lynch & Co., Inc. stock requires approval of the Board and (b) the acquisition of a business (whether by stock or assets) or the entry into a new line of business should be approved by the Board when practicable; and

C. Reviewing the Company's procedures for implementing and monitoring adherence to, the Policies.

2. Reviewing the financing plan of the Company and establishing funding authority limits for all proprietary debt and equity securities offerings of the Company.

3. Recommending dividend policies or guidelines relating to equity securities of Merrill Lynch & Co., Inc. to the Board.

4. Reviewing and, if appropriate, declaring and paying dividends, designating record and payable dates, and taking all other related actions with respect to preferred stock of Merrill Lynch & Co., Inc.

5. Reviewing the Company's capital commitment budget.

V. Annual Evaluation; Charter Review

A. Annual Self-Evaluation.

The Committee shall perform an annual review and self-evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the Board of Directors.

B. Charter Review.

The Committee shall review and assess the adequacy of this Charter on an annual basis, and, if appropriate, shall recommend changes to the Board of Directors for approval.

EXHIBIT 99.7

Revised: February 24, 2003

MERRILL LYNCH & CO., INC.

MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

OF THE

BOARD OF DIRECTORS

I. Purpose

The Management Development and Compensation Committee (the “Committee”) shall be appointed by the Board of Directors (the “Board”) to fulfill the responsibility of the Board to oversee the use of corporate assets in compensating executives, in the best interest of stockholders.

The Committee has overall responsibility for executive succession planning, management development and approving and evaluating incentive compensation plans, policies and programs of Merrill Lynch & Co., Inc. and its affiliates (the “Company”).

The Committee is also responsible for producing an annual report on executive compensation for inclusion in the Company’s annual proxy statement, in accordance with applicable rules and regulations.

II. Composition

1. Members. The Committee shall consist of such number of members as the Board, in consultation with the Committee itself, shall determine from time-to-time, but such number shall not be fewer than three directors.

2. Qualifications. Each Committee member shall meet the criteria for independence contained in the rules of the New York Stock Exchange and other applicable regulations. Each member shall also be: (a) a “Non-employee Director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934 and (b) an “outside director” for purposes of the regulations promulgated under Section 162(m) of the Internal Revenue Code.

3. Appointment. The members of the Committee and its chairman shall be appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee.

4. Removal and Replacement. The members of the Committee may be removed or replaced by the Board at any time. Membership of the Committee shall automatically end at such time as a member ceases to be a member of the Board.

III. Meetings and Reports

1. Meetings. The Committee shall meet as frequently as circumstances dictate. The Chairman of the Committee, or any two members of the Committee, may call meetings of the Committee. All meetings of the Committee may be held telephonically.

2. Agendas. The Chairman shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings, in consultation with other members of the Committee and management. All members of the Board are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

3. Reports. The Committee shall report regularly to the Board (1) following meetings of the Committee; (2) with respect to such other matters that are within the Committee's responsibilities; and (3) with respect to such recommendations as the Committee may determine to be appropriate. The report to the Board may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such a report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

IV. Authority

- The Committee has the authority to perform each of the specific duties enumerated in this Charter and has the power to delegate authority to subcommittees or individuals, as it deems appropriate.

- The Committee is empowered to retain consultants having special competence to assist the Committee. The Committee has the sole authority to retain and terminate such consultants, including the sole authority to approve such consultant's fee and other retention terms. The Committee may review and obtain advice and assistance from internal or external legal, accounting and other advisors, as it deems appropriate, to assist the Committee in fulfilling its responsibilities, without consulting or obtaining the prior approval of the Board or any officer of the Company.

- The Committee has the authority to request that any officer or employee of the Company or the Company's outside counsel attend a meeting of the Committee or meet with any members of, or consultants to, the Committee.

- The Senior Vice President of Human Resources and the First Vice President of Global Compensation and Benefits or their functional equivalents shall have reporting responsibilities to the Chairman of the Committee as well as to the management of the Company.

V. **Duties and Responsibilities**

1. Management Development and Executive Succession Planning

- The Committee shall review periodically with the management of the Company its programs and processes for management development.

- The Committee shall review all appointments to offices of Senior Vice President ("Senior Management") and recommend to the Board all appointments of Executive Vice Presidents or more senior officers ("Executive Management").

- The Committee shall review succession plans periodically for key Senior and Executive Management positions.

2. Compensation

A. General

- The Committee shall annually review and approve corporate goals and objectives relevant to the compensation of the individuals holding one or more of the positions of Chairman of the Board ("Chairman"), Chief Executive Officer ("CEO"), and President of the Company.

- The Committee shall review expense accruals for incentive compensation.

- The Committee shall review incentive compensation pools for the Company prior to the annual determination of individual cash and stock incentive awards.

- The Committee shall approve all employment or change-in-control severance agreements, annuity contracts and benefit or perquisite plans or programs (other than broad-based employee plans or programs) proposed for Executive and Senior Management.

- The Committee shall review periodically the Company's compensation programs and policies to align them with the Company's annual and long-term goals and the interests of the stockholders.

B. Salaries

- The Committee shall annually review and approve, and review with the Board for its approval, the salaries of the Chairman, CEO, President, and all members of Executive Management.

- The Committee shall review and approve the base salaries for other Senior Management employees.

C. Incentive Compensation

- The Committee shall present to the Board an annual evaluation of the performance of the Chairman, CEO and President in light of specified goals and objectives. The Committee shall set the compensation of the Chairman, CEO and President based on this evaluation and shall discuss their determinations with the Board.

- In determining the incentive compensation (including long-term incentive compensation) component of the Chairman, CEO and President, the Committee will consider the Company's performance based on certain financial measures chosen by the Committee, the value of similar incentive awards to like officers at comparable companies and the awards given to these officers in past years.

- The Committee shall make all determinations and take any actions that are reasonably appropriate or necessary in the course of establishing the compensation of the Company's Executive Management.

- The Committee shall review and approve annual cash and stock-based incentive compensation for all other Senior Management employees and for such other employees identified by the Committee or management.

- The Committee may delegate to the CEO or a designee the authority to approve incentive compensation for employees below the Senior Management level in accordance with overall pools, policy guidelines and limits approved by the Committee as appropriate, and shall review and approve the terms of grants of stock-based compensation for such employees of the Company as are identified by management.

D. Compensation and Equity Programs

- The Committee shall approve and recommend to the Board of Directors (and stockholders as applicable) that they approve and authorize shares of the Company's common stock for stock-based compensation plans, including stock option and stock bonus plans.

- The Committee shall approve amendments to existing stock-based compensation plans.

- The Committee shall authorize the issuance of shares of Company common stock or other securities in accordance with the terms of any duly approved compensation program.

- The Committee shall review annual stock option and equity grant rates.

- The Committee shall exercise the duties and responsibilities delegated to the Committee in the compensation program documents.

3. <u>Other</u>

- The Committee may review overall policy regarding compensation and benefit programs that are generally available to employees and may make such recommendations as it deems appropriate with respect to such programs.

- The Committee shall review and approve changes to benefit plans that result in the issuance of stock or in a material change to the benefits being provided to employees. For these purposes, material change shall mean any change that results in an expense or an expense reduction representing 10% or more of the Company's total employee benefit plan costs or fundamentally alters the nature of the benefits provided by the plan.

- The Committee shall exercise any duties and responsibilities that are delegated to the Board or a committee of the Board by any retirement or benefit plan documents and shall have the power to delegate such duties to an appropriate officer of the Company.

- The Committee shall hold an executive session during each of its meetings, unless the Chairman determines otherwise.

- The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

- The Committee shall perform an annual review and evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board.

The foregoing list of duties is not intended to be either complete or exclusive, and the Committee shall, in addition, have such powers as may be necessary or appropriate for the performance of its duties hereunder. All interpretations and determinations of the Committee made in accordance with the authority granted to the Committee herein shall be binding on all interested parties, unless found by a court of competent jurisdiction to be arbitrary and capricious.

VI. Charter Amendments

The Board shall have the authority to amend the Charter from time to time by a resolution approved by a majority of the Board members, provided that, at all times, the Charter shall satisfy the requirements of law and the New York Stock Exchange and any other principal exchange on which the Company's securities are listed.

EXHIBIT 99.8

Revised: January 27, 2003

MERRILL LYNCH & CO., INC.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

OF THE

BOARD OF DIRECTORS

I. Purpose

The Nominating and Corporate Governance Committee (the “Committee”) shall be appointed by the Board of Directors (the “Board” or “Board of Directors”) of Merrill Lynch & Co., Inc. (the “Company”) to:

A. Identify individuals qualified to become directors and recommend to the Board the candidates for all directorships to be filled by the Board of Directors or by the shareholders;

B. Recommend to the Board of Directors candidates for membership on Board committees;

C. Develop and recommend to the Board guidelines for effective corporate governance; and

D. Lead the Board of Directors in its annual review of the Board’s performance.

II. Membership

The Committee’s membership is determined by the Board of Directors and shall consist of at least three (3) Board members, each of whom meet the criteria for independence contained in the rules of the New York Stock Exchange and any other applicable regulations. The Board shall appoint the Chair of the Committee. The Chair will preside at all sessions of the Committee at which he or she is present and will set the agendas for Committee meetings.

III. Meetings and Reports

The Committee shall meet as frequently as circumstances dictate. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. All meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall report regularly to the Board (i) following meetings of the Committee, (ii) with respect to such other matters that are within the Committee's responsibilities and (iii) with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

IV. Authority

The Committee shall perform the following functions related to the purposes of the Committee outlined in Section I of this Charter. The Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee outlined in Section I of this Charter.

A. Board Selection, Composition and Evaluation

1. Establish criteria for the selection of new directors to serve on the Board of Directors.
2. Identify individuals believed to be qualified as candidates to serve on the Board of Directors, conduct all necessary and appropriate inquiries into the backgrounds and qualifications of such candidates and recommend that the Board select the candidates for all directorships to be filled by the Board of Directors or by the shareholders from such identified individuals.
3. Review and make recommendations to the Board as to whether members of the Board should stand for re-election. As part of such review, the Committee will review each non-employee director against the Independence Standards on an annual basis and recommend to the Board whether to make an independence determination with respect to each such director.
4. Review and make recommendations, as the Committee deems appropriate, regarding the composition and size of the Board of Directors in order to ensure the Board has the requisite expertise and its membership consists of persons with sufficiently

diverse and independent backgrounds. Consider matters relating to the Corporation's director retirement policy.

B. Directors' Compensation

1. Periodically review the compensation of members of the Board of Directors. In fulfilling this responsibility, the Committee may request that management report to the Committee on the status of the Board's compensation in relation to the Corporation's peers and other similarly situated companies. Recommend changes to the Corporation's director compensation policy to the Board of Directors for consideration as appropriate.

C. Committee Selection, Composition and Evaluation

1. Establish, monitor and recommend the purpose, structure and operations of the various committees of the Board, the qualifications and criteria for membership on each committee of the Board and, as circumstances dictate or the Committee otherwise deems appropriate, make any recommendations regarding periodic rotation of directors among the committees.

2. Recommend members of the Board of Directors to serve on the committees of the Board, giving consideration to the criteria for service on each committee as set forth in the charter for each such committee, and, where appropriate, make recommendations regarding the removal of any member of any committee.

3. Recommend members of the Board of Directors to serve as the Chair of the committees of the Board.

4. Evaluate whether the necessary and appropriate committees exist to support the work of the Board and make recommendations to the Board of Directors for the creation of additional committees or the elimination of Board committees as appropriate.

5. Periodically review the charter of each committee of the Board and propose modifications to the applicable Committee for consideration as appropriate.

D. Corporate Governance

1. Oversee compliance with the Corporation's Corporate Governance Guidelines, monitor developments in corporate governance, review the Corporation's Corporate Governance Guidelines periodically and propose modifications to the Guidelines to the Board of Directors for consideration as appropriate.

2. The Corporation has adopted the Corporation's Guidelines for Business Conduct: The Code of Ethics for Directors, Officers and Employees as its Code

of Ethics pursuant to the NYSE requirements and applicable law. The Committee will periodically review the Guidelines and propose modifications to the Guidelines to the Board of Directors for consideration as appropriate.

E. Retention of Outside Advisers

1. The Committee has the authority to retain counsel, consultants or other outside advisers, with respect to any issue without consulting or obtaining the approval of any officer of the Corporation in advance.

2. The Committee shall have sole authority to retain and terminate any search firm to be used to assist in identifying Board candidates, including the sole authority to approve the search firm's fee and other retention terms.

F. Annual Evaluations

1. Lead the Board of Directors in an annual self-evaluation process to determine whether the Board and its committees are functioning effectively. Receive comments from the Board members and summarize and report annually to the Board of Directors an assessment of the Board's performance. The assessment should focus on the Board's contribution to the Corporation and emphasize those areas in which the Board believes a better contribution could be made. The Committee will establish the criteria to be used in such evaluations.

2. Assess, on an annual basis, the skills and characteristics of the Board of Directors and the composition of the Board as a whole. This assessment should include an analysis of the Board's core competencies, including understanding of the financial industry, financial expertise, integrity, wisdom, judgment, commitment to excellence, business experience and acumen, skills, diverse perspectives and availability. As a result of this assessment, the Committee will determine whether the effectiveness of the Board could be enhanced by a change in its membership and the addition of new directors with other skills and experience.

3. Review each non-employee director against the Independence Standards on an annual basis and recommend to the Board whether to make an independence determination with respect to each such director.

4. Perform an annual review and evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

EXHIBIT 99.9

Effective: October 23, 2000

MERRILL LYNCH & CO., INC.

PUBLIC POLICY AND RESPONSIBILITY COMMITTEE

OF THE

BOARD OF DIRECTORS

PURPOSE

To assist the Board of Directors and Senior Management in overseeing the Corporation's fulfillment of its Principles of Respect for the Individual, Teamwork, Responsible Citizenship and Integrity by reviewing and, where appropriate, making recommendations about:

- The Corporation's policies and actions as they relate to the above Principles
- The Corporation's political and charitable contributions policies and practices
- The Corporation's policies and actions as they relate to social and public policy issues that affect the Corporation's business

throughout the world.

MEMBERSHIP

The Committee shall be composed of not fewer than three directors, none of whom shall be, or within one year of appointment, shall have been, employees of the Corporation. However, if a vacancy occurs, the Committee is authorized to continue to exercise its authority with fewer than three directors, but not less than two, until such time as the Board of Directors fills such vacancy. The Board of Directors may designate alternate members of the Committee. The Chair of the Committee shall be appointed by the Board of Directors.

AUTHORITY STATEMENT

To review and, where appropriate, make recommendations concerning:

- The Corporation's policies and business activities in light of the Corporation's Principles of Respect for the Individual, Teamwork, Responsible Citizenship and Integrity.

- The Corporation’s policies and actions as they relate to social and public policy issues.
- The Corporation’s business policies and practices relative to the Foreign Corrupt Practices Act and similar laws worldwide.
- The Corporation’s charitable contribution policies and practices in all areas.
- The Corporation’s political contribution policies and practices worldwide, including direct contributions by the Corporation and its subsidiaries, contributions by the Corporation’s political action committee and, where regulatory considerations apply, direct employee contributions.

Any matter relating to the foregoing which is referred to the Committee by the Board of Directors or any other committee thereof.

Adopted: January 27, 2003

EXHIBIT 99.10

MERRILL LYNCH & CO., INC.

CORPORATE GOVERNANCE GUIDELINES

Throughout Merrill Lynch's history, the Board of Directors ("Board" or "Board of Directors") of Merrill Lynch & Co., Inc., (the "Corporation") has adhered to "best practices" in corporate governance in fulfillment of its responsibilities to the shareholders. The Board of Directors has formally adopted these practices as its Corporate Governance Guidelines in furtherance of the Corporation's commitment to good corporate governance.

1. Director Qualifications and Board Composition

A. Independence. The Board of Directors will consist of a majority of non-employee directors who meet the criteria for independence contained in the rules of the New York Stock Exchange ("NYSE") and any other applicable regulations. The Board will monitor its compliance with the regulations related to director independence on an ongoing basis. Each independent director shall notify the Chairman of the Nominating and Corporate Governance Committee, as soon as practicable, in the event that his or her circumstances change in a manner that may affect the Board's evaluation of his or her independence.

B. Director Qualifications. The Nominating and Corporate Governance Committee has established Board Candidate Guidelines that set forth criteria that are considered in evaluating the candidacy of an individual as a member of the Board. The Board Candidate Guidelines are attached to these Corporate Governance Guidelines as Exhibit A. The Nominating and Corporate Governance Committee will periodically review the Board Candidate Guidelines and modify them as appropriate. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending to the Board candidates for membership on the Board of Directors. Final approval of any candidate shall be determined by the full Board of Directors.

C. Board Size. The size of the Board of Directors is determined to achieve an effective working group that may vary in number from time to time depending upon the needs of the Corporation. The Nominating and Corporate Governance Committee will assess the size of the Board of Directors from time to time to determine whether its size continues to be appropriate.

D. Retirement. It is the policy of the Corporation that a non-employee director shall not serve as a director beyond the Annual Meeting of Shareholders held in the calendar year next following such director's seventy-second birthday. Under the Corporation's current policy, directors, who are also employees of the Corporation, retire from the Board at the same time as they retire as an employee of the Corporation or its affiliate.

E. Term Limits. The Board of Directors does not believe it is advisable to establish term limits for its members as such limits may deprive the Corporation and its shareholders of the contribution of directors who have been able to develop, over time, valuable insights into the Corporation, its operations and future. As part of its responsibilities, the Nominating and Corporate Governance Committee will consider each director's continuation on the Board at the expiration of his or her term and before that director is considered for re-election.

F. Change in Director's Present Job Responsibilities. It is the position of the Board of Directors that a change in a non-employee director's employment or occupation should not automatically lead to such director's resignation from the Board of Directors. In such an event, the Nominating and Corporate Governance Committee will review the appropriateness of such a director's continued service on the Board of Directors in light of his or her changed responsibilities, association or circumstances.

2. Director Responsibilities

A. Board's Role. The business and affairs of the Corporation are managed under the direction of the Board, which represents and is accountable to the shareholders of the Corporation. The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interest of the Corporation and its shareholders. In discharging that obligation, directors, in exercising their business judgment, are entitled to rely on the Corporation's management and outside advisors and auditors. The Corporation has purchased and seeks to maintain reasonable directors' and officers' liability insurance on their behalf. In addition, the directors receive the benefits of indemnification to the fullest extent permitted by Delaware law.

B. Board Meetings. The Board of Directors currently holds regularly scheduled meetings and calls for special meetings as necessary. All meetings of the Board may be held telephonically. Directors are expected to attend all Board meetings and meetings of the Committees of the Board on which they serve and to spend the time needed and meet as frequently as necessary to properly discharge their duties. It is understood that, on occasion, a director may not be able to attend a meeting.

C. Agendas. The Chairman of the Board will establish the agenda for Board meetings. While the agenda is planned carefully, it is flexible enough so that unexpected developments can be discussed at Board meetings. Any director may request that an item be included on the agenda. Throughout each year, the Board of Directors reviews the Corporation's short-term and long-term strategic and operating plans and related business plans of each principal business group. The Board of Directors also reviews the annual capital budget for the Corporation.

D. Advance Materials. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting are, to the extent practical, distributed to the directors sufficiently in advance of the meeting and directors should review these materials prior to the meeting. The Board acknowledges that certain materials are of an extremely sensitive nature and that distribution of materials on these matters prior to Board meetings may not be appropriate.

E. Executive Sessions. The non-employee directors will meet without employee directors at regularly scheduled executive sessions at least quarterly and at such other times as the directors deem appropriate. Executive sessions are attended only by non-employee directors and are led by a director who serves as the Chair of a Board Committee that is composed entirely of independent directors, pursuant to a rotating schedule.

F. Stock Ownership By Directors. Members of the Board of Directors are required to own stock, stock units or other equity-linked instruments of the Corporation and a significant part of their compensation for services as a director is payable in these instruments.

G. Confidentiality. Except as required by law, no director shall disclose any material non-public information concerning the Corporation. In the event that a director inadvertently discloses information that may be material and non-public, he or she should immediately so advise the General Counsel.

3. Board Committees

A. Committees. The Board currently has five standing Committees of the Board of Directors: (i) Audit Committee, (ii) Management Development and Compensation Committee, (iii) Nominating and Corporate Governance Committee, (iv) Finance Committee and (v) Public Policy and Responsibility Committee. The Board may also establish other committees or disband existing ones, as it deems appropriate consistent with applicable laws, regulations and the Corporation's By-Laws. Each of the independent Committees of the Board shall have the authority and responsibilities delineated in the Corporation's By-Laws, the resolutions creating them and any applicable charter.

B. Appointment. The Board, upon recommendation of the Nominating and Corporate Governance Committee, appoints committee members. All of the members of the Audit, Management Development and Compensation and Nominating and Corporate Governance Committees will be independent directors consistent with the criteria set forth in their charters and as required by the NYSE and applicable laws and regulations. While not required by law or regulation, the Finance Committee and Public Policy and Responsibility Committee shall also consist of independent directors.

The Nominating and Corporate Governance Committee may change committee assignments periodically, and considers committee rotation with a view toward balancing the benefits of continuity against the benefits of diverse experiences and viewpoints of different directors.

C. Meeting Schedules. The Committee Chair, in consultation with management, will schedule regular Committee meetings. Special Committee meetings may be called as needed. The length of Committee meetings will depend upon matters under consideration. All meetings of the Board may be held telephonically.

D. Committee Agendas. The Committee Chair, in consultation with appropriate officers of the Corporation, will develop the agenda for Committee meetings. Any Committee member may request that an item be included on the agenda.

E. Charters. The Board has adopted charters setting forth the purposes, authority and duties of each of the Audit Committee, the Finance Committee, the Nominating and Corporate Governance Committee, the Management Development and Compensation Committee, the Public Policy and Responsibility Committee and any other committee that the Board deems appropriate. The Nominating and Corporate Governance Committee will periodically review the charters of each of these committees and propose modifications to the applicable Committee for consideration as appropriate.

4. Access to Outside Advisors

The Board and its Committees may retain counsel or consultants with respect to any issue without consulting or obtaining the approval of any officer of the Corporation in advance. Further, as set forth in their respective charters:

(i) The Nominating and Corporate Governance Committee has sole authority to retain and terminate any search firm to be used to identify director candidates.

(ii) The Management Development and Compensation Committee has sole authority to retain and terminate compensation consultants used to advise it with respect to executive compensation.

(iii) The Audit Committee has sole authority to retain and terminate independent auditors.

5. Access to Management and Employees

A. Access to Management and Employees. Directors have full and unrestricted access to the management and employees of the Corporation. In addition, at the request of the Chairman, members of senior management may be invited to attend meetings of the Board of Directors from time to time, to present information about the business and operations of the business within their areas of responsibility.

B. Internal Reporting. The Board has established procedures for the submission and confidential treatment of complaints and concerns of employees regarding accounting and auditing matters and alleged violations of the Corporation's *"Guidelines for Business Conduct: The Merrill Lynch Code of Ethics for Directors, Officers and Employees"* (the "Guidelines for Business Conduct").

C. Whistleblower Protection. As set forth in the Corporation's Guidelines for Business Conduct, any employee who, in good faith, reports a violation or possible violation of the Guidelines for Business Conduct or the underlying corporate policy is protected against retaliatory behavior. Merrill Lynch is not permitted to fire, demote, suspend, harass or discriminate against any employee who lawfully provides information to, or otherwise assists or participates in, any investigation or proceeding by a U.S. regulatory or law enforcement agency, any member of the U.S. Congress or a Congressional committee or the employee's manager, relating to what the employee reasonably believes is a violation of the securities laws or an act of fraud. No Merrill Lynch person is permitted to take any such retaliatory action.

6. Director Compensation

The compensation of directors is reviewed periodically by the Nominating and Corporate Governance Committee. In this regard, the Committee may request that management report to the Committee periodically on the status of the Board's compensation in relation to the Corporation's competitors and other similarly situated companies.

Any change to director compensation must be recommended by the Nominating and Corporate Governance Committee for approval by the full Board of Directors.

7. Director Orientation and Education

All new directors must be provided with these Corporate Governance Guidelines and must participate in the Corporation's orientation initiatives as soon as practicable after the meeting at which they are elected. The initiatives will include presentations by senior management and outside advisors as appropriate to familiarize new directors with the Corporation's business, its strategic plans, its significant financial, accounting and risk management issues and its compliance programs, as well as their fiduciary duties and responsibilities as directors. All other directors are also invited to attend any orientation initiatives.

The Board of Directors will periodically receive presentations at Board meetings relating to the Corporation's business and operations, its compliance programs and any significant financial, accounting, litigation and risk management issues as well as any other matters of significance to the Board of Directors. Additionally, directors will be offered the opportunity (but will not be required) to participate in director education programs and director institutes offered by third parties.

8. Performance Evaluation and Succession Planning

A. Performance Evaluation. The Management Development and Compensation Committee and the Board of Directors, with input from the CEO, set annual performance goals for the CEO. Each year the Management Development and Compensation Committee and the independent members of the Board assess the performance of the CEO against these performance goals and set the Chief Executive Officer's compensation based on this evaluation.

B. Succession Planning. The Board of Directors is responsible for the succession planning for the position of CEO, with the assistance of the Management Development and Compensation Committee. The Management Development and Compensation Committee reviews plans for succession with input from the CEO. The Management Development and Compensation Committee is provided with an annual report on succession planning and any development recommendations for key individuals.

C. Chairman and CEO Positions. The offices of Chairman of the Board and Chief Executive have been at times combined and at times separated. The Board of Directors has exercised discretion in combining or separating the positions, as it has deemed appropriate in light of prevailing circumstances. The Board of Directors believes that the combination or separation of these offices should continue to be considered as part of the succession planning process. The Board further believes that it is in the best interests of the Corporation for the Board of Directors to make a determination as to the combination or separation of the offices of Chairman of the Board and Chief Executive Officer when it elects a new Chief Executive Officer.

9. Annual Evaluations

A. Board Self-Evaluation. The Nominating and Corporate Governance Committee of the Board will lead the Board in an annual self-evaluation process to determine whether the Board and its committees are functioning effectively. The Nominating and Corporate Governance Committee is responsible for receiving comments from the Board, reviewing them and reporting annually to the Board an assessment of the Board's performance. The Board will discuss the evaluation report annually. The assessment will focus on the Board's contribution to the Corporation and emphasize those areas in which the Board believes a better contribution could be made. The Nominating and Corporate Governance Committee will establish the criteria to be used in such evaluations.

B. Review of Board's Core Competencies and Composition. The Nominating and Corporate Governance Committee is also responsible for reviewing with the Board, on an annual basis, the skills and characteristics of the Board of Directors and the composition of the Board as a whole. This assessment should include an analysis of the Board's core competencies, including understanding of the financial industry, financial expertise, integrity, wisdom, judgment, commitment to excellence, business experience and acumen, skills, diverse perspectives and availability. As a result of this assessment, the Nominating and Corporate Governance Committee will determine whether the Board is lacking any of the core competencies deemed essential to its effectiveness and whether consideration should be given to any change in the Board's membership.

C. Committee Self-Evaluation. Each of the Audit Committee, the Management Development and Compensation Committee and the Nominating and Corporate Governance Committee will perform an annual review of such Committee's performance, including a review of the Committee's compliance with its respective Charter. Each such Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

10. Guidelines for Business Conduct

The Board of Directors has updated the Guidelines for Business Conduct and has adopted them as its Code of Ethics for Directors, Officers and Employees, as required by the listing requirements of the NYSE and applicable laws. The Nominating and Corporate Governance Committee will periodically review the Guidelines for Business Conduct and propose modifications to the Board of Directors for consideration as appropriate.

11. Revisions to these Corporate Governance Guidelines

The Nominating and Corporate Governance Committee will review these Corporate Governance Guidelines periodically and will recommend to the Board such revisions, as it deems necessary or appropriate for the Board to discharge its responsibilities more effectively.

Exhibit A

MERRILL LYNCH & CO., INC.

BOARD OF DIRECTORS

BOARD CANDIDATE GUIDELINES

The Board of Directors should be composed of individuals who have demonstrated notable or significant achievements in business, education or public service. In addition, the director candidate should possess the requisite intelligence, education and experience to make a significant contribution to the membership of the Board of Directors and bring a range of skills, diverse perspectives and backgrounds to the deliberations of the Board of Directors. Importantly, the director candidate must have the highest ethical standards, strong sense of professionalism and dedication to serving the interests of all the shareholders and be able to make himself or herself available to the Board of Directors in the fulfillment of his or her duties. For those director candidates who are also employees of the Corporation, he or she should be members of the executive management of the Corporation who have or are in the position to have a broad base of information about the Corporation and its business.

The overall ability and experience of the individual should determine his or her suitability. However, the following attributes and qualifications should be considered in evaluating the candidacy of an individual as a director for the Board of Directors:

Management and Leadership Experience — The Board candidate must have extensive experience in business, education or public service.

The experience of candidates from the different fields of business, education or public service should be measured as follows:

Candidates from the Field of Business. The Board candidate is or has been the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer of, or holds or has held a senior managerial position in, a major public corporation, recognized privately held entity or recognized money or investment management firm.

Candidates from the Field of Education. The Board candidate holds or has held either a significant position at a prominent educational institution comparable to the position of university or college president and/or dean of a school within the university or college or a senior faculty position in an area of study important or relevant to the Corporation.

Candidates from the Field of Public Service. The Board candidate has held one or more elected or appointed senior positions in the U.S. federal government or agency, any U.S. state government or agency or any non-U.S. governmental entity or holds or has held one or more elected or appointed senior positions in a highly visible nonprofit organization.

Skilled and Diverse Background — The Board candidate must bring a desired range of skills, diverse perspectives and experience to the Board.

The following attributes should be considered in assessing the contribution that the Board candidate would make as a member of the Board of Directors.

Financial Literacy. Board candidates having a sufficient understanding of financial reporting and internal control principles or financial management experience bring desirable knowledge and skills to the Board.

International Experience. International experience is a significant positive characteristic in a Board candidate's profile. Having an understanding of the language and culture of non-English speaking countries will also be considered beneficial.

Knowledge of the Duties of Director. The Board candidate's aptitude and/or experience to understand fully the legal responsibilities of a director and governance processes of a public company is an essential factor.

No Interlocking Directorships. The Board candidate should not have any prohibitive interlocking relationships.

Integrity and Professionalism — The Board candidate must have the highest ethical standards, a strong sense of professionalism and be prepared to serve the interests of all the stockholders.

Personal Experience. The Board candidate should be of the highest moral and ethical character. The candidate must exhibit independence, objectivity and willingness to serve as a representative of the Corporation's stockholders. He or she should have a personal commitment to the Corporation's Principles of Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity.

Individual Characteristics. The Board candidate should have the personal qualities to be able to make a substantial active contribution to Board deliberations. These qualities include intelligence, self-assuredness, high ethical standards, inter-personal skills, independence, courage, a willingness to ask difficult questions, communication skills and commitment. In considering candidates for Board membership, the diversity of the communities in which the Corporation conducts its business should be considered in looking at the composition of the Board.

Availability. The Board candidate must be willing to commit, as well as have, sufficient time available to discharge the duties of Board membership. The Board candidate should satisfy the Board's age election guidelines provided for in the policies of the Corporation and ideally have sufficient years available for service to make a significant contribution over time to the Corporation.

Compatibility. The Board candidate should be able to develop a good working relationship with other Board members and contribute to the Board's working relationship with the senior management of the Corporation.

Exhibit 99.11

MERRILL LYNCH & CO., INC.

GUIDELINES FOR BUSINESS CONDUCT:

MERRILL LYNCH'S CODE OF ETHICS
FOR DIRECTORS, OFFICERS AND EMPLOYEES

Merrill Lynch's reputation for integrity in the marketplace is one of our company's most important corporate assets. Maintaining our "tradition of trust" with clients, colleagues, shareholders, regulators and the general public is the obligation of every Merrill Lynch director, officer and employee. We can fulfill this obligation by adhering to high professional standards of **excellence and integrity** and to the key principles of business conduct in the performance of our duties.

Guidelines for Business Conduct sets forth these key principles, which are supported by specific, detailed practices and procedures contained in the *ML & Co. Policy Manual*, as well as policies adopted by specific business or support groups ("Group Policies"). Of course, the Merrill Lynch Principles set the overall tone for how Merrill Lynch conducts its business.

Honest mistakes made in the course of business may be tolerated, but we will not tolerate violations of law or regulation or lapses in ethics or integrity. We must comply with those laws, rules and regulations and policies that govern or apply to Merrill Lynch's businesses, and all must abide by the letter and the spirit of these laws, rules, regulations and policies. Our business is predicated on having the trust and respect of our clients and on our integrity and good judgment. The appearance of improper behavior is just as damaging to the trust and respect of our clients as is actual impropriety.

Detailed policies and compliance procedures are set forth in the *ML & Co. Policy Manual* and in the various Group Policies, all of which are available on WorldNet. No set of policies and procedures, however, can be all encompassing, and employees are encouraged to consult the Office of General Counsel or senior management for advice.

By adhering to exemplary standards and conducting our business with excellence and integrity, we enhance Merrill Lynch's reputation and cultivate the growth of our business. All of us must take personal responsibility for conducting ourselves in a way that reflects positively on our company and that is in keeping with our Merrill Lynch Principles and with the letter and spirit of the *Guidelines for Business Conduct*.

E. Stanley O'Neal
Chief Executive Officer

Updated January 2003

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Note on terms used in the *Guidelines*:

" Merrill Lynch" means Merrill Lynch & Co., Inc. and all of its subsidiaries and affiliates.

" Merrill Lynch persons" means the employees, officers and directors of Merrill Lynch.

"Directors" means the directors of Merrill Lynch & Co., Inc.

" Employees" means the employees and officers of Merrill Lynch.

CONFLICTS OF INTEREST

Avoid conflicts of interest in performing your duties and seek advice of management and counsel when any actual or potential conflicts arise.

Merrill Lynch directors and employees must avoid engaging in any outside business or other activity that might create a conflict of interest, create a perception of impropriety or jeopardize the company's integrity or reputation. A "conflict of interest" occurs when your personal interest interferes — or even appears to interfere — in any way with the interests of Merrill Lynch. Every Merrill Lynch person must avoid activities, interests or associations that might interfere or even appear to interfere with the independent exercise of good judgment in the conduct of his or her duties or with the best interests of our company, our clients, our shareholders or the public.

While it is impossible to foresee every potential conflict that could arise, all Merrill Lynch persons must be sensitive to potential conflicts, bring them to the attention of management, the Office of General Counsel or the Board of Directors and avoid them where possible. If a conflict cannot be avoided, it must be managed in an ethical, responsible manner and so as not to create the perception of impropriety.

Business Activities; Ownership of Securities. All Merrill Lynch employees must report all outside business activities, including ownership of privately held stock and limited partnership interests, to their managers and to the Office of General Counsel so a review for potential conflicts of interest can be conducted. Outside business activities and interests include serving as a partner or a stockholder in another business, as an officer in a family-owned corporation or as an outside director of another company. The appropriateness of a Merrill Lynch employee engaging in these and other types of outside business activities, interests or investment opportunities depends on many factors, including the nature and extent of the outside interest, the potential for conflicts of interest, and the relationship between Merrill Lynch and the outside entities and the duties involved.

A Merrill Lynch employee must receive prior written approval for any outside business activity and private investment. You have an obligation to keep Merrill Lynch apprised of these activities and provide updated information about the outside interests. Every employee should confirm the information on his or her outside business activities by submitting annually a completed Employee Activity Review Survey report ("EARS"). The EARS reports will be reviewed and monitored by the employee's business manager and by Merrill Lynch compliance personnel.

Service by any Merrill Lynch employee as a director, officer or employee of any other corporation or business must be authorized in writing by the Office of General Counsel. Unless approved in writing according to the *ML & Co. Policy Manual* or by the Board of Directors, no Merrill Lynch employee may serve as a director of a publicly traded company.

Directors of Merrill Lynch should inform the Corporate Secretary prior to accepting appointments to the boards of directors or advisory boards of any public or privately held company. The disclosure requirements and other possible conflict-of-interest issues involved must be analyzed and discussed.

Public Office. All Merrill Lynch persons are required to notify and receive the approval of the Office of General Counsel before committing to a candidacy for elective office or a formal position on a campaign committee and before accepting an appointment to a public or civic office. Merrill Lynch must take steps to ensure that conflicts of interest are not raised by such campaign or public service. In general, a Merrill Lynch person may run for and serve in local, elective or appointed civic offices, provided the activity, including campaigning:

- occurs outside work hours;
- involves no use of Merrill Lynch's name, facilities, client lists, other corporate assets or corporate funding;
- is confined solely to the person's capacity as a private citizen and not as a representative of Merrill Lynch; and
- does not present an actual or perceived conflict of interest for Merrill Lynch, as determined in the sole judgment of Merrill Lynch.

No finders' fees for business brought to Merrill Lynch by a Merrill Lynch person holding a political or government office will be paid without approval by the Office of General Counsel.

Providing Support to Political Campaigns; Making Political Contributions. Subject to the requirements set forth in the *ML & Co. Policy Manual*, Merrill Lynch employees may support others in their campaigns for public office provided that the support or contribution complies with the Merrill Lynch policy on political contributions and that the time spent on such activity is outside the employee's work hours and Merrill Lynch's name, facilities or corporate funds are not used. We ask you to consult the *ML & Co. Policy Manual* to determine what limitations apply to you and for the detailed rules governing such situations *before making or soliciting* any political contribution. Under no circumstances will Merrill Lynch directly or indirectly reimburse any Merrill Lynch person for his or her individual contribution.

Before making or soliciting political contributions for any non-U.S. office, Merrill Lynch employees and any employee political action committees must consult the Office of General Counsel.

Merrill Lynch directors may not use Merrill Lynch's name, facilities or corporate funds in connection with their support of a political candidate.

Lobbying Activities. Lobbying on behalf of Merrill Lynch is conducted exclusively by the Government Relations Office in Washington and State Government Relations in New York. The Office of General Counsel or the Governmental Relations Group at Merrill Lynch must approve contacts with any governmental entity or agency in advance.

CORPORATE OPPORTUNITIES

Do not advance personal interests at the expense of Merrill Lynch.

Merrill Lynch persons owe a duty to Merrill Lynch to advance the company's legitimate interests to the best of their abilities whenever the opportunity arises. Merrill Lynch persons must not take for themselves personally opportunities they discover through the use of Merrill Lynch property, information or position in violation of Merrill Lynch policies. In addition, Merrill Lynch property, information or position must not be used for personal gain. No Merrill Lynch person may compete with Merrill Lynch.

CONFIDENTIALITY OBLIGATIONS

Protect confidentiality of information, including Merrill Lynch information.

Nonpublic Information. Merrill Lynch persons must maintain the confidentiality of information entrusted to them by Merrill Lynch and provided by our clients and vendors. In the conduct of its business, Merrill Lynch receives a great deal of nonpublic information. Much of this information may be sensitive, with the potential to affect market conditions, negotiations, strategic positioning and relationships with clients, competitors or vendors. All employees must exercise care not to misuse nonpublic information obtained during their employment, including client lists, information about Merrill Lynch personnel and clients, and business plans and ideas. The obligation to maintain the confidentiality of information may be subject to legal or regulatory requirements to disclose that information. In such cases, the Office of General Counsel will help you determine what disclosure is required.

Media, Publishing and Public Appearances. No Merrill Lynch employee may provide nonpublic corporate information to persons outside Merrill Lynch, including the media, unless authorized to do so. In all cases, employees must refer media inquiries to Corporate Communications. Only designated Merrill Lynch spokespersons may provide comments to the media.

Before publishing, making speeches or giving interviews, Merrill Lynch employees must get approval from their managers. If a publication, speech, interview or appearance may be of public interest and may reflect on Merrill Lynch, employees must notify the public relations officer for their business group or region.

Client Information Privacy. Merrill Lynch protects the confidentiality and security of client information. Merrill Lynch's Privacy Policy for client information provides that:

- Merrill Lynch does not sell or rent clients' personal information.
- Employees may not discuss the business affairs of any client with any other person, except on a strict need-to-know basis.
- Merrill Lynch does not release client information to third parties, except upon a client's authorization or when permitted or required by law.
- Third-party service providers and vendors with access to client information are required to keep client information confidential and use it only to provide services to or for Merrill Lynch.

FAIR DEALING

Every Merrill Lynch person must deal fairly with Merrill Lynch's clients, vendors, competitors and fellow employees.

Merrill Lynch seeks to excel and outperform our competitors honestly and fairly. Competitive advantage must result from superior performance, not unethical or illegal business dealings.

Unethical Behavior; Relationships With Competitors. Every Merrill Lynch person must deal fairly with Merrill Lynch's clients, vendors, competitors and fellow employees. No Merrill Lynch person may take unfair advantage of anyone through unethical or illegal measures, such as manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practices. It is improper, and may be illegal, to hire competitors' employees for the purpose of obtaining trade secrets or other proprietary information.

It is also against Merrill Lynch policy to seek increased sales by disparaging the products and services of other companies. Our goal is to increase business by offering superior products and services. Accordingly, all Merrill Lynch advertising must be truthful, not deceptive and in full compliance with applicable laws, regulations and company policies. All advertising and marketing materials must be approved pursuant to the procedures established in each of the business units across the company.

All Merrill Lynch persons must guard against unfair competitive practices and exercise extreme caution to avoid conduct that might violate antitrust laws or other rules prohibiting anti-competitive activities. Violations may carry criminal penalties. If a competitor or third party proposes to discuss unfair collusion, price-fixing or other anti-competitive activities, your responsibility is to object, terminate the conversation or leave the meeting and report the incident promptly to the Office of General Counsel. Employees must avoid any discussion with competitors of proprietary or confidential information, business plans or topics such as pricing or sales policies — the discussion of which could be viewed as an attempt to make joint rather than independent business decisions.

Gifts, Gratuities and Other Payments Related to Merrill Lynch Business. No Merrill Lynch person or member of their families may, directly or indirectly, accept or receive bonuses, fees, gifts, frequent or excessive entertainment, or any similar form of consideration that is of more than nominal value from any person or entity with which Merrill Lynch does, or seeks to do, business. It also is generally against corporate policy to give gifts or gratuities other than within accepted guidelines without receiving specific approval by the Office of General Counsel. Employees may not give gifts of any value to government officials without specific approval by the Office of General Counsel.

Merrill Lynch policy forbids bribes, payoffs or payments of any kind by any Merrill Lynch company or Merrill Lynch person to any person, government official or entity for the purpose of improperly obtaining or retaining business or influencing consideration of any business activity. This policy covers all types of payments that may or may not be considered legal under the circumstances. Special rules may apply to payments or gifts (including entertainment) to officers, directors, employees or other affiliates of government owned or controlled entities and certain highly regulated entities (such as banks or insurance companies), as well as entities located in certain jurisdictions. Please consult the *ML & Co. Policy Manual* and the Office of General Counsel with any specific questions.

RESPECT FOR THE INDIVIDUAL

Conduct business activities in an atmosphere of good faith and respect.

Merrill Lynch strives, on a personal level, to treat each individual with dignity, consideration and respect. All Merrill Lynch persons should be honest and fair with others, share the credit when credit is due, avoid public criticism of one another and encourage an atmosphere in which openness, cooperation and consultation are the norms. Internal relationships with fellow employees should be based on the same high standards of integrity and ethical responsibility that are observed with Merrill Lynch clients, shareholders and the public.

Merrill Lynch is committed to promoting diversity within our workforce; achieving it is an important competitive advantage in the global marketplace. Merrill Lynch has a strict policy of equal opportunity in hiring, developing, promoting and compensating employees. The company seeks to attract, retain and reward employees who perform their work to the highest standards, basing promotions on qualification and merit.

Discrimination is not tolerated on the grounds of race, national origin, religion, gender, age, disability, sexual orientation or veteran status. Just as we do not tolerate illegal discrimination in any form, we also do not tolerate illegal sexual or any other form of harassment at any level of our company. Employees who experience or observe work-related discrimination, harassment or similar problems are urged to report it to their department manager, a representative of Human Resources or the Office of General Counsel. They may also call the Ethics Hotline telephone number that appears at the end of this document.

Indebtedness between employees is best avoided and must not reach a level that may compromise the objectivity essential in manager-employee relationships or in the discharge of job-related responsibilities. Any indebtedness between employees and their direct or indirect supervisors (regardless of which one is borrower or lender) must be limited to nominal amounts.

All medical or health-related information obtained through the Merrill Lynch medical clinics, Employee Assistance Program or Wellness Program is considered strictly confidential and will only be released upon the informed consent of the individual employee whose records are being solicited or as required by law.

SAFEGUARDING MERRILL LYNCH INFORMATION, ASSETS AND PROPERTY

Protect all Merrill Lynch assets and use them appropriately.

Business Use. Merrill Lynch persons must protect Merrill Lynch's assets and ensure their efficient use. You may only use Merrill Lynch property for legitimate business purposes. Any suspected fraud or theft of Merrill Lynch property must be reported for investigation immediately. Merrill Lynch's assets include our capital, facilities, equipment, proprietary information, technology, business plans, ideas for new products and services, trade secrets, inventions, copyrightable materials and client lists. Information owned by Merrill Lynch must be treated with the same care as any other asset, and every Merrill Lynch person has a role in protecting its confidentiality and integrity.

Proprietary Information and Intellectual Property. Your obligation to protect Merrill Lynch's assets applies to our firm's proprietary information. Proprietary information includes business, marketing and service plans, unpublished financial data and reports, databases, customer information and salary and bonus information as well as intellectual property such as trade secrets, patents, trademarks and copyrights. Unauthorized use or distribution of this material is a violation of Merrill Lynch policy. It may also be illegal and result in civil and criminal penalties.

Intellectual property refers to a company's intangible assets, such as the company's business methods, inventions, trademarks and publications. All inventions and copyrightable material conceived by an employee within the scope of his or her employment are the exclusive property of Merrill Lynch and as a condition of continued employment the employee must do whatever is necessary to transfer to Merrill Lynch the technical ownership of such inventions or materials. All employees are required as a condition of their employment to disclose to Merrill Lynch all inventions and copyrightable materials that are conceived, developed or otherwise pursued by them during their employment.

It is the responsibility of every employee to protect Merrill Lynch's intellectual property by following the company's policies and procedures relating to its intellectual property as set forth in the *ML & Co. Policy Manual*. In addition, Merrill Lynch also respects the intellectual property of other parties. The unauthorized use of another party's patented, trademarked or copyrighted (audio, video, text) materials is strictly prohibited, regardless of their source. In addition, Merrill Lynch does not permit the use of software or other devices whose primary purpose is the circumvention or violation of another's intellectual property rights. Please contact the Corporate Law Group with questions about the proposed use of another party's intellectual property and for appropriate contracts.

Compliance with Internal Controls. Merrill Lynch maintains and enforces a strong, effective system of internal controls to safeguard and preserve the information and assets of our company, our clients and our shareholders. These controls are designed to ensure that business transactions are properly authorized and carried out, and that all reporting is truthful and accurate. These administrative and accounting control systems are the responsibility of each group in the Merrill Lynch organization.

All business transactions require authorization at an appropriate management level. Any employee who is responsible for the acquisition or disposition of assets for the company, or who is authorized to incur liabilities on the company's behalf, must act prudently in exercising this authority and must be careful not to exceed his or her authority. Equally important, every employee must help ensure that all business transactions are executed as authorized.

Transactions must be properly reflected on the company's books and records. Every employee is involved, if not in the authorization or execution of business transactions, in some level of reporting. This may include reporting travel and entertainment expenses or recording work hours on a timecard. It is important that all reporting be done honestly and accurately and that employees cooperate fully with both internal and independent audits.

COMPLIANCE WITH LAW

Know, respect and comply with all laws, rules and regulations applicable to

the conduct of Merrill Lynch's businesses.

Merrill Lynch actively promotes compliance with the laws, rules and regulations that govern our company's business. Obeying both the letter and spirit of the law is one of the foundations of Merrill Lynch's ethical standards. It is an essential element of our Merrill Lynch Principle of *Responsible Citizenship.*

Merrill Lynch employees must follow and obey the laws of all the states and countries where we operate. While no employee is expected to be an expert on every detail of all the laws that govern our business in every jurisdiction, you *are expected* to understand the laws and regulations applicable to your duties at Merrill Lynch and to understand the regulatory environment within which the firm operates well enough to know when to seek advice from your manager or from the Office of General Counsel.

Obligation to Report Violations. The *Guidelines* have been written to promote compliance with law. However, should compliance with the *Guidelines* bring you into conflict with applicable law in any jurisdiction where Merrill Lynch conducts its business, you must obey the law and notify your manager of the conflict as soon as possible. When you have questions or concerns about practices or policies that might violate the *Guidelines*, you must bring them to the attention of your manager, the Office of General Counsel or senior management, as appropriate.

If at any time you find yourself in a situation you believe is or may be a violation of Merrill Lynch policies, you must report the violation or what you believe or suspect is a possible violation. If you become aware that someone may be contemplating an action that would be a violation, please take steps to inform your manager or a member of the Office of General Counsel. In lieu of informing your manager or legal counsel directly of a violation or potential violation, you can access the Merrill Lynch Ethics Hotline, a confidential reporting tool. Specific information about the Ethics Hotline can be found at the end of the *Guidelines,* along with information on how to contact members of the Merrill Lynch Board of Directors and its Audit Committee.

Specific Policies and Regulations Affecting Merrill Lynch Activities. Merrill Lynch actively promotes compliance with the laws, rules and regulations that govern our firm's business. Merrill Lynch will report any suspicions of violations of law and regulations governing our business to appropriate regulatory and governmental authorities and take appropriate disciplinary action, including termination of employment.

Certain significant policies and regulations are highlighted below. This is not meant to be an exhaustive review of these policies and regulations, and additional information may be found in the *ML & Co. Policy Manual.* Nor does it constitute a complete listing of the laws, rules, regulations and policies that must be adhered to by every employee in the conduct of his or her duties at Merrill Lynch.

Employee Accounts. In accordance with industry regulations, Merrill Lynch employees and their immediate families must maintain their brokerage accounts at Merrill Lynch. Exceptions to this policy are rarely granted and must be approved by the employee's department manager and the Office of General Counsel.

Insider Trading. Merrill Lynch policy prohibits every Merrill Lynch person from acting upon material non-public information to benefit themselves or others. Information is "material" if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision, or it could reasonably be expected to affect the price of an issuer's securities.

At times, our policies may limit the ability of some employees to enter into transactions. Anyone with ongoing possession of non-public information may be unable to trade personally in the securities of the companies about which he or she has information. The *ML & Co. Policy Manual* and applicable Group Policies should be consulted to learn more about this obligation.

Those having access to confidential or nonpublic information must not use or share that information except in connection with the legitimate conduct of Merrill Lynch business. Merrill Lynch strives to prevent the misuse of material non-public information by, among other things, limiting access to confidential information and limiting and monitoring communications between Investment Banking and the company's sales, research and trading areas. In addition to civil and criminal penalties, misuse of confidential information or engaging in insider trading will result in disciplinary action, including termination.

<u>Money Laundering; Antiterrorism Laws</u>. Merrill Lynch complies fully with federal, state and international laws prohibiting money laundering and with the safeguards against terrorist activity contained in the USA Patriot Act.

Under no circumstances should any Merrill Lynch employee participate in any money laundering activity. In addition to severe criminal penalties, money laundering by Merrill Lynch employees and violations of the USA Patriot Act will result in disciplinary action, including termination. Any suspicious deposits or any other client activity that raises questions about the source of the client's funds should be reported immediately to your manager and the Office of General Counsel.

<u>Improper and Corrupt Payments; FCPA Violations</u>. The local laws in most countries outside the United States and the U.S. Foreign Corrupt Practices Act (FCPA) prohibit providing money or anything else of value to government officials, political parties or candidates for public office for the purpose of improperly influencing their actions in order to obtain or retain business. The FCPA applies to all Merrill Lynch controlled or managed companies around the world as well as to all Merrill Lynch persons, regardless of citizenship or residency. In addition, the local laws of countries in which Merrill Lynch does business must be honored.

Merrill Lynch is committed to full compliance with the FCPA and other anti-corruption or anti-bribery laws. If you suspect that any activity you are involved in may violate the FCPA or other anti-corruption laws, or if you become aware of such activity by any Merrill Lynch person, you must notify the Office of General Counsel immediately.

<u>Political Contributions by Merrill Lynch Companies</u>. Distinct rules govern political contributions made by Merrill Lynch and its subsidiaries and affiliates. In recent years, public concern about corporate payments and political contributions has risen significantly. Merrill Lynch's policies on corporate political contributions address these concerns. Generally, it is against Merrill Lynch policy and, in many instances, it is illegal to make corporate contributions to political parties or candidates for public office in any country. However, certain exceptions apply and, therefore, Merrill Lynch has adopted a procedure to obtain approvals. This process includes a determination of the legality and the appropriateness of each contribution. Employees should consult the *ML & Co. Policy Manual* for guidance.

Proper Record-Keeping and Disclosure Requirements. Merrill Lynch requires honest and accurate accounting and recording of financial and other information in order to make responsible business decisions and provide an accurate account of our company's performance to shareholders and regulators. It is a violation of law and Merrill Lynch policy for any Merrill Lynch person to attempt to improperly influence or mislead any accountant engaged in preparing our audit. Merrill Lynch is committed to full compliance with all requirements applicable to its public disclosures. Merrill Lynch requires that its financial and other reporting fairly present the financial condition, results of operations and cash flow of our company and that it comply in all respects with applicable law, governmental rules and regulations, including generally accepted accounting principles (GAAP) and applicable rules of the U.S. Securities and Exchange Commission (SEC) and other market and banking regulators.

Merrill Lynch has implemented disclosure controls and procedures (including a Disclosure Committee) to ensure that its public disclosures are timely, compliant and otherwise full, fair, accurate and understandable. All employees responsible for the preparation of Merrill Lynch's public disclosures, or who provide information as part of that process, have a responsibility to ensure that such disclosures and information are complete, accurate and in compliance with Merrill Lynch's disclosure controls and procedures.

Document Retention and Destruction. *Without exception, all employees must fully comply with Merrill Lynch's document retention and destruction policy.* It is a criminal offense to destroy documents that are subject to a subpoena or other legal process. Once a legal proceeding has begun, or even when one is threatened or reasonably likely, federal and state obstruction-of-justice statutes require Merrill Lynch to preserve documents relevant to the issues in that proceeding *even before* specific documents are requested. Any Merrill Lynch employee who fails to comply with this policy, as well as industry regulations and state and federal laws, is subject to termination and may also face criminal or civil prosecution, with possible fines and prison terms.

Cooperation With Investigations and Law Enforcement. It is Merrill Lynch policy to cooperate with government investigators and law enforcement officials. Every Merrill Lynch person must also cooperate with investigations by non-governmental regulators with oversight of our business, such as securities exchanges, as well as with internal Merrill Lynch investigations.

All inquiries or requests or demands for information from external investigators must be immediately referred to the Office of General Counsel. The Office of General Counsel must coordinate all responses to external investigators' questions. Failure to cooperate with legitimate investigations will result in disciplinary action, including termination.

Privacy. Merrill Lynch persons must comply with all applicable privacy laws in their handling of client matters and client and company records. You should refer any questions about the applicability of privacy laws to the Office of General Counsel.

Tied Business Dealings. "Tying" arrangements, where clients are required to purchase one product or service as a condition to another's being made available to them, are unlawful in certain instances. Consult the Office of General Counsel for advice about tying restrictions.

International Boycotts; Economic Sanctions. It is Merrill Lynch's policy, in compliance with U.S. laws, not to participate in boycotts against countries friendly to the United States. Furthermore, federal legislation makes knowing violations of its anti-boycott provisions a criminal offense.

Examples of activities that may be perceived as participating in a boycott include refusing, or requiring another person to refuse, to do business with a boycotted country, its business concerns, its residents, nationals or any other person.

Merrill Lynch policy requires compliance with economic sanctions imposed by the U.S. government, state and local governments, and the laws of every other country in which Merrill Lynch does business. Economic sanctions may affect business with individuals, corporations, governments and other entities. All employees are required to take appropriate steps to comply with economic sanctions, including being generally familiar with the various sanctions programs and taking adequate steps to ensure that they "know their client." In some instances, the laws of a jurisdiction may differ from the sanctions imposed by the U.S. government. In these situations, and particularly in situations where the laws conflict, the activities and/or accounts subject to the differing programs must be reviewed by the Office of General Counsel case by case.

MERRILL LYNCH WRITTEN AND ELECTRONIC COMMUNICATIONS

Use the company's information and communication tools properly and judiciously.

Merrill Lynch has strict policies on use of the Internet and on written and electronic communications.

Access to the Internet. Merrill Lynch has strict policies on Internet access. Only authorized connections are permitted and access to the Internet must be accomplished via an approved security gateway. Furthermore, Merrill Lynch employees are not permitted to link to the Internet from Merrill Lynch offices via modem dial-up services or other external service providers without the express approval of the Office of General Counsel. Additionally, employees should exercise good judgment when using the Internet during business hours for personal, non-business purposes.

Under the Policy on Electronic Communications contained in the *ML & Co. Policy Manual*, a Merrill Lynch employee may not do any of the following:

- transmit, copy or download any material, including sexually explicit images or messages and materials containing racial, ethnic or other slurs, that may defame, embarrass, threaten, offend or harm a Merrill Lynch person or client or the general public;

- transmit, post, copy or download any copyrightable material without the consent of the material's owner or publisher;

- transmit or post non-public corporate information about Merrill Lynch or any company to any organization or individual not authorized to receive or possess it;

- attempt to gain access to any computer, database or network without authorization or willfully propagate computer viruses or other disruptive or destructive programs;

- distribute unsolicited e-mail messages, advertisements or postings to multiple newsgroups, individuals or organizations (e.g., "spamming"); and

- use electronic means for the purpose of gambling or to send or forward chain letters.

No Merrill Lynch person may establish e-mail addresses or domain names that attempt to trade on, or are derived from, the Merrill Lynch name; if such use is identified, immediate relinquishment will be requested. Merrill Lynch employees should not register domain names on behalf of Merrill Lynch and may not establish Internet websites related to Merrill Lynch business without approval from their business unit head, Corporate Marketing and the Office of General Counsel. Approved Internet websites must follow the format and technical specifications provided by Corporate Marketing and must be reviewed by business unit counsel in the Office of General Counsel.

Employees are reminded to be sure that their system passwords are secure. Inappropriate conduct in respect of the usage of Merrill Lynch's communications systems will lead to disciplinary action, including revocation of privileges, immediate termination and referral to regulatory authorities.

Written and E-Mail Communications. Electronic communications should be treated with the same care as any other business communication. Any communication relating to Merrill Lynch business must be of an appropriate nature, must not violate the legal rights of Merrill Lynch, any Merrill Lynch person or third party, and must be transmitted, stored and accessed in a manner that safeguards confidentiality and complies with applicable law. All written communications, including those electronically delivered, should be clear, concise and professional in tone and content. Communications for personal, non-business purposes should be kept to a minimum.

Communications Monitoring. All electronic communications relating to Merrill Lynch business must be made through the Merrill Lynch network unless the Office of General Counsel has expressly authorized another means. Electronic communications, including connections to Internet and Intranet websites using Merrill Lynch computing or network resources, are the property of Merrill Lynch and are subject to monitoring and surveillance. Communications by certain Merrill Lynch personnel are subject to detailed supervisory requirements. Employees are reminded to consult the policies and procedures for their business area.

COMMITMENT TO PROMOTING ETHICAL CONDUCT:

ETHICS HOTLINE AND CONFIDENTIAL REPORTING

Promptly report illegal and unethical behavior.

Protecting the company's reputation is everyone's job. Every Merrill Lynch person has an obligation to question situations that may violate Merrill Lynch's standards of business conduct.

Audits, Investigations and Disciplinary Action. Merrill Lynch will conduct periodic audits of compliance with the *Guidelines*. Allegations of potential wrongdoing will be investigated and, upon the advice of the Office of General Counsel, will be reported to the Board of Directors (or an appropriate committee thereof) and to the relevant authorities. Knowingly false accusations of misconduct will be subject to disciplinary action. All Merrill Lynch persons are required to cooperate fully with any internal or external investigation. Merrill Lynch persons must also maintain the confidentiality of any investigation and related documentation, unless specifically authorized by the Office of General Counsel to disclose such information.

Appropriate disciplinary penalties for violations of the *Guidelines* may include counseling, reprimands, warnings, suspensions with or without pay, demotions, salary reductions and terminations. Disciplinary action may also extend to a violator's manager insofar as Merrill

Lynch determines that the violation involved the participation of the manager or reflected the manager's lack of diligence in enforcing compliance with the *Guidelines*. As set forth in more detail later in the *Guidelines*, any person who takes any action whatsoever in retaliation against any employee who has in good faith raised any question or concern about compliance with the *Guidelines* will be subject to serious sanctions, which may include termination.

Obligation to Report Violations or Misconduct. All Merrill Lynch persons are responsible for acting quickly and effectively against violations of the *Guidelines* and the policies and procedures established by Merrill Lynch. All employees having doubt about the best course of action in a particular situation are encouraged to speak to their manager, the legal counsel covering their business group or other appropriate personnel at any time. Directors may contact the Office of General Counsel or the Corporate Law Department for advice on any situation of concern to them.

Employees must report violations of law, rules, regulations and this Code of Ethics to their managers, the Office of General Counsel or senior management, as appropriate. If you are not comfortable raising an ethical issue or discussing a possible or actual violation with your manager, or you have done so and the manager has not responded to the problem, you must seek assistance elsewhere within Merrill Lynch.

Confidential Reporting. Merrill Lynch has procedures for raising ethical concerns, misconduct or violations in a confidential manner and without retribution, including concerns regarding internal accounting controls, questionable accounting or auditing matters. You may raise your concerns, suspicions or claims of violations *by writing* in confidence to the Merrill Lynch Ethics Hotline at the address below. The Audit Committee of the Board of Directors has established procedures for the receipt, retention and handling of concerns received by the Office of General Counsel regarding accounting, internal accounting controls, or auditing matters. *You need not disclose your identity.*

Merrill Lynch Ethics Hotline

P. O. Box 1008
New York, NY 10268

You may also anonymously report any of the above concerns or advise the firm of situations and violations of law that you know of or suspect *by calling* the Merrill Lynch Ethics Hotline:

In New York State and outside the U.S.: 1.212.449.9590

In the U.S. except for New York State: 1.800.338.8954

For Spanish-speaking individuals: 1.888.435.7088

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If you prefer to contact one or more members of the Board of Directors with your concerns or to relay specific information by direct and confidential access, you may contact the Corporate Law Group at:

Board of Directors of Merrill Lynch & Co., Inc.

c/o Corporate Secretary

Merrill Lynch & Co., Inc.

222 Broadway, 17th Floor
New York, New York 10038

You need not disclose your identity.

Protection Against Retribution. Merrill Lynch will not tolerate retaliation against those reporting a violation or possible violation of policy in good faith. As provided by law, Merrill Lynch is not permitted to fire, demote, suspend, harass or discriminate against any employee who lawfully provides information to, or otherwise assists or participates in, any investigation or proceeding by a U.S. regulatory or law enforcement agency, any member of the U.S. Congress or a Congressional committee or the employee's manager, relating to what the employee reasonably believes is a violation of the securities laws or an act of fraud. No Merrill Lynch person is permitted to take any such retaliatory action.

Waivers of any Provision of the **Guidelines.** Waivers will only be given when deemed absolutely appropriate under the circumstances and then strictly in accordance with the procedures established by the *Guidelines* and the *ML & Co. Policy Manual* and other policies. A waiver for any Merrill Lynch executive officer or member of the Board of Directors will only be granted by the Board of Directors or a committee thereof. Any such waiver granted by the Board of Directors will be promptly disclosed as required by law or stock exchange regulation.

CONCLUSION

Use good judgment.

These *Guidelines for Business Conduct* provide specific guidelines for ethical conduct in broad areas of concern. It would be impossible to describe every situation in which a Merrill Lynch person might be confronted with an ethical dilemma. Everyone must take the time to think about the ethical ramifications of questionable situations, bearing in mind that a bad ethical decision may lead to improper or even criminal behavior.

The Office of General Counsel is available to assist with business conduct and ethical issues that give you concern. Nevertheless, in many instances, you must rely on your own personal ethical standards in assessing difficult situations. Consider the following questions:

- Is the proposed action legal?
- Does it endanger anyone's financial stability, life, health or safety?
- Is it consistent with Merrill Lynch policy?
- Will it enhance the company's reputation?
- Would we lose clients if this action were known to them?
- Would you like to see it become a general industry or public practice?
- Would you be embarrassed if all the details were known by your manager, peers, subordinates, family or friends, or if they were published in a newspaper?
- Could this action in any way be interpreted as, or appear to be, inappropriate behavior?

- What would you think of your manager, peers or subordinates if any of them behaved similarly?

- Does the action you are considering make you feel uncomfortable? Are you compromising your own personal ethics in any way?

Merrill Lynch expects all Merrill Lynch persons to make a commitment to observe the highest ethical standards and exercise good judgment in all business dealings on behalf of the company.

Merrill Lynch Principles in Action

Integrity

No one's personal bottom line is more important than the reputation of our company.*At Merrill Lynch, our goal is to:*

- Exemplify the highest standards of personal and professional ethics in all aspects of our business.
- Be honest and open at all times.
- Stand up for one's convictions and accept responsibility for one's own mistakes.
- Comply fully with the letter and spirit of the laws, rules and practices that govern Merrill Lynch and its activities around the world.
- Demonstrate consistency between one's words and actions.

Respect for the Individual

We respect the dignity of each individual, whether an employee, shareholder, client or member of the general public.*At Merrill Lynch, our goal is to:*

- Treat everyone, regardless of level or circumstance, with dignity and respect.
- Demonstrate sensitivity to workloads and support an appropriate balance between work and personal life.
- Support an environment where people of different backgrounds can reach their fullest potential with equal access to opportunities.
- Foster an environment where trust and openness are the norms by discussing positions fairly and objectively and valuing contrary opinions.
- Strive to understand others and actively listen to their concerns and perceptions.
- Take time to explain issues and answer questions.
- Collaboratively resolve problems in a way that is respectful toward individuals.

Client Focus

The client is the driving force behind what we do.*At Merrill Lynch, our goal is to act in ways that help us to:*

- Understand the client by anticipating and responding to client needs.
- Fulfill client expectations without compromising the integrity of Merrill Lynch.
- Provide value-added advice and guidance by analyzing client needs and resolving issues.
- Provide the broadest range and highest quality of products and services, which are easy for clients to use.
- Develop and maintain long-term relationships by actively listening to clients in order to build trust and loyalty.
- Offer personal and individual service.
- Use the company's technology to best serve the changing needs of clients.
- Through teamwork, leverage our capabilities and resources to fully meet the needs of our clients.

Teamwork

We strive for seamless integration of services. In the client's eyes, there is only one Merrill Lynch*At Merrill Lynch, our goal is to act in ways that help us to:*

- Communicate and share information candidly and openly with each other.
- Cooperate and collaborate within and across workgroups and teams.
- Value individual differences in style, perspective and background.
- Share successes and failures so we can learn from each other to enhance group results.
- Take on responsibility for helping others by being dependable, reliable and contributing fully to the team.
- Recognize and reward individual and team accomplishments.
- Participate in setting and communicating goals, objectives and standards.
- Forge relationships with colleagues based on trust and respect, regardless of level.

Responsible Citizenship

We strive to improve the quality of life in the communities where our employees live and work*At Merrill Lynch, our goal is to act in ways that help us to:*

- Recognize, follow and respect all customs, norms and laws where Merrill Lynch conducts business.
- Foster an atmosphere that supports and encourages community involvement.
- Contribute time, talent and resources to make a difference in the lives of others.
- Behave responsibly toward our environment in a manner that protects human health, natural resources and the environment.