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

FORM 8-K

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

Date of Report (Date of earliest event reported): February 3, 2005

Merrill Lynch & Co., Inc.

(Exact Name of Registrant as Specified in its Charter)

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

4 World Financial Center, New York, New York	10080
(Address of Principal Executive Offices)	(Zip Code)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01. Other Events.

In the fourth quarter of 2004, Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. This restatement was not material in any period presented and resulted in a cumulative decrease to stockholders' equity of $66 million, or 0.2% as of December 26, 2003 of this amount, $60 million is related to periods prior to 2001. As a result:

(1) The excerpt of the Annual Report to Shareholders filed as Exhibit 13 to Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, as restated on a Form 8-K dated May 4, 2004, has been restated in Exhibit 99.1 hereto and the Selected Financial Data, Consolidated Financial Statements and Notes thereto, and Supplemental Financial Information contained therein are incorporated herein by reference;

(2) The Condensed Financial Information of Registrant Merrill Lynch & Co., Inc. (Parent Company Only) and the Notes thereto filed as pages F-2 to F-10 of Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, as restated on a Form 8-K dated May 4, 2004, have been restated in Exhibit 99.2 hereto and are incorporated herein by reference;

(3) The Statement re: computation of ratios filed as Exhibit 12 to Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, as restated on a Form 8-K dated May 4, 2004, has been restated in Exhibit 12 hereto and is incorporated herein by reference;

(4) The Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto filed as pages 4 to 29 of Merrill Lynch & Co., Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 26, 2004 have been restated in Exhibit 99.5 and are incorporated herein by reference;

(5) The Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto filed as pages 4 to 30 of Merrill Lynch & Co., Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 25, 2004 have been restated in Exhibit 99.6 and are incorporated herein by reference; and

(6) The Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto filed as pages 4 to 32 of Merrill Lynch & Co., Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 24, 2004 have been restated in Exhibit 99.7 and are incorporated herein by reference.

* * *

Merrill Lynch may make forward-looking statements, including, for example, statements about management expectations, strategic objectives, growth opportunities, business prospects, investment banking backlogs, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements are not statements of historical facts and represent only Merrill Lynch's beliefs regarding future performance, 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, financial market volatility, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks detailed in Merrill Lynch's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, which are available on the Merrill Lynch Investor Relations website at www.ir.ml.com and at the SEC's website, www.sec.gov. 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 statements are made. The reader should, however, consult any further disclosures Merrill Lynch may make in its reports on Form 10-K, Form 10-Q and Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

12 Statement re: computation of ratios.

15 Letter re: unaudited interim financial information.

23 Consent of Independent Auditors, Deloitte & Touche LLP.

99.1 Selected Financial Data, Consolidated Financial Statements and Notes thereto, and Supplemental Financial Information.

99.2 Condensed Financial Information of Registrant Merrill Lynch & Co., Inc. (Parent Company Only) and the Notes thereto.

99.3 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.

99.4 Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Item 8.01.

99.5 Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended March 26, 2004.

99.6 Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended June 25, 2004.

99.7 Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended September 24, 2004.

* * *

SIGNATURE

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

MERRILL LYNCH & CO., INC.
(Registrant)

By: /s/ Ahmass L. Fakahany
Ahmass L. Fakahany
Executive Vice President and
Chief Financial Officer

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

Date: February 3, 2005

EXHIBIT INDEX

Exhibit No.	Description
12	Statement re: computation of ratios.
15	Letter re: unaudited interim financial information.
23	Consent of Independent Auditors, Deloitte & Touche LLP.
99.1	Selected Financial Data, Consolidated Financial Statements and Notes thereto, and Supplemental Financial Information.
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99.3	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.
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99.5	Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended March 26, 2004.
99.6	Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended June 25, 2004.
99.7	Condensed Consolidated Financial Statements of Registrant Merrill Lynch & Co., Inc. and the Notes thereto for the quarterly period ended September 24, 2004.

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) [1][2]

	Year Ended Last Friday in December				
	2003 (52 weeks)	2002 (52 weeks)	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)
Pre-tax earnings (loss)[3]	$ 5,040	$ 2,343	$ (228)	$ 4,994	$ 3,573
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	7,989	10,045	17,328	18,538	13,464
Pre-tax earnings before fixed charges	13,029	12,388	17,100	23,532	17,037
Fixed charges:					
Interest	7,796	9,839	17,074	18,283	13,217
Other[4]	193	206	260	274	262
Total fixed charges	7,989	10,045	17,334	18,557	13,479
Preferred stock dividend requirements	52	52	54	55	57
Total combined fixed charges and preferred stock dividends	$ 8,041	$ 10,097	$ 17,388	$ 18,612	$ 13,536
Ratio of earnings to fixed charges	**1.63**	**1.23**	**0.99**[5]	**1.27**	**1.26**
Ratio of earnings to combined fixed charges and preferred stock dividends	**1.62**	**1.23**	**0.98**[5]	**1.26**	**1.26**

(1) Amounts have been restated as per Note 1 to the consolidated financial statements.
(2) Amounts have been restated as per Note 2 to the consolidated financial statements.
(3) Excludes undistributed earnings (loss) from equity investees.
(4) Other fixed charges consists of the interest factor in rentals, amortization of debt issuance costs, preferred security dividend requirements of subsidiaries, and capitalized interest.
(5) Earnings were insufficient to cover fixed charges and fixed charges and preferred dividend requirements by $234 million and $288 million, respectively.

Exhibit 15

February 3, 2005

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

We have made reviews, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim condensed consolidated financial information of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of March 26, 2004 and for the three-month periods ended March 26, 2004 and March 28, 2003, as of June 25, 2004 and for the three-month and six-month periods ended June 25, 2004 and June 27, 2003, and as of September 24, 2004 and for the three-month and nine-month periods ended September 24, 2004 and September 26, 2003, as indicated in our reports dated May 4, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the restated unaudited interim condensed consolidated financial statements), August 2, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the restated unaudited interim condensed consolidated financial statements) and November 1, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the restated unaudited interim condensed consolidated financial statements), respectively; because we did not perform audits, we expressed no opinions on that information.

We are aware that our reports referred to above, which are included in this Current Report on Form 8-K dated February 3, 2005 are incorporated by reference in the following Registration Statements:

Filed on Form S-8

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937

Registration Statement No. 333-105098

Registration Statement No. 333-109802

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

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

/s/ Deloitte & Touche LLP

New York, New York

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") of our reports dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements) (which express unqualified opinions and which report on the consolidated financial statements includes explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees), appearing in and incorporated by reference in this Current Report on Form 8-K, dated February 3, 2005 of Merrill Lynch containing restated consolidated financial statements as of December 26, 2003 and for each of the three years in the period ended December 26, 2003.

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Registration Statement No. 333-105098

Registration Statement No. 333-109802

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:

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Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

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Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

/s/ Deloitte & Touche LLP

New York, New York
February 3, 2005

Exhibit 99.1

Selected Financial Data[1][2]

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December				
	2003	2002	2001	2000	1999
Results of Operations					
Total Revenues	$ 27,783	$ 28,305	$ 38,785	$ 44,886	$ 35,366
Less Interest Expense	7,818	9,872	17,108	18,317	13,249
Net Revenues	19,965	18,433	21,677	26,569	22,117
Non-Interest Expenses	14,745	16,121	21,918	21,578	18,541
Earnings (Loss) Before Income Taxes	5,220	2,312	(241)	4,991	3,576
Income Tax Expense	1,384	604	99	1,548	1,164
Net Earnings (Loss)	$ 3,836	$ 1,708	$ (340)	$ 3,443	$ 2,412
Net Earnings (Loss) Applicable to Common Stockholders[3]	$ 3,797	$ 1,670	$ (378)	$ 3,408	$ 2,374
Financial Position					
Total Assets	$496,359	$451,419	$437,083	$424,760	$328,092
Short-Term Borrowings[4]	$191,676	$180,213	$178,155	$187,176	$115,707
Long-Term Borrowings	$ 83,299	$ 78,524	$ 76,572	$ 70,223	$ 54,043
Long-Term debt issued to TOPrS^{SM} partnerships	$ 3,203	$ 3,189	$ 3,181	$ 3,193	$ 3,206
Total Stockholders' Equity	$ 28,884	$ 24,081	$ 20,787	$ 18,619	$ 13,186
Common Share Data[5]					
(in thousands, except per share amounts)					
Earnings (Loss) Per Share:					
Basic	$ 4.22	$ 1.94	$ (0.45)	$ 4.26	$ 3.15
Diluted	$ 3.88	$ 1.77	$ (0.45)	$ 3.74	$ 2.80
Weighted-Average Shares Outstanding:					
Basic	900,711	862,318	838,683	798,273	754,672
Diluted	977,789	944,299	838,683	909,124	848,891
Shares Outstanding at Year End[6]	945,911	867,291	843,474	807,955	752,501
Book Value Per Share	$ 29.96	$ 27.07	$ 23.95	$ 22.34	$ 16.73
Dividends Paid Per Share	$ 0.64	$ 0.64	$ 0.64	$ 0.61	$ 0.53
Financial Ratios					
Pre-tax Profit Margin[7]	26.1%	12.5%	N/M	18.8%	16.2%
Common Dividend Payout Ratio	15.2%	33.0%	N/M	14.3%	16.8%
Return on Average Assets	0.8%	0.4%	N/M	1.0%	0.7%
Return on Average Common Stockholders' Equity	14.8%	7.5%	N/M	21.7%	22.9%
Other Statistics					
Full-Time Employees:					
U.S.	38,200	40,000	43,400	51,700	49,700
Non-U.S.	9,900	10,900	13,700	19,900	18,200
Total [8]	48,100	50,900	57,100	71,600	67,900
Private Client Financial Advisors	13,500	14,000	16,400	20,200	18,600
Client Assets *(dollars in billions)*	$ 1,484	$ 1,311	$ 1,556	$ 1,681	$ 1,696

(1)Amounts have been restated as per Note 1 to the consolidated financial statements.
(2)Amounts have been restated as per Note 2 to the consolidated financial statements.
(3)Net earnings less preferred stock dividends.
(4)Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Deposits.

(5)All share and per share data have been restated for the two-for-one common stock split paid in August 2000 (see Note 12 to the Consolidated Financial Statements).
(6)Does not include 2,900; 3,911; 4,195; 4,654; and 8,019 shares exchangeable into common stock (see Note 12 to the Consolidated Financial Statements) at year-end 2003, 2002, 2001, 2000, and 1999, respectively.
(7)Earnings before income taxes and dividends on Preferred securities issued by subsidiaries to Net revenues.
(8)Excludes 200; 1,500; and 3,500 full-time employees on salary continuation severance at year-end 2003, 2002 and 2001, respectively.

Consolidated Statements of Earnings

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December		
	2003[(a)]	2002[(a)]	2001[(a)]
Net Revenues			
Asset management and portfolio service fees	$ 4,698	$ 4,911	$ 5,344
Commissions	4,396	4,657	5,266
Principal transactions	3,236	2,331	3,930
Investment banking	2,628	2,413	3,539
Other	1,143	783	560
	16,101	15,095	18,639
Interest and dividend revenues	11,682	13,210	20,146
Less interest expense	7,818	9,872	17,108
Net interest profit	3,864	3,338	3,038
Total Net Revenues	19,965	18,433	21,677
Non-Interest Expenses			
Compensation and benefits	9,810	10,677	12,685
Communications and technology	1,457	1,741	2,232
Occupancy and related depreciation	889	909	1,077
Brokerage, clearing, and exchange fees	722	727	895
Advertising and market development	429	540	703
Professional fees	581	552	545
Office supplies and postage	197	258	349
Goodwill amortization	–	–	207
Other	787	630	901
Net (recoveries) expenses related to September 11	(147)	(212)	131
Net restructuring and other charges	20	8	2,193
Research and other settlement-related expenses	–	291	–
Total Non-Interest Expenses	14,745	16,121	21,918
Earnings (Loss) Before Income Taxes	5,220	2,312	(241)
Income Tax Expense	1,384	604	99
Net Earnings (Loss)	$ 3,836	$ 1,708	$ (340)
Net Earnings (Loss) Applicable to Common Stockholders	$ 3,797	$ 1,670	$ (378)
Earnings (Loss) Per Common Share			
Basic	$ 4.22	$ 1.94	$ (0.45)
Diluted	$ 3.88	$ 1.77	$ (0.45)

(a)Amounts have been restated as discussed in Note 1 and Note 2 to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	Dec. 26, 2003[a]	Dec. 27, 2002[a]
Assets		
Cash and cash equivalents	$ 10,150	$ 10,211
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	15,171	7,375
Securities financing transactions		
Receivables under resale agreements	71,756	71,338
Receivables under securities borrowed transactions	45,472	45,543
	117,228	116,881
Trading assets, at fair value *(includes securities pledged as collateral of $23,146 in 2003 and $11,344 in 2002)*		
Contractual agreements	37,196	38,728
Equities and convertible debentures	23,170	13,530
Corporate debt and preferred stock	22,459	18,569
Mortgages, mortgage-backed, and asset-backed securities	20,508	14,987
Non-U.S. governments and agencies	15,991	10,095
U.S. Government and agencies	10,408	10,116
Municipals and money markets	4,577	5,535
	134,309	111,560
Investment securities *(includes securities pledged as collateral of $6,608 in 2003 and $0 in 2002)*	74,809	82,327
Securities received as collateral	9,156	3,693
Other receivables		
Customers *(net of allowance for doubtful accounts of $60 in 2003 and $79 in 2002)*	36,955	35,317
Brokers and dealers	7,346	8,485
Interest and other	11,187	11,715
	55,488	55,517
Loans, notes, and mortgages *(net of allowance for loan losses of $318 in 2003 and $285 in 2002)*	50,993	38,833
Separate accounts assets	17,034	13,042
Equipment and facilities *(net of accumulated depreciation and amortization of $5,054 in 2003 and $4,671 in 2002)*	2,612	3,080
Goodwill	4,814	4,446
Other assets	4,595	4,454
Total Assets	$ 496,359	$ 451,419

Consolidated Balance Sheets

(dollars in millions, except per share amounts)

	Dec. 26, 2003(a)	Dec. 27, 2002(a)
Liabilities		
Securities financing transactions		
Payables under repurchase agreements	$ 96,138	$ 85,378
Payables under securities loaned transactions	11,081	7,640
	107,219	93,018
Commercial paper and other short-term borrowings	5,000	5,353
Deposits	79,457	81,842
Trading liabilities, at fair value		
Contractual agreements	43,353	45,202
U.S. Government and agencies	15,323	14,678
Non-U.S. governments and agencies	12,066	7,952
Equities and convertible debentures	10,793	4,864
Corporate debt, municipals and preferred stock	7,798	6,500
	89,333	79,196
Obligation to return securities received as collateral	9,156	3,693
Other payables		
Customers	28,859	28,569
Brokers and dealers	19,109	16,541
Interest and other	22,453	20,805
	70,421	65,915
Liabilities of insurance subsidiaries	3,353	3,566
Separate accounts liabilities	17,034	13,042
Long-term borrowings	83,299	78,524
Long-term debt issued to TOPrS[SM] partnerships	3,203	3,189
Total Liabilities	467,475	427,338
Stockholders' Equity		
Preferred Stockholders' Equity *(42,500 shares issued and outstanding and liquidation preference $10,000 per share)*	425	425
Common Stockholders' Equity		
Shares exchangeable into common stock	43	58
Common stock *(par value $1.331/3 per share; authorized: 3,000,000,000 shares;*		
issued: 2003 — 1,063,205,274 shares and 2002 — 983,502,078 shares)	1,417	1,311
Paid-in capital	10,676	9,102
Accumulated other comprehensive loss (net of tax)	(551)	(570)
Retained earnings	18,692	15,491
	30,277	25,392
Less: Treasury stock, at *cost (2003 — 117,294,392 shares; 2002 — 116,211,158 shares)*	1,195	961
Unamortized employee stock grants	623	775
Total Common Stockholders' Equity	28,459	23,656
Total Stockholders' Equity	28,884	24,081
Total Liabilities and Stockholders' Equity	$ 496,359	$ 451,419

(a)Amounts have been restated as discussed in Note 1 and Note 2 to the consolidated financial statements.
See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2003[a]	2002[a]	2001[a]	2003	2002	2001
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	58	62	68	3,911,041	4,195,407	4,654,378
Exchanges	(15)	(4)	(6)	(1,011,118)	(284,366)	(458,971)
Balance, end of year	43	58	62	2,899,923	3,911,041	4,195,407
Common Stock						
Balance, beginning of year	1,311	1,283	1,283	983,502,078	962,533,498	962,533,498
Shares issued to employees	106	28	–	79,703,196	20,968,580	–
Balance, end of year	1,417	1,311	1,283	1,063,205,274	983,502,078	962,533,498
Paid-in Capital						
Balance, beginning of year	9,102	6,764	4,022			
Employee stock plan activity	1,574	2,338	2,742			
Balance, end of year	10,676	9,102	6,764			
Accumulated Other Comprehensive Loss						
Foreign Currency Translation Adjustment (net of tax)						
Balance, beginning of year	(320)	(302)	(309)			
Translation adjustment	19	(18)	7			
Balance, end of year	(301)	(320)	(302)			
Net Unrealized Gains (Losses) on Available-for-Sale Securities (net of tax)						
Balance, beginning of year	(145)	(92)	(36)			
Net unrealized gains (losses) on available-for-sale	27	(58)	(70)			
Other adjustments[b]	7	5	14			
Balance, end of year	(111)	(145)	(92)			
Deferred Gains on Cash Flow Hedges (net of tax)						
Balance, beginning of year	20	36	–			
Net deferred gains on cash flow hedges	43	104	41			
Reclassification adjustment to earnings	(52)	(120)	(5)			
Balance, end of year	11	20	36			
Minimum Pension Liability (net of tax)						
Balance, beginning of year	(125)	(10)	–			
Net minimum pension liability adjustment	(25)	(115)	(10)			
Balance, end of year	(150)	(125)	(10)			
Balance, end of year	(551)	(570)	(368)			
Retained Earnings						
Balance, beginning of year	15,491	14,374	15,293			
Net earnings	3,836	1,708	(340)			
9% Cumulative Preferred stock dividends declared	(39)	(38)	(38)			
Common stock dividends declared	(596)	(553)	(541)			
Balance, end of year	18,692	15,491	14,374			
Treasury Stock, at cost						
Balance, beginning of year	(961)	(977)	(1,273)	(116,211,158)	(119,059,651)	(154,578,945)
Shares issued to (reacquired from) employees[c]	(273)	(12)	291	(2,094,352)	2,564,127	35,060,323
Share exchanges	39	28	5	1,011,118	284,366	458,971
Balance, end of year	(1,195)	(961)	(977)	(117,294,392)	(116,211,158)	(119,059,651)

(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2003[(a)]	**2002[(a)]**	**2001[(a)]**	**2003**	**2002**	**2001**
Unamortized Employee Stock Grants						
Balance, beginning of year	(775)	(776)	(853)			
Net issuance of employee stock grants	(440)	(697)	(720)			
Amortization of employee stock grants	592	697	797			
Other	–	1	–			
Balance, end of year	(623)	(775)	(776)			
Total Common Stockholders' Equity	**28,459**	**23,656**	**20,362**			
Total Stockholders' Equity	**$28,884**	**$24,081**	**$20,787**			

(a) Amounts have been restated as discussed in Note 1 and Note 2 to the consolidated financial statements.

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

(c) Share amounts are net of reacquisitions from employees of 8,355,168; 2,664,083; and 4,756,694 in 2003, 2002 and 2001, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(dollars in millions)

	Year Ended Last Friday in December		
	2003[a]	2002[a]	2001[a]
Net Earnings (Loss)	$ 3,836	$ 1,708	$ (340)
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment:			
Foreign currency translation gains (losses)	(392)	(263)	127
Income tax (expense) benefit	411	245	(120)
Total	19	(18)	7
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	598	213	(51)
Reclassification adjustment for realized gains included in net earnings	(571)	(271)	(19)
Net unrealized gains (losses) on investment securities available-for-sale	27	(58)	(70)
Adjustments for:			
Policyholder liabilities	8	(16)	(10)
Deferred policy acquisition costs	(1)	1	(13)
Income tax (expense) benefit	–	20	37
Total	34	(53)	(56)
Deferred gain (loss) on cash flow hedges			
Deferred gain on cash flow hedges	37	94	65
Income tax (expense) benefit	6	10	(24)
Reclassification adjustment to earnings	(52)	(120)	(5)
Total	(9)	(16)	36
Minimum pension liability			
Minimum pension liability adjustment	(38)	(168)	(10)
Income tax benefit	13	53	–
Total	(25)	(115)	(10)
Total Other Comprehensive Income (Loss)	19	(202)	(23)
Comprehensive Income (Loss)	$ 3,855	$ 1,506	$ (363)

(a) Amounts have been restated as discussed in Note 1 and Note 2 to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(dollars in millions)

	Year Ended Last Friday in December		
	2003[1]	**2002[1]**	**2001[1]**
Cash Flows from Operating Activities			
Net Earnings (Loss)	$ 3,836	$ 1,708	$ (340)
Noncash items included in earnings:			
Depreciation and amortization	570	652	888
Stock compensation plan expense	832	1,947	2,212
Deferred taxes	359	(348)	(1,239)
Policyholder reserves	156	168	183
Goodwill amortization	–	–	207
Restructuring and other charges	20	8	491
Undistributed (earnings) loss from equity investments	(179)	31	13
Other	(48)	101	(85)
Changes in operating assets and liabilities[a]:			
Trading assets	(22,890)	(7,280)	(4,378)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(1,217)	(2,908)	1,625
Receivables under resale agreements	(406)	(5,100)	11,672
Receivables under securities borrowed transactions	71	9,387	(19,589)
Customer receivables	(1,619)	4,533	1,741
Brokers and dealers receivables	1,139	(1,617)	19,553
Trading liabilities	9,553	3,279	7,060
Payables under repurchase agreements	10,760	10,474	(15,006)
Payables under securities loaned transactions	3,441	(4,651)	(1,691)
Customer payables	290	(135)	3,942
Brokers and dealers payables	2,568	4,609	2,418
Other, net	2,248	5,089	(1,128)
Cash Provided by Operating Activities	9,484	19,947	8,549
Cash Flows from Investing Activities			
Proceeds from (payments for):			
Maturities of available-for-sale securities	31,345	37,891	33,135
Sales of available-for-sale securities	56,448	36,697	14,138
Purchases of available-for-sale securities	(81,639)	(71,183)	(76,201)
Maturities of held-to-maturity securities	1,541	206	811
Purchases of held-to-maturity securities	(1,479)	(303)	(757)
Loans, notes, and mortgages	(12,625)	(15,716)	(4,324)
Proceeds from sale of business	–	–	344
Other investments and other assets	(3,623)	(1,684)	(814)
Equipment and facilities	(102)	(860)	(663)
Cash Used for Investing Activities	(10,134)	(14,952)	(34,331)
Cash Flows from Financing Activities			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(353)	212	(10,042)
Deposits	(2,385)	(3,977)	18,171
Issuance and resale of long-term borrowings	29,139	25,493	38,781
Settlement and repurchase of long-term borrowings	(26,455)	(27,232)	(32,827)
Derivative financing transactions	584	–	–
Issuance of common stock	612	289	–
Issuance of treasury stock	12	6	515
Other common stock transactions	69	(54)	(372)
Dividends	(634)	(591)	(579)
Cash Provided by (used for) Financing Activities	589	(5,854)	13,647
Decrease in Cash and Cash Equivalents	(61)	(859)	(12,135)
Cash and Cash Equivalents, beginning of year	10,211	11,070	23,205

(dollars in millions)

	Year Ended Last Friday in December		
	2003[1]	**2002[1]**	**2001[1]**
Cash and Cash Equivalents, end of year	$10,150	$10,211	$11,070

(a) Net of effects of acquisitions and divestitures.

Supplemental Disclosures			
Cash paid for:			
Income taxes	$205	$861	$887
Interest	7,691	10,116	17,738

(1) Amounts have been restated as discussed in Note 1 and Note 2 to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

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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 ("MLIB"), a U.K.-based bank;
- Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Ireland-based bank;

- 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 advisory services (including mergers and acquisitions), and other corporate finance 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, settlement financing services and prime brokerage;
- 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 and annuities sales and annuity underwriting services; and
- investment advisory and related record-keeping 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. In certain cases, Merrill Lynch subsidiaries (i.e., Variable Interest Entities ("VIEs")) may also be consolidated based on a risks and rewards approach as required by Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") and the revised Interpretation ("FIN 46R"). See Note 8 to the Consolidated Financial Statements for further discussion regarding the consolidation of VIEs.

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 activities 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
• cash flow projections used in determining whether variable interest entities should be consolidated; 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 certain 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 results of operations reported 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 OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. 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 and future earnings potential of the legal entities to which the deferred tax assets are attributable as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. See Note 16 to the Consolidated Financial Statements for further discussion of income taxes.

Valuation of Loans and Allowance for Loan Losses

The fair value of loans made in connection with commercial lending activity, 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.

Insurance Reserves and Deferred Acquisition Costs Relating to Insurance Policies

Merrill Lynch records reserves related to life insurance, annuity products and other universal life type contracts. Included in these reserves is a mortality reserve that approximates the long-term cost of the associated guaranteed benefits within the contract. The estimate of long-term cost is based on historical experience.

Merrill Lynch records deferred insurance policy acquisition costs that 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 or minimum 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.

Variable Interest Entities ("VIEs")

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and quantitative analysis of a VIE to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. It should also be noted that although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required.

Fair Value

At December 26, 2003, $439 billion, or 89%, of Merrill Lynch's total assets and $446 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 27, 2002, $400 billion, or 89%, of Merrill Lynch's total assets and $407 billion, or 95%, 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, securities received as collateral and obligation to return securities received as collateral, 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 offset 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 an asset,

representing the securities received (securities received as collateral) and a liability, representing the obligation to return those securities (obligation to return securities received as collateral).

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 assets and liabilities 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 certain trading assets and liabilities 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).

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. (See section below for additional information regarding the valuation of derivatives). 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.

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

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. 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

Merrill Lynch also enters into derivatives in a non-dealing capacity, in order 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 foreign-exchange forward contracts, foreign-exchange options, 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.

Derivatives entered into by Merrill Lynch in a non-dealing capacity used to hedge its funding, marketable investment securities and 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 26, 2003 and December 27, 2002.

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). 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
2) A hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). 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)
3) A hedge of a net investment in a foreign operation. 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.

Merrill Lynch 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.

As noted above, Merrill Lynch 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 2003 and 2002, 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 2003 or 2002.

For the years ended 2003 and 2002, respectively, $527 million and $362 million of net losses 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 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 26, 2003 are expected to be reclassified into earnings over the next four years. The amount of ineffectiveness related to these hedges reported in earnings was not material.

Embedded Derivatives

Merrill Lynch issues debt and Certificates of Deposit 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 obligations may meet the definition of an “embedded derivative.” These 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 or deposits on the Consolidated Balance Sheets along with the debt obligation; changes in the fair value of the embedded derivative and related hedges are reported in interest expense. Separating an embedded derivative from its host contract requires careful analysis, judgment, and an understanding of the terms and conditions of the instrument. 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 principal transactions revenues.

Derivatives that contain a significant financing element

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. In accordance with SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, certain derivative instruments entered into or modified after June 30, 2003 that contain a significant financing element at inception and where Merrill Lynch is deemed the borrower, are now included in financing activities in the Consolidated Statements of Cash Flows. Prior to July 1, 2003, the activity associated with such derivative instruments is included in operating activities in the Consolidated Statements of Cash Flows. In addition, the cash flows from all other derivative transactions that do not contain a significant financing element at inception are included in operating activities.

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.

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 that 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.

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.

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. For purposes of computing realized gains and losses, the cost basis of each investment sold is generally based on the average cost method.

To the extent that Merrill Lynch enters into interest rate swaps to hedge the interest rate exposure of certain investment securities, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the investment security are recorded in current period earnings as interest revenue or expense. Refer to the Derivatives section for additional information.

Investments of Insurance Subsidiaries and Related Liabilities

Insurance liabilities are future benefits payable under annuity and life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts that 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 that are of a longer-term nature than trading inventory and are held for strategic purposes. These investments are 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 by 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. In 2003, certain of the investments that had been held by a regulated broker-dealer were sold to a non-broker-dealer subsidiary and are now carried at the lower of cost or net realizable value.
- Private equity investments held by non-broker-dealer subsidiaries which are 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. Certain of Merrill Lynch’s investments that are accounted for under the equity method require management to make certain estimates in determining the allocation of its cost basis to the underlying assets. Gains and losses on these investments are reported in other revenues.
- Investments economically hedging deferred compensation liabilities which are carried at fair value, with gains and losses reported in earnings.
- TOPrS[SM] – related investments.

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 redemption. 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 other than those 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 all 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. The separate account assets are not subject to general claims of Merrill Lynch. 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 $209 million, $204 million, and $245 million in 2003, 2002, and 2001, respectively. Depreciation and amortization recognized in the communications and technology expense category was $361 million, $448 million, and $643 million, for 2003, 2002, and 2001, 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 2002, Merrill Lynch adopted SFAS No. 142, Goodwill and Other Intangible Assets. 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 has reviewed its 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 has been recognized. The majority of the goodwill, and related accumulated amortization, is denominated in sterling, and as a result has changed from 2002 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. Accumulated amortization of goodwill amounted to $1,039 million and $984 million at year-end 2003 and 2002, respectively.

Other Assets

Other assets consist 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 14 to the Consolidated Financial Statements for further information.

In addition, real estate purchased for investment purposes is also included in this category. Real estate held in this category may be classified as either held and used or held for sale depending on the facts and circumstances. Real estate held and used is valued at cost, less depreciation, and real estate held for sale is valued at the lower of cost or fair value, less cost to sell.

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 is a significant issuer of debt whose coupons or repayment terms are linked to the performance of equity or other indices, or a basket of securities. These debt instruments must be separated into a debt host and an embedded derivative if the derivative is not considered clearly and closely related under the criteria established in SFAS No. 133. Embedded derivatives are recorded at fair value and changes in fair value are reflected in the income statement. See the Embedded Derivatives section above for additional information.

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 fair value method in SFAS No. 123, Accounting for Stock-Based Compensation. Under the fair value recognition provisions of SFAS 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. For the years 2003, 2002, and 2001, $996 million, ($638 million after-tax), $2,072 million ($1,330 million after-tax), and $2,148 million ($1,378 million after-tax), respectively, of pre-tax compensation expense related to employee stock compensation awards was recorded in earnings. See Note 2 and Note 15 to the Consolidated Financial Statements for additional disclosures related to stock-based compensation.

Employee stock-based awards 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 during which such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. See Note 16 to the Consolidated Financial Statements for further information.

New Accounting Pronouncements

On January 12, 2004, the FASB issued a final FASB Staff Position ("FSP") FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. On December 8, 2003, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("the Act"), which expanded Medicare to include prescription drug coverage. FSP FAS 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to

make a one-time election to defer accounting for the effects of the Act. Merrill Lynch has elected to defer accounting for the effects of the Act, and as a result any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the plan. Furthermore, specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require Merrill Lynch to change previously reported information. Merrill Lynch will assess the impact on the Consolidated Financial Statements when the final guidance is issued. FSP FAS 106-1 is effective for interim or annual financial statements of fiscal years ending after December 7, 2003.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The new disclosures are effective for financial statements of annual periods ending after December 15, 2003. However, the revised SFAS No. 132 provides that disclosures of information about foreign plans and estimated future benefit payments shall be effective for fiscal years ending after June 15, 2004. See Note 14 to the Consolidated Financial Statements for these disclosures.

In December of 2003, the AICPA issued Statement of Position ("SOP") 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 addresses accounting for differences between contractual cash flows and expected cash flows in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 limits the yield that may be accreted ("accretable yield") to the expected cash flows at acquisition and requires that the difference between contractual cash flows and expected cash flows ("non-accretable difference") not be recognized as either an adjustment of yield, loss accrual, or valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and non-accretable difference in the balance sheet and prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. In addition, SOP 03-3 requires that subsequent increases in expected cash flows be recognized prospectively through adjustment of the yield over the remaining life with decreases in expected cash flows recognized as impairment. SOP 03-3 is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004. Merrill Lynch will adopt SOP 03-3 at the beginning of fiscal year 2005, and is currently assessing the potential impact on the Consolidated Financial Statements.

In November of 2003, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, as it relates to disclosures for SFAS 115 securities. In addition to the disclosures already required by SFAS 115, EITF Issue 03-01 requires both quantitative and qualitative disclosures for marketable equity and debt securities. The new disclosure requirements are required to be applied to financial statements for fiscal years ending after December 15, 2003. See Note 6 to the Consolidated Financial Statements for these disclosures.

On July 7, 2003, the AICPA issued SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. The SOP is effective for financial statements for Merrill Lynch beginning in 2004. The SOP requires 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. The adoption of SOP 03-1 will result in an additional $45 million of pre-tax expense at the beginning of fiscal year 2004.

On May 15, 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting for certain financial instruments, including mandatorily redeemable preferred stock and certain freestanding equity derivatives, which under previous guidance were accounted for as equity. SFAS No. 150 requires that most mandatorily redeemable preferred shares, written put options and physically settled forward purchase contracts on an issuer's shares, and certain financial instruments that must be settled by issuing a variable number of an issuer's shares, be classified as liabilities in the Consolidated Balance Sheets. SFAS No. 150 became effective for all new instruments issued or modified after May 31, 2003 and to all other pre-existing instruments beginning in the

third quarter of this year. The adoption of SFAS No. 150 did not have a material impact on the Consolidated Financial Statements.

On April 30, 2003, the FASB issued SFAS No. 149, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Beginning in the third quarter of 2003, in accordance with SFAS No. 149, Merrill Lynch modified its classification within the Consolidated Statement of Cash Flows. Certain derivative instruments entered into or modified after June 30, 2003, that have been determined to contain a financing element at inception, where Merrill Lynch is deemed the borrower, are now included as a separate component within cash flows from financing activities. Prior to July 1, 2003, the activity associated with such derivative instruments is included within cash flows from operating activities. The adoption of SFAS No. 149 did not have a material impact on the Consolidated Financial Statements.

On January 17, 2003, the FASB issued FIN 46, which clarifies when an entity should consolidate another entity known as 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, 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 qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. Merrill Lynch adopted FIN 46 on February 1, 2003 for VIEs with which it became involved after January 31, 2003. On October 8, 2003, the FASB deferred the effective date for pre-existing VIEs, and on December 24, 2003, the FASB issued a revision to FIN 46. Companies are required to adopt either FIN 46 or FIN 46R on an entity-by- entity basis for periods ending after December 15, 2003. As a result, Merrill Lynch has adopted FIN 46R as the method used for evaluating whether or not VIEs must be consolidated. In addition, in the first quarter of 2004, Merrill Lynch adopted FIN 46R for the VIEs that issue Trust Originated Preferred Securities^SM ("TOPrS^SM"), which resulted in these entities being deconsolidated and the dividends related to the TOPrS^SM being reclassified from dividends on preferred securities issued by subsidiaries to net revenues (primarily interest expense). The debt and partnership interests related to the entities are now included in the Consolidated Balance Sheets as Long-term debt issued to TOPrS^SM partnerships and Investment securities, respectively. All prior periods have been restated to reflect the deconsolidation of the TOPrS^SM entities and the deconsolidation of TOPrS^SM did not have a material impact on the Consolidated Financial Statements. See Note 8 to the Consolidated Financial Statements for additional FIN 46 disclosure.

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 Nos. 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 were effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 13 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). Merrill Lynch adopted SFAS No. 146 as of the beginning of fiscal year 2003, which had no material impact on the Consolidated Financial Statements.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires companies to recognize legal obligations associated with the future retirement of tangible long-lived assets at their fair value. Asset retirement obligations are then realized through earnings over the economic life of the long-lived asset. Merrill Lynch adopted SFAS No. 143 as of January 1, 2003 and there was no material impact on the Consolidated Financial Statements.

Note 2. Accounting Changes

Retail Account Fees
In the fourth quarter of 2004, subsequent to the issuance of the 2003 financial statements (as restated for the adoption of SFAS 123 as described below), Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. These account fees are included in Asset Management and portfolio service fees on the Consolidated Statements of Earnings. This restatement resulted in a cumulative decrease to stockholders' equity of $66 million, or 0.2% as of December 26, 2003. This restatement resulted in a decrease to retained earnings as of December 28, 2001 and December 29, 2000, of $65 million and $60 million, respectively. This restatement also resulted in decreases to retained earnings of $66 million and $67 million, as of December 26, 2003 and December 27, 2002, respectively, with corresponding increases in deferred revenues of $109 million and $111 million, respectively, and increases to deferred income taxes of $43 million and $44 million, respectively. Further details regarding the impact of this change are as follows.

(dollars in millions, except per share amounts)	2003	2002	2001
Earnings (loss) before income taxes as reported	$ 5,218	$ 2,315	$ (234)
Adjustment to correct error	2	(3)	(7)
Earnings (loss) before income taxes as restated	$ 5,220	$ 2,312	$ (241)
Net earnings (loss) as previously reported	$ 3,834	$ 1,710	$ (335)
Adjustment to correct error	2	(2)	(5)
Net earnings (loss) as restated	$ 3,836	$ 1,708	$ (340)
Earnings (loss) per common share:			
Basic as reported	$ 4.21	$ 1.94	$ (0.45)
Adjustment to correct error	.01	—	—
Basic, as restated	$ 4.22	$ 1.94	$ (0.45)
Diluted as reported	$ 3.88	$ 1.77	$ (0.45)
Adjustment to correct error	—	—	—
Diluted, as restated	$ 3.88	$ 1.77	$ (0.45)

Stock-based Compensation
Effective for the first quarter of 2004, Merrill Lynch adopted the fair value method of accounting for stock-based accounting under SFAS 123, using the retroactive restatement method described in SFAS 148. Under the fair value recognition provisions of SFAS 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The December 26, 2003 and December 27, 2002 Consolidated Balance Sheets have been restated for the retroactive adoption of the fair value recognition provisions of SFAS 123. Accordingly, the December 26, 2003 Consolidated Balance Sheet reflects a $4.0 billion increase in paid-in capital, a $2.7 billion decrease in retained earnings, and a $1.3 billion increase in deferred income taxes. The December 27, 2002 Consolidated Balance Sheet reflects a $3.8 billion increase in paid-in capital, a $2.5 billion decrease in retained earnings, and a $1.3 billion increase in deferred income taxes.

For the years 2003, 2002, and 2001, $240 million, ($154 million after-tax, or $0.17 per diluted share), $1,251 million ($803 million after-tax, or $0.86 per diluted share), and $1,416 million ($908 million after-tax or $1.02 per diluted share), respectively, of stock option compensation expense was recorded related to the adoption of SFAS 123.

Note 3. Other Significant Events

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. Merrill Lynch recorded September 11-related net insurance recoveries of $147 million and $212 million in 2003 and 2002, respectively. In 2001, Merrill Lynch recorded net September 11-related expenses of $131 million. Expenses related to September 11 were $38 million, $113 million and $346 million in 2003, 2002 and 2001, respectively.

Merrill Lynch has now concluded its insurance recovery efforts related to the events of September 11th. In aggregate, Merrill Lynch was reimbursed $725 million for repair and replacement of physical damage, recovery expenses, and losses due to business interruption.

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.

During 2003, a charge of $56 million was recorded related to lease write-offs as well as technology and other fixed asset

write-offs relating to GMI, GPC and MLIM following a real estate rationalization effort. This charge, in combination with the $36 million net reduction in the 2001 restructuring reserve, was recorded as a net $20 million restructuring and other charge in the Consolidated Statements of Earnings in 2003. During 2002,

a charge of $17 million was recorded related to location closings in 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 initial 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. The initial $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. Office consolidations have been completed as employees have vacated the facilities. However, additional reserves remain at December 26, 2003, 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 that resulted from management's decision to close Private Client branch offices. Utilization of the restructuring reserve and a rollforward of staff reductions at December 26, 2003 is as follows:

(dollars in millions)

	Balance Dec. 28, 2001	Utilized in 2002	Net Change in Estimate	Balance Dec. 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec. 26, 2003
Category:							
Severance costs	$ 919	$(842)	$(32)	$ 45	$ (32)	$ (8)	$ 5
Facilities costs	299	(66)	51	284	(91)	13	206
Technology and fixed asset write-offs	–	(9)	9	–	–	–	–
Other costs	178	(82)	(37)	59	2	(41)	20
	$1,396	$(999)	$ (9)	$388	$(121)	$(36)	$231
Staff reductions	5,456	(5,211)	(22)	223	(102)	(121)	–

The changes in estimate during 2003 and 2002 are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates during 2003, severance-related reserves of $8 million and other reserves of $41 million were reversed and recorded to the Consolidated Statements of Earnings as Restructuring credits. These amounts resulted from lower than anticipated costs, principally in the Japan GPC business. The estimates for facilities costs were increased by $13 million in 2003, reflecting increased facilities closure costs for locations in the United States and Europe. The charges and credits above are included in net restructuring and other charges in the Consolidated Statements of Earnings.

As a result of changes in estimates during 2002, 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 were 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. The charges and credits above are included in net restructuring and other charges in the Consolidated Statements of Earnings.

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 2002, Merrill Lynch and HSBC integrated 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.

Research and other settlements
In May 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 majority of these payments were made in the fourth quarter of 2002. In addition, $11 million of related legal fees were incurred.

In April 2003, the Securities and Exchange Commission, New York Stock Exchange, National Association of Securities Dealers, and state securities regulators announced that the settlements-in-principle that the regulators had disclosed on December 20, 2002 had been reduced to final settlements with regard to ten securities firms, including Merrill Lynch. Merrill Lynch disclosed the settlements-in-principle on December 24, 2002. The final settlements pertaining to Merrill Lynch, which involve both monetary and non-monetary relief set forth in the regulators' announcements, concluded the regulatory actions against Merrill Lynch related to those alleged conflicts of interest affecting research analysts. The settlement became final on October 31, 2003 when the Court entered the order approving the related agreement. Merrill Lynch entered into these settlements without admitting or denying the allegations and findings by the regulators, and the settlements do not establish wrongdoing or liability for purposes of any other proceedings. Pursuant to this settlement, Merrill Lynch, among other things, contributed $100 million for the funding of independent research and investor education over five years, but did not pay any fines or make any additional civil payments. The full amount of the settlement-in-principle was accrued for in 2002.

In March 2003, Merrill Lynch entered into a final settlement agreement with the Securities and Exchange Commission, in which it neither admitted nor denied any wrongdoing, regarding an investigation into two 1999 transactions between Merrill Lynch and Enron Corporation. This final settlement concluded the Securities and Exchange Commission's investigation of all Enron-related matters with respect to Merrill Lynch. As a result, a pre-tax charge of $80 million ($64 million after-tax), which includes disgorgement, penalties and interest, was included in the 2002 Consolidated Statements of Earnings in research and other settlement-related expenses.

In September 2003, the Department of Justice agreed not to prosecute Merrill Lynch for alleged crimes of its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch's continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counterparty financial statements, complex-structured finance transactions and year-end transactions.

Note 4. Segment and Geographic Information

Segment Information
In reporting to management during 2003, 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 2003 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
- 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 and other corporate interest, 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
2003						
Non-interest revenues	$7,223	$7,507	$1,377	$(6)	(1)	$16,101
Net interest profit[2]	2,853	1,358	24	(371)	(3)	3,864
Net revenues	10,076	8,865	1,401	(377)		19,965
Non-interest expenses	6,301	7,346	1,133	(35)	(4)	14,745
Pre-tax earnings (loss)	$3,775	$1,519	$268	$(342)		$5,220
Year-end total assets	$418,241	$66,437	$6,293	$5,388		$496,359
2002						
Non-interest revenues	$6,167	$7,444	$1,526	$(42)	(1)	$15,095
Net interest profit[2]	2,261	1,333	24	(280)	(3)	3,338
Net revenues	8,428	8,777	1,550	(322)		18,433
Non-interest expenses	6,960	7,714	1,331	116	(4)	16,121
Pre-tax earnings (loss)	$1,468	$1,063	$219	$(438)		$2,312
Year-end total assets	$382,925	$58,302	$5,173	$5,019		$451,419
2001						
Non-interest revenues	$8,460	$8,372	$1,902	$(95)	(1)	$18,639
Net interest profit[2]	1,808	1,518	21	(309)	(3)	3,038
Net revenues	10,268	9,890	1,923	(404)		21,677
Non-interest expenses	9,229	10,377	2,057	255	(4)	21,918
Pre-tax earnings (loss)	$1,039	$(487)	$(134)	$(659)		$(241)
Year-end total assets	$358,991	$67,643	$5,808	$4,642		$437,084

(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, the impact of TOPrS[SM] and other corporate interest.
(4) Represents elimination of intersegment revenues and expenses and September 11-related net expenses. 2002 also included research and other settlement-related expenses. 2001 also included goodwill amortization.

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)	2003	2002	2001
Net revenues			
Europe, Middle East, and Africa	$3,295	$2,579	$3,435
Japan	1,252	778	1,007
Asia Pacific	736	669	792
Canada	218	245	880
Latin America	553	491	538
Total Non-U.S.	6,054	4,762	6,652
United States	14,288	13,993	15,429
Corporate	(377)	(322)	(404)
Total	$19,965	$18,433	$21,677
Earnings (loss) before income taxes			
Europe, Middle East, and Africa	$818	$(219)	$(360)
Japan	650	192	(429)
Asia Pacific	151	10	(101)
Canada	63	85	210
Latin America	192	108	15
Total Non-U.S.	1,874	176	(665)
United States	3,688	2,574	1,083
Corporate	(342)	(438)	(659)
Total	$5,220	$2,312	$(241)

Note 5. Securities Financing Transactions

Merrill Lynch enters into secured borrowing and lending transactions in order to finance trading inventory positions, obtain securities for settlement, meet customers' needs and 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 26, 2003 and December 27, 2002, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $270 billion and $276 billion, respectively, and the fair value of the portion that has been sold or repledged was $236 billion and $229 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 and investment securities 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 2003 and 2002 are as follows:

(dollars in millions)

	2003	2002
Asset Category		
Trading assets		
Mortgages, mortgage-backed, and asset-backed securities	$10,855	$11,530
U.S. Government and agencies	9,293	5,112
Corporate debt and preferred stock	6,766	7,843
Equities and convertible debentures	2,215	256
Non-U.S. governments and agencies	910	811
Municipals and money markets	82	337
Loans, notes, and mortgages	4,272	3,078
Total	$34,393	$28,967

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 26, 2003 and December 27, 2002 are as follows:

(dollars in millions)

	2003	2002
Investment securities		
Available-for-sale(1)	$66,121	$72,197
Trading	4,798	3,337
Held-to-maturity	636	638
Non-qualifying(2)		
Deferred compensation hedges(3)	636	1,927
Other(4)	9,197	4,228
Total(1)	$81,388	$82,327

(1) At December 26, 2003, includes $6.6 billion of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.

(2) Non-qualifying for SFAS No. 115 purposes.

(3) Represents investments economically hedging deferred compensation liabilities.

(4) Includes insurance policy loans, merchant banking investments, preferred stock, TOPrS[SM]-related investments, and other non-qualifying investments.

The fair value of non-qualifying investment securities approximated the carrying amounts at year-end 2003 and 2002, 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 26, 2003				December 27, 2002			
	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	$45,950	$636	$(155)	$46,431	$49,078	$1,085	$(140)	$50,023
U.S. Government and agencies	11,442	210	(77)	11,575	13,610	686	(14)	14,282
Corporate debt	3,490	84	(13)	3,561	4,720	173	(57)	4,836
Other debt securities	2,801	13	(14)	2,800	1,698	1	(18)	1,681
Total debt securities	63,683	943	(259)	64,367	69,106	1,945	(229)	70,822
Equity securities	1,747	11	(4)	1,754	1,418	2	(45)	1,375
Total	$65,430	$954	$(263)	$66,121	$70,524	$1,947	$(274)	$72,197
Held-to-Maturity								
U.S. Government and agencies	$2	$–	$–	$2	$254	–	$–	$254
Mortgage- and asset-backed securities	20	–	–	20	26	–	–	26
Other debt securities	614	–	–	614	358	–	–	358
Total	$636	$–	$–	$636	$638	$–	$–	$638

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 26, 2003.

(dollars in millions)

	Less than 1 Year		More than 1 Year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset category						
Mortgage- and asset-backed securities	$6,518	$(33)	$16,265	$(119)	$22,783	$(152)
U.S. Government and agencies	4,321	(25)	2,475	(63)	6,796	(88)
Corporate debt	446	(6)	96	(7)	542	(13)
Other debt securities	730	(20)	–	–	730	(20)
Total debt securities	12,015	(84)	18,836	(189)	30,851	(273)
Equity securities	–	–	24	(4)	24	(4)
Total temporarily impaired securities	$12,015	$(84)	$18,860	$(193)	$30,875	$(277)

The amortized cost and estimated fair value of debt securities at December 26, 2003 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	$3,083	$3,088	$361	$361
Due after one year through five years	9,990	10,122	1	1
Due after five years through ten years	4,033	4,058	–	–
Due after ten years	627	668	254	254
	17,733	17,936	616	616
Mortgage- and asset-backed securities	45,950	46,431	20	20
Total[1]	$63,683	$64,367	$636	$636

(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)

	2003	2002	2001
Proceeds	$56,448	$36,697	$14,138
Gross realized gains	709	331	85
Gross realized losses	(138)	(60)	(66)

Net unrealized gains (losses) from investment securities classified as trading included in the 2003, 2002, and 2001 Consolidated Statements of Earnings were $(93) million, $70 million, and $47 million, respectively.

The majority of the unrealized losses relate to mortgage-backed securities and U.S. Government and agency securities where Merrill Lynch has held these positions greater than one year. The majority of the investments are AAA rated debentures and mortgage-backed securities issued by U.S. agencies. These investments are not considered other-than-temporarily impaired because Merrill Lynch has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment.

Also during 2003, other revenues include a write-down of $114 million related to certain available-for-sale securities that were considered to be impaired on an other than temporary basis. Unrealized losses on these securities were previously included in accumulated other comprehensive loss. During 2003, the write-down was charged to earnings and removed from accumulated other comprehensive loss.

Note 7. Trading Assets and Liabilities

As part of its trading activities, Merrill Lynch provides its clients with 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 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.

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 with 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 13 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 26, 2003, 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 $22.1 billion and $24.8 billion at December 26, 2003 and December 27, 2002, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 26, 2003 and December 27, 2002 totaled $98.2 billion and $113.9 billion, respectively.

At December 26, 2003, 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 $3.7 billion, or 0.8% 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.

Default risk on derivatives 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. Generally 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 13 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 26, 2003, such collateral amounted to $10.4 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 Transactions with Special Purpose Entities (SPEs)

Securitizations

In the normal course of business, Merrill Lynch securitizes: commercial and residential mortgage and home equity loans; municipal, government, and corporate bonds; and other types of financial assets. SPEs 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; structuring SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of $61.9 billion and $42.4 billion for the years ended December 26, 2003 and December 27, 2002, respectively. For the years ended December 26, 2003 and December 27, 2002, Merrill Lynch received $62.7 billion and $43.4 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of $111.3 million and $52.2 million, respectively in Merrill Lynch's Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

In 2003 and 2002, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	2003	**2002**
Asset category		
Residential mortgage loans	$43,717	$28,676
Municipal bonds	11,301	7,956
Corporate and government bonds	1,721	2,708
Commercial loans and other	6,002	4,077
	$62,741	$43,417

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 ongoing 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 securitized assets were approximately $2.7 billion and $3.3 billion at December 26, 2003 and December 27, 2002, respectively, 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 64% and 77% at December 26, 2003 and December 27, 2002, respectively, 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, $740 million and $851 million at December 26, 2003 and December 27, 2002, respectively, 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, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of December 26, 2003 arising from Merrill Lynch's residential mortgage loan, municipal bond and other 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 26, 2003. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	**Municipal Bonds**	**Other**
Retained interest amount	$1,822	$740	$122
Weighted average life (in years)	3.2	3.6	N/A
Range	0.0 – 20.0	0.1 – 6.9	N/A
Weighted average credit losses (rate per annum)	0.7%	0%	0.4%
Range	0.0 – 3.5%	0%	0.0 – 3.1%
Impact on fair value of 10% adverse change	$(14)	$–	$–
Impact on fair value of 20% adverse change	$(23)	$–	$(1)
Weighted average discount rate	6.4%	2.2%	6.6%
Range	0.0 – 83.9%	1.0 – 11.3%	1.8 – 25.0%
Impact on fair value of 10% adverse change	$(12)	$(52)	$(3)
Impact on fair value of 20% adverse change	$(23)	$(100)	$(6)
Weighted average prepayment speed (CPR)	17.6%	15.1%(1)	N/A
Range	0.0 – 65.0%	7.0 – 24.0%(1)	N/A
Impact on fair value of 10% adverse change	$(12)	$(1)	N/A
Impact on fair value of 20% adverse change	$(23)	$(2)	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate
(1) Relates to select securitization transactions where assets are prepayable.

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 weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2003 that were still held by Merrill Lynch as of December 26, 2003 are as follows:

	Residential Mortgage Loans	**Municipal Bonds**	**Other**
Weighted average life (in years)	5.6	N/A	N/A
Credit losses (rate per annum)	0.3%	0%	0%
Weighted average discount rate	6.0%	3.2%	4.5%
Prepayment speed assumption (CPR)	17.9%	N/A	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate

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 the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

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

The maximum commitment under these liquidity and default guarantees totaled $17.0 billion and $13.7 billion at December 26, 2003 and December 27, 2002, respectively. The fair value of the commitments approximate $126 million and $69 million at December 26, 2003 and December 27, 2002, respectively, which is reflected in the Consolidated Financial Statements. Of these arrangements, $2.8 billion and $2.3 billion at December 26, 2003 and December 27, 2002, respectively, 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 13 to the Consolidated Financial Statements.

The following table summarizes principal amounts outstanding, delinquencies, and net credit losses of securitized financial assets as of December 26, 2003 and December 27, 2002:

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
December 26, 2003			
Principal Amount Outstanding	$43,777	$14,890	$4,527
Delinquencies	54	–	–
Net Credit Losses	3	–	8
December 27, 2002			
Principal Amount Outstanding	$23,107	$18,379	$2,476
Delinquencies	90	–	3
Net Credit Losses	5	–	44

Variable Interest Entities

In January 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, for enterprises that have interests in entities that meet the definition of a VIE. 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. 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.

The FASB issued FIN 46R on December 24, 2003, which provides most public entities with the ability to defer implementation of the revised FIN 46 to no later than the first fiscal quarter of 2004. However, should a public issuer elect to defer implementation of FIN 46R, the entity is required to adopt FIN 46 for the 2003 fiscal year-end reporting. Merrill Lynch has elected to follow the guidance in FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest at December 26, 2003. Merrill Lynch has accounted for those VIEs that are consolidated under the new guidance as a cumulative effect of a change in accounting principle, which did not have a material effect on the 2003 year-end financial statements.

In the normal course of business, Merrill Lynch acts as a transferor, derivative counterparty, investor, arranger, structurer, underwriter, market-maker, guarantor, and/or liquidity provider to many VIEs. In addition, Merrill Lynch acts as transferor to certain entities that meet the requirements of qualifying special purpose entities, which are not consolidated in the Merrill Lynch Financial Statements in accordance with SFAS No. 140, but which are disclosed herein where Merrill Lynch typically holds a significant variable interest and/or the transaction type represents a significant Merrill Lynch sponsored program.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the primary beneficiary of VIEs that own convertible bonds purchased from Merrill Lynch, in which Merrill Lynch maintains a call option to repurchase the convertible bonds from the VIE. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option. Assets held by these VIEs are reported in equities and convertible debentures or resale agreements, depending on the nature of the transaction,

in the Consolidated Balance Sheet. Holders of the beneficial interests in these VIEs have no recourse to the general credit of Merrill Lynch; rather their investment is paid exclusively from the convertible bonds held by the VIE.

- Merrill Lynch is the primary beneficiary of "maturity shortening transactions," in which the VIE serves to shorten the maturity of a fixed income security, and, at the maturity date of the VIE, Merrill Lynch has the obligation to repurchase some or all of the securities held by the VIE. Assets held by these VIEs are reported in corporate debt and preferred stock. The beneficial interest holders in these VIEs have recourse to Merrill Lynch to the extent that the underlying assets that Merrill Lynch is required to repurchase have declined in value from the initial transaction date.
- Merrill Lynch is the sponsor and guarantor of VIEs that provide a guarantee of principal to beneficial interest holders, thereby limiting investors' losses generated from the assets. Merrill Lynch may also guarantee investors returns in excess of principal depending on the nature of the fund. In certain of these VIEs, Merrill Lynch is the primary beneficiary. Investors in these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the investors' initial investment or guaranteed amount. Where Merrill Lynch is not the primary beneficiary, guarantees related to these funds are discussed and disclosed in Note 13 to the Consolidated Financial Statements.
- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary and consolidate, or a significant variable interest holder. These VIEs are primarily designed to provide temporary on or off balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where ML has provided financing and is the primary beneficiary are recorded in other assets and/or loans, notes and mortgages in the Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as investment securities where Merrill Lynch holds a significant variable interest, and in other assets where Merrill Lynch is the primary beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; rather their investments are paid exclusively from the assets in the VIE.
- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 13 to the Consolidated Financial Statements.
- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide foreign tax planning strategies to investors. Merrill Lynch is a significant variable interest holder in these VIEs.
- Merrill Lynch has a significant variable interest in residential mortgage securitizations entered into by one of its banking subsidiaries. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this entity qualifies as a QSPE, although Merrill Lynch retains a 97% interest in the vehicle.
- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch is a derivative counterparty to a VIE that serves to synthetically expose investors to a specific credit risk. Based on the provisions of FIN 46R, Merrill Lynch does not have a significant variable interest since the derivative it has purchased does not absorb variability. However, because these structures represent a significant Merrill Lynch sponsored program, information related to these structures has been included in the following table.

The following table summarizes Merrill Lynch's involvement with the VIEs listed above as of December 26, 2003. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes, nor does it reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)	December 26, 2003			
	Primary Beneficiary		Significant Variable Interest Holder	
Description	Asset Size	Recourse to Merrill Lynch[4]	Asset Size	Maximum Exposure
Convertible Bond Stripping	$1,864	None	$–	$–
Maturity Shortening	379	$1	–	–
Guaranteed Funds	863	863	–	–
Loan and Real Estate VIEs	775	None	636	567
Municipal Bond Securitizations[1]	–	–	16,927	16,927
Foreign Tax Planning VIEs[2]	–	–	2,811	114
Mortgage Securitizations	–	–	345	334
Synthetic Credit Risk VIEs[3]	–	–	6,402	474

(1)The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's exposure to these VIEs since Merrill Lynch enters into economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.

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

(3)The maximum exposure for Synthetic Credit Risk VIEs is the asset carrying value of the derivatives entered into with the VIEs as of December 26, 2003.

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

At December 26, 2003, the Consolidated Balance Sheet included $1.2 billion of incremental assets related to the consolidation of these entities in which Merrill Lynch is the primary beneficiary.

Note 9. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, notes, and mortgages and related commitments to extend credit at December 26, 2003 and December 27, 2002, are presented below:

(dollars in millions)	Loans		Commitments	
	2003	2002	2003[1]	2002
Consumer and small-and middle-market business:				
Mortgages	$16,688	$16,484	$4,842	$5,168
Small- and middle-market business	6,737	4,982	3,411	2,673
Other	4,045	1,172	603	477
Commercial:				
Secured	21,048	11,972	12,425	9,321
Unsecured investment grade	1,806	3,492	15,028	10,882
Unsecured non-investment grade	669	731	562	300
Total	$50,993	$38,833	$36,871	$28,821

(1) See Note 13 for a maturity profile of these commitments.

The loan amounts are net of an allowance for loan losses of $318 million and $285 million as of December 26, 2003 and December 27, 2002, respectively.

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 269,500 individual loans at December 26, 2003, and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at year-end 2003 consisted of approximately 7,500 separate 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 totaled $4.9 billion and $3.8 billion at December 26, 2003 and December 27, 2002, respectively. For information on credit risk management see Note 7 to the Consolidated Financial Statements.

The above amounts include $7.6 billion and $6.2 billion of loans held for sale at December 26, 2003 and December 27, 2002, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At December 26, 2003, such loans consisted of $5.2 billion of consumer loans, primarily residential mortgages, and $2.4 billion of commercial loans, approximately 59% of which are to investment grade counterparties. At December 27, 2002, such loans consisted of $3.2 billion of consumer loans, primarily residential mortgages, and $3.0 billion of commercial loans, approximately 49% 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 $51.1 billion and $38.9 billion at December 26, 2003 and December 27, 2002, respectively. Fair value for loans made in connection with private equity investing 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. Merrill Lynch considers commitments to be outstanding as of the date the commitment letter is issued. 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 on 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 13 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.

Total borrowings at December 26, 2003 and December 27, 2002 consisted of the following:

(dollars in millions)	2003	2002
Senior debt issued by ML & Co.	$80,159	$76,822
Senior debt issued by subsidiaries, guaranteed by ML & Co.	5,441	5,833
Other subsidiary financing	2,699	1,222
Long-term debt issued to TOPrS^{SM} partnerships	3,203	3,189
Total	$91,502	$87,066

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 use of derivates to hedge these risks and the accounting for derivatives embedded in these instruments.

Borrowings at December 26, 2003 and December 27, 2002 are presented below:

(dollars in millions)	2003	2002
Commercial paper and other short-term borrowings		
Commercial paper	$ 4,568	$ 3,966
Other	432	1,387
Total	$ 5,000	$ 5,353
Long-term borrowings		
Fixed-rate obligations(1)(3)	$37,210	$34,084
Variable-rate obligations(2)(3)	41,297	39,703
Zero-coupon contingent convertible debt (LYONs®)	4,792	4,737
Total	$83,299	$78,524
Long-term debt issued to TOPrS^{SM} partnerships	$ 3,203	$ 3,189

(1) Fixed-rate obligations are generally swapped to floating rates.
(2) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.
(3) Included are various equity-linked or other indexed instruments.

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and Long-term debt issued to TOPrS^{SM} partnerships at December 26, 2003, mature as follows:

(dollars in millions)		
2004	$ 17,508	20%
2005	12,174	14
2006	13,092	15
2007	10,023	12
2008	8,205	10
2009 and thereafter	25,500	29
Total	$ 86,502	100%

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 portion of such borrowings will remain outstanding beyond their earliest redemption date. A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities,

may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying securities. Merrill Lynch also makes markets buying and selling its debt instruments, including such notes.

Senior debt issued by ML & Co. and senior debt issued by subsidiaries guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or ML & Co. 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.

The fair values of long-term borrowings and related hedges approximated the carrying amounts at year-end 2003 and 2002.

The effective weighted-average interest rates for borrowings, at December 26, 2003 and December 27, 2002 were:

	2003	2002
Commercial paper and other short-term borrowings	2.10%	2.27%
Long-term borrowings, contractual rate	2.99	3.26
Long-term borrowings, including the impact of hedges	1.38	1.74
Long-term debt issued to TOPrS℠ partnerships	7.15	7.17

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 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 ended December 26, 2003, 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.

Long-term debt issued to TOPrS℠ partnerships

Long-term debt issued to TOPrS℠ partnerships represent long-term debt payable to the partnerships that issued Trust Originated Preferred Securities ("TOPrS℠"). TOPrS℠ 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. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPrS℠ to the extent that the trusts have funds legally available. This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co. Merrill Lynch has accounted for its issuance of TOPrS℠ in accordance with the provisions of FIN 46R and, as a result, the partnerships and trusts that issue these securities have been deconsolidated in Merrill Lynch's financial statements.

Borrowing Facilities

Merrill Lynch has a committed, senior, unsecured bank credit facility aggregating $3.0 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 26, 2003, 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 2004.

Note 11. Deposits

Deposits at December 26, 2003 and December 27, 2002 are presented below:

(dollars in millions)

	2003	2002
U.S.		
Savings Deposits	$64,197	$67,528
Time Deposits	1,212	1,022
Total U.S. Deposits	65,409	68,550
Non-U.S.		
Non-interest bearing	359	237
Interest bearing	13,689	13,055
Total Non-U.S. Deposits	14,048	13,292
Total Deposits	$79,457	$81,842

The effective weighted-average interest rates for deposits, which include the impact of hedges, at December 26, 2003 and December 27, 2002 were 0.78% and 1.32%, respectively. The fair values of deposits approximated carrying values at December 26, 2003 and December 27, 2002.

Note 12. 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 2003, 2002, and 2001.

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

Dividends paid on common stock were $0.64 per share in 2003, 2002 and 2001.

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 2003 and 2002, 1,011,118 and 284,366 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 2003, 2,899,923 Exchangeable Shares were outstanding, compared with 3,911,041 at year-end 2002.

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 26, 2003 and December 27, 2002 are as follows:

(dollars in millions)

	2003	2002
Foreign currency translation adjustment		
Unrealized (losses), net of gains	$(758)	$(366)
Income taxes	457	46
Total	(301)	(320)
Unrealized gains (losses) on investment securities available-for-sale		
Unrealized (losses), net of gains	(158)	(185)
Adjustments for:		
Policyholder liabilities	(36)	(44)
Deferred policy acquisition costs	2	3
Income taxes	81	81
Total	(111)	(145)
Deferred gains on cash flow hedges	11	20
Minimum pension liability	(150)	(125)
Total accumulated other comprehensive loss	$(551)	$(570)

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)	**2003**	**2002**	**2001**
Net earnings	$3,836	$1,708	(340)
Preferred stock dividends	39	38	38
Net earnings applicable to common stockholders	$3,797	$1,670	$(378)
(shares in thousands)			
Weighted-average basic shares outstanding[(1)]	900,711	862,318	838,683
Effect of dilutive instruments[(2)]			
Employee stock options	32,807	32,779	–
FACAAP shares	22,995	23,990	–
Restricted shares and units	21,215	25,141	–
ESPP shares	61	71	–
Dilutive potential common shares	77,078	81,981	–
Diluted shares[(3)]	977,789	944,299	838,683
Basic EPS	$4.22	$1.94	$(0.45)
Diluted EPS	3.88	1.77	(0.45)

(1) Includes shares exchangeable into common stock.

(2) See Note 15 to the Consolidated Financial Statements for a description of these instruments and issuances subsequent to December 26, 2003.

(3) At year-end 2003, 2002, and 2001, there were 90,555; 118,070; and 138,239 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. Additionally, shares related to Merrill Lynch's LYONs® issuance are not included in the computation of diluted earnings per share because the threshold trigger price for conversion has not been reached.

Note 13. 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 that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these legal actions, investigations and proceedings, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines or other relief. Merrill Lynch believes it has strong defenses to, and, where appropriate, will vigorously contest 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 it, 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 26, 2003, Merrill Lynch commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	Less than 1 year	1 – 3 years	3^{+} – 5 years	Over 5 years
Commitments to extend credit(1)	$36,871	$18,197	$7,415	$7,166	$ 4,093
Purchasing and other commitments	8,348	7,211	715	186	236
Operating leases	3,885	524	1,006	853	1,502
Resale agreements	10,215	10,215	–	–	–
Total	$59,319	$36,147	$9,136	$8,205	$ 5,831

(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.

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

Purchasing and Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 26, 2003 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 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 $507 million and $434 million at December 26, 2003 and December 27, 2002, respectively.

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 $459 million at December 26, 2003 and $1.2 billion at December 27, 2002.

Merrill Lynch has commitments to purchase partnership interests, primarily related to private equity investing activities, of $426 million and $698 million at December 26, 2003 and December 27, 2002, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At December 26, 2003 and December 27, 2002 minimum fee commitments over the remaining life of these agreements aggregated $503 million and $527 million, respectively. Merrill Lynch has entered into other purchasing commitments totaling $7.0 billion and $1.4 billion at December 26, 2003 and December 27, 2002, 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.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was $383 million. These SPEs were not consolidated by Merrill Lynch pursuant to the accounting guidance that was then in effect. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third-parties unrelated to Merrill Lynch.

The leases with the limited partnership mature in 2005 and 2006, and each lease has a renewal term to 2008. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this residual value guarantee is approximately $325 million as of December 26, 2003. As of December 26, 2003, the carrying value of the liability on the Consolidated Financial Statements is $34 million. Merrill Lynch's residual value guarantee does not comprise more than half of the limited partnership's assets. Merrill Lynch had entered into a similar residual value guarantee with the previous SPEs; the maximum exposure under the previous guarantee was approximately $325 million as of December 27, 2002.

The limited partnership does not meet the definition of a VIE as defined in FIN 46. Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to

consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

At December 26, 2003, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year, including lease payments to the limited partnerships discussed above are as follows:

(dollars in millions)

	WFC[1]	Other	Total
2004	$ 179	$ 345	$ 524
2005	179	336	515
2006	179	312	491
2007	179	271	450
2008	179	224	403
2009 and thereafter	848	654	1,502
Total	$ 1,743	$2,142	$3,885

(1) World Financial Center Headquarters.

The minimum rental commitments shown above have not been reduced by $812 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)

	2003	2002	2001
Rent expense	$ 531	$ 538	$ 651
Sublease revenue	(93)	(92)	(106)
Net rent expense	$ 438	$ 446	$ 545

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 could theoretically be unlimited, because, for example, the rise in interest rates or changes in 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 is not a reliable indicator of 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 the Derivatives section of Note 1 for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition as of December 26, 2003, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of December 26, 2003, the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was in aggregate $18.3 billion, which exceeds the maximum payout if the standby facilities are drawn of $13.9 billion in aggregate. However, it should be noted that the assets to which Merrill Lynch has recourse are on a deal-by-deal basis and are not part of a cross-collateralized pool.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of December 26, 2003, the value of the assets to which Merrill Lynch has recourse in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due was $4.1 billion; the maximum payout if an issuer defaults was $3.1 billion. As described in the preceding paragraph, the assets to which Merrill Lynch has recourse are not part of a cross-collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales beyond 75–90% of the current book value of the asset to which the guarantee pertains. As of December 26, 2003, the maximum payout on these guarantees is $502 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the acquisition cost of the assets.

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. Merrill Lynch holds marketable securities of $277 million as collateral to secure these guarantees. In addition, standby letters of credit include $89 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market event. At December 26, 2003 Merrill Lynch's maximum potential exposure to loss with respect to these guarantees is $261 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at December 26, 2003.

These guarantees and their expiration are summarized at December 26, 2003 as follows:

(dollars in millions)

	Maximum Payout/ Notional	**Less than 1 year**	**1 - 3 years**	**3⁺ – 5 years**	**Over 5 years**	**Carrying Value**
Derivative contracts[1]	$936,089	$305,555	$290,815	$195,530	$144,189	$20,687
Liquidity facilities with SPEs[2]	13,865	12,233	1,632	–	–	63
Liquidity and default facilities with SPEs	3,120	2,024	797	1	298	63
Residual value guarantees[3][4]	1,768	57	78	344	1,289	42
Standby letters of credit and other performance guarantees[5]	770	397	62	43	268	10

(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 $2.8 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 leases of $325 million.

(4)Includes $892 million of reimbursement agreements with the Mortgage 100[SM] program.

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

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 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 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 equals the required funding for each transaction and varies throughout the year depending upon the size and number of open transactions. Based on the review procedures performed, management believes the likelihood of being required to pay under these arrangements is remote. Accordingly, no 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 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 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 14. 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. These plans vary based on the country and local practices. 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 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 ("401(k)"). The RAP and ESOP cover substantially all U.S. employees who have met the service requirement. There is no service requirement for employee deferrals in the 401(k). However, there is a service requirement for an employee to receive corporate contributions in the 401(k).

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 notional 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 have five years of service after which they have the ability to diversify.

On July 17, 2001 Merrill Lynch merged the assets of the Herzog ESOP with the Merrill Lynch ESOP. Merrill Lynch allocates ESOP shares of Merrill Lynch stock to all participants of the ESOP as principal is repaid. Beginning in 2004, these allocations will be made on an annual basis. ESOP shares are considered to be either allocated (contributed to participants' accounts), committed (scheduled to be contributed at a specified future date but not yet released), or unallocated (not committed or allocated). Share information at December 26, 2003 is as follows:

Unallocated shares as of December 27, 2002	928,674
Release of escrow shares	1,300
Shares allocated/committed[1]	(161,863)
Unallocated shares as of December 26, 2003	768,111

(1) Excluding forfeited shares.

Additional information on ESOP activity follows:

(dollars in millions)	2003	2002	2001
Compensation costs funded with ESOP shares	$ 9	$ 17	$ 8
Dividends used for debt service	1	1	–

Employees can participate in the 401(k) by contributing, on a tax-deferred basis, a certain percentage of their eligible compensation, up to 25% in 2003, and up to 15% in years prior, but not more than the maximum annual amount allowed by law. Employees are given the opportunity to invest their 401(k) 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 401(k), 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 15 to the Consolidated Financial Statements). This restriction was removed effective January 1, 2004.

Merrill Lynch also sponsors various non-U.S. defined contribution plans. The costs of benefits under the RAP, 401(k), 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 2003 and 2002, 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 26, 2003 and September 27, 2002 and the amounts recognized in the Consolidated Balance Sheets at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
Projected benefit obligations		
Balance, beginning of year	$2,425	$2,014
Service cost	43	45
Interest cost	143	140
Net actuarial loss	180	282
Benefits paid	(128)	(127)
Foreign exchange and other	87	71
Balance, end of period	2,750	2,425
Fair value of plan assets		
Balance, beginning of year	2,741	2,500
Actual return on plan assets	134	273
Contributions	53	51
Benefits paid	(128)	(127)
Foreign exchange and other	45	44
Balance, end of period	2,845	2,741
Funded status	95	316
Unrecognized net actuarial losses (gains)	136	(77)
Fourth-quarter activity, net	29	16
Net amount recognized	$260	$255
Assets	$ 313	$ 290
Liabilities	(269)	(213)
Accumulated other comprehensive loss ($150 million and $125 million, net of tax in 2003 and 2002)	216	178
Net amount recognized	$ 260	$ 255

The accumulated benefit obligation for all defined benefit pension plans was $2,646 million and $2,298 million at September 26, 2003 and September 27, 2002.

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 $937 million, $856 million, and $540 million, respectively, as of September 26, 2003, and $838 million, $711 million, and $488 million, respectively, as of September 27, 2002. 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 2003 resulted from the recognition of an additional minimum pension liability in 2003 of $38 million ($25 million, net of tax), primarily related to the U.K. pension plan. The unfunded accumulated benefit obligation of this plan increased in value due to a decline in the market value of assets, combined with a reduction in the interest rate used for discounting the benefit obligation.

The weighted average assumptions used in calculating the projected benefit obligation at September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	5.6%	6.2%
Rate of compensation increase	4.1	4.3

The weighted average assumptions used in calculating the net periodic benefit cost for the years ended September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.2%	6.7%
Rate of compensation increase	4.1	4.3
Expected long-term return on plan assets	5.0	6.0

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The U.S. tax-qualified plan, which represents approximately 78% of Merrill Lynch's total plan assets as of September 26, 2003, is 100% invested in a group annuity contract which is currently 100% invested in fixed income securities. The expected long-term rate of return on plan assets for the U.S. tax-qualified plan is based on the portfolio yield at the beginning of each fiscal year. The U.K. plan, which represents approximately 16% of Merrill Lynch's total plan assets as of September 26, 2003, is currently invested in 79% equity securities, 15% debt securities and 6% real estate. The expected long-term rate of return on plan assets was calculated by the plan actuary and reflects estimates of the expected returns on different asset classes held by the plan in light of prevailing economic conditions at the beginning of the fiscal year.

Pension cost for the years ended 2003, 2002, and 2001 included the following components:

(dollars in millions)

	2003	2002	2001
Defined contribution plan cost	$201	$222	$256
Defined benefit plans			
Service cost for benefits earned during the year	43	45	43
Interest cost on projected benefit obligations	143	140	129
Expected return on plan assets	(137)	(152)	(157)
Amortization of unrecognized items and other	3	6	(9)
Total defined benefit plan cost	52	39	6
Total pension cost	$253	$261	$262

The pension plan weighted-average asset allocations at September 26, 2003 and September 27, 2002, by asset category are as follows:

Asset Category	2003	2002
Debt securities	84%	89%
Equity securities	15	10
Real estate and other	1	1
Total	100%	100%

Assets and liabilities of the U.S. tax-qualified plan are dollar duration matched, such that the assets are expected to mature within one half year of the time when liabilities come due. The asset portfolio's investment objective calls for a concentration in fixed income securities, the majority of which have an investment grade rating.

For the U.K. plan, the target asset allocation is 80% equity securities, 15% debt securities and 5% real estate.

Merrill Lynch currently expects to contribute $57 million to its pension plans in 2004.

Postretirement Benefits Other Than Pensions

Merrill Lynch provides health 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 coverage is contributory, with certain retiree contributions adjusted periodically. Non-contributory life insurance was offered to employees prior to February 1, 2000. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays premiums and claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 26, 2003, 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 26, 2003 and September 27, 2002, and the amounts recognized in the Consolidated Balance Sheets at year-end 2003 and 2002:

(dollars in millions)

	2003	2002
Accumulated benefit obligations		
Balance, beginning of year	$398	$260
Service cost	15	10
Interest cost	32	23
Net actuarial loss	96	116
Benefits paid	(18)	(17)
Other	2	6
Balance, end of period	525	398
Fair value of plan assets		
Balance, beginning of year	–	–
Contributions	18	17
Benefits paid	(18)	(17)
Balance, end of period	–	–
Funded status	(525)	(398)
Unrecognized net actuarial losses	195	110
Unrecognized prior service cost	2	3
Fourth quarter activity, net	5	4
Accrued benefit liabilities	$(323)	$(281)

The weighted average assumptions used in calculating the postretirement accumulated benefit obligations at September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.0%	6.5%
Health care cost trend rates(1)		
Initial	12.9	10.8
Long-term	5.0	5.0

(1) Assumed to decrease gradually through 2015 in 2003 and 2012 in 2002, and remain constant thereafter.

The weighted average assumptions used in calculating the net periodic benefit cost for the years ended September 26, 2003 and September 27, 2002 are as follows:

	2003	2002
Discount rate	6.5%	7.0%
Health care cost trend rates[1]		
Initial	12.8	10.8
Long-term	5.0	5.0

(1) Assumed to decrease gradually through 2015 in 2003 and 2012 in 2002, and remain constant thereafter.

Other postretirement benefits cost included the following components:

(dollars in millions)

	2003	2002	2001
Service cost	$ 15	$ 10	$ 8
Interest cost	32	23	16
Other	11	7	8
Total other postretirement benefits cost	$ 58	$ 40	$ 32

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	
	2003	2002	2003	2002
Effect on:				
Other postretirement benefits cost	$ 8	$ 6	$ (7)	$ (5)
Accumulated benefit obligation	90	68	(70)	(55)

Merrill Lynch currently expects to contribute $19 million to its postretirement benefit plans in 2004.

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 $285 million, $358 million, and $298 million in 2003, 2002, and 2001, respectively, of postemployment benefits expense, which included severance costs for terminated employees of $253 million, $323 million, and $281 million in 2003, 2002, and 2001, 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 26, 2003 since future severance costs are not estimable.

Note 15. 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 stock. The total pre-tax compensation cost recognized in earnings for stock-based compensation plans for 2003, 2002, and 2001 was $996 million, $2,071 million, and $2,148 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 and award programs for eligible employees.

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

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. ESCP, a broad-based plan approved by shareholders in 2003, had 75 million shares authorized and available for issuance at December 26, 2003. LTIC Plans and ESCP 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 LTIC, ESCP and ECAP may be satisfied using either treasury or newly issued shares. As of December 26, 2003, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, and Performance Options had been granted. Beginning in 2004, Merrill Lynch also granted eligible employees Stock Appreciation Rights.

Restricted Shares and Units

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period. Such shares and units are subject to forfeiture during the vesting period, for grants under LTIC Plans, or the restricted period for grants under ECAP. Restricted share and unit grants made prior to 2003 generally cliff vest in three years. Restricted share and unit grants made in 2003 and 2004 will generally cliff vest in four years.

In January 2003, 18,656,866 Restricted Units were converted to Restricted Shares; no change was made to the remaining vesting periods and the restricted periods were removed. Further, in 2003, 16,049,636 Restricted Units were released as a result of the early removal of the restricted period. The activity for Restricted Shares and Units under these plans during 2003 and 2002 follows:

	LTIC Plans		ECAP
	Restricted Shares	**Restricted Units**	**Restricted Shares**
Authorized for issuance at:			
December 26, 2003	660,000,000	N/A	104,800,000
December 27, 2002	660,000,000	N/A	104,800,000
Available for issuance at:(1)			
December 26, 2003	81,044,822	N/A	10,843,278
December 27, 2002	109,612,528	N/A	10,827,789
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	**7,628,148**	**42,801,327**	**129,650**
Granted - 2003	14,752,807	1,901,446	8,946
Unit to share conversion	18,656,866	(18,656,866)	—
Paid, forfeited, or released from contingencies	(7,209,193)	(18,825,452)	(99,537)
Outstanding, end of 2003(2)	33,828,628	7,220,455	39,059

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

(2) In January 2004, 10,997,449 and 1,762,532 Restricted Shares and Restricted Units under LTIC plans, respectively, were granted to eligible employees.

The weighted-average fair value per share or unit for 2003, 2002, and 2001 grants follows:

	2003	2002	2001
LTIC Plans			
Restricted Shares	$ 36.69	$ 50.31	$ 75.76
Restricted Units	37.18	52.98	74.52
ECAP Restricted Shares	53.65	48.81	60.51

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares are granted to employees and non-employee directors. At year-end 2003 and 2002, 3,800,000 restricted shares were authorized for issuance under these plans. A total of 88,657 and 127,195 shares were outstanding under these plans at year-end 2003 and 2002, respectively.

Non-qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1994 and 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 became exercisable after approximately six months. New option grants made in 2003 and 2004 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 2003, 2002, and 2001 follows:

	Options Outstanding	Weighted-Average Exercise Price
Outstanding, beginning of 2001	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	221,888,144	42.07
Granted — 2003	23,188,910	36.15
Exercised	(26,988,687)	20.41
Forfeited	(1,943,844)	36.70
Outstanding, end of 2003[(1)]	216,144,523	44.20

(1) In January 2004, 9,561,879 Non-qualified Stock Options and Stock Appreciation Rights were granted to eligible employees.

At year-end 2003, 2002, and 2001, options exercisable under LTIC Plans were 176,168,602, 190,264,151, and 126,979,165, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2003:

	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 – $31.99	43,436,084	$ 20.54	2.78	43,436,084	$ 20.54
$32.00 – $37.99	60,132,628	36.14	6.57	34,925,910	36.14
$38.00 – $50.99	35,485,566	43.70	6.12	21,236,670	43.75
$51.00 – $60.99	43,727,866	53.76	8.09	43,418,582	53.75
$61.00 – $77.99	33,362,379	77.51	7.08	33,151,356	77.55

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

The weighted-average fair value of options granted in 2003, 2002, and 2001 was $13.55, $22.44, and $31.80 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:

	2003	2002	2001
Risk-free interest rate	2.86%	4.61%	5.05%
Expected life	5 yrs.	5 yrs.	5 yrs.
Expected volatility	46.41%	45.88%	42.84%
Dividend yield	1.77%	1.19%	0.84%

Employee Stock Purchase Plans (“ESPP”)
The ESPP, which is shareholder approved, allows 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. The maximum annual purchase is $21,250. The 15% discount has been eliminated effective January 10, 2004. 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 2003, 2002, and 2001 follows:

	2003	2002	2001
Available, beginning of year	26,918,962	29,425,067	6,518,168
Authorized during year	–	–	25,000,000
Purchased through plan	(1,987,053)	(2,506,105)	(2,093,101)
Available, end of year	24,931,909	26,918,962	29,425,067

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2003, 2002, and 2001 was $6.69, $6.35, and $8.78 per right, respectively.

Financial Advisor Capital Accumulation Award Plans (“FACAAP”)
Under FACAAP, eligible employees in GPC are granted awards generally based upon their prior year’s performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. Awards granted in 2003 are generally payable eight years from the date of grant in a fixed number of shares of ML & Co. common stock. For outstanding awards granted prior to 2003, payment is generally made ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value plus interest is paid in cash. 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 26, 2003, shares subject to outstanding awards totaled 44,668,824 while 22,087,047 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during 2003, 2002, and 2001 was $38.78, $52.67, and $64.70 per award, respectively.

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.

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.

When appropriate, Merrill Lynch maintains various assets as an economic hedge of its liabilities to participants under the deferred compensation plans and award programs. These assets and the payables accrued by Merrill Lynch under the various plans and grants are included on the Consolidated Balance Sheets. Such assets totaled $1.8 billion and $1.9 billion, at December 26, 2003 and December 27, 2002, respectively. Accrued liabilities at year-end 2003 and 2002 were $1.3 billion and $1.2 billion, respectively.

Note 16. Income Taxes

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)

	2003	2002	2001
U.S. federal			
Current	$821	$485	$921
Deferred	285	(129)	(883)
U.S. state and local			
Current	5	68	34
Deferred	48	(19)	(143)
Non-U.S.			
Current	197	402	390
Deferred	28	(203)	(220)
Total	$1,384	$604	$99

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)

	2003	2002	2001
U.S. federal income tax at statutory rate	$ 1,826	$ 810	$ (82)
U.S. state and local income taxes, net	34	32	(72)
Non-U.S. operations	(232)	6	25
Tax-exempt interest	(148)	(127)	(90)
Dividends received deduction	(17)	(13)	(29)
Valuation allowance	(66)	(64)	334
MLHSBC joint venture exit[(1)]	–	(81)	–
Other	(13)	41	13
Income tax expense	$ 1,384	$ 604	$ 99

(1) Refer to Note 3 for information on MLHSBC joint venture.

The 2003 and 2002 effective tax rates reflect net benefits of $220 million and $77 million, respectively, related to changes in estimates for 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)

	2003	2002	2001
Deferred tax assets			
Deferred compensation	$2,667	$2,826	$2,078
Valuation and other reserves	702	595	843
Employee benefits	139	148	124
Restructuring related	140	188	616
Other	1,016	921	833
Gross deferred tax assets	4,664	4,678	4,494
Valuation allowances	(315)	(330)	(394)
Total deferred tax assets	4,349	4,348	4,100
Deferred tax liabilities			
Lease transactions	66	93	178
Employee benefits	(25)	107	90
Other	520	409	467
Total deferred tax liabilities	561	609	735
Net deferred tax assets	$ 3,788	$ 3,739	$ 3,365

At December 26, 2003, Merrill Lynch had U.S. net operating loss carryforwards of approximately $1,911 million and non-U.S. net operating loss carryforwards of $823 million. The U.S. amounts are primarily state carryforwards expiring in various years after 2007. The non-U.S. amounts are primarily Japan carryforwards expiring in various years after 2003. Merrill Lynch also had approximately $31 million of state tax credit carryforwards expiring in various years after 2005.

The valuation allowance in 2003 decreased primarily due to utilization against earnings in Japan.

Income tax benefits of $370 million, $178 million, and $750 million, were allocated to stockholders' equity related to employee stock compensation transactions for 2003, 2002, and 2001, respectively.

Cumulative undistributed earnings of non-U.S. subsidiaries were approximately $5.9 billion at December 26, 2003. 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 practical to determine the amount of additional tax that may be payable in the event these earnings are repatriated.

Note 17. Regulatory Requirements and Dividend Restrictions

The amounts reported herein are as reported in the applicable periods and have not been revised to give effect to retroactive restatement adjustments made for stock option expensing.

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 26, 2003, MLPF&S's regulatory net capital of $2,704 million was approximately 19% of ADI, and its regulatory net capital in excess of the minimum required was $2,419 million at 2% of ADI.

MLI, a U.K. regulated investment firm, 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 26, 2003, MLI's financial resources were $5,753 million, exceeding the minimum requirement by $920 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 26, 2003, MLGSI's liquid capital of $2,031 million was 248% of its total market and credit risk, and liquid capital in excess of the minimum required was $1,046 million.

Banking Regulation

Two subsidiaries of ML & Co., MLBUSA and MLB&T, are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital ratio — 10%. The following table presents the actual capital ratios and amounts for MLBUSA and MLB&T at December 26, 2003 and December 27, 2002.

(dollars in millions)

	2003		2002	
	Actual Ratio	**Amount**	**Actual Ratio**	**Amount**
Tier 1 leverage (to average assets)				
MLBUSA	6.47%	$ 4,480	5.35%	$ 3,740
MLB&T	6.00	857	5.42	848
Tier 1 capital (to risk-weighted assets)				
MLBUSA	10.73	4,480	11.48	3,740
MLB&T	19.18	857	20.53	848
Total capital (to risk-weighted assets)				
MLBUSA	11.28	4,706	12.04	3,924
MLB&T	19.20	858	20.54	848

MLCMB, an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority. The Bank is required to meet minimum regulatory capital requirements under EU banking law. The minimum capital level is defined as a Risk Asset Ratio of 8%. At December 26, 2003, MLCMB's capital ratio was 11.20% and its financial resources, as defined, were $1,606 million.

MLIB, a U.K. regulated bank, is subject to the capital requirements of the FSA. MLIB's overall individual consolidated capital ratio, which is above the minimum capital requirements established by the FSA, was 12.61% as of December 26, 2003 and its consolidated capital base was $1,932 million.

Insurance Regulation

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 26, 2003, $730 million, representing 82% 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 26, 2003, restricted net assets of these subsidiaries were $1.6 billion.

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 ML & Co.'s obligation to make payments on its preferred stock and TOPrS[SM], and the governing provisions of the Delaware General Corporation Law.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 26, 2003. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 26, 2003 and December 27, 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 26, 2003 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 ("SFAS") No. 142, *Goodwill and Other Intangible Assets*.

As discussed in Note 2 to the consolidated financial statements, in 2004 Merrill Lynch changed its method of accounting for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, and retroactively restated its 2003, 2002 and 2001 consolidated financial statements.

As discussed in Note 2 to the consolidated financial statements, the 2003, 2002, and 2001 consolidated financial statements have been restated to correct the accounting for certain retail account fees.

/s/ Deloitte & Touche LLP

New York, New York
March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

Supplemental Financial Information (unaudited)

Quarterly Information

The unaudited quarterly results of operations of Merrill Lynch for 2003 and 2002 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. 26, 2003[(a)]	Sept. 26, 2003[(b)]	June 27, 2003[(c)]	Mar. 28, 2003	Dec. 27, 2002[(d)]	Sept. 27, 2002[(e)]	June 28, 2002[(f)]	Mar. 29, 2002
Total Revenues, as reported	$6,882	$6,866	$7,301	$6,932	$6,507	$6,892	$7,343	$7,566
Adjustment to correct error	6	3	(4)	(3)	10	6	(8)	(11)
Total Revenues, as restated	6,688	6,869	7,297	6,929	6,517	6,898	7,335	7,555
Interest Expense, as reported[(g)]	1,807	1,851	2,032	2,128	2,330	2,554	2,456	2,532
Net Revenues, as reported	4,875	5,015	5,269	4,804	4,177	4,338	4,887	5,034
Adjustment to correct error	6	3	(4)	(3)	10	6	(8)	(11)
Net Revenues, as restated	4,881	5,018	5,265	4,801	4,187	4,344	4,879	5,023
Non-Interest Expenses, as reported[(g)]	3,320	3,609	3,921	3,895	3,529	3,540	4,531	4,521
Earnings Before Income Taxes, as reported	1,555	1,406	1,348	909	648	798	356	513
Adjustment to correct error	6	3	(4)	(3)	10	6	(8)	(11)
Earnings Before Income Taxes, as restated	1,561	1,409	1,344	906	658	804	348	502
Income Tax Expense, as reported	344	403	371	266	140	238	73	154
Adjustment to correct error	2	1	(1)	(2)	4	3	(4)	(4)
Income Tax Expense, as restated	346	404	370	264	144	241	69	150
Net Earnings, as reported	1,211	1,003	977	643	508	560	283	359
Adjustment to correct error	4	2	(3)	(1)	6	3	(4)	(7)
Net Earnings, as restated	$ 1,215	$ 1,005	$ 974	$ 642	$ 514	$ 563	$ 279	$ 352
Earnings per common share:								
Basic, as reported	$ 1.32	$ 1.10	$ 1.08	$ 0.71	$ 0.58	$ 0.64	$ 0.32	$ 0.41
Adjustment to correct error	—	—	—	—	—	—	(0.01)	(0.01)
Basic, as restated	$ 1.32	$ 1.10	$ 1.08	$ 0.71	$ 0.58	$ 0.64	$ 0.31	$ 0.40
Diluted, as reported	$ 1.19	$ 1.00	$ 1.00	$ 0.67	$ 0.53	$ 0.59	$ 0.29	$ 0.37
Adjustment to correct error	—	—	—	—	—	—	(0.01)	(0.01)
Diluted, as restated	$ 1.19	$ 1.00	$ 1.00	$ 0.67	$ 0.53	$ 0.59	$ 0.28	$ 0.36

(a) Includes after-tax net recoveries related to September 11 of $42 million and net benefits from restructuring and other charges of $3 million.
(b) Includes after-tax net recoveries related to September 11 of $13 million.
(c) Includes after-tax net recoveries related to September 11 of $36 million.
(d) Includes after-tax research settlement-related expenses of $129 million, net recoveries related to September 11 of $12 million, and net benefits from restructuring and other charges of $41 million.
(e) Includes after-tax net recoveries related to September 11 of $114 million and net restructuring benefits of $1 million.
(f) Includes after-tax research settlement-related expenses of $78 million.
(g) No change to reported amount.

Note: Amounts have been restated as discussed in Note 2 to the Consolidated Financial Statements.

Dividends Per Common Share

(declared and paid)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2003	$ .16	$ .16	$ .16	$ .16
2002	.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 ML & Co.'s obligation to make payments on its preferred stock and TOPrS^{SM}, and the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited. See Note 17 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
2003	$ 43.75	$ 30.75	$ 49.20	$ 35.30	$ 57.50	$ 45.83	$ 60.47	$ 53.85
2002	59.32	44.15	55.20	36.50	40.71	30.99	44.91	28.21

The approximate number of holders of record of ML & Co. common stock as of February 24, 2004 was 19,620. As of February 24, 2004, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was $60.75.

Exhibit 99.2

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		
	2003 (a)	**2002 (a)**	**2001 (a)**
REVENUES			
Interest (principally from affiliates)	$ 1,551	$ 1,865	$ 3,397
Management service fees (from affiliates)	448	444	448
Other	2	15	14
Total Revenues	2,001	2,324	3,859
Interest Expense	1,617	1,838	3,694
Net Revenues	384	486	165
NON-INTEREST EXPENSES			
Compensation and benefits	337	480	461
Other	166	306	375
Net (recoveries) expenses related to September 11	18	(55)	71
Restructuring and other charges	13	57	239
Total Non-Interest Expenses	534	788	1,146
EQUITY IN EARNINGS OF AFFILIATES	3,904	1,879	272
EARNINGS (LOSS) BEFORE INCOME TAXES	3,754	1,577	(709)
Income Tax Benefit	82	131	369
NET EARNINGS (LOSS)	$ 3,836	$ 1,708	$ (340)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	19	(202)	(23)
COMPREHENSIVE INCOME (LOSS)	$ 3,855	$ 1,506	$ (363)
NET EARNINGS (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 3,797	$ 1,670	$ (378)

(a) Amounts have been restated as discussed in Note 2 to the condensed financial statements.
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 26, 2003 [(a)]	December 27, 2002 [(a)]
ASSETS		
Cash and cash equivalents	$ 119	$ 939
Cash pledged as collateral	296	375
Investment securities (includes securities pledged as collateral of $7,350 in 2003 and $0 in 2002)	16,777	8,556
Advances to affiliates:		
Senior advances	68,050	60,691
Subordinated loans and preferred securities	12,708	15,471
	80,758	76,162
Investments in affiliates, at equity	26,258	22,254
Equipment and facilities (net of accumulated depreciation and amortization of $222 in 2003 and $236 in 2002)	66	109
Other receivables and assets	5,252	5,803
TOTAL ASSETS	$ 129,526	$ 114,198
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Payables under repurchase agreements	$ 6,558	$ —
Commercial paper and other short-term borrowings	3,400	3,371
Payables to affiliates	5,018	6,459
Other liabilities and accrued interest	5,127	4,098
Long-term borrowings	80,539	76,189
Total Liabilities	100,642	90,117
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity	425	425
Common Stockholders' Equity:		
Shares exchangeable into common stock	43	58
Common stock, par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2003 — 1,063,205,274 shares; 2002 — 983,502,078 shares	1,417	1,311
Paid-in capital	10,676	9,102
Accumulated other comprehensive loss (net of tax)	(551)	(570)
Retained earnings	18,692	15,491
	30,277	25,392
Less: Treasury stock, at cost: 2003 — 117,294,392 shares; 2002 — 116,211,158 shares	1,195	961
Unamortized employee stock grants	623	775
Total Common Stockholders' Equity	28,459	23,656
Total Stockholders' Equity	28,884	24,081
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 129,526	$ 114,198

(a) Amounts have been restated as discussed in Note 2 to the condensed financial statements.
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		
	2003 (a)	2002 (a)	2001 (a)
Cash Flows from Operating Activities:			
Net Earnings (Loss)	$ 3,836	$ 1,708	$ (340)
Noncash items included in earnings:			
Equity in earnings of affiliates	(3,904)	(1,879)	(272)
Depreciation and amortization	23	35	65
Stock compensation plan expense	72	116	174
Restructuring and other charges	13	57	144
Other	409	(189)	(303)
Changes in Operating Assets and Liabilities:			
Cash pledged as collateral	79	(375)	—
Payables under repurchase agreements	6,558	—	—
Other, net	3,872	1,352	402
Cash Provided by (Used for) Operating Activities	10,958	825	(130)
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Loans to affiliates, net of payments	(5,742)	5,943	3,162
Maturities of available-for-sale securities	4,695	8,856	2,003
Sales of available-for-sale securities	7,489	111	5,444
Purchases of available-for-sale securities	(20,517)	(14,164)	(2,449)
Investments in affiliates, net of dispositions	(800)	(1,448)	(886)
Dividends and partnerships distributions from affiliates	863	1,014	1,113
Equipment and facilities	20	(20)	(104)
Cash Provided by (Used for) Investing Activities	(13,992)	292	8,283
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	29	1,462	(11,069)
Issuance and resale of long-term borrowings	27,631	23,754	35,380
Settlement and repurchase of long-term borrowings	(25,505)	(25,866)	(31,211)
Common stock transactions	693	241	143
Dividends to shareholders	(634)	(591)	(579)
Cash Provided by (Used for) Financing Activities	2,214	(1,000)	(7,336)
Increase (Decrease) in Cash and Cash Equivalents	(820)	117	817
Cash and Cash Equivalents, beginning of year	939	822	5
Cash and Cash Equivalents, end of year	$ 119	$ 939	$ 822
Supplemental Disclosure			
Cash paid for:			
Income taxes	$ (62)	$ 487	$ 313
Interest	1,641	1,858	3,746

(a) Amounts have been restated as discussed in Note 2 to the condensed financial statements.
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 2003 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 8-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)
- Commercial Paper and Short- and Long-Term Borrowings (Note 10)
- Stockholders' Equity and Earnings Per Share (Note 12)
- Commitments, Contingencies and Guarantees (Note 13)
- Employee Benefit Plans (Note 14)
- Employee Incentive Plans (Note 15)
- Income Taxes (Note 16)

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. ACCOUNTING CHANGES

Retail Account Fees

Subsequent to the issuance of the 2003 financial statements (as restated for the adoption of SFAS 123 as described below), Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. These account fees are included in Equity in earnings of affiliates on the Condensed Statements of Earnings. This restatement resulted in a cumulative decrease to stockholders' equity of $66 million, or 0.2% as of December 26, 2003. Of this amount, $60 million is related to periods prior to 2001. Further details regarding the impact of this change are as follows.

(dollars in millions, except per share amounts)	2003	2002	2001
Earnings (loss) before income taxes as reported	$ 3,752	$ 1,579	$ (704)
Adjustment to correct error	2	(2)	(5)
Earnings (loss) before income taxes as restated	$ 3,754	$ 1,577	$ (709)
Net earnings (loss) as previously reported	$ 3,834	$ 1,710	$ (335)
Adjustment to correct error	2	(2)	(5)
Net earnings (loss) as restated	$ 3,836	$ 1,708	$ (340)
Earnings (loss) per common share:			
Basic as reported	$ 4.21	$ 1.94	$ (0.45)
Adjustment to correct error	.01	—	—
Basic, as restated	$ 4.22	$ 1.94	$ (0.45)
Diluted as reported	$ 3.88	$ 1.77	$ (0.45)
Adjustment to correct error	—	—	—
Diluted, as restated	$ 3.88	$ 1.77	$ (0.45)

Stock-based Compensation

Effective for the first quarter of 2004, Merrill Lynch adopted the fair value method of accounting for stock-based accounting under SFAS 123, using the retroactive restatement method described in SFAS 148. Under the fair value recognition provisions of SFAS 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The December 26, 2003 and December 27, 2002 Condensed Balance Sheets have been restated for the retroactive adoption of the fair value recognition provisions of SFAS 123. Accordingly, the December 26, 2003 Condensed Balance Sheet reflects a $4.0 billion increase in paid-in capital, a $2.7 billion decrease in retained earnings, and a $1.3 billion increase in deferred income taxes. The December 27, 2002 Condensed Balance Sheet reflects a $3.8 billion increase in paid-in capital, a $2.5 billion decrease in retained earnings, and a $1.3 billion increase in deferred income taxes.

For the years 2003, 2002, and 2001, $32 million, ($20 million after-tax), $93 million ($58 million after-tax), and $145 million ($90 million after-tax), respectively, of stock option compensation expense was recorded related to the adoption of SFAS 123.

For the years 2003, 2002, and 2001, after-tax amounts of $134 million, $745 million, and $818 million, respectively, of stock option compensation expense was recorded related to the adoption of SFAS 123 in equity in earnings of affiliates.

NOTE 3. 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 and 2003, ML & Co. incurred additional pre-tax restructuring charges of $57 million and $13 million, respectively, related to changes in the 2001 restructuring.

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. The remaining employee separations were 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 26, 2003 is as follows:

(dollars in millions)

	Balance Dec 28, 2001	Utilized in 2002	Net Change in Estimate	Balance Dec 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec 26, 2003
Category:							
Severance Costs	$ 85	$ (66)	$ (6)	$ 13	$ (10)	$ (3)	$ –
Facilities Costs	120	(24)	68	164	(51)	16	129
Technology & fixed asset write-offs	–	4	(4)	–	–	–	–
Other costs	7	(4)	(1)	2	(2)	–	–
	$ 212	$ (90)	$ 57	$ 179	$ (63)	$ 13	$ 129
Staff Reductions	224	(215)	(1)	8	(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 2003, expenses related to September 11 were $18 million. Expenses related to September 11 were $95 million and $176 million in 2002 and 2001, respectively. In 2002, ML & Co. recorded and received September 11-related insurance recoveries of $150 million. In 2001, ML & Co. recorded September 11-related expenses of $71 million, net of insurance recoveries of $105 million. ML & Co. has now concluded its insurance recovery efforts related to the events of September 11. In aggregate, ML & Co. received a total of $255 million of insurance recoveries.

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

NOTE 4. GUARANTEES

ML & Co. guarantees certain senior debt instruments issued by subsidiaries, which totaled $5.4 billion and $5.8 billion in 2003 and 2002, respectively.

In the normal course of business, ML & Co. guarantees certain of its subsidiaries' obligations under derivative contracts. The current exposure associated with this activity at December 26, 2003 was approximately $40.5 billion, which represents the current fair value of the subsidiaries' obligations. The maximum payout is not quantifiable because, for example, changes in the value of the underlying of the derivative contract could be unlimited. 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 for discussion of risk management of derivatives.)

In addition to the derivative contracts described above, ML & Co. guarantees certain liquidity facilities. ML & Co. also provides residual value guarantees associated with the Hopewell campus and aircraft leases of $325 million. As of December 26, 2003, the carrying value of the liability on the Consolidated Financial Statement is $34 million. (See Note 13 to the Consolidated Financial Statements in the Annual Report for further information.)

ML & Co. also guarantees obligations of the trust that issued Trust Originated Preferred Securities[SM] ("TOPrS[SM]") (see Note 5 below and Note 10 to the Consolidated Financial Statements in the Annual Report for further information).

NOTE 5. INVESTMENT SECURITIES

Investment securities include highly liquid debt securities held for liquidity and collateral purposes. Investment securities reported on the Condensed Balance Sheets at December 26, 2003 and December 27, 2002 are as follows:

(dollars in millions)

	2003	2002
Investment securities		
Available-for-sale	$15,746	$7,569
Trading	150	-
Non-qualifying(1)		
Deferred compensation hedges(2)	14	173
Other(3)	867	814
Total	$16,777	$8,556

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

(2) Represents investments economically hedging deferred compensation liabilities.

(3) Includes TOPrS[SM]-related investments and other non-qualifying investments.

Investment securities are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements within the Annual Report.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 26, 2003				December 27, 2002			
	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	$12,348	$111	$(32)	$12,427	$3,634	$147	$(40)	$3,741
U.S. Government and agencies	3,296	85	(62)	3,319	3,720	121	(13)	3,828
Total	$15,644	$196	$(94)	$15,746	$7,354	$268	$(53)	$7,569

The amortized cost and estimated fair value of debt securities at December 26, 2003 by contractual maturity, for available-for-sale investments follow:

(dollars in millions)

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 243	$ 243
Due after one year through five years	525	582
Due after five years through ten years	2,414	2,379
Due after ten years	114	115
	3,296	3,319
Mortgage- and asset-backed securities	12,348	12,427
Total(1)	$15,644	$15,746

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)

	2003	2002	2001
Proceeds	$7,489	$111	$5,444
Gross realized gains	53	16	5
Gross realized losses	(60)	(9)	(3)

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 26, 2003.

(dollars in millions)

Asset category	More than 1 year	
	Fair Value	Unrealized Losses
Mortgage and asset-backed securities	$8,382	$32
U.S. Government and agencies	2,293	62
Total temporarily impaired securities	$10,675	$94

(See Management's Discussion and Analysis (Unaudited) and Note 6 to the Consolidated Financial Statements in the Annual Report for further information.)

NOTE 6. ADVANCES TO AFFILIATES

Senior advances are provided to regulated and unregulated subsidiaries and have an average maturity of less than one year.

Subordinated loans are provided to regulated subsidiaries and qualify as regulatory capital. As of December 26, 2003, the average maturity of subordinated loans was approximately 2.5 years, with remaining maturities on individual loans ranging from 1 year to 10 years. (See Note 17 to the Consolidated Financial Statements in the Annual Report for further information.)

Preference securities represent $1.3 billion in Redeemable Cumulative Preferred Stock issued to ML & Co. by an unregulated consolidated Merrill Lynch subsidiary. ML & Co. and the issuing subsidiary have the right and option to redeem any or all of the preferred stock at any time.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements), which expresses an unqualified opinion and includes explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statements of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123,*Accounting for Stock-Based Compensation*, as amended by SFAS No. 148,*Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees; such restated consolidated financial statements and report are included and incorporated herein by reference. Our audits also included the restated financial statement schedule of Merrill Lynch & Co., Inc., listed in Exhibit 99.2. Such restated 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 restated financial statement schedule, when considered in relation to the basic restated consolidated 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
March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2)
(February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

Exhibit 99.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements), (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements), which expresses an unqualified opinion and includes explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142 , *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123,*Accounting for Stock-Based Compensation*, as amended by SFAS No. 148,*Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees. Such restated consolidated financial statements and our report thereon are incorporated by reference in Exhibit 99.1 of this Current Report on Form 8-K.

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the years ended December 29, 2000 and December 31, 1999 prior to restatement for the adoption of SFAS No. 123 and the restatement related to the accounting for certain retail account fees (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.) We also audited the adjustments relating to the restatements described in Note 2 to the consolidated financial statements that were applied to restate the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999, and the related consolidated statements of earnings for the years ended December 29, 2000 and December 31, 1999. In our opinion, the restated 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 26, 2003, included and incorporated by reference in this Current Report on Form 8-K, is fairly stated, in all material respects, in relation to the restated consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2)
(February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

Exhibit 99.4

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries (“Merrill Lynch”) as of December 26, 2003 and December 27, 2002, and for each of the three years in the period ended December 26, 2003, and have issued our report thereon dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements), which expresses an unqualified opinion and includes explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees. Such restated consolidated financial statements and our report thereon are incorporated by reference in Exhibit 99.1 of this Current Report on Form 8-K.

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999, and the related consolidated statements of earnings, changes in stockholders’ equity, comprehensive income and cash flows for the years ended December 29, 2000 and December 31, 1999 prior to restatement for the adoption of SFAS No. 123 and the restatement related to the accounting for certain retail account fees (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.) We also audited the adjustments relating to the restatements described in Note 2 to the consolidated financial statements that were applied to restate the consolidated balance sheets of Merrill Lynch as of December 28, 2001, December 29, 2000 and December 31, 1999, and the related consolidated statements of earnings for the years ended December 29, 2000 and December 31, 1999. In our opinion, the restated information set forth in the “Selected Financial Data” table under the captions “Results of Operations,” “Financial Position” and “Common Share Data,” included in Exhibit 99.1 and included and incorporated by reference in this Current Report on Form 8-K, is fairly stated, in all material respects, in relation to the restated consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2)
(February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

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

Exhibit 99.5

(in millions, except per share amounts)

	For the Three Months Ended		
	Mar. 26, 2004[1]	**Mar. 28, 2003[1]**	**Percent Inc. (Dec.)**
Net Revenues			
Asset management and portfolio service fees	$ 1,313	$ 1,124	16.8%
Commissions	1,361	1,069	27.3
Principal transactions	1,046	1,025	2.0
Investment banking	837	493	69.8
Other	367	213	72.3
Subtotal	4,924	3,924	25.5
Interest and dividend revenues	3,061	3,005	1.9
Less interest expense	1,897	2,128	(10.9)
Net interest profit	1,164	877	32.7
Total Net Revenues	6,088	4,801	26.8
Non-Interest Expenses			
Compensation and benefits	3,047	2,561	19.0
Communications and technology	341	403	(15.4)
Occupancy and related depreciation	217	216	0.5
Brokerage, clearing, and exchange fees	204	170	20.0
Advertising and market development	122	121	0.8
Professional fees	177	144	22.9
Office supplies and postage	51	58	(12.1)
Other	239	222	7.7
Total Non-Interest Expenses	4,398	3,895	12.9
Earnings Before Income Taxes	1,690	906	86.5
Income tax expense	439	264	66.3
Net Earnings	$ 1,251	$ 642	94.9
Net Earnings Applicable to Common Stockholders	$ 1,241	$ 632	96.4
Earnings Per Common Share			
Basic	$ 1.33	$ 0.71	
Diluted	$ 1.22	$ 0.67	
Dividend Paid Per Common Share	$ 0.16	$ 0.16	
Average Shares Used in Computing Earnings Per Common Share			
Basic	930.2	887.6	
Diluted	1,019.7	941.9	

(1) Amounts have been restated, as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(dollars in millions)	Mar. 26, 2004[1]	Dec. 26, 2003[1]
ASSETS		
Cash and cash equivalents	$ 12,530	$ 10,150
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	14,514	15,171
Securities financing transactions		
Receivables under resale agreements	76,743	71,756
Receivables under securities borrowed transactions	51,076	45,472
	127,819	117,228
Trading assets, at fair value (includes securities pledged as collateral of $21,070 in 2004 and $23,146 in 2003)		
Contractual agreements	37,548	37,196
Corporate debt and preferred stock	25,159	22,459
Equities and convertible debentures	24,870	23,170
Non-U.S. governments and agencies	20,490	15,991
Mortgages, mortgage-backed, and asset-backed	19,857	20,508
U.S. Government and agencies	10,163	10,408
Municipals and money markets	3,653	4,577
	141,740	134,309
Investment securities (includes securities pledged as collateral of $7,977 in 2004 and $6,608 in 2003)	79,866	74,809
Securities received as collateral	8,307	9,156
Other receivables		
Customers (net of allowance for doubtful accounts of $54 in 2004 and $60 in 2003)	39,065	36,955
Brokers and dealers	9,894	7,346
Interest and other	11,542	11,187
	60,501	55,488
Loans, notes, and mortgages (net of allowances of $308 in 2004 and $318 in 2003)	49,949	50,993
Separate accounts assets	17,200	17,034
Equipment and facilities (net of accumulated depreciation and amortization of $5,022 in 2004 and $5,054 in 2003)	2,598	2,612
Goodwill	4,922	4,814
Other assets	5,095	4,595
Total Assets	$525,041	$496,359

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

(dollars in millions, except per share amount)

	Mar. 26, 2004[1]	Dec. 26, 2003[1]
LIABILITIES		
Securities financing transactions		
Payables under repurchase agreements	$ 99,531	$ 96,138
Payables under securities loaned transactions	20,400	11,081
	119,931	107,219
Commercial paper and other short-term borrowings	4,636	5,000
Deposits	78,126	79,457
Trading liabilities, at fair value		
Contractual agreements	45,628	43,353
U.S. Government and agencies	16,739	15,323
Non-U.S. governments and agencies	14,452	12,066
Equities and convertible debentures	12,126	10,793
Corporate debt, municipals and preferred stock	9,649	7,798
	98,594	89,333
Obligation to return securities received as collateral	8,307	9,156
Other payables		
Customers	30,773	28,859
Brokers and dealers	12,073	19,109
Interest and other	21,820	22,453
	64,666	70,421
Liabilities of insurance subsidiaries	3,351	3,353
Separate accounts liabilities	17,200	17,034
Long-term borrowings	96,908	83,299
Long-term debt issued to TOPrS℠ partnerships	3,202	3,203
Total Liabilities	494,921	467,475
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	42	43
Common stock (par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2004 - 1,088,230,010 shares; 2003 - 1,063,205,274 shares)	1,451	1,417
Paid-in capital	11,860	10,676
Accumulated other comprehensive loss (net of tax)	(488)	(551)
Retained earnings	19,780	18,692
	32,645	30,277
Less: Treasury stock, at cost (2004 - 124,426,365 shares; 2003 - 117,294,392 shares)	1,707	1,195
Unamortized employee stock grants	1,243	623
Total Common Stockholders' Equity	29,695	28,459
Total Stockholders' Equity	30,120	28,884
Total Liabilities and Stockholders' Equity	$525,041	$496,359

(1) Amounts have been restated, as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements

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

(dollars in millions)

	For the Three Months Ended	
	Mar. 26, 2004[(1)]	**Mar. 28, 2003[(1)]**
Cash flows from operating activities:		
Net earnings	$ 1,251	$ 642
Noncash items included in earnings:		
Depreciation and amortization	125	148
Policyholder reserves	36	40
Stock compensation plan expense	136	233
Deferred taxes	71	418
Undistributed (earnings) loss from equity investments	(99)	2
Other	(175)	51
Changes in operating assets and liabilities:		
Trading assets	(7,485)	(2,923)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	243	(210)
Receivables under resale agreements	(4,976)	(3,141)
Receivables under securities borrowed transactions	(5,604)	(2,524)
Customer receivables	(2,104)	(699)
Brokers and dealers receivables	(2,548)	—
Trading liabilities	7,133	6,513
Payables under repurchase agreements	3,393	(100)
Payables under securities loaned transactions	9,319	1,002
Customer payables	1,914	(172)
Brokers and dealers payables	(7,036)	5,217
Other, net	(2,344)	(1,459)
Cash provided by (used for) operating activities	(8,750)	3,038
Cash flows from investing activities:		
Proceeds from (payments for):		
Maturities of available-for-sale securities	6,228	6,200
Sales of available-for-sale securities	5,143	15,277
Purchases of available-for-sale securities	(14,375)	(15,805)
Maturities of held-to-maturity securities	44	39
Purchases of held-to-maturity securities	(82)	(203)
Loans, notes, and mortgages	1,054	245
Other investments and other assets	(381)	(1,387)
Equipment and facilities	(111)	(173)
Cash provided by (used for) investing activities	(2,480)	4,193
Cash flows from financing activities:		
Proceeds from (payments for):		
Commercial paper and other short-term borrowings	(364)	(1,844)
Deposits	(1,331)	41
Issuance and resale of long-term borrowings	18,302	5,863
Settlement and repurchases of long-term borrowings	(4,809)	(7,311)
Derivative financing transactions	2,128	—
Issuance of common stock	326	117
Treasury stock repurchases	(502)	—
Other common stock transactions	23	(24)
Dividends	(163)	(152)
Cash provided by (used for) financing activities	13,610	(3,310)
Increase in cash and cash equivalents	2,380	3,921
Cash and cash equivalents, beginning of period	10,150	10,211
Cash and cash equivalents, end of period	$ 12,530	$ 14,132
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Income taxes	$ 105	$ 30
Interest	1,765	2,031

(1) Amounts have been restated as discussed in Note 2.

Merrill Lynch & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 26, 2004

Note 1. Summary of Significant Accounting Policies

For a complete discussion of Merrill Lynch's accounting policies, refer to the restated excerpt of the Annual Report to Shareholders filed as Exhibit 13 to Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, which is included as exhibit 99.1 to this Form 8-K.

Basis of Presentation

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

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the 2003 Annual Report. The December 26, 2003 restated unaudited Condensed Consolidated Balance Sheet was derived from the audited 2003 consolidated financial statements. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation.

New Accounting Pronouncements

On January 12, 2004, the FASB issued a final FASB Staff Position ("FSP") 106-1,*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* which addresses the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("the Act") that was signed into law on December 8, 2003. FSP 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act. At December 26, 2003, Merrill Lynch elected to defer accounting for the effects of the Act, and as a result any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the plan. Furthermore, at March 26, 2004, specific authoritative guidance on the accounting for the federal

subsidy is pending, and that guidance, when issued, could require Merrill Lynch to change previously reported information. Merrill Lynch will assess the impact on the Condensed Consolidated Financial Statements when the final guidance is issued.

On December 23, 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Merrill Lynch adopted the provisions of SFAS No. 132 as of December 26, 2003. See Note 12 to the Condensed Consolidated Financial Statements for these disclosures.

In December of 2003, the American Institute or Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In instances where the cash flows or the timing of the cash flows cannot be reasonably estimated, income on the loan or debt security may not be accreted. In addition, the SOP prohibits the recognition of a reserve for impairment on the purchase date. Further, the SOP requires that the allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch will adopt SOP 03-3 as of the beginning of fiscal year 2005 and is currently assessing the potential impact on the Condensed Consolidated Financial Statements.

On July 7, 2003, the AICPA issued SOP 03-1,*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The SOP was effective for financial statements for Merrill Lynch beginning in 2004. The SOP required 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 used to employ. The adoption of SOP 03-1 resulted in an additional $45 million of pre-tax expense in the first quarter of 2004.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate another entity known as a VIE, and on December 24, 2003 the FASB issued a revised standard ("FIN 46R"). 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 46R 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 46R does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. As permitted by the transition guidance in FIN 46R, Merrill Lynch adopted the revised standard on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R to all VIEs with which it is involved, with the exception of those VIEs that issue Merrill Lynch Trust Originated Preferred Securities ("TOPrS[SM]"). The adoption of FIN 46R at December 26, 2003 was reported as a cumulative effect of a change in accounting principle and did not have a material effect on the Consolidated Financial Statements. As of March 26, 2004, Merrill Lynch applied FIN 46R to those VIEs that issue TOPrS[SM] . As a result, these VIEs were deconsolidated.

The deconsolidation of TOPrS℠ did not have a material impact on the Condensed Consolidated Financial Statements of Merrill Lynch and was reported by retroactively restating prior period financial statements. See Note 6 to the Condensed Consolidated Financial Statements for additional FIN 46R disclosure.

Note 2. Accounting Changes

Retail Account Fees

In the fourth quarter of 2004, subsequent to the filing of the Form 10-Q for the quarter ended March 26, 2004, Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. These account fees are included in Asset management and portfolio service fees on the Condensed Consolidated Statements of Earnings. This restatement resulted in a cumulative decrease to stockholders' equity of $67 million, or 0.2% as of March 26, 2004. This restatement also resulted in decreases to retained earnings of $67 million and $66 million, as of March 26, 2004 and December 26, 2003, respectively, with corresponding increases in deferred revenues of $111 million and $109 million, respectively, and increases to deferred income taxes of $44 million and $43 million, respectively. Further details of this change are as follows:

(dollars in millions, except per share amounts)

	For the Three Months Ended	
	Mar. 26, 2004	**Mar. 28, 2003**
Earnings before income taxes as reported	$ 1,692	$ 909
Adjustment to correct error	(2)	(3)
Earnings before income taxes, as restated	$ 1,690	$ 906
Net earnings as previously reported	$ 1,252	$ 643
Adjustment to correct error	(1)	(1)
Net earnings, as restated	$ 1,251	$ 642
Earnings per common share:		
Basic as reported	$ 1.34	$ 0.71
Adjustment to correct error	(.01)	—
Basic, as restated	$ 1.33	$ 0.71
Diluted as reported	$ 1.22	$ 0.67
Adjustment to correct error	—	—
Diluted, as restated	$ 1.22	$ 0.67

Stock-based Compensation

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.* Effective for the first quarter of 2004, Merrill Lynch adopted the fair value method of accounting for stock-based accounting under SFAS No. 123, using the retroactive restatement method described in SFAS No.148. Under the fair value recognition provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The December 26, 2003 Condensed Consolidated Balance Sheet has been restated for the retroactive adoption of the fair value recognition provisions of SFAS No. 123. Accordingly, the December 26, 2003 Condensed Consolidated Balance Sheet reflects a $4.0 billion increase in paid-in capital, a $2.7 billion decrease in retained earnings, and a $1.3 billion increase in deferred income tax assets. During the first quarter of 2004 and 2003, $59 million and $65 million, respectively, of stock option compensation expense was recorded in earnings. See Note 15 to the 2003 Annual Report for additional information related to stock-based compensation.

Note 3. Other Significant Events

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 2001 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. Utilization of the restructuring reserve at March 26, 2004 is as follows:

(dollars in millions)

	Balance Dec. 26, 2003	Utilized in 2004	Balance March 26, 2004
Category:			
Severance costs	$ 5	$ (2)	$ 3
Facilities costs	206	(15)	191
Other Costs	20	(8)[1]	12
	$ 231	$ (25)	$ 206

(1) Represents a change in estimate which was attributable to differences in actual costs from initial estimates in implementing the original restructuring plan.

Note 4. Segment Information

In reporting to management, Merrill Lynch's operating results are categorized into three business segments: the Global Markets and Investment Banking Group ("GMI"), Global Private Client ("GPC") and Merrill Lynch Investment Managers ("MLIM"). Prior period amounts have been restated to conform to the current period presentation. For information on each segment's business activities, see the 2003 Annual Report.

Results by business segment are as follows:

(dollars in millions)

	GMI	GPC	MLIM	Corporate Items	Total
Three Months Ended March 26, 2004					
Non-interest revenues	$ 2,361	$ 2,159	$ 407	$ (3)[1]	$ 4,924
Net interest profit[2]	874	339	5	(54)[3]	1,164
Net revenues	3,235	2,498	412	(57)	6,088
Non-interest expenses	2,120	1,990	301	(13)[1]	4,398
Pre-tax earnings (loss)	$ 1,115	$ 508	$ 111	$ (44)	$ 1,690
Quarter-end total assets	$449,467	$ 62,815	$ 7,263	$ 5,496	$525,041

	GMI	GPC	MLIM	Corporate Items	Total
Three Months Ended March 28, 2003					
Non-interest revenues	$ 1,822	$ 1,776	$ 330	$ (4)[1]	$ 3,924
Net interest profit[2]	635	324	7	(89)[3]	877
Net revenues	2,457	2,100	337	(93)	4,801
Non-interest expenses	1,708	1,854	298	35[1]	3,895
Pre-tax earnings	$ 749	$ 246	$ 39	$ (128)	$ 906
Quarter-end total assets	$388,705	$ 59,202	$ 4,577	$ 4,935	$457,419

(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 and other corporate interest, including the impact of TOPrS^{SM}. See Note 6 for additional information on the impact of TOPrS^{SM}.

Note 5. Investment Securities

Investment securities at March 26, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	Mar. 26, 2004	Dec. 26, 2003
Investment securities		
Available-for-sale [1]	$ 69,366	$ 66,121
Trading	5,676	4,798
Held-to-maturity	706	636
Non-qualifying [2]		
Deferred compensation hedges [3]	700	636
Other [4]	9,582	9,197
Total	$ 86,030	$ 81,388

(1) At March 26, 2004 and December 26, 2003, includes $6.2 billion and $6.6 billion, respectively, of investment securities reported in Cash and securities segregated for regulatory purposes or deposited with clearing organizations.

(2) Non-qualifying for SFAS No. 115 purposes.

(3) Represents investments economically hedging deferred compensation liabilities.

(4) Includes insurance policy loans, merchant banking investments, preferred stock, TOPrS[SM] investments, and other non-qualifying investments.

Note 6. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)

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; structuring SPEs; underwriting, distributing; and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of $10.1 billion and $20.5 billion for the three months ended March 26, 2004 and March 28, 2003, respectively. For the three months ended March 26, 2004, and March 28, 2003, Merrill Lynch received $10.2 billion and $20.9 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of $33.9 million and $14.6 million, respectively in Merrill Lynch’s Condensed Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

For the first three months of 2004 and 2003, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	Three Months Ended	
	Mar. 26, 2004	**Mar. 28, 2003**
Asset category		
Residential mortgage loans	$7,629	$18,313
Municipal bonds	1,734	1,352
Corporate and government bonds	343	223
Commercial loans and other	470	1,010
	$10,176	$20,898

Retained interests in securitized assets were approximately $2.4 billion and $2.7 billion at March 26, 2004 and December 26, 2003, respectively, 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 purchased and expects to sell to investors in the normal course of its underwriting activity. Approximately 65% and 64% at March 26, 2004 and December 26, 2003, respectively, of residential mortgage loan retained interests consists of interests in U.S. Government agency sponsored securitizations, which are guaranteed with respect to principal and interest. In addition, $692 million and $740 million at March 26, 2004 and December 26, 2003, respectively, 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, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of March 26, 2004 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	$ 1,684	$ 692	$ 21
Weighted average life (in years)	2.2	3.3	N/A
Range	0.0 – 20.0	0.1 – 6.7	N/A
Weighted average credit losses (rate per annum)	2.4%	0%	2.2%
Range	0.0 – 3.5%	0%	0.0 – 8.0%
Impact on fair value of 10% adverse change	$ (4)	$ —	$ —
Impact on fair value of 20% adverse change	$ (10)	$ —	$ (1)
Weighted average discount rate	6.5%	2.3%	19.2%
Range	0.0 – 147.4%	1.1 – 7.5%	4.5 – 25.0%
Impact on fair value of 10% adverse change	$ (7)	$ (51)	$ (1)
Impact on fair value of 20% adverse change	$ (13)	$ (96)	$ (1)
Weighted average prepayment speed (CPR)	19.5%	15.2%(1)	N/A
Range	12.5 – 55.0%	7.0 – 24.0%(1)	N/A
Impact on fair value of 10% adverse change	$ (14)	$ (1)	N/A
Impact on fair value of 20% adverse change	$ (27)	$ (2)	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate
(1) Relates to select securitization transactions where assets are prepayable.

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 weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2004 that were still held by Merrill Lynch as of March 26, 2004 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Weighted average life (in years)	4.0	N/A	N/A
Credit losses (rate per annum)	0.2%	0%	0.8%
Weighted average discount rate	4.3%	3.1%	13.3%
Prepayment speed assumption (CPR)	17.9%	N/A	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate

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 the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

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

The maximum commitment under these liquidity and default guarantees totaled $17.2 billion and $17.0 billion at March 26, 2004 and December 26, 2003, respectively. The fair value of the commitments approximated $202 million and $126 million at March 26, 2004 and December 26, 2003, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, $2.7 billion and $2.8 billion at March 26, 2004 and December 26, 2003, respectively, 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 11 to the Condensed Consolidated Financial Statements and in Note 13 in the 2003 Annual Report.

The following table summarizes principal amounts outstanding, delinquencies, and net credit losses of securitized financial assets as of March 26, 2004 and December 26, 2003.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
March 26, 2004			
Principal Amount Outstanding	$50,455	$13,705	$ 2,931
Delinquencies	44	—	—
Net Credit Losses	—	—	1
December 26, 2003			
Principal Amount Outstanding	$43,777	$14,890	$ 4,527
Delinquencies	54	—	—
Net Credit Losses	3	—	8

Variable Interest Entities

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

As permitted under the transition guidance, Merrill Lynch adopted the provisions of FIN 46R on an entity-by-entity basis. At December 26, 2003 Merrill Lynch applied FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest, with the exception of those VIEs that issue TOPrS[SM], in which case Merrill Lynch applied FIN 46R beginning in the first quarter of 2004. Merrill Lynch accounted for those VIEs that were consolidated under FIN 46R at year-end 2003 as a cumulative effect of a change in accounting principle, which did not have a material effect on the year-end 2003 consolidated financial statements.

During the first quarter of 2004, in accordance with FIN 46R, Merrill Lynch deconsolidated the partnerships and trusts that issue TOPrS[SM] since Merrill Lynch does not bear the majority of the risks and rewards of those entities. As a result, the dividends, of approximately $48 million per quarter, related to the TOPrS[SM] have been reclassified from dividends on preferred securities issued by subsidiaries to net revenues (primarily interest expense), and the debt, of approximately $3.2 billion, and partnership interests, of $574 million, related to the entities have been included in the Condensed Consolidated Balance Sheets as Long-term debt issued to TOPrS[SM] partnerships and Investment securities, respectively. Merrill Lynch has reflected the deconsolidation of TOPrS[SM] by retroactively restating prior period financial statements in order to provide comparability from period to period.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the primary beneficiary of VIEs that own convertible bonds purchased from Merrill Lynch, in which Merrill Lynch maintains a call option to repurchase the convertible bonds from the VIE. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option. Assets held by these VIEs are reported in Equities and convertible debentures or resale agreements, depending on the nature of the transaction, in the Condensed Consolidated Balance Sheet. Holders of the beneficial interests in these VIEs have no recourse to the general credit of Merrill Lynch; their investment is paid exclusively from the convertible bonds held by the VIE.

- Merrill Lynch is the primary beneficiary of "maturity shortening transactions," in which the VIE serves to shorten the maturity of a fixed income security, and, at the maturity date of the VIE, Merrill Lynch has the obligation to repurchase some or all of the securities held by the VIE. Assets held by these VIEs are reported in Corporate debt and preferred stock. The beneficial interest holders in these VIEs have recourse to Merrill Lynch to the extent that the underlying assets that Merrill Lynch is required to repurchase have declined in value from the initial transaction date.

- Merrill Lynch is the sponsor and guarantor of VIEs that provide a guarantee of principal to beneficial interest holders, thereby limiting investors' losses generated from the assets. Merrill Lynch may also guarantee investors' returns in excess of principal depending on the nature of the fund. In certain of these VIEs, Merrill Lynch is the primary beneficiary. Investors in these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the investors' initial investment or guaranteed amount. Where Merrill Lynch is not the primary beneficiary, guarantees related to these funds are discussed and disclosed in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary of and consolidate the VIE, or may be a significant variable interest holder. These VIEs are primarily designed to provide temporary on or off-balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where ML has provided financing and is the primary beneficiary are recorded in Other assets and/or Loans, notes and mortgages in the Condensed Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as Investment securities where Merrill Lynch holds a significant variable interest, and in Other assets where Merrill Lynch is the primary beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; their investments are paid exclusively from the assets in the VIE.

- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide foreign tax planning strategies to investors. Merrill Lynch is a significant variable interest holder in these VIEs.

- Merrill Lynch has a significant variable interest in a residential mortgage securitization entered into by one of its banking subsidiaries. Specifically, ML retains a 97% interest in the VIE. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this entity qualifies as a

QSPE and therefore Merrill Lynch does not consolidate the VIE. The 97% interest is reported in Investment securities on Merrill Lynch's Condensed Consolidated Balance Sheets.

- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch is a derivative counterparty to a VIE that serves to synthetically expose investors to a specific credit risk. Based on the provisions of FIN 46R, Merrill Lynch does not have a significant variable interest since the derivative it has purchased does not absorb variability of the VIE. However, because these structures represent a significant Merrill Lynch sponsored program, information related to these structures has been included in the following table.

The following tables summarize Merrill Lynch's involvement with the VIEs listed above as of March 26, 2004 and December 26, 2003, respectively. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)

Description	March 26, 2004			
	Primary Beneficiary		Significant Variable Interest Holder	
	Asset Size	Recourse to Merrill Lynch(4)	Asset Size	Maximum Exposure
Convertible Bond Stripping	$1,315	None	$—	$—
Maturity Shortening	369	$1	—	—
Guaranteed Funds	941	941	—	—
Loan and Real Estate VIEs	753	None	795	692
Municipal Bond Securitizations(1)	—	—	17,154	17,154
Foreign Tax Planning VIEs(2)	—	—	2,811	129
Mortgage Securitization	—	—	329	319
Synthetic Credit Risk VIEs(3)	—	—	6,986	572

(dollars in millions)

Description	December 26, 2003			
	Primary Beneficiary		Significant Variable Interest Holder	
	Asset Size	Recourse to Merrill Lynch(4)	Asset Size	Maximum Exposure
Convertible Bond Stripping	$1,864	None	$—	$—
Maturity Shortening	379	$1	—	—
Guaranteed Funds	863	863	—	—
Loan and Real Estate VIEs	775	None	636	567
Municipal Bond Securitizations(1)	—	—	16,927	16,927
Foreign Tax Planning VIEs(2)	—	—	2,811	114
Mortgage Securitization	—	—	345	334
Synthetic Credit Risk VIEs(3)	—	—	6,402	474

(1) The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's probability weighted exposure to these VIEs because it does not reflect the economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.

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

(3) The maximum exposure for Synthetic Credit Risk VIEs is the asset carrying value of the derivatives entered into with the VIEs as of March 26, 2004 and December 26, 2003, respectively.

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

Note 7. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, Notes, and Mortgages and related commitments to extend credit at March 26, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	Loans		Commitments	
	Mar. 26, 2004	**Dec. 26, 2003**	**Mar. 26, 2004(1)**	**Dec. 26, 2003**
Consumer and small- and middle-market business:				
Mortgages	$16,734	$16,688	$5,208	$4,842
Small- and middle-market business	6,954	6,737	3,408	3,411
Other	3,035	4,045	665	603
Commercial:				
Secured	21,275	21,048	15,461	12,425
Unsecured investment grade	1,268	1,806	17,967	15,028
Unsecured non-investment grade	683	669	874	562
Total	$49,949	$50,993	$43,583	$36,871

(1) See Note 11 for the maturity profile of these commitments.

The loan amounts are net of an allowance for loan losses of $308 million and $318 million as of March 26, 2004 and December 26, 2003, respectively.

Consumer and small- and middle-market business loans, substantially all of which are secured by real and/or personal property, consisted of approximately 203,100 individual loans at March 26, 2004 and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at March 26, 2004 consisted of approximately 6,900 separate loans, included 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 primarily related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled $4.9 billion at March 26, 2004 and December 26, 2003.

The above amounts include $8.3 billion and $7.6 billion of loans held for sale at March 26, 2004 and December 26, 2003, respectively. Loans held for sale are loans which management expects to sell prior to maturity. At March 26, 2004, such loans consisted of $4.8 billion of consumer loans, primarily residential mortgages, and $3.5 billion of commercial loans, approximately 65% of which are to investment grade counterparties. At December 26, 2003, such loans consisted of $5.2 billion of consumer loans, primarily residential mortgages, and $2.4 billion of commercial loans, approximately 59% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes, and mortgages, see Note 1 in the 2003 Annual Report.

Note 8. Commercial Paper, Short- and Long-Term Borrowings, and Bank Deposits

Commercial paper and Other short-term borrowings and Bank deposits at March 26, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	Mar. 26, 2004	Dec. 26, 2003
Commercial paper and other short-term borrowings		
Commercial paper	$3,822	$4,568
Other	814	432
Total	$4,636	$5,000
Bank deposits		
U.S.	$65,441	$65,409
Non U.S.	12,685	14,048
Total	$78,126	$79,457

Long-term borrowings

Merrill Lynch issues debt and Certificates of deposit whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. These instruments are assessed to determine if there is an embedded derivative that requires separate reporting and accounting. Beginning in 2004, in accordance with SEC guidance, Merrill Lynch amortizes any upfront profit associated with the embedded derivative into income as a yield adjustment over the life of the related debt instrument or Certificate of deposit.

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 per note. At maturity, the LYONs® holder will receive the original principal amount of $1,000 increased daily by a variable rate. 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 beginning June 1, 2007, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 13.8213 shares (i.e., the “conversion rate”) of Merrill Lynch common stock based on the conditions described below.

In May 2001, Merrill Lynch issued $4.6 billion of aggregate original principal amount of fixed rate contingently convertible LYONs® at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. 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®. The LYONs® are unsecured unsubordinated indebtedness of Merrill Lynch with a maturity of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period beginning June 1, 2006, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 5.6787 shares (i.e., the “conversion rate”) of common stock based on the conditions described below.

The conversion rate for both of Merrill Lynch's LYONs® will be adjusted for:

- Dividends or distributions payable in Merrill Lynch common stock.
- Distributions to all holders of Merrill Lynch common stock of certain rights to purchase the stock at less than the sale price of Merrill Lynch stock at that time.
- Distribution of Merrill Lynch assets to holders of Merrill Lynch common stock (excluding cash dividends that are not extraordinary dividends), or
- Certain corporate events, such as consolidation, merger or transfer of all, or substantially all, of Merrill Lynch's assets.

Both of Merrill Lynch LYONs® issuances may be converted based on any of the following conditions:

- If the closing price of Merrill Lynch common stock for at least 20 of the last 30 consecutive trading days ending on the last day of the quarter is more than the conversion trigger price. The conversion trigger price for the floating rate LYONs® at March 26, 2004 was $86.82. (That is, at March 26, 2004, a holder could have converted a floating rate LYONs® into 13.8213 shares of Merrill Lynch stock if the Merrill Lynch stock price had been greater than $86.82 for at least 20 of the last 30 consecutive trading days at the end of the last day of the quarter). The conversion trigger price for the fixed rate LYONs® at March 26, 2004 was $113.76. The conversion trigger price will change each quarter based on the accreted value of the LYONs® at that date.
- During any period in which the credit rating of LYONs® is Baa1 or lower by Moody's Investor Services, Inc., BBB+ or lower by Standard & Poor's Credit Market Services, or BBB+ or lower by Fitch, Inc.
- If the LYONs® are called for redemption.
- If Merrill Lynch is party to a consolidation, merger or binding share exchange, or
- If Merrill Lynch makes a distribution that has a per share value equal to more than 15% of the sale price of its shares on the day preceding the declaration date for such distribution.

As of March 26, 2004 none of the conversion triggers above had been met and, as a result, the related shares have not been included in the diluted EPS calculation.

Holders of LYONs® may require Merrill Lynch to repurchase their convertible instruments at accreted value on various dates prior to maturity. The initial put date for holders of floating rate LYONs® is March 13, 2005. The initial put date for fixed rate LYONs® is May 23, 2004. Merrill Lynch may pay the purchase price in cash, shares or any combination thereof. Merrill Lynch has elected to pay the purchase price for any fixed rate LYONs®that are put back to

Merrill Lynch on May 23, 2004, with cash. The maximum cash payment assuming the entire issue is put back to Merrill Lynch, would be $2.5 billion.

For further information regarding Merrill Lynch LYONs® issuances, refer to Note 9 of the 2003 Annual Report.

Note 9. Comprehensive Income

The components of comprehensive income are as follows:

(dollars in millions)

	Three Months Ended	
	Mar. 26, 2004	**Mar. 28, 2003**
Net Earnings	$ 1,251	$ 642
Other comprehensive income, net of tax:		
Currency translation adjustment	(8)	6
Net unrealized gain on investment securities available-for-sale	63	18
Deferred gain on cash flow hedges	8	6
Total other comprehensive income, net of tax	63	30
Comprehensive income	$ 1,314	$ 672

Note 10. Earnings Per Share

The computation of earnings per common share is as follows:

(dollars in millions, except per share amounts)

	Three Months Ended	
	Mar. 26, 2004	Mar. 28, 2003
Net Earnings	$ 1,251	$ 642
Preferred stock dividends	10	10
Net earnings applicable to common stockholders	$ 1,241	$ 632
(shares in thousands)		
Weighted-average shares outstanding	930,155	887,553
Effect of dilutive instruments(1) (2):		
Employee stock options	46,214	21,108
Financial Advisor Capital Accumulation Award Plan shares	23,353	20,373
Restricted shares and units	19,929	12,723
Employee Stock Purchase Plan shares	—	118
Dilutive potential common shares	89,496	54,322
Total weighted-average diluted shares	1,019,651	941,875
Basic earnings per common share	$ 1.33	$ 0.71
Diluted earnings per common share	$ 1.22	$ 0.67

(1) During the 2004 and 2003 first quarter there were 40 million and 159 million instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. Additionally, shares related to Merrill Lynch's LYONs® issuance are not included in the computation of diluted earnings per share because the threshold trigger price for conversion has not been reached. See Note 8 to the Condensed Consolidated Financial Statements.

(2) See Note 15 to the 2003 Annual Report for a description of these instruments.

Note 11. Commitments, Contingencies and Guarantees

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 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 in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these legal actions, investigations and proceedings, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest these actions. In many cases, including the class action lawsuits disclosed in Item 3 of the 2003 Form 10-K, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the litigation has been commenced, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch 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 it, 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 Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Commitments

At March 26, 2004, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	Less than 1 year	1– 3 years	3+ – 5 years	Over 5 years
Commitments to extend credit(1)	$ 43,583	$ 19,887	$ 10,107	$ 7,824	$ 5,765
Purchasing and other commitments	8,663	7,408	570	449	236
Operating leases	3,809	525	1,010	845	1,429
Resale agreements	14,821	14,821	—	—	—
Total	$ 70,876	$ 42,641	$ 11,687	$ 9,118	$ 7,430

(1) See Note 7 to the Condensed Consolidated Financial Statements and Note 13 in the 2003 Annual Report for additional details.

Other Commitments

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 $565 million and $507 million at March 26, 2004 and December 26, 2003, respectively.

Merrill Lynch has commitments to purchase partnership interests, primarily related to private equity investing activities, of $406 million and $426 million at March 26, 2004 and December 26, 2003, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At March 26, 2004 and December 26, 2003 minimum fee commitments over the remaining life of these agreements aggregated $492 million and $503 million, respectively. Merrill Lynch has entered into other purchasing commitments totaling $7.8 billion and $7.4 billion at March 26, 2004 and December 26, 2003, 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.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was $383 million. These SPEs were not consolidated by Merrill Lynch pursuant to accounting guidance. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original

SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third parties unrelated to Merrill Lynch.

The leases with the limited partnership mature in 2005 and 2006, and each lease has a renewal term to 2008. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this residual value guarantee is approximately $325 million as of March 26, 2004. As of March 26, 2004, the carrying value of the liability on the Condensed Consolidated Financial Statements is $32 million. Merrill Lynch's residual value guarantee does not comprise more than half of the limited partnership's assets.

The limited partnership does not meet the definition of a variable interest entity as defined in FIN 46R and Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

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 rates or changes in 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 overstates Merrill Lynch's exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Condensed Consolidated Balance Sheets. 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 the Derivatives section of Note 1 in the 2003 Annual Report for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. The assets to which Merrill Lynch has recourse are on a deal-by-deal basis and are not part of a cross collateralized pool. As of March 26, 2004, the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was $18.0 billion and the maximum payout if the standby facilities are drawn was $14.0 billion.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of March 26, 2004, the value of the assets to which Merrill Lynch has recourse in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was $4.1 billion; the maximum payout if an issuer defaults was $3.2 billion. As described in the preceding paragraph, the assets to which Merrill Lynch has recourse are not part of a cross collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure though derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales greater than 75 — 90% of the adjusted acquisition price, as defined. As of March 26, 2004, the value of the assets for which Merrill Lynch provides residual value guarantees and is not the lessee was $538 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the adjusted acquisition price, as defined.

Merrill Lynch also enters into reimbursement agreements in conjunction with sales of loans originated under its Mortgage 100SM 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 Condensed Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of $255 million as collateral to secure these guarantees. In addition, standby letters of credit include $104 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market event. At March 26, 2004 Merrill Lynch’s maximum potential exposure to loss with respect to these guarantees is $569 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch’s exposure or expected loss at March 26, 2004. These guarantees meet the SFAS No. 149 definition of derivatives and, as such, are carried as an asset with a fair value of $20 million at March 26, 2004.

These guarantees and their expiration are summarized at March 26, 2004 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 – 3 years	3+ – 5 years	Over 5 years	Carrying Value
Derivative contracts[1]	$ 976,409	$371,452	$263,921	$210,657	$130,379	$ 19,269
Liquidity facilities with SPEs[2]	13,999	11,693	2,306	—	—	101
Liquidity and default facilities with SPEs	3,213	1,851	1,074	1	287	101
Residual value guarantees[3][4]	1,876	80	26	420	1,350	40
Standby letters of credit and other performance guarantees[5]	1,068	347	92	52	577	(19)

(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 $2.7 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 leases of $325 million.

(4) Includes $937 million of reimbursement agreements with the Mortgage 100SM program.

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

See Note 13 in the 2003 Annual Report for additional information on guarantees.

Note 12. 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. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 14 in the 2003 Annual Report for a complete discussion on employee benefit plans.

Defined Benefit Pension Plans

Pension cost for the three months ended March 26, 2004 and March 28, 2003, for Merrill Lynch's defined benefit pension plans, included the following components:

(dollars in millions)

	Three Months Ended	
	Mar. 26, 2004	Mar. 28, 2003
Service cost	$ 12	$ 11
Interest cost	38	36
Expected return on plan assets	(35)	(34)
Amortization of unrecognized items and other	3	—
Total defined benefit pension cost	$ 18	$ 13

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $57 million to its defined benefit pension plans in 2004. Merrill Lynch periodically updates these estimates, and currently expects to contribute $32 million to its defined benefit pension plans in 2004.

Postretirement Benefits Other Than Pensions

Other postretirement benefits cost for the three months ended March 26, 2004 and March 28, 2003, included the following components:

(dollars in millions)

	Three Months Ended	
	Mar. 26, 2004	Mar. 28, 2003
Service cost	$ 4	$ 4
Interest cost	8	8
Other	2	2
Total other postretirement benefits cost	$ 14	$ 14

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $19 million to its postretirement benefit plans in 2004. Merrill Lynch does not expect contributions to differ significantly from amounts previously disclosed.

Note 13. Regulatory Requirements

Certain U.S. and non-U.S. subsidiaries are subject to various securities and banking 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

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("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 the 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 March 26, 2004, MLPF&S's regulatory net capital of $2,557 million was approximately 18.9 % of ADI, and its regulatory net capital in excess of the minimum required was $2,270 million at 2% of ADI.

Merrill Lynch International ("MLI"), a U.K. regulated investment firm, 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 March 26, 2004, MLI's financial resources were $6,438 million, exceeding the minimum requirement by $1,083 million.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At March 26, 2004, MLGSI's liquid capital of $2,227 million was 232 % of its total market and credit risk, and liquid capital in excess of the minimum required was $1,075 million.

Banking Regulation

Two subsidiaries of ML & Co., Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co. ("MLB&T") are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital ratio — 10%. The following table represents the actual capital ratios and amounts for MLBUSA and MLB&T at March 26, 2004 and December 26, 2003.

(dollars in millions)

	Mar. 26, 2004		**Dec. 26, 2003**	
	Actual Ratio	**Amount**	**Actual Ratio**	**Amount**
Tier I leverage (to average assets)				
MLBUSA	6.75%	$ 4,640	6.47%	$ 4,480
MLB&T	5.63	863	6.00	857
Tier I capital (to risk-weighted assets)				
MLBUSA	10.60	4,640	10.73	4,480
MLB&T	16.92	863	19.18	857
Total capital (to risk-weighted assets)				
MLBUSA	11.12	4,867	11.28	4,706
MLB&T	16.94	864	19.20	858

Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority ("IFSRA"), as well as to those of the State of New York Banking Department ("NYSBD"), as the consolidated supervisor of its indirect parent, Merrill Lynch International Finance Corporation ("MLIFC"). MLCMB is required to meet minimum regulatory capital requirements under EU banking law as implemented in Ireland by IFSRA. At March 26, 2004, MLCMB's capital ratio was above the minimum requirement at 12.09% and its financial resources, as defined, were $1,899 million.

Merrill Lynch International Bank Limited ("MLIB"), a U.K.-based regulated bank, is subject to the capital requirements of the Financial Services Authority ("FSA") as well as those of the NYSBD as part of the MLIFC group. MLIB is required to meet minimum regulatory capital requirements under EU banking law as implemented in the U.K. MLIB's consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At March 26, 2004, MLIB's consolidated capital ratio was 14.7% and its consolidated financial resources were $2,257 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of March 26, 2004, and the related condensed consolidated statements of earnings and cash flows for the three-month periods ended March 26, 2004 and March 28, 2003. These interim financial statements are the responsibility of Merrill Lynch's management.

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

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

As discussed in Note 2 to the condensed consolidated interim financial statements, the condensed consolidated interim financial statements as of March 26, 2004 and for the three-month periods ended March 26, 2004 and March 28, 2003 have been restated to correct the accounting for certain retail account fees.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 26, 2003, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements) we expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 26, 2003 is fairly stated, in all material respects, in relation to the restated consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
May 4, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

Exhibit 99.6

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

(in millions, except per share amounts)

	For the Three Months Ended		
	June 25, 2004(1)	June 27, 2003(1)	Percent Inc. (Dec.)
Net Revenues			
Asset management and portfolio service fees	$ 1,344	$ 1,150	16.9%
Commissions	1,189	1,044	13.9
Principal transactions	630	1,127	(44.1)
Investment banking	764	698	9.5
Other	308	279	10.4
Subtotal	4,235	4,298	(1.5)
Interest and dividend revenues	3,128	2,999	4.3
Less interest expense	2,078	2,032	2.3
Net interest profit	1,050	967	8.6
Total Net Revenues	5,285	5,265	0.4
Non-Interest Expenses			
Compensation and benefits	2,587	2,749	(5.9)
Communications and technology	357	357	–
Occupancy and related depreciation	202	221	(8.6)
Brokerage, clearing, and exchange fees	214	169	26.6
Professional fees	163	140	16.4
Advertising and market development	132	113	16.8
Office supplies and postage	49	50	(2.0)
Other	195	183	6.6
Net recoveries related to September 11	–	(61)	(100.0)
Total Non-Interest Expenses	3,899	3,921	(0.6)
Earnings Before Income Taxes	1,386	1,344	3.1
Income tax expense	316	370	(14.6)
Net Earnings	$ 1,070	$ 974	9.9
Net Earnings Applicable to Common Stockholders	$ 1,061	$ 965	9.9
Earnings Per Common Share			
Basic	$ 1.15	$ 1.08	
Diluted	$ 1.05	$ 1.00	
Dividend Paid Per Common Share	$ 0.16	$ 0.16	
Average Shares Used in Computing Earnings Per Common Share			
Basic	923.0	897.2	
Diluted	1,012.8	967.4	

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(in millions, except per share amounts)

	For the Six Months Ended		
	June 25, 2004(1)	June 27, 2003(1)	Percent Inc. (Dec.)
Net Revenues			
Asset management and portfolio service fees	$ 2,657	$ 2,274	16.8%
Commissions	2,550	2,113	20.7
Principal transactions	1,676	2,152	(22.1)
Investment banking	1,601	1,191	34.4
Other	675	492	37.2
Subtotal	9,159	8,222	11.4
Interest and dividend revenues	6,189	6,004	3.1
Less interest expense	3,975	4,160	(4.4)
Net interest profit	2,214	1,844	20.1
Total Net Revenues	11,373	10,066	13.0
Non-Interest Expenses			
Compensation and benefits	5,634	5,310	6.1
Communications and technology	698	760	(8.2)
Occupancy and related depreciation	419	437	(4.1)
Brokerage, clearing, and exchange fees	418	339	23.3
Professional fees	340	284	19.7
Advertising and market development	254	234	8.5
Office supplies and postage	100	108	(7.4)
Other	434	405	7.2
Net recoveries related to September 11	–	(61)	(100.0)
Total Non-Interest Expenses	8,297	7,816	6.2
Earnings Before Income Taxes	3,076	2,250	36.7
Income tax expense	755	634	19.1
Net Earnings	$ 2,321	$ 1,616	43.6
Net Earnings Applicable to Common Stockholders	$ 2,302	$ 1,597	44.1
Earnings Per Common Share			
Basic	$ 2.48	$ 1.79	
Diluted	$ 2.27	$ 1.67	
Dividend Paid Per Common Share	$ 0.32	$ 0.32	
Average Shares Used in Computing Earnings Per Common Share			
Basic	926.6	892.4	
Diluted	1,016.2	954.7	

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(dollars in millions)	June 25, 2004[(1)]	Dec. 26, 2003[(1)]
ASSETS		
Cash and cash equivalents	$ 10,895	$ 10,150
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	18,250	15,171
Securities financing transactions		
Receivables under resale agreements	89,224	71,756
Receivables under securities borrowed transactions	54,934	45,472
	144,158	117,228
Trading assets, at fair value (includes securities pledged as collateral of $22,254 in 2004 and $21,030 in 2003)		
Contractual agreements	33,204	37,196
Corporate debt and preferred stock	25,489	22,459
Equities and convertible debentures	24,889	23,170
Non-U.S. governments and agencies	24,246	15,991
Mortgages, mortgage-backed, and asset-backed	21,947	20,508
U.S. Government and agencies	12,419	10,408
Municipals and money markets	5,049	4,577
	147,243	134,309
Investment securities (includes securities pledged as collateral of $6,801 in 2004 and $8,724 in 2003)	76,785	74,809
Securities received as collateral	8,476	9,156
Other receivables		
Customers (net of allowance for doubtful accounts of $50 in 2004 and $60 in 2003)	36,034	36,955
Brokers and dealers	10,211	7,346
Interest and other	14,609	11,187
	60,854	55,488
Loans, notes, and mortgages (net of allowances of $271 in 2004 and $318 in 2003)	53,217	50,993
Separate accounts assets	17,179	17,034
Equipment and facilities (net of accumulated depreciation and amortization of $5,128 in 2004 and $5,054 in 2003)	2,568	2,612
Goodwill	5,003	4,814
Other assets	3,856	4,595
Total Assets	$548,484	$496,359

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

(dollars in millions, except per share amounts)	June 25, 2004[1]	Dec. 26, 2003[1]
LIABILITIES		
Securities financing transactions		
Payables under repurchase agreements	$114,759	$ 96,138
Payables under securities loaned transactions	20,189	11,081
	134,948	107,219
Commercial paper and other short-term borrowings	3,243	5,000
Deposits	76,131	79,457
Trading liabilities, at fair value		
Contractual agreements	40,234	43,353
Non-U.S. governments and agencies	21,204	12,066
U.S. Government and agencies	15,397	15,323
Equities and convertible debentures	15,059	10,793
Corporate debt, municipals and preferred stock	9,348	7,798
	101,242	89,333
Obligation to return securities received as collateral	8,476	9,156
Other payables		
Customers	32,410	28,859
Brokers and dealers	19,568	19,109
Interest and other	25,651	22,453
	77,629	70,421
Liabilities of insurance subsidiaries	3,254	3,353
Separate accounts liabilities	17,179	17,034
Long-term borrowings	93,373	83,299
Long-term debt issued to TOPrS SM partnerships	3,200	3,203
Total Liabilities	518,675	467,475
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	42	43
Common stock (par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2004 - 1,091,497,942 shares; 2003 - 1,063,205,274 shares)	1,455	1,417
Paid-in capital	12,006	10,676
Accumulated other comprehensive loss (net of tax)	(749)	(551)
Retained earnings	20,689	18,692
	33,443	30,277
Less: Treasury stock, at cost (2004 - 146,458,354 shares; 2003 - 117,294,392 shares)	2,968	1,195
Unamortized employee stock grants	1,091	623
Total Common Stockholders' Equity	29,384	28,459
Total Stockholders' Equity	29,809	28,884
Total Liabilities and Stockholders' Equity	$548,484	$496,359

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(dollars in millions)

	For the Six Months Ended	
	June 25, 2004[(1)]	June 27, 2003[(1)]
Cash flows from operating activities:		
Net earnings	$ 2,321	$ 1,616
Noncash items included in earnings:		
Depreciation and amortization	251	285
Policyholder reserves	73	80
Stock compensation plan expense	267	468
Deferred taxes	40	369
Undistributed (earnings) loss from equity investments	(192)	25
Other	(22)	(58)
Changes in operating assets and liabilities:		
Trading assets	(12,935)	(17,162)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(2,851)	163
Receivables under resale agreements	(17,457)	(194)
Receivables under securities borrowed transactions	(9,462)	(5,374)
Customer receivables	931	(5,850)
Brokers and dealers receivables	(2,865)	(641)
Trading liabilities	9,171	14,165
Payables under repurchase agreements	18,621	7,589
Payables under securities loaned transactions	9,108	2,086
Customer payables	3,551	5,950
Brokers and dealers payables	459	898
Other, net	(1,357)	(854)
Cash provided by (used for) operating activities	(2,348)	3,561
Cash flows from investing activities:		
Proceeds from (payments for):		
Maturities of available-for-sale securities	11,916	13,088
Sales of available-for-sale securities	13,076	32,018
Purchases of available-for-sale securities	(27,326)	(37,239)
Maturities of held-to-maturity securities	122	238
Purchases of held-to-maturity securities	(161)	(754)
Loans, notes, and mortgages	(2,177)	(4,202)
Other investments and other assets	(96)	(1,058)
Equipment and facilities	(207)	145
Cash provided by (used for) investing activities	(4,853)	2,236
Cash flows from financing activities:		
Proceeds from (payments for):		
Commercial paper and other short-term borrowings	(1,757)	164
Deposits	(3,326)	(1,374)
Issuance and resale of long-term borrowings	25,076	13,880
Settlement and repurchases of long-term borrowings	(13,236)	(14,594)
Derivative financing transactions	2,738	–
Issuance of common stock	424	253
Treasury stock repurchases	(1,727)	–
Other common stock transactions	78	23
Dividends	(324)	(314)
Cash provided by (used for) financing activities	7,946	(1,962)
Increase in cash and cash equivalents	745	3,835
Cash and cash equivalents, beginning of period	10,150	10,211
Cash and cash equivalents, end of period	$ 10,895	$ 14,046
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Income taxes	$ 183	$ (11)
Interest	3,823	3,923

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 25, 2004

Note 1. Summary of Significant Accounting Policies

For a complete discussion of Merrill Lynch's accounting policies, refer to the restated excerpt of the Annual Report to Shareholders filed as Exhibit 13 to Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, which is included as exhibit 99.1 to this Form 8-K.

Basis of Presentation

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

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the 2003 Annual Report. The December 26, 2003 restated Condensed Consolidated Balance Sheet was derived from the consolidated financial statements included in the 2003 Annual Report. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation.

New Accounting Pronouncements

On June 30, 2004, the EITF reached a consensus on Issue 02-14,*Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means*. The consensus reached indicates that in situations where an investor has the ability to exercise significant influence over the investee, an investor should apply the equity method of accounting only when it has either common stock or "in-substance" common stock of a corporation. The consensus is effective for reporting periods beginning after September 15, 2004. Merrill Lynch will adopt the new guidance in the fourth quarter of 2004 and is currently assessing the impact on the Condensed Consolidated Financial Statements.

On May 19, 2004, the FASB issued a final FASB Staff Position ("FSP") 106-2,*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which supercedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") that was signed into law on December 8, 2003. Merrill Lynch will adopt FSP 106-2 in the third quarter of 2004 if management concludes that the benefits provided under Merrill Lynch's plan are "actuarially equivalent" to Medicare Part D and qualify for the subsidy provided by the Act. Merrill Lynch is currently assessing actuarial equivalence and, if applicable, the potential impact on the Condensed Consolidated Financial Statements.

In March 2004, the EITF reached a final consensus on Issue 03-1,*"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"*. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"*and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other than temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. Merrill Lynch is required to adopt the impairment evaluation and recognition guidance in EITF 03-1 in the third quarter ending September 24, 2004, and is currently assessing the impact on the Condensed Consolidated Financial Statements.

On December 23, 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Merrill Lynch adopted the provisions of SFAS No. 132 as of December 26, 2003. See Note 12 to the Condensed Consolidated Financial Statements for these disclosures.

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of a reserve for impairment on the purchase date. Further, the SOP requires that the allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch will adopt SOP 03-3 as of the beginning of fiscal year 2005 and is currently assessing the potential impact on the Condensed Consolidated Financial Statements.

On July 7, 2003, the AICPA issued SOP 03-1,*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The SOP was effective for financial statements for Merrill Lynch beginning in 2004. The SOP required 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 used to employ. The adoption of SOP 03-1 resulted in an additional $45 million of pre-tax expense in the first quarter of 2004.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate another entity known as a VIE, and on December 24, 2003 the FASB issued a revised standard ("FIN 46R"). 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 46R 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 46R does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. As permitted by the transition guidance in FIN 46R, Merrill Lynch adopted the revised standard on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R to all VIEs with which it is involved, with the exception of those VIEs that issue Merrill Lynch Trust Originated Preferred Securities ("TOPrS^{SM}"). The adoption of FIN 46R at December 26, 2003 was reported as a cumulative effect of a change in accounting principle and did not have a material effect on the Consolidated Financial Statements. As of March 26, 2004, Merrill Lynch applied FIN 46R to those VIEs that issue TOPrS^{SM} . As a result, these VIEs were deconsolidated. The deconsolidation of TOPrS^{SM} did not have a material impact on the Condensed Consolidated Financial Statements of Merrill Lynch and was reported by retroactively restating prior period financial statements. See Note 6 to the Condensed Consolidated Financial Statements for additional FIN 46R disclosure.

Note 2. Accounting Changes

Retail Account Fees

In the fourth quarter of 2004, subsequent to the filing of the Form 10-Q for the quarter ended June 25, 2004, Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. These account fees are included in Asset management and portfolio service fees on the Condensed Consolidated Statements of Earnings. This restatement resulted in a cumulative decrease to stockholders' equity of $75 million, or 0.2% as of June 25, 2004. This restatement also resulted in decreases to retained earnings of $75 million and $66 million, as of June 25, 2004 and December 26, 2003, respectively, with corresponding increases in deferred revenues of $124 million and $109 million, respectively, and increases to deferred income taxes of $49 million and $43 million, respectively. Further details of this change are as follows:

(dollars in millions, except per share amounts)

	For the three months ended		For the six months ended	
	June 25, 2004	June 27, 2003	June 25, 2004	June 27, 2003
Earnings before income taxes as reported	$ 1,399	$ 1,348	$ 3,091	$ 2,257
Adjustment to correct error	(13)	(4)	(15)	(7)
Earnings before income taxes, as restated	$ 1,386	$ 1,344	$ 3,076	$ 2,250
Net earnings as previously reported	$ 1,078	$ 977	$ 2,330	$ 1,620
Adjustment to correct error	(8)	(3)	(9)	(4)
Net earnings, as restated	$ 1,070	$ 974	$ 2,321	$ 1,616
Earnings per common share:				
Basic as reported	$ 1.16	$ 1.08	$ 2.49	$ 1.79
Adjustment to correct error	(0.01)	–	(0.01)	–
Basic, as restated	$ 1.15	$ 1.08	$ 2.48	$ 1.79
Diluted as reported	$ 1.06	$ 1.00	$ 2.27	$ 1.68
Adjustment to correct error	(0.01)	–	–	(0.01)
Diluted, as restated	$ 1.05	$ 1.00	$ 2.27	$ 1.67

Stock-based Compensation

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.* Effective for the first quarter of 2004, Merrill Lynch adopted the fair value method of accounting for stock-based compensation under SFAS No. 123, using the retroactive restatement method described in SFAS No.148. Under the fair value recognition provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The December 26, 2003 Condensed Consolidated Balance Sheet and the Condensed Consolidated Statements of Earnings for the three and six months ended June 27, 2003 have been restated for the retroactive adoption of the fair value recognition provisions of SFAS No. 123. Accordingly, the December 26, 2003 Condensed Consolidated Balance Sheet reflects a $4.0 billion increase in paid-in capital, a $2.7 billion decrease in retained earnings, and a $1.3 billion increase in deferred income tax assets. See Note 15 to the 2003 Annual Report for additional information related to stock-based compensation.

Note 3. Other Significant Events

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 2001 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. Utilization of the restructuring reserve at June 25, 2004 is as follows:

(dollars in millions)

	Balance Dec. 26, 2003	**Utilized in 2004**	**Balance June 25, 2004**
Category:			
Severance costs	$ 5	$ (3)	$ 2
Facilities costs	206	(24)	182
Other costs	20	(16)[1]	4
	$ 231	$ (43)	$188

(1) The 2004 utilization includes changes in estimate, which are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates, net reserves of $13 million were reversed in 2004 and are included in Other Expenses.

Note 4. Segment Information

In reporting to management, Merrill Lynch's operating results are categorized into three business segments: the Global Markets and Investment Banking Group ("GMI"), Global Private Client ("GPC") and Merrill Lynch Investment Managers ("MLIM"). Prior period amounts have been restated to conform to the current period presentation. For information on each segment's business activities, see the 2003 Annual Report.

Results by business segment are as follows:

(dollars in millions)

Three Months Ended June 25, 2004	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 1,763	$ 2,087	$ 386	$ (1)[1]	$ 4,235
Net interest profit[2]	910	298	3	(161)[3]	1,050
Net revenues	2,673	2,385	389	(162)	5,285
Non-interest expenses	1,679	1,954	279	(13)[1]	3,899
Pre-tax earnings (loss)	$ 994	$ 431	$ 110	$ (149)	$ 1,386
Quarter-end total assets	$ 473,978	$ 61,503	$ 7,426	$ 5,577	$ 548,484

Three Months Ended June 27, 2003	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 2,182	$ 1,790	$ 325	$ 1[1]	$ 4,298
Net interest profit[2]	702	333	5	(73)[3]	967
Net revenues	2,884	2,123	330	(72)	5,265
Non-interest expenses	1,815	1,808	268	30[1]	3,921
Pre-tax earnings (loss)	$ 1,069	$ 315	$ 62	$ (102)	$ 1,344
Quarter-end total assets	$ 412,545	$ 60,400	$ 4,834	$ 5,143	$ 482,922

(dollars in millions)

Six Months Ended June 25, 2004	GMI	GPC	MLIM	Corporate Items	Total
Non-interest revenues	$ 4,124	$ 4,246	$ 793	$ (4)[1]	$ 9,159
Net interest profit[2]	1,784	637	8	(215)[3]	2,214
Net revenues	5,908	4,883	801	(219)	11,373
Non-interest expenses	3,799	3,944	580	(26)[1]	8,297
Pre-tax earnings (loss)	$ 2,109	$ 939	$ 221	$ (193)	$ 3,076

Six Months Ended June 27, 2003	GMI	GPC	MLIM	Corporate Items	Total
Non-interest revenues	$ 4,004	$ 3,566	$ 655	$ (3)[1]	$ 8,222
Net interest profit[2]	1,337	657	12	(162)[3]	1,844
Net revenues	5,341	4,223	667	(165)	10,066
Non-interest expenses	3,523	3,662	566	65[1]	7,816
Pre-tax earnings (loss)	$ 1,818	$ 561	$ 101	$ (230)	$ 2,250

(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 and other corporate interest, including the impact of TOPrS^{SM}. See Note 6 for additional information on the impact of TOPrS^{SM}.

Note 5. Investment Securities

Investment securities at June 25, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	June 25, 2004	Dec. 26, 2003
Investment securities		
Available-for-sale [1]	$ 67,615	$ 66,121
Trading	5,032	4,798
Held-to-maturity	713	636
Non-qualifying [2] Investments in and advances to cost and equity method investees	7,417	7,181
Investments of Insurance Subsidiaries [3]	1,533	1,442
Deferred compensation hedges [4]	708	636
Investments in TOPrS^{SM} partnerships	574	574
Total	$ 83,592	$ 81,388

(1) At June 25, 2004 and December 26, 2003, includes $6.8 billion and $6.6 billion, respectively, of investment securities reported in Cash and securities segregated for regulatory purposes or deposited with clearing organizations.
(2) Non-qualifying for SFAS No. 115 purposes.
(3) Primarily represents insurance policy loans.
(4) Represents investments economically hedging deferred compensation liabilities.

Note 6. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)

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; structuring SPEs; underwriting, distributing; and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of $27.5 billion and $32.3 billion for the six months ended June 25, 2004 and June 27, 2003, respectively. For the six months ended June 25, 2004, and June 27, 2003, Merrill Lynch received $27.8 billion and $32.8 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of $190.8 million and $25.6 million, respectively in Merrill Lynch's Condensed Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

For the first six months of 2004 and 2003, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	Six Months Ended	
	June 25, 2004	**June 27, 2003**
Asset category		
Residential mortgage loans	$ 19,528	$ 24,457
Municipal bonds	4,407	5,577
Corporate and government bonds	818	768
Commercial loans and other	3,062	2,045
	$ 27,815	$ 32,847

Retained interests in securitized assets were approximately $2.2 billion and $2.7 billion at June 25, 2004 and December 26, 2003, respectively, 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 purchased and expects to sell to investors in the normal course of its underwriting activity. Approximately 42% and 64% at June 25, 2004 and December 26, 2003, respectively, of residential mortgage loan retained interests consists of interests in U.S. Government agency sponsored securitizations, which are guaranteed with respect to principal and interest. In addition, $840 million and $740 million at June 25, 2004 and December 26, 2003, respectively, 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, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of June 25, 2004 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	**Municipal Bonds**	**Other**
Retained interest amount	$ 1,231	$ 840	$ 112
Weighted average life (in years)	3.1	3.3	N/A
Range	0.0 - 17.1	0.1 - 8.1	N/A
Weighted average credit losses (rate per annum)	1.0%	0%	0.4%
Range	0.0 – 3.5%	0%	0.0 – 8.0%
Impact on fair value of 10% adverse change	(5)	$ —	$ —
Impact on fair value of 20% adverse change	(10)	$ —	$ —
Weighted average discount rate	11.6%	2.2%	8.2%
Range	0 – 126.3%	1.1 – 7.7%	4.0 – 25.0%
Impact on fair value of 10% adverse change	(66)	$ (71)	$ (2)
Impact on fair value of 20% adverse change	(95)	$ (132)	$ (4)
Weighted average prepayment speed (CPR)	30.3%	15.4%(1)	N/A
Range	12.5 – 55.4%	5.0 – 24.0%(1)	N/A
Impact on fair value of 10% adverse change	(22)	$ (1)	N/A
Impact on fair value of 20% adverse change	(42)	$ (1)	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate
(1) Relates to select securitization transactions where assets are prepayable.

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 weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2004 that were still held by Merrill Lynch as of June 25, 2004 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Weighted average life (in years)	5.0	N/A	N/A
Credit losses (rate per annum)	0.2%	0%	0%
Weighted average discount rate	6.1%	3.9%	5.6%
Prepayment speed assumption (CPR)	19.4%	N/A	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate

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 the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

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

The maximum commitment under these liquidity and default guarantees totaled $18.6 billion and $17.0 billion at June 25, 2004 and December 26, 2003, respectively. The fair value of the commitments approximated $203 million and $126 million at June 25, 2004 and December 26, 2003, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, $3.1 billion and $2.8 billion at June 25, 2004 and December 26, 2003, respectively, 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 11 to the Condensed Consolidated Financial Statements and in Note 13 in the 2003 Annual Report.

The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of June 25, 2004 and December 26, 2003, and net credit losses for the year-to-date periods then ended.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
June 25, 2004			
Principal Amount Outstanding	$ 54,157	$ 14,301	$ 5,373
Delinquencies	51	–	–
Net Credit Losses	2	–	6
December 26, 2003			
Principal Amount Outstanding	$ 43,777	$ 14,890	$ 4,527
Delinquencies	54	–	–
Net Credit Losses	3	–	8

Variable Interest Entities

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

As permitted under the transition guidance, Merrill Lynch adopted the provisions of FIN 46R on an entity-by-entity basis. At December 26, 2003 Merrill Lynch applied FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest, with the exception of those VIEs that issue TOPrS^{SM}, in which case Merrill Lynch applied FIN 46R beginning in the first quarter of 2004. Merrill Lynch accounted for those VIEs that were consolidated under FIN 46R at year-end 2003 as a cumulative effect of a change in accounting principle, which did not have a material effect on the year-end 2003 consolidated financial statements.

During the first quarter of 2004, in accordance with FIN 46R, Merrill Lynch deconsolidated the partnerships and trusts that issue TOPrS^{SM} since Merrill Lynch does not bear the majority of the

risks and rewards of those entities. As a result, the dividends, of approximately $48 million per quarter, related to the TOPrS[SM] have been reclassified from dividends on preferred securities issued by subsidiaries to net revenues (primarily interest expense), and the debt, of approximately $3.2 billion, and partnership interests, of $574 million, related to the entities have been included in the Condensed Consolidated Balance Sheets as Long-term debt issued to TOPrS[SM] partnerships and Investment securities, respectively. Merrill Lynch has reflected the deconsolidation of TOPrS[SM] by retroactively restating prior period financial statements in order to provide comparability from period to period.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the primary beneficiary of VIEs that own convertible bonds purchased from Merrill Lynch, in which Merrill Lynch maintains a call option to repurchase the convertible bonds from the VIE. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option. Assets held by these VIEs are reported in Equities and convertible debentures or Receivables under resale agreements, depending on the nature of the transaction, in the Condensed Consolidated Balance Sheet. Holders of the beneficial interests in these VIEs have no recourse to the general credit of Merrill Lynch; their investment is paid exclusively from the convertible bonds held by the VIE.

- Merrill Lynch is the primary beneficiary of “maturity shortening transactions,” in which the VIE serves to shorten the maturity of a fixed income security, and, at the maturity date of the VIE, Merrill Lynch has the obligation to repurchase some or all of the securities held by the VIE. Assets held by these VIEs are reported in Corporate debt and preferred stock. The beneficial interest holders in these VIEs have recourse to Merrill Lynch to the extent that the underlying assets that Merrill Lynch is required to repurchase have declined in value from the initial transaction date.

- Merrill Lynch is the sponsor and/or guarantor of certain mutual funds, closed-end funds and similar investment entities that provide a guaranteed return to the investors at the maturity of the fund. This guarantee may include a guarantee of the return of an initial investment or of the initial investment plus an agreed upon return depending on the terms of the funds. Although the investors typically hold voting equity in the entity, these entities are deemed to be VIEs because their losses are limited. Investors in these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the guaranteed amount. In some instances Merrill Lynch is the primary beneficiary and must consolidate the fund. In instances where Merrill Lynch is not the primary beneficiary, the guarantees related to these funds are considered to be a significant variable interest and further discussed in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary of and consolidate the VIE, or may be a significant variable interest holder. These VIEs are primarily designed to provide temporary on or off-balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where Merrill Lynch has provided financing and is the primary beneficiary are recorded in Other assets and/or Loans, notes, and mortgages in the Condensed Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as Investment securities where Merrill Lynch holds a

significant variable interest, and in Other assets where Merrill Lynch is the primary beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; their investments are paid exclusively from the assets in the VIE.

- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide foreign tax planning strategies to investors. Merrill Lynch is a significant variable interest holder in these VIEs.

- Merrill Lynch has a significant variable interest in a residential mortgage securitization entered into by one of its banking subsidiaries. Specifically, Merrill Lynch retains a 97% interest in the VIE. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this entity qualifies as a QSPE and therefore Merrill Lynch does not consolidate the VIE. The 97% interest is reported in Investment securities on Merrill Lynch's Condensed Consolidated Balance Sheets.

- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch is a derivative counterparty to a VIE that serves to synthetically expose investors to a specific credit risk. Based on the provisions of FIN 46R, Merrill Lynch does not have a significant variable interest since the derivative it has purchased does not absorb variability of the VIE. However, because these structures represent a significant Merrill Lynch sponsored program, information related to these structures has been included in the following table.

The following tables summarize Merrill Lynch's involvement with the VIEs listed above as of June 25, 2004 and December 26, 2003, respectively. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)

	June 25, 2004			
	Primary Beneficiary		Significant Variable Interest Holder	
Description	Asset Size	Recourse to Merrill Lynch[4]	Asset Size	Maximum Exposure
Convertible Bond Stripping	$ 1,342	None	$ –	$ –
Maturity Shortening	261	$ 3	–	–
Guaranteed Funds	1,243	1,243	–	–
Loan and Real Estate VIEs	676	None	1,250	1,126
Municipal Bond Securitizations[1]	–	–	18,578	18,578
Foreign Tax Planning VIEs[2]	–	–	2,295	122
Mortgage Securitization	–	–	314	305
Synthetic Credit Risk VIEs[3]	–	–	6,716	331

(dollars in millions)

	December 26, 2003			
	Primary Beneficiary		Significant Variable Interest Holder	
Description	Asset Size	Recourse to Merrill Lynch[4]	Asset Size	Maximum Exposure
Convertible Bond Stripping	$ 1,864	None	$ –	$ –
Maturity Shortening	379	$ 1	–	–
Guaranteed Funds	863	863	–	–
Loan and Real Estate VIEs	775	None	636	567
Municipal Bond Securitizations[1]	–	–	16,927	16,927
Foreign Tax Planning VIEs[2]	–	–	2,811	114
Mortgage Securitization	–	–	345	334
Synthetic Credit Risk VIEs[3]	–	–	6,402	474

(1) The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's probability weighted exposure to these VIEs because it does not reflect the economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.

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

(3) The maximum exposure for Synthetic Credit Risk VIEs is the asset carrying value of the derivatives entered into with the VIEs as of June 25, 2004 and December 26, 2003, respectively.

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

Note 7. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, Notes, and Mortgages and related commitments to extend credit at June 25, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	Loans		Commitments	
	June 25, 2004	**Dec. 26, 2003**	**June 25, 2004(1)**	**Dec. 26, 2003**
Consumer and small- and middle-market business:				
Mortgages	$ 17,650	$ 16,688	$ 5,328	$ 4,842
Small- and middle-market business	5,919	6,737	3,225	3,411
Other	4,281	4,045	1,056	603
Commercial:				
Secured	23,824	21,048	11,669	12,425
Unsecured investment grade	834	1,806	20,801	15,028
Unsecured non-investment grade	709	669	1,567	562
Total	$ 53,217	$ 50,993	$ 43,646	$ 36,871

(1) See Note 11 for the maturity profile of these commitments .

The loan amounts are net of an allowance for loan losses of $271 million and $318 million as of June 25, 2004 and December 26, 2003, respectively.

Consumer and small- and middle-market business loans, substantially all of which are secured by real and/or personal property, consisted of approximately 217,100 individual loans at June 25, 2004 and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at June 25, 2004 consisted of approximately 6,750 separate loans, included 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 primarily related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled $4.9 billion at June 25, 2004 and December 26, 2003.

The above amounts include $9.3 billion and $7.6 billion of loans held-for-sale at June 25, 2004 and December 26, 2003, respectively. Loans held-for-sale are loans which management expects to sell prior to maturity. At June 25, 2004, such loans consisted of $6.2 billion of consumer loans, primarily residential mortgages, and $3.1 billion of commercial loans, approximately 73% of which are to investment grade counterparties. At December 26, 2003, such loans consisted of $5.2 billion of consumer loans, primarily residential mortgages, and $2.4 billion of commercial loans, approximately 59% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes, and mortgages, see Note 1 in the 2003 Annual Report.

Note 8. Commercial Paper, Short- and Long-Term Borrowings, and Bank Deposits

Commercial paper and Other short-term borrowings and Bank deposits at June 25, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	June 25, 2004	Dec. 26, 2003
Commercial paper and other short-term borrowings		
Commercial paper	$ 3,122	$ 4,568
Other	121	432
Total	$ 3,243	$ 5,000
Bank deposits		
U.S.	$ 63,441	$ 65,409
Non U.S.	12,690	14,048
Total	$ 76,131	$ 79,457

Long-term borrowings

Merrill Lynch issues debt and certificates of deposit whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. These instruments are assessed to determine if there is an embedded derivative that requires separate reporting and accounting. Beginning in 2004, in accordance with SEC guidance, Merrill Lynch amortizes any upfront profit associated with the embedded derivative into income as a yield adjustment over the life of the related debt instrument or certificate of deposit.

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 per note. At maturity, the LYONs® holder will receive the original principal amount of $1,000 increased daily by a variable rate. 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 beginning June 1, 2007, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 13.8213 shares (i.e., the “conversion rate”) of Merrill Lynch common stock based on the conditions described below.

In May 2001, Merrill Lynch issued $4.6 billion of aggregate original principal amount of fixed rate contingently convertible LYONs® at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. 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®. The LYONs® are unsecured unsubordinated indebtedness of Merrill Lynch with a maturity of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period beginning June 1, 2006, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 5.6787 shares (i.e., the “conversion rate”) of common stock based on the conditions described below.

Both Merrill Lynch LYONs® issuances may be converted based on any of the following conditions:

- If the closing price of Merrill Lynch common stock for at least 20 of the last 30 consecutive trading days ending on the last day of the calendar quarter is more than the conversion trigger price. The conversion trigger price for the floating rate LYONs® at June 30, 2004 was $86.82. (That is, on and after July 1, 2004, a holder could have converted a floating rate LYONs® into 13.8213 shares of Merrill Lynch stock if the Merrill Lynch stock price had been greater than $86.82 for at least 20 of the last 30 consecutive trading days ending June 30, 2004). The conversion trigger price for the fixed rate LYONs® at June 30, 2004 was $114.87. The conversion trigger price will change each calendar quarter based on the accreted value of the LYONs® at that date;

- During any period in which the credit rating of LYONs® is Baa1 or lower by Moody's Investor Services, Inc., BBB+ or lower by Standard & Poor's Credit Market Services, or BBB+ or lower by Fitch, Inc;

- If the LYONs® are called for redemption;

- If Merrill Lynch is party to a consolidation, merger or binding share exchange; or

- If Merrill Lynch makes a distribution that has a per share value equal to more than 15% of the sale price of its shares on the day preceding the declaration date for such distribution.

The conversion rate for both of Merrill Lynch's LYONs® will be adjusted for:

- Dividends or distributions payable in Merrill Lynch common stock.

- Distributions to all holders of Merrill Lynch common stock of certain rights to purchase the stock at less than the sale price of Merrill Lynch stock at that time.

- Distribution of Merrill Lynch assets to holders of Merrill Lynch common stock (excluding cash dividends that are not extraordinary dividends), or

- Certain corporate events, such as consolidation, merger or transfer of all, or substantially all, of Merrill Lynch's assets.

As of June 25, 2004 (fiscal quarter end) and June 30, 2004 (last conversion calculation date prior to issuance of this report), none of the conversion triggers above had been met and, as a result, the related shares have not been included in the diluted EPS calculation.

Holders of LYONs® may require Merrill Lynch to repurchase their convertible instruments at accreted value on various dates prior to maturity. The initial put date for holders of floating rate LYONs® is March 13, 2005. The initial put date for fixed rate LYONs® was May 23, 2004. Merrill Lynch may pay the purchase price in cash, shares or any combination thereof. Merrill Lynch elected to pay the purchase price for the $166.3 million fixed rate LYONs®that were put back to Merrill Lynch on May 24, 2004, with cash. No gain or loss was recognized on the transaction.

For further information regarding Merrill Lynch LYONs® issuances, refer to Note 10 of the 2003 Annual Report.

On June 30, 2004, Merrill Lynch redeemed its Yen TOPrS℠ debentures, which were due on June 30, 2019, pursuant to the optional redemption provisions stated in the terms and conditions of the debentures. Such redemption resulted in a cash payment of $107.1 million. No gain or loss was recognized on the transaction.

Note 9. Comprehensive Income

The components of comprehensive income are as follows:

(dollars in millions)

	Three Months Ended		Six Months Ended	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Net Earnings	$ 1,070	$ 974	$ 2,321	$ 1,616
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(26)	(1)	(34)	4
Net unrealized gain (loss) on investment securities available-for-sale	(196)	49	(133)	67
Deferred loss on cash flow hedges	(39)	(13)	(31)	(6)
Total other comprehensive income (loss), net of tax	(261)	35	(198)	65
Comprehensive income	$ 809	$ 1,009	$ 2,123	$ 1,681

Note 10. Earnings Per Share

The computation of earnings per common share is as follows:

(dollars in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Net Earnings	$ 1,070	$ 974	$ 2,321	$ 1,616
Preferred stock dividends	9	9	19	19
Net earnings applicable to common stockholders	$ 1,061	$ 965	$ 2,302	$ 1,597
(shares in thousands)				
Weighted-average shares outstanding	923,014	897,202	926,585	892,377
Effect of dilutive instruments[(1) (2)]:				
Employee stock options	45,111	27,941	45,662	24,524
Financial Advisor Capital Accumulation Award Plan shares	23,221	21,969	23,287	21,171
Restricted shares and units	21,427	20,277	20,678	16,500
Employee Stock Purchase Plan shares	–	57	–	88
Dilutive potential common shares	89,759	70,244	89,627	62,283
Total weighted-average diluted shares	1,012,773	967,446	1,016,212	954,660
Basic earnings per common share	$ 1.15	$ 1.08	$ 2.48	$ 1.79
Diluted earnings per common share	$ 1.05	$ 1.00	$ 2.27	$ 1.67

(1) During the 2004 and 2003 second quarter there were 43 million and 145 million instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. Additionally, shares related to Merrill Lynch's LYONs® issuances are not included in the computation of diluted earnings per share because the threshold trigger price for conversion has not been reached. See Note 8 to these Condensed Consolidated Financial Statements.

(2) See Note 15 to the 2003 Annual Report for a description of these instruments.

Note 11. 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 from its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 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 in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to and, where appropriate, will vigorously contest many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies*, when resolution of cases is both probable and estimable Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including the class action lawsuits disclosed in Item 3 of the 2003 Form 10-K, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In the case of arbitrations, many of the cases involve amounts under $250,000 and have not been estimated. 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 continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch’s operating results or cash flows for any particular period and may impact ML & Co.’s credit ratings.

Commitments

At June 25, 2004, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	**Less than 1 year**	**1 – 3 years**	**3+ – 5 years**	**Over 5 years**
Commitments to extend credit [1]	$ 43,646	$ 19,794	$ 8,516	$ 8,238	$ 7,098
Purchasing and other commitments	7,026	5,874	745	223	184
Operating leases	3,751	533	1,022	841	1,355
Resale agreements	26,900	26,900	–	–	–
Total	$ 81,323	$ 53,101	$ 10,283	$ 9,302	$ 8,637

(1) See Note 7 to these Condensed Consolidated Financial Statements and Note 13 in the 2003 Annual Report for additional details.

Other Commitments

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 $504 million and $507 million at June 25, 2004 and December 26, 2003, respectively.

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity investing activities, of $382 million and $426 million at June 25, 2004 and December 26, 2003, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At June 25, 2004 and December 26, 2003 minimum fee commitments over the remaining life of these agreements aggregated $481 million and $503 million, respectively. Merrill Lynch had entered into other purchasing commitments totaling $6.2 billion and $7.4 billion at June 25, 2004 and December 26, 2003, 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.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was $383 million. These SPEs were not consolidated by Merrill Lynch pursuant to accounting guidance. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original

SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third parties unrelated to Merrill Lynch.

The leases with the limited partnership mature in 2005 and 2006, and each lease has a renewal term to 2008. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this residual value guarantee was approximately $325 million as of June 25, 2004. As of June 25, 2004, the carrying value of the liability on the Condensed Consolidated Financial Statements was $30 million. Merrill Lynch’s residual value guarantee does not comprise more than half of the limited partnership’s assets.

The limited partnership does not meet the definition of a variable interest entity as defined in FIN 46R and Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

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 rates or changes in 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 may overstate Merrill Lynch’s exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Condensed Consolidated Balance Sheets. 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 the Derivatives section of Note 1 in the 2003 Annual Report for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of June 25, 2004, the maximum payout if the standby facilities are drawn was $15.7 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was $19.5 billion. However, it should be noted that these two amounts are not directly comparable as the assets to which Merrill Lynch has recourse are on a deal-by-deal basis and are not part of a cross collateralized pool.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of June 25, 2004, the maximum payout if an issuer defaults was $2.9 billion, and the value of the assets to which Merrill Lynch has recourse in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was $3.7 billion; however, as described in the preceding paragraph, these two amounts are not directly comparable as the assets to which Merrill Lynch has recourse are not part of a cross collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure though derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales greater than 75 - 90% of the adjusted acquisition price, as defined. As of June 25, 2004, the value of the assets for which Merrill Lynch provides residual value guarantees and is not the lessee was $723 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the adjusted acquisition price, as defined.

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 Condensed Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of $504 million as collateral to secure these guarantees. In addition, standby letters of credit include $184 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market downturn. At June 25, 2004 Merrill Lynch's maximum potential exposure to loss with respect to these guarantees was $547 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at June 25, 2004. These transactions met the SFAS No. 149 definition of derivatives and, as such, were carried as a liability with a fair value of $14 million at June 25, 2004.

These guarantees and their expiration are summarized at June 25, 2004 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 – 3 years	3^{+} – 5 years	Over 5 years	Carrying Value
Derivative contracts[1]	$1,021,727	$ 377,471	$277,478	$217,833	$148,945	$ 16,499
Liquidity facilities with SPEs[2]	15,665	13,840	1,825	–	–	101
Liquidity and default facilities with SPEs	2,940	1,893	766	1	280	101
Residual value guarantees[3][4]	2,070	46	28	491	1,505	36
Standby letters of credit and other performance guarantees[5]	1,356	483	270	49	554	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 $3.1 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 leases of $325 million.

(4) Includes $978 million of reimbursement agreements with the Mortgage 100[SM] program.

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

See Note 13 in the 2003 Annual Report for additional information on guarantees.

Note 12. 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. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 14 in the 2003 Annual Report for a complete discussion of employee benefit plans.

Defined Benefit Pension Plans

Pension cost for the three and six month periods ended June 25, 2004 and June 27, 2003, for Merrill Lynch's defined benefit pension plans, included the following components:

(dollars in millions)	**Three Months Ended**		**Six Months Ended**	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Service cost	$ 5	$ 11	$ 17	$ 22
Interest cost	37	35	75	71
Expected return on plan assets	(36)	(35)	(71)	(69)
Amortization of unrecognized items and other	6	2	9	2
Total defined benefit pension cost	$ 12	$ 13	$ 30	$ 26

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $57 million to its defined benefit pension plans in 2004. Merrill Lynch periodically updates these estimates, and currently expects to contribute $31 million to its defined benefit pension plans in 2004. The defined benefit pension plan in the U.K. was frozen as of the end of the second quarter of 2004, which resulted in a service cost decrease of approximately $6 million for the first half of 2004. Affected employees will receive future benefits under Merrill Lynch's defined contribution plan.

Postretirement Benefits Other Than Pensions

Other postretirement benefits cost for the three and six month periods ended June 25, 2004 and June 27, 2003, included the following components:

(dollars in millions)	**Three Months Ended**		**Six Months Ended**	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Service cost	$ 4	$ 4	$ 8	$ 8
Interest cost	8	8	16	16
Other	3	3	5	5
Total other postretirement benefits cost	$ 15	$ 15	$ 29	$ 29

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $19 million to its postretirement benefit plans in 2004. Merrill Lynch does not expect contributions to differ significantly from amounts previously disclosed.

Note 13. Regulatory Requirements

Certain U.S. and non-U.S. subsidiaries are subject to various securities and banking 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

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("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 the 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 June 25, 2004, MLPF&S's regulatory net capital of $2,728 million was approximately 18.0 % of ADI, and its regulatory net capital in excess of the minimum required was $2,341 million at 2% of ADI.

Merrill Lynch International ("MLI"), a U.K. regulated investment firm, 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 June 25, 2004, MLI's financial resources were $7,031 million, exceeding the minimum requirement by $1,006 million.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At June 25, 2004, MLGSI's liquid capital of $2,244 million was 226% of its total market and credit risk, and liquid capital in excess of the minimum required was $1,051 million.

Banking Regulation

Two subsidiaries of ML & Co., Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co. ("MLB&T") are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital ratio — 10%. The following table represents the actual capital ratios and amounts for MLBUSA and MLB&T at June 25, 2004 and December 26, 2003.

(dollars in millions)

	June 25, 2004		Dec. 26, 2003	
	Actual Ratio	**Amount**	**Actual Ratio**	**Amount**
Tier I leverage (to average assets)				
MLBUSA	7.22%	$ 4,819	6.47%	$ 4,480
MLB&T	6.29	865	6.00	857
Tier I capital (to risk-weighted assets)				
MLBUSA	10.80	4,819	10.73	4,480
MLB&T	20.14	865	19.18	857
Total capital (to risk-weighted assets)				
MLBUSA	11.28	5,034	11.28	4,706
MLB&T	20.16	866	19.20	858

Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority ("IFSRA"), as well as to those of the State of New York Banking Department ("NYSBD"), as the consolidated supervisor of its indirect parent, Merrill Lynch International Finance Corporation ("MLIFC"). MLCMB is required to meet minimum regulatory capital requirements under EU banking law as implemented in Ireland by IFSRA. At June 25, 2004, MLCMB's capital ratio was above the minimum requirement at 11.13% and its financial resources, as defined, were $1,887 million.

Merrill Lynch International Bank Limited ("MLIB"), a U.K.-based regulated bank, is subject to the capital requirements of the FSA as well as those of the NYSBD as part of the MLIFC group. MLIB is required to meet minimum regulatory capital requirements under EU banking law as implemented in the U.K. MLIB's consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At June 25, 2004, MLIB's consolidated capital ratio was 13.26% and its consolidated financial resources were $2,257 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of June 25, 2004, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended June 25, 2004 and June 27, 2003, and the condensed consolidated statements of cash flows for the six-month periods ended June 25, 2004 and June 27, 2003. These interim financial statements are the responsibility of Merrill Lynch's management.

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

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

As discussed in Note 2 to the condensed consolidated interim financial statements, the condensed consolidated interim financial statements as of June 25, 2004 and for the three-month and six-month periods ended June 25, 2004 and June 27, 2003 have been restated to correct the accounting for certain retail account fees.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 26, 2003, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements) we expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 26, 2003 is fairly stated, in all material respects, in relation to the restated consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
August 2, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)

Exhibit 99.7

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

(in millions, except per share amounts)

	For the Three Months Ended		
	Sept. 24, 2004(1)	Sept. 26, 2003(1)	Percent Inc. (Dec.)
Net Revenues			
Asset management and portfolio service fees	$ 1,344	$ 1,187	13.2%
Commissions	1,092	1,099	(0.6)
Principal transactions	390	704	(44.6)
Investment banking	666	678	(1.8)
Other	438	311	40.8
Subtotal	3,930	3,979	(1.2)
Interest and dividend revenues	3,669	2,872	27.8
Less interest expense	2,755	1,850	48.9
Net interest profit	914	1,022	(10.6)
Total Net Revenues	4,844	5,001	(3.1)
Non-Interest Expenses			
Compensation and benefits	2,273	2,448	(7.1)
Communications and technology	363	352	3.1
Occupancy and related depreciation	219	226	(3.1)
Brokerage, clearing, and exchange fees	213	188	13.3
Professional fees	163	146	11.6
Advertising and market development	127	89	42.7
Office supplies and postage	47	46	2.2
Other	231	118	95.8
Net recoveries related to September 11	–	(21)	(100.0)
Total Non-Interest Expenses	3,636	3,592	1.2
Earnings Before Income Taxes	1,208	1,409	(14.3)
Income tax expense	286	404	(29.2)
Net Earnings	$ 922	$ 1,005	(8.3)
Preferred Stock Dividends	9	10	(10.0)
Net Earnings Applicable to Common Stockholders	$ 913	$ 995	(8.2)
Earnings Per Common Share			
Basic	$ 1.01	$ 1.10	
Diluted	$ 0.93	$ 1.00	
Dividend Paid Per Common Share	$ 0.16	$ 0.16	
Average Shares Used in Computing Earnings Per Common Share			
Basic	903.2	904.8	
Diluted	981.8	991.9	

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(in millions, except per share amounts)

	For the Nine Months Ended		
	Sept. 24, 2004[1]	Sept. 26, 2003[1]	Percent Inc. (Dec.)
Net Revenues			
Asset management and portfolio service fees	$ 4,001	$ 3,461	15.6%
Commissions	3,619	3,185	13.6
Principal transactions	2,066	2,856	(27.7)
Investment banking	2,267	1,869	21.3
Other	1,120	810	38.3
Subtotal	13,073	12,181	7.3
Interest and dividend revenues	9,858	8,876	11.1
Less interest expense	6,731	6,011	12.0
Net interest profit	3,127	2,865	9.1
Total Net Revenues	16,200	15,046	7.7
Non-Interest Expenses			
Compensation and benefits	7,907	7,758	1.9
Communications and technology	1,061	1,112	(4.6)
Occupancy and related depreciation	638	663	(3.8)
Brokerage, clearing, and exchange fees	631	527	19.7
Professional fees	503	430	17.0
Advertising and market development	381	323	18.0
Office supplies and postage	147	154	(4.5)
Other	648	502	29.1
Net recoveries related to September 11	–	(82)	(100.0)
Total Non-Interest Expenses	11,916	11,387	4.6
Earnings Before Income Taxes	4,284	3,659	17.1
Income tax expense	1,041	1,038	0.3
Net Earnings	$ 3,243	$ 2,621	23.7
Preferred Stock Dividends	28	29	(3.4)
Net Earnings Applicable to Common Stockholders	$ 3,215	$ 2,592	24.0
Earnings Per Common Share			
Basic	$ 3.50	$ 2.89	
Diluted	$ 3.20	$ 2.68	
Dividend Paid Per Common Share	$ 0.48	$ 0.48	
Average Shares Used in Computing Earnings Per Common Share			
Basic	918.8	896.5	
Diluted	1,004.7	967.1	

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(dollars in millions)	Sept. 24, 2004[1]	Dec. 26, 2003[1]
ASSETS		
Cash and cash equivalents	$ 11,405	$ 10,150
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	18,232	15,171
Securities financing transactions		
Receivables under resale agreements	125,714	71,756
Receivables under securities borrowed transactions	57,834	45,472
	183,548	117,228
Trading assets, at fair value (includes securities pledged as collateral of $33,828 in 2004 and $26,233 in 2003)		
Contractual agreements	36,293	37,196
Corporate debt and preferred stock	30,721	22,459
Non-U.S. governments and agencies	27,434	15,991
Mortgages, mortgage-backed, and asset-backed	26,161	20,508
Equities and convertible debentures	24,751	23,170
U.S. Government and agencies	11,981	10,408
Municipals and money markets	5,229	4,577
	162,570	134,309
Investment securities (includes securities pledged as collateral of $3,564 in 2004 and $8,724 in 2003)	73,209	74,809
Securities received as collateral	8,292	9,156
Other receivables		
Customers (net of allowance for doubtful accounts of $46 in 2004 and $60 in 2003)	38,418	36,955
Brokers and dealers	12,429	7,346
Interest and other	13,915	11,187
	64,762	55,488
Loans, notes, and mortgages (net of allowances of $314 in 2004 and $318 in 2003)	55,220	50,993
Separate accounts assets	17,180	17,034
Equipment and facilities (net of accumulated depreciation and amortization of $5,138 in 2004 and $5,054 in 2003)	2,478	2,612
Goodwill	4,957	4,814
Other assets	4,876	4,595
Total Assets	$606,729	$496,359

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

(dollars in millions, except per share amounts)

	Sept. 24, 2004[1]	Dec. 26, 2003[1]
LIABILITIES		
Securities financing transactions		
Payables under repurchase agreements	$152,739	$ 96,138
Payables under securities loaned transactions	21,045	11,081
	173,784	107,219
Commercial paper and other short-term borrowings	6,000	5,000
Deposits	77,269	79,457
Trading liabilities, at fair value		
Contractual agreements	42,028	43,353
Non-U.S. governments and agencies	22,571	12,066
Equities and convertible debentures	14,662	10,793
U.S. Government and agencies	11,865	15,323
Corporate debt, municipals and preferred stock	9,623	7,798
	100,749	89,333
Obligation to return securities received as collateral	8,292	9,156
Other payables		
Customers	34,291	28,859
Brokers and dealers	23,748	19,109
Interest and other	26,481	22,453
	84,520	70,421
Liabilities of insurance subsidiaries	3,213	3,353
Separate accounts liabilities	17,180	17,034
Long-term borrowings	102,582	83,299
Long-term debt issued to TOPrS^{SM} partnerships	3,092	3,203
Total Liabilities	576,681	467,475
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	41	43
Common stock (par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2004 - 1,093,759,473 shares; 2003 - 1,063,205,274 shares)	1,458	1,417
Paid-in capital	12,097	10,676
Accumulated other comprehensive loss (net of tax)	(571)	(551)
Retained earnings	21,452	18,692
	34,477	30,277
Less: Treasury stock, at cost (2004 - 164,660,399 shares; 2003 - 117,294,392 shares)	3,879	1,195
Unamortized employee stock grants	975	623
Total Common Stockholders' Equity	29,623	28,459
Total Stockholders' Equity	30,048	28,884
Total Liabilities and Stockholders' Equity	$606,729	$496,359

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

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

(dollars in millions)

	For the Nine Months Ended	
	Sept. 24, 2004[(1)]	Sept. 26, 2003[(1)]
Cash flows from operating activities:		
Net earnings	$ 3,243	$ 2,621
Noncash items included in earnings:		
Depreciation and amortization	376	430
Policyholder reserves	109	120
Stock compensation plan expense	394	640
Deferred taxes	159	67
Undistributed (earnings) loss from equity investments	(346)	(82)
Other	(254)	(40)
Changes in operating assets and liabilities:		
Trading assets	(28,155)	(20,089)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(2,819)	1,004
Receivables under resale agreements	(53,946)	(3,829)
Receivables under securities borrowed transactions	(12,362)	(13)
Customer receivables	(1,449)	(6,577)
Brokers and dealers receivables	(5,083)	5,031
Trading liabilities	6,019	12,015
Payables under repurchase agreements	56,601	10,561
Payables under securities loaned transactions	9,964	(249)
Customer payables	5,432	5,956
Brokers and dealers payables	4,639	(32)
Other, net	1,524	3,882
Cash provided by (used for) operating activities	(15,954)	11,416
Cash flows from investing activities:		
Proceeds from (payments for):		
Maturities of available-for-sale securities	17,617	22,498
Sales of available-for-sale securities	21,620	49,960
Purchases of available-for-sale securities	(37,345)	(65,568)
Maturities of held-to-maturity securities	156	998
Purchases of held-to-maturity securities	(163)	(1,288)
Loans, notes, and mortgages	(4,223)	(6,063)
Other investments and other assets	(94)	(3,303)
Equipment and facilities	(242)	44
Cash used for investing activities	(2,674)	(2,722)
Cash flows from financing activities:		
Proceeds from (payments for):		
Commercial paper and other short-term borrowings	1,000	(2,338)
Deposits	(2,188)	(2,530)
Issuance and resale of long-term borrowings	35,594	22,037
Settlement and repurchases of long-term borrowings	(17,397)	(20,908)
Derivative financing transactions	5,397	341
Issuance of common stock	461	450
Treasury stock repurchases	(2,619)	–
Other common stock transactions	118	48
Dividends	(483)	(473)
Cash provided by (used for) financing activities	19,883	(3,373)
Increase in cash and cash equivalents	1,255	5,321
Cash and cash equivalents, beginning of period	10,150	10,211
Cash and cash equivalents, end of period	$ 11,405	$ 15,532
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Income taxes	$ 562	$ 59
Interest	6,557	5,726

(1) Amounts have been restated as discussed in Note 2.

See Notes to Condensed Consolidated Financial Statements.

Merrill Lynch & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 24, 2004

Note 1. Summary of Significant Accounting Policies

For a complete discussion of Merrill Lynch's accounting policies, refer to the restated excerpt of the Annual Report to Shareholders filed as Exhibit 13 to Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2003, which is included as exhibit 99.1 to this Form 8-K.

Basis of Presentation

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

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the 2003 Annual Report. The December 26, 2003 restated Condensed Consolidated Balance Sheet was derived from the consolidated financial statements included in the 2003 Annual Report. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation.

New Accounting Pronouncements

On September 30, 2004, the Emerging Issues Task Force ("EITF") affirmed its previous consensus regarding Issue 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share* The guidance in this Issue requires that contingently convertible instruments be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger has been met. The effective date of this consensus is expected to be for reporting periods ending after December 15, 2004. Retroactive restatement of earnings per share amounts is required for contingent convertible debt issuances that are outstanding at the effective date. Merrill Lynch currently has two contingently convertible debt issuances outstanding (see Note 8 to the Condensed Consolidated Financial Statements for additional information on LYONs®) and

estimates that the inclusion of these instruments in the earnings per share computation for the third quarter of 2004 would have resulted in an increase in diluted shares of approximately 6% and a reduction in diluted earnings per share of 3%.

On December 15, 2003, the FASB issued an Exposure Draft, *Earnings Per Share, an Amendment of FASB Statement No. 128* (the "Amendment"). The proposed Amendment requires, in part, that for contracts that can be settled in either cash or shares, issuing entities should assume share settlement for purposes of computing diluted earnings per share. The FASB subsequently decided that retroactive restatement of earnings per share is not required for those contracts that are appropriately modified prior to the effective date of the Amendment. This Amendment is expected to be finalized in the fourth quarter of 2004 and effective for reporting periods ending after December 15, 2004. Currently, Merrill Lynch has two debt issuances outstanding for which Merrill Lynch has the right to elect cash or share settlement in the event that holders of LYONs® require Merrill Lynch to repurchase the securities (see Note 8 to the Condensed Consolidated Financial Statements for additional information on LYONs®). On November 1, 2004, Merrill Lynch entered into supplemental indentures pursuant to which it surrendered the right to elect to pay such amounts in common stock and instead will be obligated to pay such amounts when and if required in cash. As a result, the proposed Amendment, if finalized based on the decisions of the Board reached to date, would have no impact on Merrill Lynch's diluted earnings per share.

On June 30, 2004, the EITF reached a consensus on Issue 02-14, *Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means*. The consensus reached indicates that in situations where an investor has the ability to exercise significant influence over the investee, an investor should apply the equity method of accounting only when it has either common stock or "in-substance" common stock of a corporation. The guidance prohibits the application of the equity method in instances where an investment is neither common stock nor "in-substance" common stock. Merrill Lynch will adopt the new guidance in the fourth quarter of 2004 on a prospective basis, and as a result, will adopt the cost method of accounting for certain investments to which the equity method of accounting had previously been applied. Under the equity method of accounting, Merrill Lynch recognized cumulative $320 million in Other Revenues related to one of these investments over the period from the third quarter of 2003 to the third quarter of 2004. Under the cost method of accounting, Merrill Lynch will record income when dividends are declared by the investee.

On May 19, 2004, the "FASB" issued a final FASB Staff Position ("FSP") 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which supersedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") that was signed into law on December 8, 2003. The Act allows for a tax-free government subsidy to employers providing "actuarially equivalent" prescription drug benefits to its Medicare eligible retirees. Management concluded that the benefits provided under Merrill Lynch's plan are "actuarially equivalent" to Medicare Part D and qualify for the subsidy provided by the Act. Effective for the third quarter of 2004, Merrill Lynch adopted FSP 106-2 using the prospective application method. As a result, Merrill Lynch's accumulated postretirement benefit obligation has been reduced by approximately $43 million and the net periodic postretirement benefit cost for the third quarter of 2004 has decreased by $1.3 million.

In March 2004, the EITF reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 requires that when

the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. In September 2004, the FASB approved FSP EITF 03-1, which defers the effective date for recognition and measurement guidance contained in EITF 03-1 until certain issues are resolved. Merrill Lynch expects that the issues will be resolved in the fourth quarter and will adopt the guidance at the time it is issued. Merrill Lynch previously implemented the disclosure requirements of EITF 03-1 in its December 26, 2003 Consolidated Financial Statements. See Note 6 to the 2003 Annual Report for additional information.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Merrill Lynch adopted the provisions of SFAS No. 132 as of December 26, 2003. See Note 12 to the Condensed Consolidated Financial Statements for these disclosures.

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of a reserve for impairment on the purchase date. Further, the SOP requires that the allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch will adopt SOP 03-3 as of the beginning of fiscal year 2005 and is currently assessing the potential impact on the Condensed Consolidated Financial Statements.

On July 7, 2003, the AICPA issued SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The SOP was effective for financial statements for Merrill Lynch beginning in 2004. The SOP required 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 previously employed. The adoption of SOP 03-1 resulted in an additional $45 million of pre-tax expense in the first quarter of 2004.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate entities that are considered VIEs, and on December 24, 2003 the FASB issued a revised standard ("FIN 46R"). 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 Special Purpose Entities ("SPEs"). FIN 46R 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 46R does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. As permitted by the transition guidance in FIN 46R, Merrill Lynch adopted the revised standard on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R to all VIEs with which it is involved, with the exception of those VIEs that issue Merrill Lynch Trust Originated Preferred Securities ("TOPrS[SM]"). The adoption of FIN 46R at December 26, 2003 was reported as a cumulative effect of a change in accounting principle and did not have a material effect on the Consolidated Financial Statements. As of March 26, 2004, Merrill Lynch applied FIN 46R to those VIEs that issue TOPrS[SM] . As a result, these VIEs were deconsolidated. The deconsolidation of TOPrS[SM] did not have a material impact on the Condensed Consolidated Financial Statements of Merrill Lynch and was reported by retroactively restating prior period financial statements. See Note 6 to the Condensed Consolidated Financial Statements for additional FIN 46R disclosure.

Note 2. Accounting Changes

Retail Account Fees

In the fourth quarter of 2004, subsequent to the filing of the Form 10-Q for the quarter ended September 24, 2004, Merrill Lynch corrected its method of accounting to recognize certain retail account fees over the contract period instead of when the fees were received, and prior period results have been restated to correct the previous error. These account fees are included in Asset management and portfolio service fees on the Condensed Consolidated Statements of Earnings. This restatement resulted in a cumulative decrease to stockholders' equity of $73 million, or 0.2% as of September 24, 2004. This restatement also resulted in decreases to retained earnings of $73 million and $66 million, as of September 24, 2004 and December 26, 2003, respectively, with corresponding increases in deferred revenues of $121 million and $109 million, respectively, and increases to deferred income taxes of $48 million and $43 million, respectively. Further details of this change are as follows:

(dollars in millions, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 24, 2004	**Sept 26, 2003**	**Sept. 24, 2004**	**Sept 26, 2003**
Earnings before income taxes as reported	$ 1,204	$ 1,406	$ 4,295	$ 3,663
Adjustment to correct error	4	3	(11)	(4)
Earnings before income taxes, as restated	$ 1,208	$ 1,409	$ 4,284	$ 3,659
Net earnings as previously reported	$ 920	$ 1,003	$ 3,250	$ 2,623
Adjustment to correct error	2	2	(7)	(2)
Net earnings, as restated	$ 922	$ 1,005	$ 3,243	$ 2,621
Earnings per common share:				
Basic as reported	$ 1.01	$ 1.10	$ 3.51	$ 2.89
Adjustment to correct error	–	–	(0.01)	–
Basic, as restated	$ 1.01	$ 1.10	$ 3.50	$ 2.89
Diluted as reported	$ 0.93	$ 1.00	$ 3.21	$ 2.68
Adjustment to correct error	–	–	(0.01)	–
Diluted, as restated	$ 0.93	$ 1.00	$ 3.20	$ 2.68

Stock-based Compensation

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.* Effective for the first quarter of 2004, Merrill Lynch adopted the fair value method of accounting for stock-based compensation under SFAS No. 123, using the retroactive restatement method described in SFAS No.148. Under the fair value recognition provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The December 26, 2003 Condensed Consolidated Balance Sheet and the Condensed Consolidated Statements of Earnings for the three and nine months ended September 26, 2003 have been restated for the retroactive adoption of the fair value recognition provisions of SFAS No. 123.

Accordingly, the December 26, 2003 Condensed Consolidated Balance Sheet reflects a $4.0 billion increase in paid-in capital, a $2.7 billion decrease in retained earnings, and a $1.3 billion increase in deferred income tax assets. See Note 15 to the 2003 Annual Report for additional information related to stock-based compensation.

Note 3. Other Significant Events

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 2001 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. Utilization of the restructuring reserve at September 24, 2004 is as follows:

(dollars in millions)

	Balance Dec. 26, 2003	Utilized in 2004	Balance Sept. 24, 2004
Category:			
Severance costs	$ 5	$ (3)	$ 2
Facilities costs	206	(34)	172
Other costs	20	(18) (1)	2
	$ 231	(55)	$ 176

(1) The 2004 utilization includes changes in estimate, which are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates, net reserves of $13 million were reversed in 2004 and are included in Other Expenses.

Note 4. Segment Information

In reporting to management, Merrill Lynch’s operating results are categorized into three business segments: the Global Markets and Investment Banking Group (“GMI”), Global Private Client (“GPC”) and Merrill Lynch Investment Managers (“MLIM”). Prior period amounts have been restated to reflect the retroactive restatement for accounting for stock-based compensation under SFAS No. 123, and to conform to the current period presentation. For information on each segment’s business activities, see the 2003 Annual Report.
Results by business segment are as follows:

(dollars in millions)

Three Months Ended September 24, 2004	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 1,548	$ 2,014	$ 368	$ –(1)	$ 3,930
Net interest profit(2)	702	303	5	(96) (3)	914
Net revenues	2,250	2,317	373	(96)	4,844
Non-interest expenses	1,479	1,904	263	(10) (1)	3,636
Pre-tax earnings (loss)	$ 771	$ 413	$ 110	$ (86)	$ 1,208
Quarter-end total assets	$523,539	$ 69,076	$ 8,609	$ 5,505	$606,729

Three Months Ended September 26, 2003	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 1,681	$ 1,965	$ 332	$ 1(1)	$ 3,979
Net interest profit(2)	794	352	6	(130) (3)	1,022
Net revenues	2,475	2,317	338	(129)	5,001
Non-interest expenses	1,489	1,859	269	(25) (1)	3,592
Pre-tax earnings (loss)	$ 986	$ 458	$ 69	$ (104)	$ 1,409
Quarter-end total assets	$412,903	$ 64,072	$ 5,475	$ 5,160	$487,610

(dollars in millions)

Nine Months Ended September 24, 2004	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 5,664	$ 6,273	$ 1,140	$ (4) [1]	$ 13,073
Net interest profit[2]	2,482	941	15	(311) [3]	3,127
Net revenues	8,146	7,214	1,155	(315)	16,200
Non-interest expenses	5,270	5,858	824	(36) [1]	11,916
Pre-tax earnings (loss)	$ 2,876	$ 1,356	$ 331	$ (279)	$ 4,284

Nine Months Ended September 26, 2003	**GMI**	**GPC**	**MLIM**	**Corporate Items**	**Total**
Non-interest revenues	$ 5,671	$ 5,546	$ 966	$ (2) [1]	$ 12,181
Net interest profit[2]	2,130	1,009	18	(292) [3]	2,865
Net revenues	7,801	6,555	984	(294)	15,046
Non-interest expenses	4,994	5,534	819	40[1]	11,387
Pre-tax earnings (loss)	$ 2,807	$ 1,021	$ 165	$ (334)	$ 3,659

(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 and other corporate interest, including the impact of TOPrSSM. See Note 6 for additional information on the impact of TOPrSSM.

Note 5. Investment Securities

Investment securities at September 24, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	Sept. 24, 2004	Dec. 26, 2003
Investment securities		
Available-for-sale (1)	$ 64,021	$ 66,121
Trading	5,200	4,798
Held-to-maturity	682	636
Non-qualifying (2)		
Investments in and advances to cost and equity method investees	7,473	7,191
Investments of Insurance Subsidiaries (3)	1,397	1,442
Deferred compensation hedges (4)	709	636
Investments in TOPrS[SM] partnerships	548	564
Total	$ 80,030	$ 81,388

(1) At September 24, 2004 and December 26, 2003, includes $6.8 billion and $6.6 billion, respectively, of investment securities reported in Cash and securities segregated for regulatory purposes or deposited with clearing organizations.
(2) Non-qualifying for SFAS No. 115 purposes.
(3) Primarily represents insurance policy loans.
(4) Represents investments economically hedging deferred compensation liabilities.

Note 6. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)

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; structuring SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of $48.6 billion and $48.5 billion for the nine months ended September 24, 2004 and September 26, 2003, respectively. For the nine months ended September 24, 2004, and September 26, 2003, Merrill Lynch received $49.2 billion and $49.1 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains of $341 million and $190 million, respectively, in Merrill Lynch's Condensed Consolidated Statements of Earnings. The increase in the net gains in 2004 reflects a higher proportion of more profitable securitization transactions. Merrill Lynch generally records assets prior to securitization at fair value.

For the first nine months of 2004 and 2003, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	Nine Months Ended	
	Sept. 24, 2004	**Sept. 26, 2003**
Asset category		
Residential mortgage loans	$ 35,456	$ 35,105
Municipal bonds	7,582	8,409
Corporate and government bonds	1,003	1,330
Commercial loans and other	5,172	4,304
	$ 49,213	$ 49,148

Retained interests in securitized assets were approximately $2.0 billion and $2.7 billion at September 24, 2004 and December 26, 2003, respectively, 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 purchased and expects to sell to investors in the normal course of its underwriting activity.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of September 24, 2004 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in those assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	$ 1,119	$ 670	$ 227
Weighted average life (in years)	4.0	3.1	3.0
Range	0.0 - 17.9	0.1 - 6.5	0.8 - 9.8
Weighted average credit losses (rate per annum)	0.9%	0%	1.1%
Range	0.0 - 8.0%	0%	0.0 - 8.0%
Impact on fair value of 10% adverse change	$ (8)	$ –	$ –
Impact on fair value of 20% adverse change	$ (16)	$ –	$ –
Weighted average discount rate	6.6%	2.8%	15.0%
Range	2.2 - 50.0%	1.6 - 12.0%	2.4 - 25.0%
Impact on fair value of 10% adverse change	$ (24)	$ (69)	$ (7)
Impact on fair value of 20% adverse change	$ (43)	$ (131)	$ (13)
Weighted average prepayment speed (CPR)	22.3%	15.7%	1.3%
Range	0.0 - 55.0%	5.0 - 24.0%	0.0 - 15.0%
Impact on fair value of 10% adverse change	$ (16)	$ (1)	$ (1)
Impact on fair value of 20% adverse change	$ (31)	$ (1)	$ (1)

N/A=Not Applicable
CPR=Constant Prepayment Rate
(1) Relates to select securitization transactions where assets are prepayable.

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 weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2004 that were still held by Merrill Lynch as of September 24, 2004 are as follows:

	Residential Mortgage Loans	**Municipal Bonds**	**Other**
Weighted average life (in years)	3.6	N/A	N/A
Credit losses (rate per annum)	0.3%	0.0%	0.0%
Weighted average discount rate	4.9%	3.9%	3.0%
Prepayment speed assumption (CPR)	13.7%	N/A	N/A

N/A=Not Applicable
CPR=Constant Prepayment Rate

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 the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

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

The maximum commitment under these liquidity and default guarantees totaled $19.8 billion and $17.0 billion at September 24, 2004 and December 26, 2003, respectively. The fair value of the

commitments approximated $152 million and $126 million at September 24, 2004 and December 26, 2003, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, $3.1 billion and $2.8 billion at September 24, 2004 and December 26, 2003, respectively, 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 11 to the Condensed Consolidated Financial Statements and in Note 13 in the 2003 Annual Report.

The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of September 24, 2004 and December 26, 2003, and net credit losses for the year-to-date periods then ended.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
September 24, 2004			
Principal Amount Outstanding	$ 30,738	$ 13,883	$ 8,794
Delinquencies	31	–	–
Net Credit Losses	2	–	9
December 26, 2003			
Principal Amount Outstanding	$ 43,777	$ 14,890	$ 4,527
Delinquencies	54	–	–
Net Credit Losses	3	–	8

Variable Interest Entities

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

As permitted under the transition guidance, Merrill Lynch adopted the provisions of FIN 46R on an entity-by-entity basis. At December 26, 2003 Merrill Lynch applied FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest, with the exception of those VIEs that issue TOPrS SM, in which case Merrill Lynch applied FIN 46R beginning in the first quarter of 2004. Merrill Lynch accounted for those VIEs that were consolidated under FIN 46R at year-end 2003 as a cumulative effect of a change in accounting principle, which did not have a material effect on the year-end 2003 consolidated financial statements.

During the first quarter of 2004, in accordance with FIN 46R, Merrill Lynch deconsolidated the partnerships and trusts that issue TOPrS SM since Merrill Lynch does not bear the majority of the risks and rewards of those entities. As a result, the dividends, of approximately $48 million per quarter, related to the TOPrS SM have been reclassified from dividends on preferred securities

issued by subsidiaries to net revenues (primarily interest expense), and the debt, of approximately $3.2 billion, and partnership interests, of $564 million, related to the entities have been included in the Condensed Consolidated Balance Sheets as Long-term debt issued to TOPrS[SM] partnerships and Investment securities, respectively. Merrill Lynch has reflected the deconsolidation of TOPrS[SM] by retroactively restating prior period financial statements in order to provide comparability from period to period.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the primary beneficiary of VIEs that own convertible bonds purchased from Merrill Lynch, in which Merrill Lynch maintains a call option to repurchase the convertible bonds from the VIE. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option. Assets held by these VIEs are reported in Equities and convertible debentures or Receivables under resale agreements, depending on the nature of the transaction, in the Condensed Consolidated Balance Sheet. Holders of the beneficial interests in these VIEs have no recourse to the general credit of Merrill Lynch; their investment is paid exclusively from the convertible bonds held by the VIE.

- Merrill Lynch is the primary beneficiary of "maturity shortening transactions," in which the VIE serves to shorten the maturity of a fixed income security, and, at the maturity date of the VIE, Merrill Lynch has the obligation to repurchase some or all of the securities held by the VIE. Assets held by these VIEs are reported in Trading assets (Corporate debt and preferred stock). The beneficial interest holders in these VIEs have recourse to Merrill Lynch to the extent that the underlying assets that Merrill Lynch is required to repurchase have declined in value from the initial transaction date.

- Merrill Lynch is the sponsor and/or guarantor of certain mutual funds, closed-end funds and similar investment entities that provide a guaranteed return to the investors at the maturity of the fund. This guarantee may include a guarantee of the return of an initial investment or of the initial investment plus an agreed upon return depending on the terms of the funds. Although the investors typically hold voting equity in the entity, these entities are deemed to be VIEs because their losses are limited. Investors in these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the guaranteed amount. In some instances Merrill Lynch is the primary beneficiary and must consolidate the fund. In instances where Merrill Lynch is not the primary beneficiary, the guarantees related to these funds are considered to be a significant variable interest and further discussed in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary of and consolidate the VIE, or may be a significant variable interest holder. These VIEs are primarily designed to provide temporary on or off-balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where Merrill Lynch has provided financing and is the primary beneficiary are recorded in Other assets and/or Loans, notes, and mortgages in the Condensed Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as Investment securities where Merrill Lynch holds a significant variable interest, and in Other assets where Merrill Lynch is the primary

beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; their investments are paid exclusively from the assets in the VIE.

- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 11 to the Condensed Consolidated Financial Statements.

- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide tax planning strategies to investors, and in certain instances, to Merrill Lynch. Merrill Lynch is a significant variable interest holder in these VIEs.

- Merrill Lynch has a significant variable interest in a residential mortgage securitization entered into by one of its banking subsidiaries. Specifically, Merrill Lynch retains a 97% interest in the VIE. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, this entity qualifies as a QSPE, and therefore Merrill Lynch does not consolidate the VIE. The 97% interest is reported in Investment securities on Merrill Lynch's Condensed Consolidated Balance Sheets.

- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch is a derivative counterparty to a VIE that serves to synthetically expose investors to a specific credit risk. Based on the provisions of FIN 46R, Merrill Lynch does not have a significant variable interest since the derivative it has purchased does not absorb variability of the VIE. However, because these structures represent a significant Merrill Lynch sponsored program, information related to these structures has been included in the following table.

The following tables summarize Merrill Lynch's involvement with the VIEs listed above as of September 24, 2004 and December 26, 2003, respectively. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)

Description	September 24, 2004			
	Primary Beneficiary		Significant Variable Interest Holder	
	Asset Size	Recourse to Merrill Lynch(4)	Asset Size	Maximum Exposure
Convertible Bond Stripping	$ 1,255	None	$ –	$ –
Maturity Shortening	153	$ –	–	–
Guaranteed Funds	1,118	1,118	–	–
Loan and Real Estate VIEs	711	None	1,182	1,023
Municipal Bond Securitizations(1)	–	–	19,752	19,752
Tax Planning VIEs(2)	–	–	2,295	107
Mortgage Securitization	–	–	298	289
Synthetic Credit Risk VIEs(3)	–	–	6,524	462

(dollars in millions)

Description	December 26, 2003			
	Primary Beneficiary		Significant Variable Interest Holder	
	Asset Size	Recourse to Merrill Lynch(4)	Asset Size	Maximum Exposure
Convertible Bond Stripping	$ 1,864	None	$ –	$ –
Maturity Shortening	379	$ 1	–	–
Guaranteed Funds	863	863	–	–
Loan and Real Estate VIEs	775	None	636	567
Municipal Bond Securitizations(1)	–	–	16,927	16,927
Tax Planning VIEs(2)	–	–	2,811	114
Mortgage Securitization	–	–	345	334
Synthetic Credit Risk VIEs(3)	–	–	6,402	474

1. *The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's probability weighted exposure to these VIEs because it does not reflect the economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.*
2. *The maximum exposure for Tax Planning VIEs reflects the fair value of derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made to investors in the VIEs.*
3. *The maximum exposure for Synthetic Credit Risk VIEs is the asset carrying value of the derivatives entered into with the VIEs as of September 24, 2004 and December 26, 2003, respectively.*
4. *This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.*

Note 7. Loans, Notes, and Mortgages and Related Commitments to Extend Credit

Loans, Notes, and Mortgages and related commitments to extend credit at September 24, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	Loans		Commitments	
	Sept. 24, 2004	Dec. 26, 2003	Sept. 24, 2004(1)	Dec. 26, 2003
Consumer and small- and middle-market business:				
Mortgages	$ 15,884	$ 16,688	$ 4,985	$ 4,842
Small- and middle-market business	5,749	6,737	3,476	3,411
Other	5,086	4,045	815	603
Commercial:				
Secured	26,155	21,048	12,946	12,425
Unsecured investment grade	1,499	1,806	18,032	15,028
Unsecured non-investment grade	847	669	1,931	562
Total	$ 55,220	$ 50,993	$ 42,185	$ 36,871

(1) See Note 11 for the maturity profile of these commitments.

The loan amounts are net of an allowance for loan losses of $314 million and $318 million as of September 24, 2004 and December 26, 2003, respectively.

Consumer and small- and middle-market business loans, substantially all of which are secured by real and/or personal property, consisted of approximately 213,500 individual loans at September 24, 2004 and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at September 24, 2004 consisted of approximately 7,200 separate loans, included 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 or equivalent ratings by recognized credit rating agencies. Merrill Lynch enters into credit default swaps to mitigate credit exposure primarily related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled $5.5 billion and $4.9 billion at September 24, 2004 and December 26, 2003, respectively.

The above amounts include $7.5 billion and $7.6 billion of loans held-for-sale at September 24, 2004 and December 26, 2003, respectively. Loans held-for-sale are loans which management expects to sell prior to maturity. At September 24, 2004, such loans consisted of $4.5 billion of consumer loans, primarily residential mortgages, and $3.0 billion of commercial loans, approximately 48% of which are to investment grade counterparties. At December 26, 2003, such loans consisted of $5.2 billion of consumer loans, primarily residential mortgages, and $2.4 billion of commercial loans, approximately 59% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes, and mortgages, see Note 1 in the 2003 Annual Report.

Note 8. Commercial Paper, Short- and Long-Term Borrowings, and Bank Deposits

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

Total borrowings at September 24, 2004 and December 26, 2003, which is comprised of Commercial paper and other short-term borrowings, Long-term borrowings and Long-term debt issued to TOPrS SM partnerships, consisted of the following:

(dollars in millions)

	Sept. 24, 2004	Dec. 26, 2003
Senior debt issued by ML & Co.	$ 100,823	$ 82,814
Senior debt issued by subsidiaries, guaranteed by ML & Co.	6,453	5,989
Other subsidiary financing — not guaranteed by ML & Co.	1,230	1,455
Other subsidiary financing — non-recourse	3,168	1,244
Total	$ 111,674	$ 91,502

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 in the 2003 Annual Report, Derivatives section, for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments. Other subsidiary financing — non-recourse is primarily attributable to entities qualifying as VIEs, in accordance with FIN46R. Additional information regarding VIEs is provided in Note 6 to the Condensed Consolidated Financial Statements, Variable Interest Entities section.

Borrowings and Bank deposits at September 24, 2004 and December 26, 2003 are presented below:

(dollars in millions)

	Sept. 24, 2004	Dec. 26, 2003
Commercial paper and other short-term borrowings		
Commercial paper	$ 5,121	$ 4,568
Other	879	432
Total	$ 6,000	$ 5,000
Long-term borrowings (1)		
Fixed-rate obligations (2)(4)	$ 43,968	$ 40,413
Variable-rate obligations (3)(4)	57,040	41,297
Zero-coupon contingent convertible debt (LYONs®)	4,666	4,792
Total	$ 105,674	$ 86,502
Bank deposits		
U.S.	$ 63,469	$ 65,409
Non-U.S.	13,800	14,048
Total	$ 77,269	$ 79,457

(1) Includes Long-term debt issued to TOPrS SM partnerships.
(2) Fixed-rate obligations are generally swapped to floating rates.
(3) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.
(4) Included are various equity-linked or other indexed instruments.

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, at September 24, 2004, mature as follows:

(dollars in millions)		
9/25/04 - 9/24/05	$ 17,565	17%
9/25/05 - 9/24/06	14,655	14
9/25/06 - 9/24/07	12,906	12
9/25/07 - 9/24/08	8,683	8
9/25/08 - 9/24/09	19,490	18
9/25/09 and thereafter	32,375	31
Total	$105,674	100%

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 portion of such borrowings will remain outstanding beyond their earliest redemption date. A limited number of notes whose coupon or repayment terms are linked to the performance of individual equity securities, or baskets of securities, or equity or other indices, may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying securities. Merrill Lynch also makes markets buying and selling its debt instruments, including such notes.

Senior debt issued by ML & Co. and senior debt issued by subsidiaries guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or ML & Co. 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.

The effective weighted-average interest rates for borrowings, at September 24, 2004 and December 26, 2003 were:

	Sept. 24, 2004	**Dec. 26, 2003**
Commercial paper and other short-term borrowings	2.17%	2.10%
Long-term borrowings, contractual rate	2.90	2.99
Long-term borrowings, including the impact of hedges	1.89	1.38
Long-term debt issued to TOPrS^{SM} partnerships	7.31	7.15

Merrill Lynch issues debt and certificates of deposit whose coupons or repayment terms are linked to the performance of individual equity securities, or baskets of securities, or equity or other indices (e.g., S&P 500). These instruments are assessed to determine if there is an embedded derivative that requires separate reporting and accounting. Beginning in 2004, in accordance with SEC guidance, Merrill Lynch amortizes any upfront profit associated with the embedded derivative into income as a yield adjustment over the life of the related debt instrument or certificate of deposit.

On June 30, 2004, Merrill Lynch redeemed its Yen TOPrS^{SM} debentures, which were due on June 30, 2019, pursuant to the optional redemption provisions stated in the terms and conditions of the debentures. Such redemption resulted in a cash payment of $107.1 million. No gain or loss was recognized on the transaction.

*Long-term borrowings/*LYONs®

In March 2002, Merrill Lynch issued $2.3 billion of 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 per note. At maturity, the LYONs® holder will receive the original principal amount of $1,000 increased daily by a variable rate. 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 beginning June 1, 2007, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 13.8213 shares (i.e., the "conversion rate") of Merrill Lynch common stock based on the conditions described below.

In May 2001, Merrill Lynch issued $4.6 billion of aggregate original principal amount of fixed rate contingently convertible LYONs® at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. 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®. The LYONs® are unsecured unsubordinated indebtedness of Merrill Lynch with a maturity of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period beginning June 1, 2006, the average market price of a LYONs® for a certain period exceeds 120% of the accreted value of the LYONs®. Holders of LYONs® may convert each security into 5.6787 shares (i.e., the "conversion rate") of common stock based on the conditions described below.

Both Merrill Lynch LYONs® issuances may be converted based on any of the following conditions:

- If the closing price of Merrill Lynch common stock for at least 20 of the last 30 consecutive trading days ending on the last day of the calendar quarter is more than the conversion trigger price. The conversion trigger price for the floating rate LYONs® at September 30, 2004 was $86.82. (That is, on and after October 1, 2004, a holder could have converted a floating rate LYONs® into 13.8213 shares of Merrill Lynch stock if the Merrill Lynch stock price had been greater than $86.82 for at least 20 of the last 30 consecutive trading days ending September 30, 2004). The conversion trigger price for the fixed rate LYONs® at September 30, 2004 was $115.43. The conversion trigger price will change each calendar quarter based on the accreted value of the LYONs® at that date;

- During any period in which the credit rating of LYONs® is Baa1 or lower by Moody's Investor Services, Inc., BBB+ or lower by Standard & Poor's Credit Market Services, or BBB+ or lower by Fitch, Inc;

- If the LYONs® are called for redemption;

- If Merrill Lynch is party to a consolidation, merger or binding share exchange; or

- If Merrill Lynch makes a distribution that has a per share value equal to more than 15% of the sale price of its shares on the day preceding the declaration date for such distribution.

The conversion rate for both of Merrill Lynch's LYONs® will be adjusted for:

- Dividends or distributions payable in Merrill Lynch common stock.
- Distributions to all holders of Merrill Lynch common stock of certain rights to purchase the stock at less than the sale price of Merrill Lynch stock at that time.
- Distribution of Merrill Lynch assets to holders of Merrill Lynch common stock (excluding cash dividends that are not extraordinary dividends), or
- Certain corporate events, such as consolidation, merger or transfer of all, or substantially all, of Merrill Lynch's assets.

As of September 24, 2004 (fiscal quarter end) and September 30, 2004 (last conversion calculation date prior to issuance of this report), none of the conversion triggers above had been met and, as a result, the related shares have not been included in the diluted EPS calculation.

Holders of LYONs® may required Merrill Lynch to repurchase their convertible instruments at accreted value on various dates prior to maturity. The initial put date for holders of floating rate LYONs® is March 13, 2005. The initial put date for fixed rate LYONs® was May 23, 2004. Merrill Lynch elected to pay the purchase price for the $166.3 million fixed rate LYONs® that were put back to Merrill Lynch on May 24, 2004 with cash. No gain or loss was recognized on the transaction. Holders of the LYONs ® have the right to require Merrill Lynch to purchase the securities on certain specified dates. Pursuant to the indentures, Merrill Lynch had the right to elect to pay the purchase price payable upon exercise of such put rights in cash or common stock, or a combination thereof. Merrill Lynch entered into supplemental indentures on November 1, 2004 pursuant to which it surrendered the right to elect to pay such amounts in common stock and instead will be obligated to pay such amounts when and if required only in cash. The supplemental indentures do not affect Merrill Lynch's obligation to deliver common stock upon conversion of the LYONs ® should they become convertible.

In October 2004, Merrill Lynch repurchased outstanding LYONs® with a face value of $1.0 billion.

For further information regarding Merrill Lynch LYONs® issuances, refer to Note 1, New Accounting Pronouncements, and Note 10 to the 2003 Annual Report.

Note 9. Comprehensive Income

The components of comprehensive income are as follows:

(dollars in millions)

	Three Months Ended		Nine Months Ended	
	Sept. 24, 2004	**Sept. 26, 2003**	**Sept. 24, 2004**	**Sept. 26, 2003**
Net Earnings	$922	$1,005	$3,243	$2,621
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	20	16	(14)	20
Net unrealized gain (loss) on investment securities available-for-sale	150	(35)	16	32
Deferred gain (loss) on cash flow hedges	8	13	(23)	7
Total other comprehensive income (loss), net of tax	178	(6)	(21)	59
Comprehensive income	$1,100	$999	$3,222	$2,680

Note 10. Earnings Per Share

The computation of earnings per common share is as follows:

(dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	Sept. 24, 2004	**Sept. 26, 2003**	**Sept. 24, 2004**	**Sept. 26, 2003**
Net Earnings	$ 922	$ 1,005	$ 3,243	$ 2,621
Preferred stock dividends	9	10	28	29
Net earnings applicable to common stockholders	$ 913	$ 995	$ 3,215	$ 2,592
(shares in thousands)				
Weighted-average basic shares outstanding	903,216	904,829	918,795	896,528
Effect of dilutive instruments(1) (2):				
Employee stock options	33,333	38,394	41,552	29,147
Financial Advisor Capital Accumulation Award Plan shares	23,353	24,158	23,309	22,167
Restricted shares and units	21,891	24,526	21,083	19,175
Employee Stock Purchase Plan shares	—	40	—	72
Dilutive potential common shares	78,577	87,118	85,944	70,561
Total weighted-average diluted shares	981,793	991,947	1,004,739	967,089
Basic earnings per common share	$ 1.01	$ 1.10	$ 3.50	$ 2.89
Diluted earnings per common share	$ 0.93	$ 1.00	$ 3.20	$ 2.68

1. *During the 2004 and 2003 third quarter there were 85 million and 78 million instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. Additionally, shares related to Merrill Lynch's LYONs® issuances are not included in the computation of diluted earnings per share because the threshold trigger price for conversion has not been reached. See Note 8 to these Condensed Consolidated Financial Statements.*
2. *See Note 15 to the 2003 Annual Report for a description of these instruments.*

Note 11. 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 from its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 has resulted in increased legal actions against many firms, including Merrill Lynch, and has resulted 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 in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to and, where appropriate, will vigorously contest many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies*, when resolution of cases is both probable and estimable, Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including the class action lawsuits disclosed in Item 3 of the 2003 Form 10-K, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch often cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Commitments

At September 24, 2004, Merrill Lynch's commitments had the following expirations:

(dollars in millions)

		Commitment expiration			
	Total	Less than 1 year	1- 3 years	3^{+} - 5 years	Over 5 years
Commitments to extend credit (1)	$42,185	$18,488	$8,168	$8,754	$6,775
Purchasing and other commitments	4,583	3,440	724	275	144
Operating leases	3,694	542	1,019	829	1,304
Resale agreements	13,081	13,081	—	—	—
Total	$63,543	$35,551	$9,911	$9,858	$8,223

(1) See Note 7 to these Condensed Consolidated Financial Statements and Note 13 in the 2003 Annual Report for additional details.

Other Commitments

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 $551 million and $507 million at September 24, 2004 and December 26, 2003, respectively.

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity investing activities, of $367 million and $426 million at September 24, 2004 and December 26, 2003, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At September 24, 2004 and December 26, 2003 minimum fee commitments over the remaining life of these agreements aggregated $506 million and $503 million, respectively. Merrill Lynch had entered into other purchasing commitments totaling $3.7 billion and $7.4 billion at September 24, 2004 and December 26, 2003, 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.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was $383 million. These SPEs were not consolidated by Merrill Lynch pursuant to accounting guidance. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original

SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third parties unrelated to Merrill Lynch.

The leases with the limited partnership mature in 2005 and 2006, and each lease has a renewal term to 2008. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the adjusted acquisition price, as defined. The maximum exposure to Merrill Lynch as a result of this residual value guarantee was approximately $325 million as of September 24, 2004. As of September 24, 2004, the carrying value of the liability on the Condensed Consolidated Financial Statements was $28 million. Merrill Lynch's residual value guarantee does not comprise more than half of the limited partnership's assets.

The limited partnership does not meet the definition of a variable interest entity as defined in FIN 46R, and Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

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 rates or changes in 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 may overstate Merrill Lynch's exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Condensed Consolidated Balance Sheets. 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 the Derivatives section of Note 1 in the 2003 Annual Report for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of September 24, 2004, the maximum payout if the standby facilities are drawn was $16.7 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was $20.4 billion. However, it should be noted that these two amounts are not directly comparable as the assets to which Merrill Lynch has recourse are on a deal-by-deal basis and are not part of a cross collateralized pool.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of September 24, 2004, the maximum payout if an issuer defaults was $3.0 billion, and the value of the assets to which Merrill Lynch has recourse in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was $3.9 billion; however, as described in the preceding paragraph, these two amounts are not directly comparable as the assets to which Merrill Lynch has recourse are not part of a cross collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales greater than 75 — 90% of the adjusted acquisition price, as defined. As of September 24, 2004, the value of the assets for which Merrill Lynch provides residual value guarantees and is not the lessee was $733 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the adjusted acquisition price, as defined.

Merrill Lynch also enters into reimbursement agreements in conjunction with sales of loans originated under its Mortgage 100SM 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 Condensed Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of $532 million as collateral to secure these guarantees. In addition, standby letters of credit include $257 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market downturn. At September 24, 2004 Merrill Lynch's maximum potential exposure to loss with respect to these guarantees was $547 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at September 24, 2004. These transactions met the SFAS No. 149 definition of derivatives and, as such, were carried as a liability with a fair value of $13 million at September 24, 2004.

These guarantees and their expiration are summarized at September 24, 2004 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 - 3 years	3+ - 5 years	Over 5 years	Carrying Value
Derivative contracts(1)	$1,094,642	$372,867	$289,736	$247,496	$184,543	$ 20,889
Liquidity facilities with SPEs(2)	16,735	13,941	2,794	–	–	76
Liquidity and default facilities with SPEs	3,044	2,234	522	1	287	76
Residual value guarantees(3)(4)	2,152	58	14	491	1,589	35
Standby letters of credit and other performance guarantees(5)	1,456	797	56	49	554	16

(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 $3.1 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 leases of $325 million.*

(4) *Includes $1.1 billion of reimbursement agreements with the Mortgage 100SM program.*

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

See Note 13 in the 2003 Annual Report for additional information on guarantees.

Note 12. 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. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 14 in the 2003 Annual Report for a complete discussion of employee benefit plans.

Defined Benefit Pension Plans

Pension cost for the three and nine month periods ended September 24, 2004 and September 26, 2003, for Merrill Lynch's defined benefit pension plans, included the following components:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	Sept. 24, 2004	**Sept. 26, 2003**	**Sept. 24, 2004**	**Sept. 26, 2003**
Service cost	$8	$10	$25	$32
Interest cost	38	37	113	108
Expected return on plan assets	(35)	(34)	(106)	(103)
Amortization of unrecognized items and other	5	–	14	2
Total defined benefit pension cost	$16	$13	$46	$39

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $57 million to its defined benefit pension plans in 2004. Merrill Lynch periodically updates these estimates, and currently expects to contribute $31 million to its defined benefit pension plans in 2004. The defined benefit plan service costs for the first nine months of 2004 were reduced by $7 million due primarily to the U.K. pension plan, which was frozen as of the end of the second quarter of 2004. Affected employees will receive future benefits under Merrill Lynch's defined contribution plan.

Postretirement Benefits Other Than Pensions

Other postretirement benefits cost for the three and nine month periods ended September 24, 2004 and September 26, 2003, included the following components:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	Sept. 24, 2004	**Sept. 26, 2003**	**Sept. 24, 2004**	**Sept. 26, 2003**
Service cost	$5	$3	$13	$11
Interest cost	7	8	23	24
Other	1	3	6	8
Total other postretirement benefits cost	$13	$14	$42	$43

Merrill Lynch disclosed in its 2003 Annual Report that it expected to contribute $19 million to its postretirement benefit plans in 2004. Merrill Lynch does not expect contributions to differ significantly from amounts previously disclosed.

Note 13. Regulatory Requirements

Certain U.S. and non-U.S. subsidiaries are subject to various securities and banking 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

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“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 the 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 September 24, 2004, MLPF&S’s regulatory net capital of $2,910 million was approximately 19.2 % of ADI, and its regulatory net capital in excess of the minimum required was $2,527 million at 2% of ADI.

Merrill Lynch International (“MLI”), a U.K. regulated investment firm, 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 September 24, 2004, MLI’s financial resources were $8,047 million, exceeding the minimum requirement by $1,322 million.

Merrill Lynch Government Securities Inc. (“MLGSI”), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At September 24, 2004, MLGSI’s liquid capital of $1,763 million was 246% of its total market and credit risk, and liquid capital in excess of the minimum required was $901 million.

Banking Regulation

Two subsidiaries of ML & Co., Merrill Lynch Bank USA (“MLBUSA”) and Merrill Lynch Bank & Trust Co. (“MLB&T”) are required to maintain capital levels that at least equal minimum capital levels specified in U.S. federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based capital ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital ratio — 10%. The following table represents the actual capital ratios and amounts for MLBUSA and MLB&T at September 24, 2004 and December 26, 2003.

(dollars in millions)

	Sept. 24, 2004		Dec. 26, 2003	
	Actual Ratio	**Amount**	**Actual Ratio**	**Amount**
Tier I leverage (to average assets)				
MLBUSA	7.32%	$ 4,972	6.47%	$ 4,480
MLB&T	6.33	838	6.00	857
Tier I capital (to risk-weighted assets)				
MLBUSA	10.76	4,972	10.73	4,480
MLB&T	20.29	838	19.18	857
Total capital (to risk-weighted assets)				
MLBUSA	11.33	5,236	11.28	4,706
MLB&T	20.31	839	19.20	858

Merrill Lynch Capital Markets Bank Limited (“MLCMB”), an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority (“IFSRA”), as well as to those of the State of New York Banking Department (“NYSBD”), as the consolidated supervisor of its indirect parent, Merrill Lynch International Finance Corporation (“MLIFC”). MLCMB is required to meet minimum regulatory capital requirements under EU banking law as implemented in Ireland by IFSRA. At September 24, 2004, MLCMB’s capital ratio was above the minimum requirement at 11.1% and its financial resources, as defined, were $2,050 million.

Merrill Lynch International Bank Limited (“MLIB”), a U.K.-based regulated bank, is subject to the capital requirements of the FSA as well as those of the NYSBD as part of the MLIFC group. MLIB is required to meet minimum regulatory capital requirements under EU banking law as implemented in the U.K. MLIB’s consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At September 24, 2004, MLIB’s consolidated capital ratio was 13.9% and its consolidated financial resources were $2,477 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of September 24, 2004, and the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 24, 2004 and September 26, 2003, and the condensed consolidated statements of cash flows for the nine-month periods ended September 24, 2004 and September 26, 2003. These interim financial statements are the responsibility of Merrill Lynch's management.

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

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

As discussed in Note 2 to the condensed consolidated interim financial statements, the condensed consolidated interim financial statements as of September 24, 2004 and for the three-month and nine-month periods ended September 24, 2004 and September 26, 2003 have been restated to correct the accounting for certain retail account fees.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 26, 2003, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2004 (May 4, 2004 as to the effects of the restatement related to stock-based compensation described in Note 2 to the consolidated financial statements) (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2 to the consolidated financial statements) we expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 26, 2003 is fairly stated, in all material respects, in relation to the restated consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
November 1, 2004 (February 3, 2005 as to the effects of the restatement related to the accounting for certain retail account fees described in Note 2)