SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 28, 2001 **Commission file number 1-7182**

Merrill Lynch & Co., Inc.
(Exact name of Registrant as specified in its charter)

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

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

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

Common Stock, par value $1.33 $^{1}/3$ and attached Rights to Purchase Series A Junior Preferred Stock.	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Paris Stock Exchange; London Stock Exchange; and Tokyo Stock Exchange
Depositary Shares representing 1/400th share of 9% Cumulative Preferred Stock, Series A. Nikkei 225 Market Index Target-Term Securities ("MITTS Securities") due June 14, 2002; S&P 500 MITTS Securities due September 16, 2002; MITTS Securities based upon the Dow Jones Industrial Average (the "Dow Jones") due January 14, 2003; S&P 500 MITTS Securities due September 28, 2005; Top Ten Yield MITTS Securities due August 15, 2006; S&P 500 Inflation Adjusted MITTS Securities due September 24, 2007.	New York Stock Exchange
Nikkei 225 MITTS Securities due September 20, 2002; Major 8 European MITTS Securities due August 30, 2002; Major 11 International MITTS Securities due December 6, 2002; Russell 2000 MITTS Securities due September 30, 2004; Global MITTS Securities due December 22, 2004; S&P 500 MITTS Securities due July 1, 2005; Nikkei 225 MITTS Securities due September 21, 2005; Energy Select Sector SPDR Fund MITTS Securities due February 21, 2006; EuroFund MITTS Securities due February 28, 2006; S&P 500 MITTS Securities due March 27, 2006; Consumer Staples Select Sector SPDR Fund MITTS Securities due April 19, 2006; Select Sector SPDR Fund Growth Portfolio MITTS Securities due May 25, 2006; Major 11 International MITTS Securities due May 26, 2006; MITTS Securities based upon the Dow Jones due June 26, 2006; Russell 2000 MITTS Securities due July 21, 2006; Nikkei 225 MITTS Securities due August 4, 2006; S&P 500 MITTS Securities due August 4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; MTN, Series B, Stock-Linked Notes due November 28, 2003; Series B, 1.5% Principal Protected Notes due December 15, 2005; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; MTN, Series B, 0.25% Callable and Exchangeable Portfolio-Linked Notes due April 27, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Telebras Indexed Callable ProGroS Securities due May 19, 2005; Bond Index Notes, Domestic Master Series 1999A due December 23, 2002; Euro Currency Warrants due February 28, 2002; Callable MITTS Securities due October 5, 2007 based upon Semiconductor HOLDRS; Callable MITTS Securities due September 13, 2007 based upon Broadband HOLDRS; Callable Nasdaq-100 MITTS Securities due August 3, 2007; Callable MITTS Securities due August 3, 2007 based upon Biotech HOLDRS; Medium-Term Notes, Series B 2% Callable and Exchangeable Stock-Linked Notes due July 26, 2005 (Linked to the performance of the common stock of Johnson & Johnson); Medium-Term Notes, Series B 7% Stock-Linked Notes due July 8, 2002 (Linked to the performance of the common stock of The Gap, Inc.); Nikkei 225 MITTS Securities due March 30, 2007; Callable MITTS Securities due March 5, 2007 based upon Internet HOLDRS; Medium-Term Notes, Series B 0.50% Callable and Exchangeable Stock-Linked Notes due February 3, 2005 (Linked to the performance of a specified portfolio of common stocks); Medium-Term Notes, Series B 0.25% Callable and Exchangeable Stock-Linked Notes due January 7, 2008 (Linked to the performance of Wells Fargo & Company); Nikkei 225 MITTS due June 27, 2007; Strategic Return Notes Linked to the Nasdaq-100 Index due November 30, 2004; Strategic Return Notes Linked to the Select Ten Index due May 30, 2006; Strategic Return Notes Linked to the Industrial 15 Index due June 26, 2006; Strategic Return Notes Linked to the Institutional Holdings Index due June 28, 2006; Strategic Return Notes Linked to the Select Ten Index due July 31, 2006; 8% Callable Stock Return Income Debt Securities due October 23, 2003, payable at maturity with Cisco Systems, Inc. common stock; 9% Callable Stock Return Income Debt Securities due October 23, 2003, payable at maturity with Sun Microsystems, Inc. common stock; Strategic Return Notes Linked to the Select Ten Index due November 2, 2006; 8% Callable STock Return Income Debt Securities due November 21, 2003, payable at maturity with EMC Corporation common stock; Top Ten Yield Market Index Target-Term Securities due August 15, 2006; Strategic Return Notes/SM/ Linked to the Select Ten Index due March 1, 2007; 8% Callable STock Return Income DEbt Securities/SM/ due February 23, 2004, payable at maturity with Applied Materials, Inc. common stock; 6% Callable STock Return Income DEbt Securities/SM/ due February 11, 2004, payable at maturity with Bed Bath & Beyond Inc. common stock; Strategic Return Notes/SM/ Linked to the Biotech-Pharmaceutical Index due February 8, 2007; 9% Callable STock Return Income DEbt Securities/SM/ due February 2, 2004, payable at maturity with JDS Uniphase Corporation common stock; Strategic Return Notes/SM/ Linked to the Industrial 15 Index due February 1, 2007; and 8% Callable STock Return Income DEbt Securities/SM/ due January 29, 2004, payable at maturity with Xilinx, Inc. common stock.	American Stock Exchange

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

S&P 500 Market Index Target-Term Securities ("MITTS Securities") due June 29, 2007; and S&P 500 MITTS Securities due November 20, 2007; and S&P 500 MITTS Securities due August 29, 2008; MITTS Securities based upon the Dow Jones Industrial Average due September 29, 2008; Enhanced Return Notes Linked to the Nasdaq-100 due February 28, 2003; Enhanced Return Notes/SM/ Linked to the Nasdaq-100 Index/®/ due March 1, 2004; and Market Index Target-Term Securities/®/ based upon the Dow Jones Industrial Average/SM/ due January 16, 2009.

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

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

As of the close of business on February 26, 2002, there were 852,998,013 shares of Common Stock and 4,195,407 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

As of the close of business on February 26, 2002, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately $41.7 billion.

Documents Incorporated By Reference: Merrill Lynch & Co., Inc. 2001 Annual Report to Stockholders and the 2002 Proxy Statement for the Annual Meeting of Stockholders of Merrill Lynch & Co., Inc. dated March 15, 2002, each incorporated by reference in Parts I-IV in this Form 10-K.

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PART I

Item 1. *Business*

Overview

Merrill Lynch & Co., Inc.,[1] a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, banking, and related products and services on a global basis, including:

- securities brokerage, trading, and underwriting
- investment banking, strategic services (including mergers and acquisitions), and other corporate finance advisory activities
- asset management
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives and foreign exchange products
- securities clearance and settlement services
- equity, debt, foreign exchange, and economic research
- private equity investing activities
- banking, trust, and lending services, including commercial and mortgage lending and related services
- insurance underwriting and sales
- investment advisory and related record keeping services

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

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

Merrill Lynch has organized its operations outside the United States into five regions: Europe, Middle East, and Africa; Japan; Asia Pacific; Canada; and Latin America. Merrill Lynch conducts its business from various locations throughout the world. Its world headquarters facility is located at the World Financial Center in New York City and its other principal United States business and operational centers are in New Jersey and Florida. Merrill Lynch has a presence in 37 countries outside the United States, including offices in Buenos Aires, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Melbourne, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Tokyo, Toronto, and Zurich.

Merrill Lynch employed approximately 57,400[2] people at the end of 2001. Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December 2001, 2000, and 1999, including the amount of total revenue contributed by classes of similar services that accounted for 10% or more of its consolidated revenues in any one of these fiscal periods, as well as information with respect to Merrill Lynch's operations by segment and geographic area, is set forth in Merrill Lynch's Consolidated Financial Statements and the Notes thereto in the Merrill Lynch & Co., Inc. 2001 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K.

At the end of 2001, total assets in client accounts or under management were approximately $1.5 trillion.

In 2001, Merrill Lynch achieved strong positions in various industry league tables published by Thomson Financial Securities Data. According to Thomson Financial, in 2001 Merrill Lynch ranked number one in global equity and equity-linked origination and number two in global announced mergers and acquisitions, with increased full-year market shares of 14.4% and 27.4%, respectively. *International Financing Review* magazine named Merrill Lynch Equity House and Equity-Linked House of the Year.

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

2 Excludes 3,200 full-time employees who were terminated at year-end 2001 but who were receiving salary payments and benefits as part of their severance arrangements.

Business Environment

The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility and trading volumes of financial markets. Greater volatility increases risk, but could lead to increased order flow and revenues in the trading and brokerage businesses. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and trading volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, competition from new and established competitors using the internet or other technology to provide financial services, and diminishing margins in many mature products and services. The trend of commercial and investment banks consolidating made possible by the enactment of the Gramm-Leach-Bliley Act has also increased the competition for investment banking business through the use of lending activities in conjunction with investment banking activities.

Global financial markets, particularly equity markets, had a difficult year in 2001 as a slowdown in economic activity, reduced corporate earnings, widespread corporate downsizing, the devaluation of technology and telecommunications companies, and the September 11th terrorist attacks caused equity markets to fall and investors to shift to less volatile, fixed-income investments. The U.S. Federal Reserve's interest rate cuts during the year did little to help the slumping U.S. economy. The September 11th terrorist attacks negatively impacted stock markets around the world, and forced a suspension of trading in U.S. equity markets for an unprecedented four consecutive business days. A modest rally occurred in global equity markets during the fourth quarter of 2001, but was not enough to put global indices in positive territory for the year. For a more complete discussion of the impact of the September 11th terrorist attacks, see "September 11th-related Expenses" in Note 2 to the Consolidated Financial Statements on page 59 of the Annual Report and Management's Discussion and Analysis in the Annual Report, "Business Environment" on page 17, "GMI's Results of Operations" on page 20, "Non-Interest Expenses, September 11th-related Expenses" on page 28, and "Process Risk" on page 37. See also Item 2 "Properties" below.

In addition to providing historical information, Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated expense savings and financial results, and other similar matters. A variety of factors, many of which are beyond Merrill Lynch's control, affect its operations, performance, business strategy, and results and could cause actual results and experience to differ materially from the expectations and objectives expressed in these statements. These factors include, but are not limited to, the factors listed in the previous three paragraphs, as well as actions and initiatives of both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks and uncertainties detailed in Management's Discussion and Analysis in the Annual Report and throughout this Item 1.

Merrill Lynch undertakes no responsibility to update or revise any forward-looking statements.

Description of Business Activities

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

The Global Markets & Investment Banking Group

In December 2001, the Corporate and Institutional Client Group changed its name to the Global Markets & Investment Banking Group ("GMI") in an effort to better reflect the group's global markets and investment banking business. GMI provides comprehensive investment banking, financing, and related products and services to corporations, institutional clients, and sovereign governments throughout the world. These activities are conducted through a network of subsidiaries, including Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), Merrill Lynch International (“MLI”), and a number of other subsidiaries located in and outside the United States. GMI’s activities involve providing investment banking and other strategic mergers and acquisitions advisory services; underwriting; trading, both as a broker and as a dealer, in equity and equity-linked securities, debt securities, and derivative instruments; corporate lending, including syndicated and bridge financing; and various other capital markets services, including securities clearance activities.

GMI’s operations in the United States are conducted primarily from Merrill Lynch’s headquarters in New York City and from other office locations throughout the United States. Merrill Lynch’s GMI activities outside the United States are primarily conducted through MLI, with a significant presence in London, and through many locally established affiliates strategically located throughout the world. The non-U.S. business is conducted from a network of offices, including representative and liaison offices, located in 25 countries outside the United States. This office network services corporate clients, sovereign governments, and major “money center” institutions, as well as thousands of regional institutions.

Investment Banking Activities:

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

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

Brokerage, Dealer and Related Activities:

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

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

Merrill Lynch’s U.S. broker-dealers, MLPF&S and its affiliate, Herzog, Heine, Geduld, LLC (“HHG”), regularly make markets in approximately 12,000 equity securities. It is anticipated that HHG will complete its merger and integration into MLPF&S by the end of 2002. In addition, MLPF&S engages in dealer transactions in approximately 4,400 securities of non-U.S. issuers traded in the over-the-counter markets. Outside the United States, MLI is a registered market maker in the equity securities of approximately 1,100 non-U.S. corporations. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed, and corporate fixed-income securities.

Historically, the Nasdaq market has been primarily a dealer market. Market makers in dealer markets can realize profits by earning a “spread,” which is the difference between the prices at which dealers buy and sell securities. The introduction of decimalization in the pricing of equity securities and various other factors has recently decreased the amount of such spreads. In late 2001, MLPF&S instituted a program for providing enhanced brokerage services to certain of its customers with large size Nasdaq orders in exchange for an agreed upon commission in lieu of the traditional spread.

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

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

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

Derivative Dealing and Foreign Exchange Activities:

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

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

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

MLCMBL (“MLCMBL”), an Irish bank with branch offices in Frankfurt and Milan, acts as a credit intermediary and conducts part of Merrill Lynch’s non-dollar swap activities. It engages in swap and other derivative transactions, in addition to its underwriting, lending and institutional sales activities.

The Merrill Lynch Global Foreign Exchange group provides foreign exchange trading services to corporations and institutions in various countries through Merrill Lynch International Bank Limited (“MLIB Limited”). The Merrill Lynch Global Foreign Exchange group has offices in London and agents in New York and Tokyo.

Mortgage Dealing Activities:

Merrill Lynch Mortgage Capital Inc. (“MLMCI”) is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing, and syndicated commercial loans. MLMCI, through its CMO Passport/®/ service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations, mortgage pass-through certificates, and asset-backed securities. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI’s inventory and serve as short-term investments for MLMCI’s customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing them with temporary liquidity. In addition, MLMCI provides to its clients short-term financing secured by performing and non-performing commercial real estate. MLMCI also makes proprietary equity investments in U.S. and non-U.S. companies owning performing, sub-performing and non-performing real estate and mortgages. Merrill Lynch Mortgage Lending, Inc. is a commercial mortgage conduit that makes, and purchases from lenders, both commercial and multi-family mortgage loans and then securitizes these loans for sale to investors.

Money Markets and Related Activities:

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

Merrill Lynch provides standby or “backstop” credit in various forms (including lines of credit, bilateral credit facilities, participation in syndicated loan facilities, and standby letters of credit) to large institutional clients generally in connection with their commercial paper programs. Merrill Lynch offers this service primarily through its affiliate Merrill Lynch Bank USA (“MLBUSA”). While these credit facilities are typically available for the commercial paper issuer’s “general corporate purposes,” these facilities are utilized typically as “backstop” liquidity to repay outstanding commercial paper as it matures or in the event of an inability to “rollover” its commercial paper.

Futures Business Activities:

In November 2001, Merrill Lynch Futures Inc. (“MLF”) was merged with and into MLPF&S with MLPF&S as the surviving entity in the merger. As a result of the merger, all futures accounts maintained by MLF were assumed by MLPF&S and Merrill Lynch’s futures business activity is now conducted through MLPF&S and other subsidiaries. MLPF&S holds memberships on all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States. Other Merrill Lynch subsidiaries also hold memberships on major commodity and financial futures exchanges and clearing associations outside the United States and may also carry positions in proprietary and customer accounts. All futures and futures options transactions are executed, cleared through, and carried by MLPF&S and other Merrill Lynch subsidiaries engaged in futures activities. In certain contracts, or on certain exchanges, third party brokers are utilized to execute and clear trades. MLPF&S and certain of its affiliates may also take proprietary market positions in futures and futures options in certain instances.

Securities Services Division:

Merrill Lynch provides securities clearing services for Merrill Lynch, its customers, third party broker-dealers, and other professional trading entities, through its subsidiaries, Broadcort Capital Corp. (“BCC”) and Merrill Lynch Professional Clearing Corp. (“MLPCC”). BCC provides these services to approximately 100 unaffiliated broker-dealers. While the introducing broker-dealer firm retains all sales functions with its customers, BCC services the customers’ accounts and handles all settlement and credit aspects of transactions. MLPCC clears transactions for specialists and market makers on various national and regional stock exchanges and clears futures transactions for clients through a divisional clearing arrangement with MLPF&S. In addition, MLPCC clears transactions of arbitrageurs, customers, and other professional trading entities.

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

The Private Client Group

Through offices around the world, Private Client provides products and services related to the accumulation and management of wealth, including, for example, brokerage, dealer and related activities; banking; retirement, investment and custody services; financial services for small and medium-sized businesses; insurance and trust services; and mortgage lending and related activities.

Brokerage, Dealer and Related Activities:

Private Client provides a choice of wealth management services that assist clients around the world to build financial assets and maximize returns in relation to risk tolerance and investment objectives. In the United States, MLPF&S is a broker (*i.e.*, agent) and a dealer (*i.e.*, acts for its own account) for individual, corporate, institutional and governmental clients in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and a dealer in the purchase and sale of money market instruments, government securities, high-yield bonds, municipal securities, futures, and options. In addition, MLPF&S acts as selected dealer in the distribution of mutual funds.

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

MLPF&S provides financial services to investors in the United States through its 14,000 Financial Advisors. MLPF&S offers to its clients Unlimited Advantage/SM/, which is a non-discretionary brokerage service for U.S. clients offering transaction and non-transaction services for an annual asset-based fee. Unlimited Advantage clients may receive a wide array of services, including Financial Advisor advice and guidance, Merrill Lynch research, no per-trade commissions on most transactions, a Cash Management Account/®/ financial services program (the "CMA/®/ account"), the CMA/®/ Visa/®/ Signature/SM/ program, and online bill payment.

MLPF&S provides a wide range of client services, including trading in equity and fixed-income, and other securities through its securities account services, such as its CMA/®/ account. At the end of 2001, there were more than 2.6 million CMA accounts with aggregate assets of approximately $626 billion. MLPF&S also offers various investment advisory products, including Merrill Lynch Consults/®/, Merrill Lynch Mutual Fund Advisor/SM/ program, Merrill Lynch Mutual Fund Advisor Selects/SM/ program, and the Financial Foundation/®/ report. Through Merrill Lynch OnLine/®/, clients can access their Merrill Lynch accounts, including account information, real time quotes, Merrill Lynch research, and a variety of other investment information. MLPF&S also provides financing to clients, including margin lending and other extensions of credit. See "Securities Services Division" in this Item 1.

To be more responsive to client needs and enhance the quality of its clients' experience, Merrill Lynch adopted a multi-channel service model in the United States, more closely aligning its Financial Advisors with clients based on levels of investable assets. For example, ultra-high-net-worth clients will be aligned with Private Wealth Advisors ("PWAs"). PWAs are Financial Advisors who have completed a rigorous accreditation program built around skill requirements including trust, tax minimization, restricted stock, and executive stock options and who focus on clients with more than $10 million of investable assets. For clients with less than $100,000 of investable assets, Merrill Lynch utilizes its Financial Advisory Center ("FAC") to more effectively serve these clients. All FAC customers receive a team-based advisory service relationship, with 24-hour-a-day, seven-day-a-week access by phone or online.

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

Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products, including the CMA account, in a number of countries to private clients. During 2001, Merrill Lynch refocused and consolidated certain of its private client offices outside the United States. See "Significant Strategic Initiatives" below. At the end of 2001, there were more than 70,000 International CMA/®/ accounts with aggregate assets of approximately $36 billion. These brokerage services, investment services, and related products are made available through a network of offices located in 37 countries. In addition, in certain countries such as the United Kingdom and Japan, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services as well as asset management services are also offered to private clients in many countries, as described below.

Merrill Lynch HSBC, a 50/50 joint venture between Merrill Lynch and HSBC Holdings plc, provides online financial services to those investors in the United Kingdom, Australia, and Canada preferring the self-directed approach to investing.

Banking Activities, Deposit Taking and Lending Services:

MLBUSA and Merrill Lynch Bank & Trust Co. (“MLBT” and with MLBUSA, the “ML U.S. Banks”) are state-chartered depository institutions insured by the FDIC. Both banks offer certificates of deposit, transaction accounts and money market deposit accounts (including deposit accounts offered through the Merrill Lynch Banking Advantage/SM/ program for the CMA service, the Retirement Asset Savings Program/SM/ for certain Merrill Lynch retirement accounts, and a deposit account program offered for Merrill Lynch Direct accounts); and issue VISA/®/ cards. MLBUSA also originates and purchases secured and unsecured loans to both individuals and business entities. As of December 28, 2001, MLBUSA had total outstanding loan commitments of approximately $5.0 billion.

In June of 2001, the ML U.S. Banks introduced tiered deposit rates for certain deposit products based on the scope of the clients’ relationships with Merrill Lynch as defined by the value of the assets in their accounts. The combined ML U.S. Banks’ deposits have increased from approximately $55 billion at year-end 2000 to approximately $74 billion by year-end 2001. The ML U.S. Banks’ deposits primarily fund a high credit quality marketable investment securities portfolio which they held.

Retirement Services:

In 2001, MLPF&S formed the Merrill Lynch Retirement Group by combining its Benefits and Investment Solutions division and its Retirement and Education Savings Marketing divisions. The Merrill Lynch Retirement Group is responsible for approximately $300 billion in retirement assets for approximately 5.7 million individuals. These assets are held either in individual accounts or through one of approximately 16,300 workplace-based retirement programs covered by the group. Merrill Lynch Retirement Group also has functional responsibility for its Merrill Lynch Howard Johnson subsidiary that provides specialized custom administrative services to large corporations which in the aggregate represent 683,000 participants.

MLPF&S provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts (“IRAs”) and through small business retirement programs such as the Merrill Lynch Simplified Employee Pension Plan and the Merrill Lynch Simple Retirement Account Plan. MLPF&S also provides investment, administration, communications, and consulting services to corporations and their employees for their retirement programs. These programs include 401(k), pension, profit-sharing, and non-qualified deferred compensation plans, as well as other retirement benefit plans.

Business Financial Services:

Merrill Lynch provides financing services to small- and medium-sized businesses in conjunction with the Working Capital Management Account/SM/ (“WCMA/®/ account”) through Merrill Lynch Business Financial Services Inc. (“MLBFS”). The WCMA/®/ account combines business checking, borrowing, investment, and electronic funds transfer services into one account for participating business clients. At the end of 2001, there were more than 147,000 WCMA accounts that, in the aggregate, had investment assets of more than $125 billion.

In addition to providing qualifying clients with short-term working capital financing through the WCMA commercial line of credit, MLBFS assists its business clients with their term lending, equipment, and other asset-based financing needs, and is a source of financing for owner-occupied commercial real estate. In 2001, MLBFS originated more than $2.4 billion in new commercial loans and, at the end of 2001, total outstanding loans held by MLBFS and its affiliates were more than $4.1 billion, of which over 97% were secured by tangible assets pledged by customers.

Insurance Activities:

Merrill Lynch’s insurance activities consist of the underwriting of life insurance and annuity products by Merrill Lynch Life Insurance Company (“MLLIC”) and ML Life Insurance Company of New York (“ML Life”) and of the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, Puerto Rico, the District of Columbia, Guam, and the United States Virgin Islands. These products are marketed to MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 2001, MLLIC had approximately $14.0 billion of life insurance in force. At year-end 2001, MLLIC had annuity contracts in force of more than $9.4 billion in value.

ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities, and accident and health insurance in nine states; however, it does not presently underwrite accident and health insurance. At year-end 2001, ML Life had approximately $1.7 billion of life insurance in force, which amount included approximately $873 million reinsured from yearly renewable term insurance of an unaffiliated insurer. At year-end 2001, ML Life had annuity contracts in force of approximately $792 million in value.

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

Trust, Mortgage Lending and Related Activities:

Merrill Lynch provides personal trust, employee benefit trust, and custodial services to clients in the United States. In December 2001, Merrill Lynch streamlined the delivery of trust services in the United States by merging its four state chartered trust institutions into Merrill Lynch Trust Company, FSB, a federally chartered savings bank subsidiary. Trust services outside of the United States are provided by Merrill Lynch Bank and Trust Company (Cayman) Limited ("MLBT Cayman").

Merrill Lynch Credit Corporation ("MLCC"), through an outsourcing arrangement with Cendant Mortgage Corporation, offers a broad selection of real estate-based lending products enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate, fixed-to-adjustable-rate, and fixed-rate mortgages throughout the United States, including interest-only loans, 100 percent financing with a securities-based pledge, construction-to-permanent financing, and home equity loans and lines of credit. Substantially all of the origination processing and servicing functions are performed by Cendant Mortgage Corporation and Merrill Lynch employees are engaged in sales, marketing, and distribution of these products. MLCC offers these financing solutions to Merrill Lynch clients and prospects through Merrill Lynch's Financial Advisors and Merrill Lynch websites.

MLIB Limited, a United Kingdom bank and licensed deposit taker under the United Kingdom Banking Act, provides collateralized lending, letter of credit and foreign exchange services to, and accepts deposits from, international private clients. It also has a global foreign exchange service, which is made available to institutional clients. In addition, it has a number of branch offices in which Financial Advisors are located, who refer business to the various Private Client account carriers outside of the United States.

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

Merrill Lynch Investment Managers

MLIM is one of the world's largest asset management organizations with total assets under management of approximately $529 billion at year-end 2001. The principal subsidiaries engaged in asset management activities conducted through the Merrill Lynch Investment Managers ("MLIM") brand name are Merrill Lynch Investment Managers LP ("MLIM LP") and Merrill Lynch Investment Managers Limited ("MLIM Ltd").

With portfolio managers located in the United States, the United Kingdom, Japan, Australia, Switzerland, and Italy, MLIM manages a wide variety of investment products. These range from money market funds and other forms of short-term fixed income investments to long-term taxable and tax-exempt fixed income funds or portfolios, along a broad spectrum of quality ratings and maturities. MLIM also manages a wide variety of equity and balanced funds or portfolios that invest in more than 60 markets globally. It also sponsors a variety of alternative investment products.

MLIM offers a wide array of taxable fixed-income, tax-exempt fixed-income, equity and balanced open-ended mutual funds. In the United States, the MLIM brand of mutual funds (except for its money market funds) is generally offered pursuant to the Merrill Lynch Select Pricing/SM/ system, which allows investors four pricing alternatives. MLIM offers all of its brands of mutual funds to clients in the global markets through both the Merrill Lynch distribution network and through unaffiliated financial intermediaries. At the end of 2001, MLIM provided global advisory services for open-ended mutual funds, unit investment trusts, and other non-U.S. equivalent products totalling approximately $200 billion.

MLIM provides separate account investment management services to a geographically diversified client base that includes pension funds, corporations, governments, supranational organizations, central banks, and other institutions. Marketing offices in over 15 countries further support these services. At the end of 2001, the total assets under management of such services were approximately $266 billion. MLIM offers similarly structured separate account investment management services for individual clients and smaller institutions and corporations in the United States, in the United Kingdom and globally. The total assets under management for these services were $43 billion at the end of 2001.

MLIM also structures and manages a wide variety of alternative investment products, including hedge funds, fund of funds, private equity funds, managed futures, and exchange funds. These products are sold to both U.S. and non-U.S. high-net-worth and institutional investors. At the end of 2001, MLIM acted as sponsor or trading manager of alternative investment products, including its fund of funds product, in which a total of approximately $10.4 billion of client capital was committed and approximately $9.8 billion was invested.

MLIM's Quantitative Advisers group manages assets for institutional investors who seek to track the performance of an index or outperform an index using risk-controlled enhanced indexing and allocation strategies. The Quantitative Advisers group also manages the Merrill Lynch QA family of hedge funds, which are distributed primarily through direct sales to institutions and other sophisticated investors in the United States and through Merrill Lynch's non-U.S. brokerage businesses to high-net-worth individuals. The Merrill Lynch QA hedge funds collectively held approximately $1.1 billion in assets as of the end of 2001. The Quantitative Advisers group also manages mutual funds for individual investors that pursue index and asset allocation strategies. At the end of 2001, the Quantitative Advisers group managed a total of approximately $34 billion.

Other Businesses

Private Equity Investing Activities:

Merrill Lynch is also engaged in the business of sponsoring and managing private equity funds that invest in equity and debt securities of various private companies and of making investments for its own account in private companies and in private equity funds. In the Merrill Lynch-sponsored funds, a Merrill Lynch entity serves as the general partner or manager of the funds and may also invest its own capital or monies as a limited partner. The private equity investing activities are undertaken in GMI, MLIM and Private Client. The other limited partners of the Merrill Lynch-managed funds are corporate and institutional investors as well as Merrill Lynch's high-net-worth client base and its eligible employees. Merrill Lynch also invests as a limited partner in third party funds.

Merrill Lynch, through MLPF&S, MLI, and other subsidiaries, may underwrite, trade, invest, and make markets in certain securities of companies in which the Merrill Lynch managed funds have invested, and may also provide financial advisory services to these companies or maintain a commercial relationship with them. The Merrill Lynch employees who invest and manage the assets of the Merrill Lynch sponsored funds participate in the profits of these entities.

Research Services:

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

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 19 countries cover approximately 3,200 companies. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch's individual and institutional customers through their Financial Advisors and account executives, and through various electronic means, including Merrill Lynch's websites.

In mid-2001, in a further effort to ensure the independence and objectivity of its research, Merrill Lynch announced a new policy, which prohibits equity analysts and their staff members from buying equity shares of companies they cover. In addition, for shares they already hold, they must either divest, transfer the securities to a managed account over which they have no discretion, or maintain existing shares under stricter disclosure and disposition rules. Further, the existence of any equity position maintained by any analyst with responsibility for any security discussed in a research report will be described in the research report.

Significant Strategic Initiatives

During 2001, Merrill Lynch undertook a variety of actions to position the company for improved profitability and growth, including a detailed review of its business operations to find efficiencies, the resizing of selected businesses, and other structural changes. These actions are expected to yield substantial benefits, including future expense savings. As a result of these actions Merrill Lynch's global workforce was reduced by approximately 9,000 employees during the fourth quarter of 2001. This reduction occurred through the divestiture or the refocusing of certain businesses, voluntary and involuntary severance programs, and the offering of sabbatical programs. For a more complete discussion of these actions and the related restructuring charge, see Management's Discussion and Analysis, "Restructuring and Other Charges" on page 28 and Note 2 to the Consolidated Financial Statements, and "Restructuring Charge" on page 59 of the Annual Report.

As a result of the detailed review undertaken in respect of Private Client and related business activities outside the United States, Merrill Lynch sold its Private Client and securities clearing businesses in Canada in December 2001, as well as the retail investment management business in Canada in January 2002 and the Private Client business in South Africa in March 2002. Merrill Lynch is also refocusing and consolidating its Private Client businesses in Japan, and has restructured its Private Client business in Australia.

As part of its ongoing evaluation of its businesses, Merrill Lynch completed a number of strategic transactions in 2001. These include the sale of certain energy trading assets to Allegheny Energy Inc., the sale of a portion of its asset management business unit in Los Angeles, the sale of its GMI sales and trading business in the Philippines, the agreement to sell and outsource its Securities Pricing Service business, and the sale of a number of discrete brokerage businesses. Merrill Lynch also entered into alliances and ventures to position the Company for opportunities in certain markets, including the spin-off of i-Deal LLC, an internet technology company whose products enable the equity and taxable debt capital raising process to be conducted over the internet.

Competition

All aspects of Merrill Lynch's business are intensely competitive, particularly underwriting, trading, and advisory activities, and have been affected by the entry of several new and non-traditional competitors, such as commercial banks, insurance companies, and on-line financial services providers, and by the consolidation of others. Merrill Lynch competes for clients, market share, and human talent in every aspect of its business.

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

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

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

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

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Regulation

Certain aspects of Merrill Lynch’s business, as with that of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. governmental agencies or regulatory bodies, securities exchanges, and central banks, each of which has been charged with the protection of the financial markets and the interests of those participating in those markets. These regulatory agencies in the United States include, among others, the Securities and Exchange Commission (“SEC”), the Commodity Futures Trading Commission (“CFTC”), the Federal Deposit Insurance Corporation (“FDIC”), the Municipal Securities Rulemaking Board (“MSRB”), the New York State Banking Department (“NYSBD”), and the Office of Thrift Supervision (“OTS”). Outside the United States, these regulators include the Financial Services Authority (“FSA”) in the United Kingdom, which in 2001 assumed the regulatory responsibilities of the Securities and Futures Authority, the Personal Investment Authority, and the Investment Management Regulatory Organization; the Central Bank of Ireland; the Federal Banking Supervisory Authority in Germany; the Swiss Federal Banking Commission; the Japanese Financial Supervisory Agency; the Monetary Authority of Singapore; the Office of Superintendent of Financial Institutions in Canada; the Canadian Securities Administrators; the Securities Commission in Argentina; the Securities Commission in Brazil; the National Securities and Banking Commission in Mexico; and the Securities and Futures Commission in Hong Kong, among many others.

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

United States Regulatory Oversight and Supervision:

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

The Merrill Lynch entities that are broker-dealers registered with the SEC and members of the U.S. national securities exchanges are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Exchange Act”) that is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, these entities are required to maintain the minimum net capital deemed necessary to meet broker-dealers’ continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of ML & Co. to withdraw capital from such broker-dealers. Additional information regarding certain net capital requirements is set forth in Note 16 to the Consolidated Financial Statements on page 77 of the Annual Report.

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

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

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

Each of MLIM Alternative Strategies LLC and QA Advisers, LLC is registered with the CFTC as a commodity pool operator and a commodity trading advisor and each is a member on the National Futures Association ("NFA") in such capacities.

MLGSI is subject to regulation by the NASD and the Chicago Board of Trade and is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch's municipal finance professionals are subject to various trading and underwriting regulations of the MSRB. MLPF&S and ML Professional Clearing Corp. are registered futures commission merchants and regulated by the CFTC, the NFA, and the commodity exchanges of which each is a member. The CFTC and the NFA impose net capital requirements on these companies.

The Commodity Futures Modernization Act of 2000 ("CFMA") provided, among other things, broad exemptions from the Commodity Exchange Act for over-the-counter derivatives and permits futures trading on single-stocks and narrow-based stock indices in the United States. The enactment of the CFMA simplified and provided greater legal certainty to the regulatory environment in which Merrill Lynch's over-the-counter derivatives businesses operate.

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

MLBUSA is regulated primarily by the State of Utah and by the FDIC. MLBFS and MLCC are wholly owned subsidiaries of MLBUSA, and certain of their activities are regulated and subject to examination by the FDIC and the Utah Department of Financial Institutions. In addition to Utah and the FDIC, MLCC is also licensed or registered to conduct its lending activities in 35 other jurisdictions and MLBFS is licensed or registered in eight jurisdictions, subjecting each to regulation and examination by the appropriate authorities in those jurisdictions. Merrill Lynch Trust Company, FSB, a federal savings bank subsidiary, is subject to regulation by the OTS and, in addition, is an investment adviser subject to regulation by the SEC.

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

Non-U.S. Regulatory Oversight and Supervision:

Merrill Lynch's business is also subject to extensive regulation by various non-U.S. governments, securities exchanges, central banks, and regulatory bodies, particularly in those countries where it has established an office. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate.

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

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

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

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

Merrill Lynch's subsidiaries engaged in banking and trust activities outside the United States are regulated by various governmental entities in the particular jurisdiction where they are chartered, incorporated, and/or conduct their business activities. Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission and the NYSBD. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking. Banco Merrill Lynch S.A. is also regulated by the Brazilian Central Bank.

Item 2. ***Properties***

Merrill Lynch has offices in various locations throughout the world. Other than those described below as being owned, substantially all Merrill Lynch offices are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is the location and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities support various Merrill Lynch segments, other than the property on King William Street in London referred to below which is utilized solely by Merrill Lynch Investment Managers. Information regarding Merrill Lynch's property lease commitments is set forth in "Leases" in Note 12 to the Consolidated Financial Statements in the Annual Report.

Principal Facilities in the United States:

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in New York City. Separate Merrill Lynch affiliates lease the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower. The September 11th terrorist attacks on the World Trade Center complex damaged buildings occupied by Merrill Lynch and caused the temporary relocation of employees from the North and South Towers. By the end of 2001, Merrill Lynch had reoccupied and reestablished business operations in the North Tower and is in the process of restoring the South Tower for occupancy. Merrill Lynch occupies the entire North Tower. After the South Tower restoration is completed, Merrill Lynch plans to reoccupy approximately 25 percent of the South Tower, down, because of reduced real estate requirements, from the approximately 50 percent of the South Tower that it occupied prior to September 11th.

In New York City, MLPF&S holds a lease for 662,000 square feet in lower Manhattan expiring in 2007. Merrill Lynch occupies 60 percent of a 760,000 square foot building at 222 Broadway that is owned by a Merrill Lynch subsidiary; as third party leases expire, Merrill Lynch intends to occupy the entire building. The September 11th terrorist attacks also caused the temporary relocation of employees from this building. Merrill Lynch also has reoccupied and reestablished business operations in this building. In New Jersey, certain Merrill Lynch affiliates own a 389,000 square foot hotel, conference and training center and a 669,000 square foot office building in Plainsboro, and a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset that was vacated in 2001. MLPF&S holds a 590,000 square foot lease at 101 Hudson Street in Jersey City. A Merrill Lynch affiliate utilizes facilities of 1,251,000 square feet of office space and 273,000 square feet of ancillary buildings on land owned by it in Hopewell, New Jersey that will consolidate existing operations and allow for future expansion. Merrill Lynch currently occupies approximately 80 percent of this facility. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings (a large portion of one of which is leased to a third party) and a 70-acre campus in Englewood, Colorado with two buildings that Merrill Lynch plans to close in the second quarter of 2002.

Principal Facilities Outside the United States:

Merrill Lynch occupies various sites in London. In 1998, Merrill Lynch purchased a freehold site in the City of London and has recently completed the construction of a headquarters complex of 560,000 square feet (460,000 of which are currently occupied). This new headquarters (known as Merrill Lynch Financial Centre) is intended to replace a facility on Ropemaker Place. Merrill Lynch holds a lease of 137,000 square feet (118,000 of which are occupied) on 33 King William Street expiring in 2014, and a lease of 74,000 square feet (50,000 of which are occupied) on 33 Chester Street expiring in 2006. In addition, Merrill Lynch leases support facilities of 204,000 square feet (170,000 of which are occupied) expiring in 2015. In April 2001, Merrill Lynch entered into a commitment to lease 350,000 square feet in Tokyo to house Merrill Lynch's new headquarters in Japan. This building is under construction and it is expected to be occupied in 2004. It is planned that the new headquarters will replace certain other leased facilities in Tokyo.

Item 3. ***Legal Proceedings***

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

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, any of the actions described above that have not already been dismissed or settled. Although the ultimate outcome of these and other legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries as of March 14, 2002 cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of the actions will not have a material adverse effect on the financial position of Merrill Lynch as set forth in the Consolidated Financial Statements of Merrill Lynch included in the Annual Report, but may be material to Merrill Lynch's operating results for any particular period.

IPO Allocation Class Actions:

Between March and December 2001, purported class actions involving the allocation of securities in initial public offerings (IPOs) were brought against over a thousand defendants, including Merrill Lynch, in the United States District Court for the Southern District of New York. The complaints allege that defendants violated securities and antitrust laws by allegedly requiring customers who were allocated IPO securities to pay back some of their profits in the form of higher commissions and to buy securities in the aftermarket at inflated prices. Some of the complaints also allege that research issued by the financial services firms, including Merrill Lynch, improperly increased the price of the IPO securities in the aftermarket. The complaints seek unspecified damages and other relief.

Research Class Actions:

Beginning in June 2001, purported class actions were brought against a number of firms, including Merrill Lynch, challenging the independence and objectivity of research recommendations issued by firms that both issue research and conduct investment banking activities. These actions were brought in the United States District Courts for the Southern and Eastern Districts of New York and in New York state court. The complaints seek unspecified damages and other relief. Merrill Lynch, together with other financial services firms, received requests for information from governmental agencies in connection with their review of research independence issues. Consistent with its policy, Merrill Lynch is cooperating with the requests.

Unilever Case:

In December 2001, Merrill Lynch settled an action brought by the Unilever Superannuation Trustees Limited as corporate trustee of the Unilever Superannuation Fund in the Commercial Division of the High Court in London England. The plaintiff alleged that Mercury Asset Management Ltd (“Mercury”), which Merrill Lynch acquired in December 1997, had invested assets of the fund negligently between January 1997 and March 1998. The matter was settled without any finding or admission of liability.

Shareholder Derivative Litigation:

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

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

On October 22, 2001, Merrill Lynch entered into a Stipulation of Dismissal to dismiss without prejudice the purported shareholder derivative action commenced against ML & Co. and members of its Board of Directors in the United States District Court for the Southern District of New York instituted on June 14, 2001. The complaint alleged that the directors breached their duties by causing and/or allowing Merrill Lynch to engage in the purported conduct alleged in IPO Allocation Class Actions described above and sought unspecified damages and other relief.

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

There were no matters submitted to a vote of security holders during the 2001 fourth quarter.

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EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

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

David H. Komansky, 62

Chairman of the Board since April 1997; Chief Executive Officer since December 1996; President and Chief Operating Officer from January 1995 to April 1997.

E. Stanley O'Neal, 50

President and Chief Operating Officer since July 2001; Executive Vice President from April 1997 to July 2001; President of U.S. Private Client Group from February 2000 to July 2001; Chief Financial Officer from March 1998 to February 2000; Co-Head of Corporate and Institutional Client Group (now known as GMI) from April 1997 to March 1998; Managing Director and Head of Global Capital Markets Group from April 1995 to April 1997.

Rosemary T. Berkery, 48

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

Thomas W. Davis, 48

Executive Vice President since April 1997 and Vice Chairman, Private Equity and Global Research and Economics Group since October 2001; President of Corporate and Institutional Client Group (now known as GMI) from March 1998 to October 2001; Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998; Managing Director and Co-Head of Investment Banking Group from April 1995 to April 1997.

James P. Gorman, 43

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

Jerome P. Kenney, 60

Executive Vice President since September 1984 and Vice Chairman, Client Relationship Management since February 2002; Head of Corporate Strategy from October 2001 to February 2002; Head of Corporate Strategy and Research from October 1990 to October 2001.

Michael J. P. Marks, 60

Executive Vice President since January 2001; Chairman, International Private Client Group since September 2001; Chairman, Merrill Lynch Investment Managers since September 2001; Executive Chairman of Merrill Lynch Europe, Middle East & Africa ("MLEMEA") since February 1998; Chief Operating Officer of MLEMEA from April 1997 to February 1998; Co-Head of Global Equity Markets Group from October 1995 to April 1997.

John A. McKinley, Jr., 44

Executive Vice President since January 2000; Head of Global Technology & Services since February 2002; Head of the Technology Group from January 1999 to February 2002; Chief Technology Officer since October 1998; Senior Vice President of Technology Group from October 1998 to January 2000. Joined Merrill Lynch in October 1998. Prior to joining Merrill Lynch, Chief Technology and Information Officer of GE Capital from October 1995 to October 1998.

Thomas H. Patrick, 58

Executive Vice President since July 1989; Chief Financial Officer since February 2000; Chairman of Special Advisory Services from March 1993 to February 2000.

Paul D. Roy, 54

Executive Vice President and Co-President of Global Markets and Investment Banking Group since October 2001; Senior Vice President and Head of Global Equity Markets from July 1998 to October 2001; Managing Director and Head of Merrill Lynch Europe, Middle East & Africa Equity Markets from July 1995 to July 1998.

Arshad R. Zakaria, 40

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

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PART II

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

The principal market in which the Registrant's Common Stock is traded is the New York Stock Exchange. The high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of Common Stock, and the frequency and amount of any cash dividends declared for the two most recent fiscal years, is set forth under the captions "Dividends Per Common Share" and "Stockholder Information" on page 79 of the Annual Report and such information is incorporated herein by reference.

Item 6. *Selected Financial Data*

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table "Selected Financial Data" on page 16 of the Annual Report (excluding for this purpose the financial ratio, leverage, and employee information set forth under the headings "Financial Ratios" and "Other Statistics"). Such information, which was also previously filed by the Registrant on Form 8-K on March 7, 2002, is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 42 to 78 of the Annual Report.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion and Analysis") is set forth on pages 17 to 40 of the Annual Report* under the caption "Management's Discussion and Analysis." The Management's Discussion and Analysis, which was also previously filed by the Registrant on Form 8-K on March 7, 2002, is incorporated herein by reference. All of such information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 42 to 78 of the Annual Report).

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

Quantitative and qualitative disclosure about market risk is set forth on pages 35 to 36 of the Annual Report under the caption "Management's Discussion and Analysis" and in Note 6 to the Consolidated Financial Statements. Such information is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

The Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Auditors thereon, are contained in the Annual Report on pages 42 to 78, and are incorporated herein by reference. In addition, the information under the caption "Quarterly Information" on page 79 of the Annual Report is incorporated herein by reference.

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

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

PART III

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

Information relating to directors of the Registrant set forth under the caption "Election of Directors" on pages 4 to 8 of the 2002 Proxy Statement for the Annual Meeting of Stockholders of ML & Co. dated March 15, 2002 ("2002 Proxy Statement") is incorporated herein by reference. Information relating to the executive officers of the Registrant is set forth at the end of Part I of this Form 10-K under the caption "Executive Officers of Merrill Lynch & Co., Inc."

Item 11. *Executive Compensation*

Information relating to the compensation of the ML & Co. executive officers and directors set forth on pages 15 to 27 of the 2002 Proxy Statement is incorporated herein by reference.

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

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on page 14 of the 2002 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on page 13 of the 2002 Proxy Statement is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

Information regarding certain relationships and related transactions set forth under the caption "Certain Transactions" on page 27 of the 2002 Proxy Statement is incorporated herein by reference.

PART IV

Item 14. ***Exhibits, Financial Statement Schedule, and Reports on Form 8-K***

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

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

2. Financial Statement Schedule

   The financial statement schedule required to be filed hereunder is listed on page F-1 hereof and the schedule included herewith appears on pages F-2 through F-7 hereof.

3. Exhibits

   Certain of the following exhibits were previously filed as exhibits to other reports or registration statements filed by the Registrant and are incorporated herein by reference to such reports or registration statements as indicated parenthetically below by the appropriate report reference date or registration statement number. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K, and Registration Statements on Form S-3 are designated herein as "10-Q," "10-K," "8-K," and "S-3," respectively.

(3) Articles of Incorporation and By-Laws

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

(ii) By-Laws of ML & Co., effective as of July 23, 2001 (Exhibit (3) to 10-Q for the quarter ended June 29, 2001 ("Second Quarter 2001 10-Q")).

(4) Instruments defining the rights of security holders, including indentures

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

(i) Senior Indenture dated as of April 1, 1983, as amended and restated as of April 1, 1987 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (the "1983 Senior Indenture") and the Supplemental Indenture thereto dated as of March 15, 1990 (filed as Exhibit 4(i) to 1999 10-K for fiscal year ended December 29, 1999 ("1999 10-K")).

(ii) Sixth Supplemental Indenture dated as of October 25, 1993 to the 1983 Senior Indenture (filed as Exhibit 4(ii) to 1999 10-K).

(iii) Twelfth Supplemental Indenture to the 1983 Senior Indenture dated as of September 1, 1998 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (Exhibit 4(a) to 8-K dated October 21, 1998).

(iv) Senior Indenture dated as of October 1, 1993 between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (the "1993 Senior Indenture") (Exhibit (4)(iv) to 10-K for fiscal year ended December 25,1998 ("1998 10-K")).

(v) First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (Exhibit 4(a) to 8-K dated July 2, 1998).

(vi) Form of certificate representing Preferred Stock of ML & Co. (Exhibit 4(d) to S-3 (file no. 33-55363)).

(vii) Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (filed as Exhibit (3)(i)(c) to 1999 10-K).

(viii) Deposit Agreement dated as of November 3, 1994 among ML & Co., Citibank, N.A. as Depositary, and the holders from time to time of the Depositary Receipts (filed as Exhibit (3)(i)(e) to 1999 10-K).

(ix) Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and ChaseMellon Shareholder Services, L.L.C. (Exhibit 4 to 8-K dated December 2, 1997).

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(10) Material Contracts

(i) ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to Second Quarter 1999 10-Q).

(ii) Written description of retirement programs for non-employee directors (page 24 of ML & Co.'s Proxy Statement for the 2002 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 14, 2002).

(iii) Form of Severance Agreement between ML & Co. and certain of its directors and executive officers (Exhibit 10(x) to 10-K for fiscal year ended December 29, 1995).

(iv) Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10(viii) to 1998 10-K).

(v) Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).

(vi) Written description of ML & Co.'s compensation policy for executive officers and directors (pages 15 to 17 and pages 24 to 25 of ML & Co.'s Proxy Statement for the 2002 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 14, 2002).

(vii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).

(viii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).

(ix) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).

(x) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).

(xi) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).

(xii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).

(xiii) Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (File No. 333-59143)).

(xiv) ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 ("1996 10-K")).

(xv) Amendment dated February 12, 1998 to the ML & Co. DeferredRestricted Unit Plan for Executive Officers (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 ("1997 10-K")).

(xvi) ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 1997 10-Q for the quarter ended March 28, 1997).

(xvii) Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1999 10-K).

(xviii) ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xix) to 1999 10-K).

(xix) ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).

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(xx)	ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
(xxi)	ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997 (the "Third Quarter 1997 10-Q")).
(xxii)	ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (filed as Exhibit 10(xxiv) to 1999 10-K).
*(xxiii)	ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees.
(xxiv)	ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).
*(xxv)	ML & Co. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees.
(xxvi)	Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees, and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10 (xxxii) to 1996 10-K).
(xxvii)	Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996, and 1997 (Exhibit 10.31 to 1997 10-K).
(xxviii)	ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to Second Quarter 1997 10-Q).
(xxix)	ML & Co. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors (Exhibit 10 to 10-Q for the quarter ended March 30, 2001).
*(xxx)	ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended April 27, 2001.
(xxxi)	ML & Co. Long-Term Incentive Compensation Plan, as amended April 27, 2001 (Exhibit 10(i) to 10-Q for the quarter ended June 29, 2001 (the "Second Quarter 2001 10-Q")).
*(xxxii)	Form of Executive Annuity Agreement by and between ML & Co. and certain of its high level senior executive officers.
*(12)	Statement re computation of ratios.
*(13)	Excerpt of 2001 Annual Report to Stockholders.
*(21)	Subsidiaries of ML & Co.
*(23)	Consent of Independent Auditors, Deloitte & Touche LLP.
(99)	Additional Exhibits.
*(i)	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.
*(ii)	Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Part II, Item 6.

**** Filed herewith***

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(b) Reports on Form 8-K:

The following Current Reports on Form 8-K were filed with or furnished to the SEC during the fourth quarter of 2001.

(i) Current Report on Form 8-K dated October 12, 2001 for the purpose of furnishing notice of a webcast of a conference call scheduled for October 18, 2001 to review ML & Co.'s operating results

(ii) Current Report on Form 8-K dated October 18, 2001 for the purpose of filing ML & Co.'s Preliminary Unaudited Earnings Summary for the three and nine-month periods ended September 28, 2001.

(iii) Current Report on Form 8-K dated October 23, 2001 for the purpose of filing the form of ML & Co.'s 8% Callable Stock Return Income Debt Securities/®/ due October 23, 2003.

(iv) Current Report on Form 8-K dated October 31, 2001 for the purpose of filing ML & Co.'s Preliminary Unaudited Consolidated Balance Sheet as of September 28, 2001.

(v) Current Report on Form 8-K dated November 1, 2001 for the purpose of filing the form of ML & Co.'s 9% Callable Stock Return Income Debt Securities due November 3, 2003.

(vi) Current Report on Form 8-K dated November 2, 2001 for the purpose of filing the form of ML & Co.'s Strategic Return Notes due November 2, 2006.

(vii) Current Report on Form 8-K dated November 21, 2001 for the purpose of filing the form of ML & Co.'s 8% Callable Stock Return Income Debt Securities due November 21, 2003.

(viii) Current Report on Form 8-K dated November 30, 2001 for the purpose of filing the form of ML & Co.'s Enhanced Return Notes Linked to the Nasdaq-100 Index/®/ due February 28, 2003.

***** ***Filed herewith***

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MERRILL LYNCH & CO., INC.
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

ITEMS 14(A)(1) AND 14(A)(2)

Page Reference

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 2001 Annual Report to Stockholders, which are incorporated herein by reference.

* This information was previously filed on Form 8-K on March 7, 2002 and except for pagination, the Selected Financial Data and Management’s Discussion and Analysis contained in the Form 8-K is identical to the Selected Financial Data and Management’s Discussion and Analysis contained in the 2001 Annual Report to Stockholders.

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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		
	2001	**2000**	**1999**
REVENUES			
Interest (principally from affiliates)	$ 3,397	$ 5,314	$ 3,693
Management service fees (from affiliates)	448	448	336
Other	14	16	20
Total Revenues	3,859	5,778	4,049
Interest Expense	3,694	5,401	4,094
Net Revenues	165	377	(45)
NON-INTEREST EXPENSES			
Compensation and benefits	316	435	323
Restructuring charge	239	-	-
September 11th-related	71	-	-
Other	375	605	358
Total Non-Interest Expenses	1,001	1,040	681
EQUITY IN EARNINGS OF AFFILIATES	1,095	4,127	3,179
EARNINGS BEFORE INCOME TAXES	259	3,464	2,453
Income Tax Benefit	314	320	240
NET EARNINGS	$ 573	$ 3,784	$ 2,693
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(23)	45	(268)
COMPREHENSIVE INCOME	$ 550	$ 3,829	$ 2,425
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 535	$ 3,745	$ 2,654

See Notes to Condensed Financial Statements

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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 28, 2001	December 29, 2000
ASSETS		
Cash and cash equivalents	$ 822	$ 5
Marketable investment securities	2,392	7,394
Loans to, receivables from and preference securities of affiliates	80,621	80,845
Investments in affiliates, at equity	22,238	21,435
Equipment and facilities (net of accumulated depreciation and amortization of $201 in 2001 and $377 in 2000)	120	175
Other receivables and assets	3,232	2,473
TOTAL ASSETS	$ 109,425	$ 112,327
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Commercial paper and other short-term borrowings	$ 1,909	$ 12,978
Loans from and payables to affiliates	10,237	7,409
Other liabilities and accrued interest	4,666	6,299
Long-term borrowings	72,605	67,337
Total Liabilities	89,417	94,023
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity	425	425
Common Stockholders' Equity:		
Shares exchangeable into common stock	62	68
Common stock, par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2001 – 962,533,498 shares; 2000 – 962,533,498 shares	1,283	1,283
Paid-in capital	4,209	2,843
Accumulated other comprehensive loss (net of tax)	(368)	(345)
Retained earnings	16,150	16,156
	21,336	20,005
Less: Treasury stock, at cost: 2001 – 119,059,651 shares; 2000 – 154,578,945 shares	977	1,273
Unamortized employee stock grants	776	853
Total Common Stockholders' Equity	19,583	17,879
Total Stockholders' Equity	20,008	18,304
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 109,425	$ 112,327

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		
	2001	**2000**	**1999**
Cash Flows from Operating Activities:			
Net Earnings	$ 573	$ 3,784	$ 2,693
Noncash items included in earnings:			
Equity in earnings of affiliates	(1,095)	(4,127)	(3,179)
Depreciation and amortization	65	53	45
Amortization of stock-based compensation	84	23	17
Restructuring charge	144	-	-
Other	(303)	(98)	20
(Increase) decrease in			
Operating assets, net of operating liabilities	(316)	956	(287)
Dividends and partnerships distributions from affiliates	1,113	1,332	1,764
Cash Provided by Operating Activities	265	1,923	1,073
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Loans to affiliates, net of payments	3,162	5,121	(2,106)
Sales of available-for-sale securities	7,447	124	12
Purchases of available-for-sale securities	(2,449)	(6,315)	(1,198)
Investments in affiliates, net of dispositions	(886)	(7,178)	(4)
Equipment and facilities	(104)	(18)	(95)
Cash Provided by (Used for) Investing Activities	7,170	(8,266)	(3,391)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(11,069)	(11,079)	7,071
Issuance and resale of long-term borrowings	35,380	25,888	11,685
Settlement and repurchase of long-term borrowings	(31,211)	(9,507)	(16,092)
Common stock transactions	861	1,182	459
Dividends to shareholders	(579)	(515)	(426)
Cash (Used for) Provided by Financing Activities	(6,618)	5,969	2,697
Increase (Decrease) in Cash and Cash Equivalents	817	(374)	379
Cash and Cash Equivalents, beginning of year	5	379	-
Cash and Cash Equivalents, end of year	$ 822	$ 5	$ 379

Supplemental Disclosure			
Cash paid for:			
Income taxes	$ 313	$ 85	$ 261
Interest	4,471	5,109	4,149

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 2001 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation. All 1999 amounts have been restated to reflect the 2000 merger of Herzog, Heine, Geduld, Inc. ("Herzog") with Merrill Lynch, which was accounted for as a pooling-of-interests (see Note 2 to the Consolidated Financial Statements in the Annual Report), and the two-for-one common stock split (see Note 11 to the Consolidated Financial Statements in the Annual Report).

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

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

- Summary of Significant Accounting Policies (Note 1)
- Loans, Notes, and Mortgages (Note 7)
- Commercial Paper and Short- and Long-Term Borrowings (Note 8)
- Stockholders' Equity (Note 11)
- Commitments and Contingencies (Note 12)
- Employee Incentive Plans (Note 14)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations and investments in and loans to foreign subsidiaries. See Notes 8 and 1 (Derivatives section) to the Consolidated Financial Statements in the Annual Report, respectively, for additional information on these hedges.

NOTE 2. OTHER SIGNIFICANT EVENTS

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

As a result, ML & Co. incurred a fourth quarter pre-tax restructuring charge to earnings of $239 million.

Restructuring charges relate primarily to severance costs of $95 million, facilities costs of $120 million, and technology and fixed asset write-offs of $17 million. Structural changes include targeted workforce reductions of approximately 222 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. The $95 million of severance costs include non-cash charges related to accelerated stock amortization for stock grants associated with employee separations totaling $17 million. Cash severance payments of $8 million have been made as of year-end. Facilities-related costs include the closure or subletting of excess space. Management expects the remaining employee separations to be completed in 2002 and anticipates that substantially all of the cash payments related to real estate and severance will be funded by cash from operations.

For information on the consolidated restructuring charges, refer to Note 2 to the Consolidated Financial Statements within the Annual Report.

September 11th-Related Expenses
On September 11th, 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.

Some of Merrill Lynch's businesses were temporarily disrupted subsequent to September 11th. During the fourth quarter, Merrill Lynch reoccupied and reestablished business operations in the North Tower as well as in 222 Broadway. The South Tower of the World Financial Center is in the process of being restored.

For the year ended December 28, 2001, ML & Co. recorded September 11th-related expenses of $71 million ($44 million after-tax), which are net of actual recoveries and insurance receivables booked to date. These expenses include costs related to the write-off of damaged assets and sublease income; the repair and replacement of equipment; and employee relocation, which required reconfiguring alternative office facilities, technology, and telecommunications and providing transportation. ML & Co. continues to incur additional September 11th-related expenses, including the purchase of additional equipment and the restoration of facilities.
ML & Co. is also assessing the impact on operations from physical damage to determine lost profits due to business interruption. Therefore, the full financial impact to ML & Co. cannot be currently determined.

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. During the fourth quarter, ML & Co. received its first insurance advance payment related to September 11th of $90 million and recognized an additional insurance receivable of $15 million. ML & Co. expects to recognize additional insurance receivables in future periods. Insurance payments are based on recoverable cash expenditures, which will not necessarily be the same as expenses recognized under accounting principles generally accepted in the United States of America.

For information on the consolidated September 11th-related expenses, refer to Note 2 to the Consolidated Financial Statements within the Annual Report.

NOTE 3. GUARANTEES

ML & Co. issues guarantees of counterparty obligations in connection with certain activities of subsidiaries (see Note 12 to the Consolidated Financial Statements in the Annual Report for further information).

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

ML & Co. also guarantees obligations related to Trust Originated Preferred SecuritiesSM/ issued by subsidiaries (see Note 10 to the Consolidated Financial Statements in the Annual Report for further information).

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 28, 2001 and December 29, 2000, and for each of the three years in the period ended December 28, 2001, and have issued our report thereon dated February 25, 2002; such consolidated financial statements and our report are included in your 2001 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch, listed in Item 14. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 25, 2002

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of March, 2002.

Merrill Lynch & Co., Inc.
Registrant

ANDREA L. DULBERG	**/s/ Andrea L. Dulberg** **Andrea L. Dulberg** **Secretary**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 15th day of March, 2002.

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

EXHIBIT 10(xxiii)

MERRILL LYNCH & CO., INC.

2001 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF OCTOBER 5, 2000

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

MERRILL LYNCH & CO., INC.
2001 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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MERRILL LYNCH & CO., INC.
2001 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 Purpose and Intent.

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

1.2 Definitions.

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

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

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

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 2001, and payable after January 1, 2001, as a result of the Participant's production credit level, or such other similar items of compensation as the Administrator shall designate as "Adjusted Compensation" for purposes of this Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Election Year" means the 2000 calendar year.

"Eligible Compensation" means (1) for persons eligible for the Variable Incentive Compensation Program or other similar programs: (A) a Participant's 1999 base earnings plus (B) any cash bonus awarded in early 2000, and (2) for persons ineligible for such bonus programs, a Participant's 1999 Adjusted Compensation.

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

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

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

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

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

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

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

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

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

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

"Leverage-Eligible Participants" means persons who (1) are accredited investors within the meaning of the Securities Act of 1933, and (2) received Cash Compensation of at least $250,000 in 1999, and (3) received Cash Compensation of at least $200,000 in 1998 and otherwise qualify, in accordance with standards determined by the Administrator, to select a ML Ventures Return Option on a leverage basis.

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

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

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

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

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

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

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

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

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

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

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

"Plan" means this Merrill Lynch & Co., Inc. 2001 Deferred Compensation

Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 2001.

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

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

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

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

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

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

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

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

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

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) General Rule. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least $250,000 of Eligible Compensation for the year prior to the Election Year, and (iii) has attained the title of Vice President or higher.

(b) Individuals First Employed During Election Year or Plan Year. Subject to the approval of the Administrator in his or her sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation, together, if applicable, with the amount of any Variable Incentive Compensation that will be payable to such individual in the next annual bonus cycle pursuant to a written bonus guarantee, is greater than $250,000, and he or she is employed as or is to be nominated for the title of Vice President or higher at the first opportunity following his or her commencement of employment with the Company.

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

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Article V shall be made by submitting to the Administrator such forms as the Administrator may prescribe in whatever manner that the Administrator directs. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he or she may designate for the purpose by no later than October 27 of the Election Year (or such later date as the Administrator, in his or her sole discretion, may specify in any particular instance) or, in the event such date is not a business day, the immediately preceding business day; provided, however, that the Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

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

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

3.2 Crediting to Accounts.

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

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

3.3 Minimum Requirements for Deferral.

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

(i) the Participant is not an Eligible Employee as of December 31, 2000,

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

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

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

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

3.4 Return Options; Adjustment of Accounts.

(a) Selection of ML Ventures Return Option or Private Fund Return Options. In any year that a ML Ventures partnership or other Private Fund partnership is offered as a return option, eligible Participants may select the ML Ventures Return Option (and designate any Leverage Percentage) or select a Private Fund Return Option. Participants should be aware that once the closing of the relevant fund has occurred, Participants will not be able to change their elections. Participants should also be aware that in the event of a Capital Call Default, for certain Private Equity Funds, Including ML Ventures, they may be penalized by having their Accounts adjusted downward in accordance with Section 3.4 (d).

(b) Selection of Mutual Fund Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select the percentage of the Participant's Account to be adjusted to reflect the performance of Mutual Fund Return Options, for use when a Participant's Account has a Liquid Balance. All elections shall be in multiples of 1%. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than 12 times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

(c) Selection of the ML Ventures Leverage Percentage by Eligible Participants. Prior to the closing of the offering of an ML Ventures partnership, Leverage-Eligible Participants who select the ML Ventures Return Option on a leveraged basis must choose their Leverage Percentage, in accordance with standards determined by the Administrator, by submitting such forms as the Administrator shall prescribe. Prior to the closing of an ML Ventures partnership, the Administrator will determine each Leverage-Eligible Participant's Initial Leveraged Amount by applying such Participant's Leverage Percentage to the dollar value of the portion of the Participant's Account

Balance allocated to the ML Ventures Return Option. The Initial Leveraged Amount will be recorded as the Leveraged Principal Amount, to which amount Interest Amounts will be added annually in accordance with Section 3.4(e).

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

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

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

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

(e) Adjustment of Debit Balance. Any Debit Balance shall be reduced as soon as possible by any distributions relating to ML Ventures Units.

Reductions of the Debit Balance, as provided in the foregoing sentence, shall be applied first to reduce the Debit Balance attributable to accrued Annual Charges and then, after all such accrued Annual Charges have been satisfied, to reduce any Leveraged Principal Amount. As of the last day of each Fiscal Year, Interest Amounts computed by the Administrator shall be added to the Leveraged Principal Amount. If on any date the Leveraged Principal Amount would be discharged completely as a result of distributions or chargeoffs, Interest Amounts will be computed through such date and added to the Leveraged Principal Amount as of such date.

(f) Adjustment of Mutual Fund Return Balances. While the Participant's Balances do not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Balances attributable to Mutual Fund Return Options shall be adjusted to reflect credits or debits relating to distributions with respect to the ML Ventures Units or chargeoffs against the Debit Balance and to reflect the investment experience of the Participant's Mutual Fund Return Options in the same manner as if investments or dispositions in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions or credits or debits by the ML II System shall control the timing and pricing of the notional investments in the Participant's Mutual Fund Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments or dispositions were actually to be made, except that in connection with the crediting of Deferred Amounts or distributions to the Participant's Account and distributions from or debits to the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Mutual Fund Return Option shall be valued using the Net Asset Value of the Mutual Fund Return Option as of the relevant day; *provided*, that, in valuing a Mutual Fund Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the

relevant day, without giving effect to any transaction charges or costs associated with such transactions; *provided, further*, that, if there are no such transactions effected through the ML II System on the relevant day, the value of the security shall be:

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

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

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

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

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

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

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

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

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

(i) With respect to Benchmark Return Options that do not provide daily liquidity: (A) payments under Article V will be made in accordance with a Participant's election at the time of the Participant's original deferral, with any adjustments required for the more limited liquidity of such Return Option; (B) Participants may be limited in their

ability to elect, change or continue their Benchmark Return Options in accordance with such terms and conditions as the Administrator or a designee may determine; and (C) the Annual Charge shall be accrued and paid, when possible, upon liquidation of all or any portion of the Benchmark Return Option, provided that no payment shall be made to a Participant under Article V hereof until all accrued Annual Charges have been paid.

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

3.5 Rescission of Deferral Election.

(a) Prior to December 1, 2000. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 2000, and (ii) if the Administrator, in his or her sole discretion and upon evidence of such basis that he or she finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 27, 2000 and November 30, 2000), agrees to the rescission of the election. In the event that the Administrator agrees to the rescission, the Deferred Amounts, if any, credited to the Participant's Account will be paid to the Participant as soon as practicable thereafter, subject to reduction for any applicable withholding taxes.

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

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

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant,

the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

4.2 Non-Assignability.

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

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

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

ARTICLE V

PAYMENT OF ACCOUNT

5.1 Manner of Payment.

(a) Regular Payment Elections. A Participant's Account Balance will be paid by the Company, as elected by the Participant at the time of his or her deferral election, either in a single payment to be made, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by the Participant after the end of 2001, or (iii) in any month in the calendar year following the Participant's Retirement; provided that, if a Participant's election would result in payment (in the case
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of a single payment) or commencement of payment (in the case of installment payments) after the Participant's 70th birthday, then, notwithstanding the Participant's elections, the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's 70th birthday unless the Participant continues to be an active full time employee at such time, in which case the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's cessation of active service (to the extent payment has not already been made or commenced). The amount of each annual installment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made). In the event that immediately prior to the lump sum payment or the initial installment payment, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such payment shall be adjusted, if necessary, for the liquidity restraints of the Benchmark Return Option and, in the case of an election of 11 or more installment payments commencing upon Retirement or a date certain coincident with Retirement, shall be delayed until such Account Balance is fully liquid.

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

5.2 Termination of Employment.

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

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

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

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

Principal Amount and any Interest Amounts and, to the extent necessary, any Leveraged Distributions paid out to the Participant will be restated as a Debit Balance. Leveraged and Unleveraged Distributions shall be deemed to have been applied and distributed proportionately. All calculations hereunder shall be made by the Administrator and shall be final and conclusive.

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

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

5.3 Withholding of Taxes.

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

5.4 Beneficiary.

(a) Designation of Beneficiary. The Participant may designate, in a writing delivered to the Administrator or his or her designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's

beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

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

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

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

5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he or she may, in his or her sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his or her sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his or her sole discretion to be immediate and substantial.

5.6 Domestic Relations Orders.

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

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

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

6.2 Rabbi Trust

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

6.3 Payments on Behalf of an Incompetent.

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

6.4 No Right of Set-Off.

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

6.5 Corporate Books and Records Controlling.

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

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

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

7.2 Headings Are Not Controlling.

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

7.3 Governing Law.

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

7.4 Amendment and Termination.

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

EXHIBIT 10(xxv)

MERRILL LYNCH & CO., INC.

2002 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF SEPTEMBER 26, 2001

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

MERRILL LYNCH & CO., INC.
2002 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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MERRILL LYNCH & CO., INC.
2002 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 Purpose and Intent.

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

1.2 Definitions.

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

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

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

"Adjusted Compensation" means the financial advisor incentive compensation, account executive incentive compensation or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 2002, and payable after January 1, 2002, as a result of the Participant's production credit level, or such other similar items of compensation as the Administrator shall designate as "Adjusted Compensation" for purposes of this Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Election Year" means the 2001 calendar year.

"Eligible Compensation" means (1) for persons eligible for the Variable Incentive Compensation Program or other similar programs: (A) a Participant's 2000 base earnings plus (B) any cash bonus awarded in early 2001, and (2) for persons ineligible for such bonus programs, a Participant's 2000 Adjusted Compensation.

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

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

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

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

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

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

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

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

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

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

"Leverage-Eligible Participants" means persons who (1) are accredited investors within the meaning of the Securities Act of 1933, and (2) received Cash Compensation of at least $300,000 in 2000, and (3) received Cash Compensation of at least $200,000 in 1999 and otherwise qualify, in accordance with standards determined by the Administrator, to select a ML Ventures Return Option on a leverage basis.

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

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

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

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

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

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

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

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

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

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

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

"Plan" means this Merrill Lynch & Co., Inc. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 2002.

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

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

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

"Rule of 45" means a Participant's termination of employment with the Company for reasons other than cause (1) on or after (A) having completed at least five (5) years of service and (B) reaching

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

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

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

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

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

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

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

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

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

(b) Individuals First Employed During Election Year or Plan Year. Subject to the approval of the Administrator in his or her sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible

Compensation, together, if applicable, with the amount of any Variable Incentive Compensation that will be payable to such individual in the next annual bonus cycle pursuant to a written bonus guarantee, is greater than $300,000, and he or she is employed as or is to be nominated for the title of Vice President or higher at the first opportunity following his or her commencement of employment with the Company.

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

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Article V shall be made by submitting to the Administrator such forms as the Administrator may prescribe in whatever manner that the Administrator directs. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he or she may designate for the purpose by no later than October 31 of the Election Year (or such later date as the Administrator, in his or her sole discretion, may specify in any particular instance) or, in the event such date is not a business day, the immediately preceding business day; *provided, however*, that the Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

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

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

3.2 Crediting to Accounts.

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

(b) ML Ventures and other Private Return Options. Upon the closing of any ML Ventures or Private Return Option, a Participant's Account will be credited with a number of units determined by dividing by $1,000 the sum of the following: (1) the portion of the Account Balance that

the Participant has elected to allocate to the ML Ventures Return Option or such other Private Return Option, as of the day prior to the closing date; and (in the case of ML Ventures only) (2) the Participant's Initial Leveraged Amount (computed in accordance with Section 3.4(c)).

3.3 Minimum Requirements for Deferral.

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

(i) the Participant is not an Eligible Employee as of December 31, 2001,

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

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

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

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

3.4 Return Options; Adjustment of Accounts.

(a) Selection of ML Ventures Return Option or Private Fund Return Options. In any year that a ML Ventures partnership or other Private Fund partnership is offered as a return option, eligible Participants may select the ML Ventures Return Option (and designate any Leverage Percentage) or select a Private Fund Return Option. Participants should be aware that once the closing of the relevant fund has occurred, Participants will not be able to change their elections. Participants should also be aware that in the event of a Capital Call Default, for certain Private Equity Funds, Including ML Ventures, they may be penalized by having their Accounts adjusted downward in accordance with Section 3.4 (d).

(b) Selection of Mutual Fund Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select the percentage of the Participant's Account to be adjusted to reflect the performance of Mutual Fund Return Options, for use when a Participant's Account has a Liquid Balance. All elections shall be in multiples of 1%. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and

nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than 12 times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

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

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

Options.

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

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

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

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

(f) Adjustment of Mutual Fund Return Balances. While the Participant's Balances do not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Balances attributable to Mutual Fund Return Options shall be adjusted to reflect credits or debits relating to distributions with respect to the ML Ventures Units or chargeoffs against the Debit Balance and to reflect the investment experience of the Participant's Mutual Fund Return Options in the same manner as if investments or dispositions in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions or credits or debits by the ML II

System shall control the timing and pricing of the notional investments in the Participant's Mutual Fund Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments or dispositions were actually to be made, except that in connection with the crediting of Deferred Amounts or distributions to the Participant's Account and distributions from or debits to the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Mutual Fund Return Option shall be valued using the Net Asset Value of the Mutual Fund Return Option as of the relevant day; provided, that, in valuing a Mutual Fund Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with such transactions; provided, further, that, if there are no such transactions effected through the ML II System on the relevant day, the value of the security shall be:

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

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

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

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

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

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

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

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

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

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

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

3.5 Rescission of Deferral Election.

(a) Prior to December 1, 2001. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 2001, and (ii) if the Administrator, in his or her sole discretion and upon evidence of such basis that he or she finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 31, 2001 and November 30, 2001), agrees to the rescission of the election. In the event that the Administrator agrees to the rescission, the Deferred Amounts, if any, credited to the Participant's Account will be paid to the Participant as soon as practicable thereafter, subject to reduction for any applicable withholding taxes.

(b) Adverse Tax Determination. Notwithstanding the provisions of

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

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

requested rescission in writing. In each case, amounts previously deferred will continue to be governed by the terms of this Plan.

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

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

4.2 Non-Assignability.

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

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

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

Article V

PAYMENT OF ACCOUNT

5.1 Manner of Payment.

(a) Regular Payment Elections. A Participant's Account Balance will be paid by the Company, as elected by the Participant at the time of his or her deferral election, either in a single payment to be made, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by the Participant after the end of 2002, or (iii) in any month in the calendar year following the Participant's Retirement; provided that, if a Participant's election would result in payment (in the case
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of a single payment) or commencement of payment (in the case of installment payments) after the Participant's 70th birthday, then, notwithstanding the Participant's elections, the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's 70th birthday unless the Participant continues to be an active full time employee at such time, in which case the Company will pay, or commence payment of, the

Participant's Account Balance in the month following the Participant's cessation of active service (to the extent payment has not already been made or commenced). The amount of each annual installment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made). In the event that immediately prior to the lump sum payment or the initial installment payment, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such payment shall be adjusted, if necessary, for the liquidity restraints of the Benchmark Return Option and, in the case of an election of 11 or more installment payments commencing upon Retirement or a date certain coincident with Retirement, shall be delayed until such Account Balance is fully liquid.

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

5.2 Termination of Employment.

(a) Death, Retirement, Rule of 45. Upon a Participant's death or Retirement (as defined in this Plan), or termination when the Participant complies with the Rule of 45 (as defined in this Plan) prior to payment, the Account Balance will be paid, in accordance with the Participant's elections and as provided in Section 5.1(a) or (b), as applicable, to the Participant or to the Participant's beneficiary (in the event of death); *provided, however*, that (1) in the event that the Participant enters into competition with the business of Merrill Lynch, he or she will not be eligible for Retirement treatment under this Section 5.2 (a) and (2) in the event that a beneficiary of the Participant's Account is the

Participant's estate or is otherwise not a natural person, then (i) if the Participant has elected a regular payment election pursuant to Section 5.1(a), the applicable portion of the Account Balance will be paid in a single payment to such beneficiary notwithstanding any election of installment payments, and (ii) if the Participant has elected modified installment payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be payable as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the Participant's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

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

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

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

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

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

5.3 Withholding of Taxes.

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

5.4 Beneficiary.

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

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

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

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

5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he or she may, in his or her sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate

hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his or her sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his or her sole discretion to be immediate and substantial.

5.6 Domestic Relations Orders.

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

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

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

6.2 Grantor Trust

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

6.3 Payments on Behalf of an Incompetent.

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

6.4 No Right of Set-Off.

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

6.5 Corporate Books and Records Controlling.

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

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

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

7.2 Headings Are Not Controlling.

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

7.3 Governing Law.

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

7.4 Amendment and Termination.

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

EXHIBIT 10(xxx)

MERRILL LYNCH & CO., INC.

LONG-TERM INCENTIVE COMPENSATION PLAN
FOR MANAGERS AND PRODUCERS

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MERRILL LYNCH & CO., INC.

LONG-TERM INCENTIVE COMPENSATION PLAN

FOR MANAGERS AND PRODUCERS

ARTICLE I - GENERAL

Section 1.1 Purpose.

The purposes of the Long-Term Incentive Compensation Plan (the "Plan") for Managers and Producers are: (a) to enhance the growth and profitability of Merrill Lynch & Co., Inc., a Delaware corporation ("ML & Co."), and its subsidiaries by providing the incentive of long-term rewards to key employees who are capable of having a significant impact on the performance of ML & Co. and its subsidiaries; (b) to attract and retain employees of outstanding competence and ability; (c) to encourage long-term stock ownership by employees; and (d) to further the identity of interests of such employees with those of stockholders of ML & Co.

Section 1.2 Definitions.

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

(a) "Board of Directors" or "Board" shall mean the Board of Directors of ML & Co.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended, including any successor law thereto.

(c) "Company" shall mean ML & Co. and any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests. For purposes of this Plan, the terms "ML & Co." and "Company" shall include any successor thereto.

(d) "Committee" shall mean the Management Development and Compensation Committee of the Board of Directors, or its functional successor or any other Board committee that has been designated by the Board of Directors to administer the Plan, or the Board of Directors.

(e) "Common Stock" shall mean the Common Stock, par value $1.33 1/3 per share, of ML & Co. and a "share of Common Stock" shall mean one share of Common Stock together with, for so long as Rights are outstanding, one Right (whether trading with the Common Stock or separately).

(f) "Disability," unless otherwise provided herein, shall mean any physical or mental condition that, in the opinion of the Head of Human Resources of Merrill Lynch & Co., Inc. (or his or her functional successor), renders an employee incapable of engaging in any employment or occupation for which he is suited by reason of education or training.

(g) "Fair Market Value" of shares of Common Stock on any given date(s) shall be: (a) the mean of the high and low sales prices on the New York Stock Exchange--Composite Tape of such shares on the date(s) in question, or, if the shares of Common Stock shall not have been traded on any such date(s), the mean of the high and low sales prices on the New York Stock Exchange--Composite Tape on the first day prior thereto on which the shares of Common Stock were so traded; or (b) if the shares of Common Stock are not traded on the New York Stock Exchange, such other amount as may be determined by the Committee by any fair and reasonable means.

"Fair Market Value" of any Other ML & Co. Security on any given date(s) shall be: (a) the mean of the high and low sales prices of such Other ML & Co. Security on the principal securities exchange on which such Security is traded on the date(s) in question or, if such Other ML & Co. Security shall not have been traded on any such exchange on such date(s), the mean of the high and low sales prices on such exchange on the first day prior thereto on which such Other ML & Co. Security was so traded; or (b) if the Other ML & Co. Security is not publicly traded on a securities exchange, such other amount as may be determined by the Committee by any fair and reasonable means.

(h) "Junior Preferred Stock" shall mean ML & Co.'s Series A Junior Preferred Stock, par value $1.00 per share.

(i) "Other ML & Co. Security" shall mean a financial instrument issued pursuant to Article VI.

(j) "Participant" shall mean any employee who has met the eligibility requirements set forth in Section 1.5 hereof and to whom a grant has been made and is outstanding under the Plan.

(k) "Performance Period" shall mean, in relation to Performance Shares or Performance Units, any period, for which performance objectives have been established, of not less than one nor more than ten consecutive ML & Co. fiscal years, commencing with the first day of the fiscal year in which such Performance Shares or Performance Units were granted.

(l) "Performance Share" shall mean a right, granted to a Participant pursuant to Article II, that will be paid out as a share of Common Stock.

(m) "Performance Unit" shall mean a right, granted to a Participant pursuant to Article II, to receive an amount equal to the Fair Market Value of one share of Common Stock in cash.

(n) "Restricted Period" shall mean, (i) in relation to shares of Common Stock receivable in payment for Performance Shares, the period beginning at the end of the applicable Performance Period during which restrictions on the transferability of such shares of Common Stock are in effect; and (ii) in relation to Restricted Shares or Restricted Units, the period beginning with the first day of the month in which Restricted Shares or Restricted Units are granted, during which restrictions on the transferability of

such Restricted Shares or Restricted Units are in effect, which shall not be of shorter duration than the Vesting Period applicable to the same Restricted Shares or Restricted Units.

(o) "Restricted Share" shall mean a share of Common Stock, granted to a Participant pursuant to Article III, subject to the restrictions set forth in Section 3.3 hereof.

(p) "Restricted Unit" shall mean the right, granted to a Participant pursuant to Article III, as provided by the Committee at the time of grant to receive either: (1) an amount in cash equal to the Fair Market Value of one share of Common Stock, or (2) one share of Common Stock.

(q) "Retirement" shall mean the cessation of employment with the Company (1) on or after (A) having completed at least five (5) years of service and (B) reaching any age, that, when added to service with the Company (in each case, expressed as completed years and completed months), equals at least 45; or (2) as the result of (A) becoming employed by an unconsolidated affiliate of the Company (as specified by the Head of Human Resources) or (B) being a part of a divestiture or spin-off designated by the Head of Human Resources as eligible, provided that, in each case, termination of employment by the Company for Cause, as defined in Section 8.4 of the Plan, shall not qualify as Retirement.

(r) "Rights" means the Rights to Purchase Units of Junior Preferred Stock issued pursuant to the Rights Agreement.

(s) "Rights Agreement" means the Rights Agreement dated as of December 16, 1987 between ML & Co. and Manufacturers Hanover Trust Company, Rights Agent, as amended from time to time.

(t) "Stock Appreciation Right" shall mean a right, granted to a Participant pursuant to Article V, to receive, in cash or shares of Common Stock, an amount equal to the increase in Fair Market Value, over a specified period of time, of a specified number of shares of Common Stock.

(u) "Stock Option" shall mean a right, granted to a Participant pursuant to Article IV, to purchase, before a specified date and at a specified price, a specified number of shares of Common Stock. Stock Options may be "Incentive Stock Options," which meet the definition of such in Section 422A of the Code, or "Nonqualified Stock Options," which do not meet such definition.

(v) "Vesting Period" shall mean, in relation to Restricted Shares, Restricted Units, or Stock Options, any period of not less than six (6) months beginning with the first day of the month in which the grant of the applicable Restricted Shares, Restricted Units or Stock Options is effective, during which such Restricted Shares, Restricted Units or Stock Options may be forfeited if the Participant terminates employment.

Section 1.3 <u>Administration.</u>

(a) The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to: (i) subject to Section 1.5 hereof, select Participants after receiving the recommendations of the management of the Company; (ii) determine the number of Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Appreciation Rights, or Other ML & Co. Securities subject to each grant; (iii) determine the number of shares of Common Stock subject to each Stock Option grant; (iv) determine the time or times when grants are to be made or are to be effective; (v) determine the terms and conditions subject to which grants may be made; (vi) extend the term of any Stock Option; (vii) provide at the time of grant that all or any portion of any Stock Option shall be canceled upon the Participant's exercise of any Stock Appreciation Rights; (viii) prescribe the form or forms of the instruments evidencing any grants made hereunder, provided that such forms are consistent with the Plan; (ix) adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable for the administration of the Plan; (x) construe and interpret the Plan and all rules, regulations, and instruments utilized thereunder; and (xi) make all determinations deemed advisable or necessary for the administration of the Plan. All determinations by the Committee shall be final and binding.

(b) The Committee shall act in accordance with the procedures established for a Committee under ML & Co.'s Certificate of Incorporation and By-Laws or under any resolution of the Board.

Section 1.4 <u>Shares Subject to the Plan.</u>

The total number of shares of Common Stock that may be distributed under the Plan shall be 340,000,000 (whether granted as Restricted Shares or reserved for distribution upon grant of Restricted Units, Performance Shares, Stock Options, Stock Appreciation Rights (to the extent they may be paid out in Common Stock), or Other ML & Co. Securities), subject to adjustment as provided in Article VII hereof. Shares of Common Stock distributed under the Plan may be treasury shares or authorized but unissued shares. To the extent that awards of Other ML & Co. Securities are convertible into Common Stock or are otherwise equity securities (or convertible into equity securities) of ML & Co., they shall be subject to the limitation expressed above on the number of shares of Common Stock that can be awarded under the Plan. Any shares of Common Stock that have been granted as Restricted Shares or that have been reserved for distribution in payment for Restricted Unit or Performance Shares but are later forfeited or for any other reason are not payable under the Plan may again be made the subject of grants under the Plan. If any Stock Option, Stock Appreciation Right, or Other ML & Co. Security granted under the Plan is forfeited, expires or terminates, or any Restricted Unit or Stock Appreciation Right is paid out in cash, the underlying shares of Common Stock may again be made the subject of grants under the Plan. Units payable in cash that are later forfeited or for any reason are not payable under the Plan may again be the subject of grants under the Plan.

Section 1.5 <u>Eligibility and Participation.</u>

Participation in the Plan shall be limited to officers (who may also be members of the Board of Directors) and other salaried, key employees of the Company or any affiliate of the Company designated by the Committee.

ARTICLE II - PROVISIONS APPLICABLE TO PERFORMANCE SHARES AND PERFORMANCE UNITS.

Section 2.1 Performance Periods and Restricted Periods.

The Committee shall establish Performance Periods applicable to Performance Shares and Performance Units and may establish Restricted Periods applicable to Performance Shares, at its discretion. Each such Performance Period shall commence with the beginning of a fiscal year in which the Performance Shares and Performance Units are granted and have a duration of not less than one nor more than ten consecutive fiscal years. Each such Restricted Period shall commence with the end of the Performance Period established for such Performance Shares and shall end on such date as may be determined by the Committee at the time of grant. There shall be no limitation on the number of Performance Periods or Restricted Periods established by the Committee, and more than one Performance Period may encompass the same fiscal year.

Section 2.2 Performance Objectives.

At any time before or during a Performance Period, the Committee shall establish one or more performance objectives for such Performance Period, provided that such performance objectives shall be established prior to the grant of any Performance Shares or Performance Units with respect to such Period. Performance objectives shall be based on one or more measures such as return on stockholders' equity, earnings, or any other standard deemed relevant by the Committee, measured internally or relative to other organizations and before or after extraordinary items, as may be determined by the Committee; provided, however, that any such measure shall include all accruals for grants made under the Plan and for all other employee benefit plans of the Company. The Committee may, in its discretion, establish performance objectives for the Company as a whole or for only that part of the Company in which a given Participant is involved, or a combination thereof. In establishing the performance objective or objectives for a Performance Period, the Committee shall determine both a minimum performance level, below which no Performance Shares or Performance Units shall be payable, and a full performance level, at or above which 100% of the Performance Shares or Performance Units shall be payable. In addition, the Committee may, in its discretion, establish intermediate levels at which given proportions of the Performance Shares or Performance Units shall be payable. Such performance objectives shall not thereafter be changed except as set forth in Sections 2.5 and 2.6 and Article VII hereof.

Section 2.3 Grants of Performance Shares and Performance Units.

The Committee may select employees to become Participants subject to the provisions of Section 1.5 hereof and grant Performance Shares or Performance Units to such Participants at any time prior to or during the first fiscal year of a Performance

Period. Grants shall be deemed to have been made as of the beginning of the first fiscal year of the Performance Period. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Subject to the provisions of Section 2.7 hereof, a grant of Performance Shares or Performance Units shall be effective for the entire applicable Performance Period and may not be revoked. Each grant to a Participant shall be evidenced by a written instrument stating the number of Performance Shares or Performance Units granted, the Performance Period, the performance objective or objectives, the proportion of payments for performance between the minimum and full performance levels, if any, the Restricted Periods and restrictions applicable to shares of Common Stock receivable in payment for Performance Shares, and any other terms, conditions, and rights with respect to such grant. At the time of any grant of Performance Shares, there shall be reserved out of the number of shares of Common Stock authorized for distribution under the Plan a number of shares equal to the number of Performance Shares so granted.

Section 2.4 Rights and Benefits During Performance Period.

The Committee may provide that, during a Performance Period, a Participant shall be paid cash amounts, with respect to each Performance Share or Performance Unit held by such Participant, in the same manner, at the same time, and in the same amount paid, as a dividend on a share of Common Stock.

Section 2.5 Adjustment with respect to Performance Shares and Performance Units.

Any other provision of the Plan to the contrary notwithstanding, the Committee may at any time adjust performance objectives (up or down) and minimum or full performance levels (and any intermediate levels and proportion of payments related thereto), adjust the way performance objectives are measured, or shorten any Performance Period or Restricted Period, if it determines that conditions, including but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, or the occurrence of other unusual, unforeseen, or extraordinary events, so warrant.

Section 2.6 Payment of Performance Shares and Performance Units.

Within 90 days after the end of any Performance Period, the Company shall determine the extent to which performance objectives established by the Committee pursuant to Section 2.2 hereof for such Performance Period have been met during such Performance Period and the resultant extent to which Performance Shares or Performance Units granted for such Performance Period are payable. Payment for Performance Shares and Performance Units shall be as follows:

(a) Performance Shares:

(i) If a Restricted Period has been established in relation to the Performance Shares:

(A) At the end of the applicable Performance Period, one or more certificates representing the number of shares of Common Stock equal to the number of Performance Shares payable shall be registered in the name of the Participant but shall be held by the Company for the account of the employee. Such shares will be nonforfeitable but restricted as to transferability during the applicable Restricted Period. During the Restricted Period, the Participant shall have all rights of a holder as to such shares of Common Stock, including the right to receive dividends, to exercise Rights, and to vote such Common Stock and any securities issued upon exercise of Rights, subject to the following restrictions: (1) the Participant shall not be entitled to delivery of certificates representing such shares of Common Stock and any other such securities until the expiration of the Restricted Period; and (2) none of such shares of Common Stock or Rights may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period. Any shares of Common Stock or other securities or property received with respect to such shares shall be subject to the same restrictions as such shares; provided, however, that the Company shall not be required to register any fractional shares of Common Stock payable to any Participant, but will pay the value of such fractional shares, measured as set forth in Section 2.6(b) below, to the Participant.

(B) At the end of the applicable Restricted Period, all restrictions applicable to the shares of Common Stock, and other securities or property received with respect to such shares, held by the Company for the accounts of recipients of Performance Shares granted in relation to such Restricted Period shall lapse, and one or more stock certificates for such shares of Common Stock and securities, free of the restrictions, shall be delivered to the Participant, or such shares and securities shall be credited to a brokerage account if the Participant so directs.

(ii) If a Restricted Period has not been established in relation to the Performance Shares, at the end of the applicable Performance Period, one or more stock certificates representing the number of shares of Common Stock equal to the number of Performance Shares payable, free of restrictions, shall be registered in the name of the Participant and delivered to the Participant, or such shares shall be credited to a brokerage account if the Participant so directs.

(b) Performance Units: At the end of the applicable Performance Period, a Participant shall be paid a cash amount equal to the number of Performance Units payable, times the mean of the Fair Market Value of Common Stock during the second calendar month following the end of the Performance Period, unless some other date or period is established by the Committee at the time of grant.

Section 2.7 Termination of Employment.

(a) Prior to the end of a Performance Period:

(i) Death: If a Participant ceases to be an employee of the Company prior to the end of a Performance Period by reason of death, any outstanding Performance Shares or Performance Units with respect to such Participant shall become payable and be paid to such Participant's beneficiary or estate, as the case may be, as soon as practicable in the manner set forth in Sections 2.6(a)(ii) and 2.6(b) hereof, respectively. In determining the extent to which performance objectives established for such Performance Period have been met and the resultant extent to which Performance Shares or Performance Units are payable, the Performance Period shall be deemed to end as of the end of the fiscal year in which the Participant's death occurred.

(ii) Disability or Retirement: The Disability or Retirement of a Participant shall not constitute a termination of employment for purposes of this Article II, and such Participant shall not forfeit any Performance Shares or Performance Units held by him or her, provided that following Disability or Retirement such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company during the remainder of the applicable Performance Period. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(iii) Other Terminations: If a Participant ceases to be an employee prior to the end of a Performance Period for any reason other than death, the Participant shall immediately forfeit all Performance Shares and Performance Units previously granted under the Plan and all right to receive any payment for such Performance Shares and Performance Units. The Committee may, however, direct payment in accordance with the provisions of Section 2.6 hereof for a number of Performance Shares or Performance Units, as it may determine, granted under the Plan to a Participant whose employment has so terminated (but not exceeding the number of Performance Shares or Performance Units that could have been payable had the Participant remained an employee) if it finds that the circumstances in the particular case so warrant. For purposes of the preceding sentence, the Performance Period over which performance objectives shall be measured shall be deemed to end as of the end of the fiscal year in which termination occurred.

(b) After the end of a Performance Period but prior to the end of a Restricted Period:

(i) Death, Disability, or Retirement: If a Participant ceases to be an employee of the Company by reason of death or in the case of the Disability or Retirement of a Participant, the Restricted Period shall be deemed to have ended and shares held by the Company shall be paid as soon as practicable in the manner set forth in Section 2.6(a)(i)(B).

(ii) Other Terminations: Terminations of employment for any reason other than death after the end of a Performance Period but prior to the end of a Restricted Period shall not have any effect on the Restricted Period, unless the Committee, in its sole discretion, finds that the circumstances so warrant and determines that the Restricted Period shall end on an earlier date as determined by the Committee and that shares held by the Company shall be paid as soon as practicable following such earlier date in the manner set forth in Section 2.6(a)(i)(B).

(c) Except as otherwise provided in this Section 2.7, termination of employment after the end of a Performance Period but before the payment of Performance Shares or Performance Units relating to such Performance Period shall not affect the amount, if any, to be paid pursuant to Section 2.6 hereof. Approved leaves of absence of one year or less shall not be deemed to be terminations of employment under this Section 2.7. Leaves of absence of more than one year will be deemed to be terminations of employment under this Section 2.7, unless the Committee determines otherwise.

Section 2.8 Deferral of Payment.

The Committee may, in its sole discretion, offer a Participant the right, by execution of a written agreement, to defer the receipt of all or any portion of the payment, if any, for Performance Shares or Performance Units. If such an election to defer is made, the Common Stock receivable in payment for Performance Shares shall be deferred as stock units equal in number to and exchangeable, at the end of the deferral period, for the number of shares of Common Stock that would have been paid to the Participant. Such stock units shall represent only a contractual right and shall not give the Participant any interest, right, or title to any Common Stock during the deferral period. The cash receivable in payment for Performance Units or fractional shares receivable for Performance Shares shall be deferred as cash units. Deferred stock units and cash units may be credited annually with the appreciation factor contained in the deferred compensation agreement, which may include dividend equivalents. All other terms and conditions of deferred payments shall be as contained in the written agreement.

ARTICLE III - PROVISIONS APPLICABLE TO RESTRICTED SHARES AND RESTRICTED UNITS.

Section 3.1 Vesting Periods and Restricted Periods.

The Committee shall establish one or more Vesting Periods applicable to Restricted Shares and Restricted Units and one or more Restricted Periods applicable to Restricted Shares and Restricted Units, at its discretion. Each such Vesting Period shall have a duration of not less than six (6) months, measured from the first day of the month in which the grant of the applicable Restricted Shares or Restricted Units is effective. Each such Restricted Period shall have a duration of six (6) or more consecutive months, measured from the first day of the month in which the grant of the applicable Restricted Shares or Restricted Units is effective, but in no event shall any Restricted Period be of shorter duration than the Vesting Period applicable to such Restricted Share or Restricted Unit.

Section 3.2 Grants of Restricted Shares and Restricted Units.

The Committee may select employees to become Participants (subject to the provisions of Section 1.5 hereof) and grant Restricted Shares or Restricted Units to such Participants at any time. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential.

Subject to the provisions of Section 3.7 hereof, a grant of Restricted Shares or Restricted Units shall be effective for the entire applicable Vesting and Restricted Periods and may not be revoked. Each grant to a Participant shall be evidenced by a written instrument stating the number of Restricted Shares or Restricted Units granted, the Vesting Period, the Restricted Period, the restrictions applicable to such Restricted Shares or Restricted Units, the nature and terms of payment of consideration, if any, and the consequences of forfeiture that will apply to such Restricted Shares or Restricted Units, and any other terms, conditions, and rights with respect to such grant.

Section 3.3 Rights and Restrictions Governing Restricted Shares.

At the time of grant of Restricted Shares, subject to the receipt by the Company of any applicable consideration for such Restricted Shares, one or more certificates representing the appropriate number of shares of Common Stock granted to a Participant shall be registered either in his or her name or for his or her benefit either individually or collectively with others, but shall be held by the Company for the account of the Participant. The Participant shall have all rights of a holder as to such shares of Common Stock, including the right to receive dividends, to exercise Rights, and to vote such Common Stock and any securities issued upon exercise of Rights, subject to the following restrictions: (a) the Participant shall not be entitled to delivery of certificates representing such shares of Common Stock and any other such securities until the expiration of the Restricted Period; (b) except as provided in Section 3.9, none of the Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period; and (c) all of the Restricted Shares shall be forfeited and all rights of the Participant to such Restricted Shares shall terminate without further obligation on the part of the Company unless the Participant remains in the continuous employment of the Company for the entire Vesting Period in relation to which such Restricted Shares were granted, except as otherwise provided in Section 3.7 hereof. Any shares of Common Stock or other securities or property received with respect to such shares shall be subject to the same restrictions as such Restricted Shares.

Section 3.4 Rights Governing Restricted Units.

During the Vesting Period, or, if longer, the Restricted Period, for Restricted Units, a Participant may be paid, with respect to each such Restricted Unit, cash amounts in the same manner, at the same time, and in the same amount paid, as a dividend on a share of Common Stock. Except as otherwise provided in Section 3.7, the Restricted Units shall be forfeited and all rights of the Participant to the Restricted Units shall be forfeited without further obligation on the part of the Company unless the Participant remains in the continuous employment of the Company for the entire Vesting Period.

Section 3.5 Adjustment with respect to Restricted Shares and Restricted Units.

Any other provision of the Plan to the contrary notwithstanding, the Committee may at any time shorten any Vesting Period or Restricted Period, if it determines that conditions, including but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, or the occurrence of other unusual, unforeseen, or extraordinary events, so warrant.

Section 3.6 Payment of Restricted Shares and Restricted Units.

(a) Restricted Shares: At the end of the Restricted Period, all restrictions contained in the grant of Restricted Shares and in the Plan shall lapse, and the appropriate number of shares of Common Stock (net of shares withheld at the end of the Vesting Period under Section 3.6(c)), shall be delivered to the Participant or his or her beneficiary or estate, as the case may be, free of restrictions, in the form of stock certificates or credited to a brokerage account as the Participant or his or her beneficiary or estate, as the case may be, so directs.

(b) Restricted Units: At the end of the Vesting Period (or, if longer, the Restricted Period) applicable to a Participant's Restricted Units, there shall be paid to the Participant, or his or her beneficiary or estate, as the case may be, either: (1) an amount in cash equal to the Fair Market Value of one share of Common Stock on the last trading day of the Vesting Period (or, if longer, the Restricted Period), or (2) one share of Common Stock for each Restricted Unit, net of shares withheld by the Company pursuant to Section 3.6(c), free of restrictions. For Restricted Units paid in Common Stock, the appropriate number of shares shall be delivered to the Participant or his or her beneficiary or estate, as the case may be, in the form of stock certificates or credited to a brokerage account as the Participant or his or her beneficiary or estate, as the case may be, so directs. At least six months prior to the end of the applicable period, the Company may permit a Participant to elect to extend the Restricted Period of a Restricted Unit for an additional period determined by the Participant at the time of such election.

(c) Payment of Taxes: At the end of the Vesting Period for Restricted Shares or the Restricted Period for Restricted Units payable in Common Stock, the Company shall satisfy any minimum federal, state, local or social security withholding requirements that occur as a result the vesting of Restricted Shares or payment of Restricted Units in shares of Common Stock by deducting from the number of whole shares of Common Stock otherwise deliverable, such number of shares as shall have a Fair Market Value, on the applicable date, equal to the minimum tax required to be withheld by the Company.

Section 3.7 Termination of Employment.

(a) Prior to the end of a Vesting Period:

(i) Death: If a Participant ceases to be an employee of the Company prior to the end of a Vesting Period by reason of death, all grants of Restricted Shares

and Restricted Units granted to such Participant are immediately payable in accordance with their terms.

(ii) Disability or Retirement: The Disability or Retirement of a Participant shall not constitute a termination of employment for purposes of this Article III and such Participant shall not forfeit any Restricted Shares or

Restricted Units held by him or her, provided that, during the remainder of the applicable Vesting Period, such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company. A Participant who does engage in or assist any business that the Committee in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(iii) Other Terminations: Except as otherwise provided herein, if a Participant ceases to be an employee prior to the end of a Vesting Period for any reason other than death, the Participant shall immediately forfeit all Restricted Shares and Restricted Units previously granted, unless the Committee, in its sole discretion, finds that the circumstances in the particular case so warrant and allows a Participant whose employment has so terminated to retain any or all of the Restricted Shares or Restricted Units granted to such Participant. Notwithstanding the foregoing, with respect to any Participant holding unvested Restricted Shares and/or Restricted Units (x) whose employment is terminated because of a reduction in staff (coded under termination code number 251 or such other code as may be equivalent to or substituted for termination code number 251), and (y) who delivers to the Company and complies with a release of claims he or she may have against the Company or any of its subsidiaries, which will include a prohibition on solicitation of the Company's employees and such other restrictions as the Company may impose (a "Release"), then notwithstanding such termination, Restricted Shares and Restricted Units granted to such Participant shall continue to vest during the Vesting Period and be restricted during the Restricted Period for such grant; provided, however, that in the event of the Employee's death during the relevant Vesting or Restricted Periods the treatment of Restricted Shares and Restricted Units will be determined in accordance with the provisions of Section 3.7(a)(i);

(b) After the end of a Vesting Period but prior to the end of a Restricted Period:

(i) Death, Disability, or Retirement: If a Participant ceases to be an employee of the Company by reason of death, or in the case of the Disability or Retirement of a Participant, prior to the end of a Restricted Period, all Restricted Shares and Restricted Units granted to such Participant are immediately payable in the manner set forth in Section 3.6.

(ii) Other Terminations: Terminations of employment for any reason other than death after the end of a Vesting Period but prior to the end of a Restricted Period shall not have any effect on the Restricted Period, unless (A) the Restricted Period relates to Restricted Units that have been further deferred in which case the Restricted Units shall be paid to the Participant, or (B) the Committee, in its sole discretion, finds that the circumstances so warrant and determines that the Restricted Period shall end on an earlier date as determined by the Committee and, in each case, the applicable Restricted Shares or Restricted Units shall be paid as soon as practicable in the manner set forth in Section 3.6.

Approved leaves of absence of one year or less shall not be deemed to be terminations of employment under this Section 3.7. Leaves of absence of more than one year will be deemed to be terminations of employment under this Section 3.7, unless the Committee determines otherwise.

Section 3.8 Extension of Vesting or Restrictions; Deferral of Payment.

The Committee may, in its sole discretion, offer any Participant the right, by execution of a written agreement with ML & Co. containing such terms and conditions as the Committee shall in its sole discretion provide for, to extend the Vesting or Restricted Periods applicable to all or any portion of such Participant's Restricted Shares or Restricted Units, to convert all or any portion of such Participant's Restricted Shares into Restricted Units or to defer the receipt of all or any portion of the payment, if any, for such Participant's Restricted Units (including any Restricted Shares converted into Restricted Units). In the event that any Vesting Period with respect to Restricted Shares or Restricted Units is extended pursuant to this Section 3.8, the Restricted Period with respect to such Restricted Shares or Restricted Units shall be extended to the same date. The provisions of any written agreement with a Participant pursuant to this Section 3.8 may provide for the payment or crediting of interest, an appreciation factor or index or dividend equivalents, as appropriate.

Section 3.9 Limitations on Transfer of Restricted Shares and Restricted Units.

Restricted Shares and Restricted Units are not transferable during the Restricted Period by a Participant except by will or the laws of descent and distribution or bequest; provided, however, that the Committee shall have the authority, in its discretion, to grant (or to authorize by amendment of an existing grant) Restricted Shares and Restricted Units that may be transferred by the Participant during his or her lifetime to any member of his or her immediate family or to a trust, corporation, limited liability corporation, family limited partnership or other equivalent vehicle, established for the exclusive benefit of one or more members of his or her immediate family for estate planning purposes. A transfer of Restricted Shares or Restricted Units will not be permitted unless the Company has received evidence, to its satisfaction, that such transfer does not trigger income or social security taxes or withholding requirements. Such transfer may only be effected by the Company at the written request of a Participant and shall become effective only when recorded in the Company's record of outstanding Restricted Shares or Restricted Units. In the event Restricted Shares or Restricted Units are transferred, such Restricted Shares or Restricted Units may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. In the event Restricted Shares or Restricted Units are transferred, such Restricted Shares or Restricted Units shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant and remain subject to forfeiture in the event the Participant terminates his or her employment during the Vesting Period as if no transfer had taken place. As used in this Section, "immediate family" shall mean, with respect to any person, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

ARTICLE IV - PROVISIONS APPLICABLE TO STOCK OPTIONS.

Section 4.1 Grants of Stock Options.

The Committee may select employees to become Participants (subject to Section 1.5 hereof) and grant Stock Options to such Participants at any time; provided, however, that Incentive Stock Options shall be granted within 10 years of the earlier of the date the Plan is adopted by the Board or approved by the stockholders. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Subject to the provisions of the Plan, the Committee shall also determine the number of shares of Common Stock to be covered by each Stock Option. The Committee shall have the authority, in its discretion, to grant "Incentive Stock Options" or "Nonqualified Stock Options," or to grant both types of Stock Options. Furthermore, the Committee may grant a Stock Appreciation Right in connection with a Stock Option, as provided in Article V.

Section 4.2 Option Documentation.

Each Stock Option granted under the Plan shall be evidenced by written documentation containing such terms and conditions as the Committee may deem appropriate and are not inconsistent with the provisions of the Plan.

Section 4.3 Exercise Price.

The Committee shall establish the exercise price at the time any Stock Option is granted at such amount as the Committee shall determine, except that such exercise price shall not be less than 50% of the Fair Market Value of the underlying shares of Common Stock on the day a Stock Option is granted and that, with respect to an Incentive Stock Option, such exercise price shall not be less than 100% of the Fair Market Value of the underlying shares of Common Stock on the day such Incentive Stock Option is granted. The exercise price will be subject to adjustment in accordance with the provisions of Article VII of the Plan.

Section 4.4 Exercise of Stock Options.

(a) Vesting and Exercisability: Stock Options shall become exercisable at such times and in such installments as the Committee may provide at the time of grant. The Committee may also set a Vesting Period for grants of Stock Options. The Committee may also, in its sole discretion, accelerate the time at which a Stock Option or installment may vest or become exercisable. A Stock Option may be exercised at any time from the time first set by the Committee until the close of business on the expiration date of the Stock Option.

(b) Option Period: For each Stock Option granted, the Committee shall specify the period during which the Stock Option may be exercised, provided that no Stock Option shall be exercisable after the expiration of 10 years (or such longer period as the Committee shall designate) from the date of grant of such Stock Option.

(c) Exercise in the Event of Termination of Employment:

(i) Death: If a Participant ceases to be an employee of the Company by reason of death prior to: (A) the end of a Vesting Period, (B) the exercise of, or (C) the expiration of Stock Options granted to him or her that remain outstanding on the date of death, such Stock Options may be exercised to the full extent not yet exercised, regardless of whether or not then vested or fully exercisable under the terms of the grant or under the terms of Section 4.4(a) hereof, by his or her estate, beneficiaries, or transferees, as the case may be, at any time and from time to time, but in no event after the expiration date of such Stock Option.

(ii) Disability or Retirement: The Disability or Retirement of a Participant shall not constitute a termination of employment for purposes of this Article IV, provided that following Disability or Retirement such Participant does not engage in or assist any business that the Committee in its sole discretion, determines to be in competition with business engaged in by the Company. A Participant who does engage in or assist any business that the Committee in its sole discretion, determines to be competition with business engaged in by the Company shall be deemed to have terminated employment. In the case of Incentive Stock Options, Disability shall be as defined in Code Section 22(e)(3).

(iii) Other Terminations: Except as provided herein, if a Participant ceases to be an employee for any reason other than death prior to: (A) the end of the Vesting Period, (B) the exercise of, or (C) the expiration of a Stock Option, then all outstanding Stock Options granted to such Participant, whether in his or her name or in the name of another person as a result of a transfer in accordance with Section 4.4(d), shall expire and be forfeited on a date 30 days following the date of such termination of employment. Notwithstanding the foregoing, with respect to any Participant who holds unvested, unexercised non-qualified Stock Options (x) whose employment is terminated because of a reduction in staff (coded under termination code number 251 or such other code as may be equivalent to or substituted for termination code number 251), and (y) who delivers to the Company and complies with a release of claims he or she may have against the Company or any of its subsidiaries, which will include a prohibition on solicitation of the Company's employees and such other restrictions as the Company may impose (a "Release"), then, notwithstanding such termination, all unvested, unexercised Stock Options shall continue to be and become exercisable in accordance with their terms until a date that is 30 days after the latest date on which any Stock Options granted to such employee have become fully exercisable (the "Exercise End Date"), but in no event later than the original expiration date of such Stock Option, and may be exercised at any time and from time to time during such period; provided however, that in the event of the Employee's death, during such period, the exercisability of Stock Options will be determined in accordance with the provisions of Section 4.4(c)(i);

In addition, if the Committee, in its sole discretion, finds that the circumstances in the particular case so warrant, it may determine that the Participant, his or her transferee pursuant to Section 4.4(d), or such Participant's or transferee's estate or beneficiaries, may exercise any such outstanding Stock Option (to the extent that any such outstanding Stock Option could have been exercised at the date of such termination of employment) at any time and from time to time within up to five (5) years after such termination of employment, but in no event after the expiration date of such Stock Option (the "Extended Period").

Approved leaves of absence of one year or less shall not be deemed to be terminations of employment under this Section 4.4(c)(iii). Leaves of absence of more than one year shall be deemed to be terminations of employment under this Section 4.4(c)(iii), unless the Committee determines otherwise.

(d) Limitations on Transferability: Stock Options are not transferable by a Participant except by will or the laws of descent and distribution or bequest and are exercisable during his or her lifetime only by him or her; provided, however, that the Committee shall have the authority, in its discretion, to grant (or to authorize by amendment of an existing grant) Stock Options that may be transferred by the Participant during his or her lifetime to any member of his or her immediate family or to a trust, corporation, limited liability corporation, family limited partnership or other equivalent vehicle, established for the exclusive benefit of one or more members of his or her immediate family. A transfer of a Stock Option pursuant to this subparagraph may only be effected by the Company at the written request of a Participant and shall become effective only when recorded in the Company's record of outstanding Stock Options. In the event a Stock Option is transferred as contemplated in this subparagraph, such Stock Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. In the event a Stock Option is transferred as contemplated in this subparagraph, such Stock Option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant grant, and the transferee shall be entitled to the same rights as the Participant under Articles VII, VIII and X hereof, as if no transfer had taken place. As used in this subparagraph, "immediate family" shall mean, with respect to any person, any child, stepchild or grandchild, and shall include relationships arising from legal adoption.

Section 4.5 Payment of Purchase Price and Tax Liability Upon Exercise; Delivery of Shares.

(a) Payment of Purchase Price: The purchase price of the shares as to which a Stock Option is exercised shall be paid to the Company at the time of exercise (i) in cash, (ii) by delivering freely transferable shares of Common Stock already owned by the person exercising the Stock Option having a total real-time market price, at the time and on the date of exercise, equal to the purchase price, (iii) a combination of cash and shares of Common Stock equal in value to the exercise price, or (iv) by such other means as the Committee, in its sole discretion, may determine.

(b) Payment of Taxes: Upon exercise, a Participant may elect to satisfy any federal, state, local social security taxes required by law to be withheld that arise as a result of the exercise of a Stock Option by directing the Company to withhold from the shares of Common Stock otherwise deliverable upon the exercise of such Stock Option, such number of shares as shall have a total real-time market price at the time and on the date of exercise, at least equal to the amount of tax to be withheld.

(c) Delivery of Shares: Upon receipt by the Company of the purchase price, stock certificate(s) for the shares of Common Stock as to which a Stock Option is exercised (net of any shares withheld pursuant to Section 4.5(b) above) shall be delivered to the person in whose name the Stock Option is outstanding or such person's estate or beneficiaries, as the case may be, or such shares shall be credited to a

brokerage account or otherwise delivered, in such manner as such person or such person's estate or beneficiaries, as the case may be, may direct.

Section 4.6 Limitation on Shares of Common Stock Received upon Exercise of Stock Options.

The aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) of the shares of Common Stock with respect to which an Incentive Stock Option is exercisable for the first time by a Participant during any calendar year (under all plans of the Company) shall not exceed $100,000 or such other limit as may be established from time to time under the Code.

ARTICLE V - PROVISIONS APPLICABLE TO STOCK APPRECIATION RIGHTS.

Section 5.1 Grants of Stock Appreciation Rights.

The Committee may select employees to become Participants (subject to the provisions of Section 1.5 hereof) and grant Stock Appreciation Rights to such Participants at any time. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. The Committee shall have the authority to grant Stock Appreciation Rights in connection with a Stock Option or independently. The Committee may grant Stock Appreciation Rights in connection with a Stock Option, either at the time of grant or by amendment, in which case each such right shall be subject to the same terms and conditions as the related Stock Option and shall be exercisable only at such times and to such extent as the related Stock Option is exercisable. A Stock Appreciation Right granted in connection with a Stock Option shall entitle the holder to surrender to the Company the related Stock Option unexercised, or any portion thereof, and receive from the Company in exchange therefor an amount equal to the excess of the Fair Market Value of one share of the Common Stock on the day preceding the surrender of such Stock Option over the Stock Option exercise price times the number of shares underlying the Stock Option, or portion thereof, that is surrendered. A Stock Appreciation Right granted independently of a Stock Option shall entitle the holder to receive upon exercise an amount equal to the excess of the Fair Market Value of one share of Common Stock on the day preceding the exercise of the Stock Appreciation Right over the Fair Market Value of one share of Common Stock on the date such Stock Appreciation Right was granted, or such other price determined by the Committee at the time of grant, which shall in no event be less than 50% of the Fair Market Value of one share of Common Stock on the date such Stock Appreciation Right was granted. Stock Appreciation Rights are not transferable by a Participant except by will or the laws of descent and distribution and are exercisable during his or her lifetime only by him or her.

Section 5.2 Stock Appreciation Rights Granted in Connection with Incentive Stock Options.

(a) Stock Appreciation Rights granted in connection with Incentive Stock Options must expire no later than the last date the underlying Incentive Stock Option can be exercised.

(b) Such Stock Appreciation Rights may be granted for no more than 100% of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Common Stock subject to the underlying Incentive Stock Option at the time the Stock Appreciation Right is exercised.

(c) Such Stock Appreciation Rights are transferable only to the extent and at the same time and under the same conditions as the underlying Incentive Stock Options.

(d) Such Stock Appreciation Rights may be exercised only when the underlying Incentive Stock Options may be exercised.

(e) Such Stock Appreciation Rights may be exercised only when the Fair Market Value of the shares of Common Stock subject to the Incentive Stock Options exceeds the exercise price of the Incentive Stock Options.

Section 5.3 Payment Upon Exercise of Stock Appreciation Rights.

The Company's obligation to any Participant exercising a Stock Appreciation Right may be paid in cash or shares of Common Stock, or partly in cash and partly in shares, at the sole discretion of the Committee.

Section 5.4 Termination of Employment.

(a) Death: If a Participant ceases to be an employee of the Company prior to the exercise or expiration of a Stock Appreciation Right outstanding in his or her name on the date of death, such Stock Appreciation Right may be exercised to the full extent not yet exercised, regardless of whether or not then fully exercisable under the terms of the grant, by or his or her estate or beneficiaries, as the case may be, at any time and from time to time within 12 months after the date of death but in no event after the expiration date of such Stock Appreciation Right.

(b) Disability: The Disability of a Participant shall not constitute a termination of employment for purposes of this Article IV, provided that following the Disability such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(c) Retirement: The Retirement of a Participant shall not constitute a termination of employment for purposes of this Article IV, provided that following Retirement such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged

in by the Company, and such Participant may exercise any Stock Appreciation Right outstanding in his or her name at any time and from time to time within 5 years after the date his or her Retirement commenced but in no event after the expiration date of such Stock Appreciation Right. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(d) Other Terminations: If a Participant ceases to be an employee prior to the exercise or expiration of a Stock Appreciation Right for any reason other than death, all outstanding Stock Appreciation Rights granted to such Participant shall expire on the date of such termination of employment, unless the Committee, in its sole discretion, determines that he may exercise any such outstanding Stock Appreciation Right (to the extent that he was entitled to do so at the date of such termination of such employment) at any time and from time to time within up to 5 years after such termination of employment but in no event after the expiration date of such Stock Appreciation Right.

ARTICLE VI - PROVISIONS APPLICABLE TO OTHER ML & CO. SECURITIES.

Section 6.1 Grants of Other ML & Co. Securities.

Subject to the provisions of the Plan and any necessary action by the Board of Directors, the Committee may select employees to become Participants (subject to the provisions of Section 1.5 hereof) and grant to Participants Other ML & Co. Securities or the right or option to purchase Other ML & Co. Securities on such terms and conditions as the Committee shall determine, including, without limitation, the period such rights or options may be exercised, the nature and terms of payment of consideration for such Other ML & Co. Securities, whether such Other ML & Co. Securities shall be subject to any or all of the provisions of Article III of the Plan applicable to Restricted Shares and/or Restricted Units, the consequences of termination of employment, and the terms and conditions, if any, upon which such Other ML & Co. Securities may or must be repurchased by the Company. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Each such Other ML & Co. Security shall be issued at a price that will not exceed the Fair Market Value thereof on the date the corresponding right or option is granted. Other ML & Co. Securities may bear interest or pay dividends from such date and at a rate or rates or pursuant to a formula or formulas fixed by the Committee or any necessary action of the Board. Any applicable conversion or exchange rate with respect to Other ML & Co. Securities shall be fixed by, or pursuant to a formula determined by, the Committee or any necessary action of the Board at each date of grant and may be predicated upon the attainment of financial or other performance goals.

Section 6.2 Terms and Conditions of Conversion or Exchange.

Each Other ML & Co. Security may be convertible or exchangeable on such date and within such period of time as the Committee, or the Board if necessary, determines at the time of grant. Other ML & Co. Securities may be convertible into or exchangeable for (i) shares of Preferred Stock of ML & Co. or (ii) other securities of ML & Co. or any present or future subsidiary of ML & Co., whether or not convertible into shares of

Common Stock, as the Committee, or the Board if necessary, determines at the time of grant (or at any time prior to the conversion or exchange date).

ARTICLE VII - CHANGES IN CAPITALIZATION.

Any other provision of the Plan to the contrary notwithstanding, if any change shall occur in or affect shares of Common Stock or Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities on account of a merger, consolidation, reorganization, stock dividend, stock split or combination, reclassification, recapitalization, or distribution to holders of shares of Common Stock (other than cash dividends) including, without limitation, a merger or other reorganization event in which the shares of Common Stock cease to exist, then, without any action by the Committee, appropriate adjustments shall be made (1) the maximum number of shares of Common Stock available for distribution under the Plan; (2) the number of shares subject to or reserved for issuance and payable under outstanding Performance Share, Restricted Unit, Restricted Share, and Stock Option grants. In addition, if in the opinion of the Committee, after consultation with the Company's independent public accountants, changes in the Company's accounting policies, acquisitions, divestitures, distributions, or other unusual or extraordinary items have disproportionately and materially affected the value of shares of Common Stock or Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities the performance objectives for the Performance Periods not yet completed, including the minimum, intermediate, and full performance levels and portion of payments related thereto; and any other terms or provisions of any outstanding grants of

Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities, in order to preserve the full benefits of such grants for the Participants, taking into account inflation, interest rates, and any other factors that the Committee, in its sole discretion, considers relevant. In the event of a change in the presently authorized shares of Common Stock that is limited to a change in the designation thereof or a change of authorized shares with par value into the same number of shares with a different par value or into the same number of shares without par value, the shares resulting from any such change shall be deemed to be shares of Common Stock within the meaning of the Plan. In the event of any other change affecting the shares of Common Stock, Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities, such adjustment shall be made as may be deemed equitable by the Committee to give proper effect to such event.

ARTICLE VIII - PAYMENTS UPON TERMINATION OF EMPLOYMENT AFTER A CHANGE IN CONTROL.

Section 8.1 Value of Payments Upon Termination After a Change in Control.

Any other provision of the Plan to the contrary notwithstanding and notwithstanding any election to the contrary previously made by the Participant, in the event a Change in Control shall occur and thereafter the Company shall terminate the Participant's employment without Cause or the Participant shall terminate his or her employment with the Company for Good Reason, the Participant shall be paid the value of his or her Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, and Other ML & Co. Securities in a lump

sum in cash, promptly after termination of his or her employment but, without limiting the foregoing, in no event later than 30 days thereafter. Payments shall be calculated as set forth below:

(a) Performance Shares and Performance Units.

Any payment for Performance Shares and Performance Units pursuant to this Section 8.1(a) shall be calculated by applying performance objectives for any outstanding Performance Shares and Performance Units as if the applicable Performance Period and any applicable Restricted Period had ended on the first day of the month in which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(a) shall be reduced by the amount of any payment previously made to the Participant with respect to the Performance Shares and Performance Units, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Performance Shares and Performance Units payable pursuant to this Section 8.1(a) shall be the amount equal to the number of Performance Shares and Performance Units payable in accordance with the preceding sentence multiplied by the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated or, if higher, the highest Fair Market Value of a share of the Common Stock on any day during the 90-day period ending on the date of the Change in Control (the "Pre-CIC Value").

(b) Restricted Shares and Restricted Units.

Any payment under this Section 8.1(b) shall be calculated as if all the relevant Vesting and Restricted Periods had been fully completed immediately prior to the date on which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(b) shall be reduced by the amount of any payment previously made to the Participant with respect to the Restricted Shares and Restricted Units, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Participant's Restricted Shares and Restricted Units payable pursuant to this Section 8.1(b) shall be the amount equal to the number of the Restricted Shares and Restricted Units outstanding in a Participant's name multiplied by the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated or, if higher, the Pre-CIC Value.

(c) Stock Options and Stock Appreciation Rights.

Any payment for Stock Options and Stock Appreciation Rights pursuant to this Section 8.1(c) shall be calculated as if all such Stock Options and Stock Appreciation Rights, regardless of whether or not then fully exercisable under the terms of the grant, became exercisable immediately prior to the date on which the Participant's employment is terminated. The amount of any payment to a

Participant pursuant to this Section 8.1(c) shall be reduced by the amount of any payment previously made to a Participant with respect to the Stock Options and Stock Appreciation Rights, exclusive of any ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of

the Participant's Stock Options and Stock Appreciation Rights payable pursuant to this Section 8.1(c) shall be

(i) in the case of a Stock Option, for each underlying share of Common Stock, the excess of the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the per share exercise price for such Stock Option;

(ii) in the case of a Stock Appreciation Right granted in tandem with a Stock Option, the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the Stock Option exercise price; and

(iii) in the case of a Stock Appreciation Right granted independently of a Stock Option, the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the Fair Market Value of one share of Common Stock on the date such Stock Appreciation Right was granted, or such other price determined by the Committee at the time of grant.

(d) Other ML & Co. Securities.

Any payment for Other ML & Co. Securities under this Section 8.1(d) shall be calculated as if any relevant Vesting or Restricted Periods or other applicable conditions dependent on the passage of time and relating to the exercisability of any right or option to purchase Other ML & Co. Securities, or relating to the full and unconditional ownership of such Other ML & Co. Securities themselves, had been met on the first day of the month in which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(d) shall be reduced by the amount of any payment previously made to the Participant with respect to the Other ML & Co. Securities, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Participant's Other ML & Co. Securities payable pursuant to this Section 8.1(d) shall be

(i) in the case of an option or right to purchase such Other ML & Co. Security, for each underlying Other ML & Co. Security, the excess of the Fair Market Value of such Other ML & Co. Security on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the exercise price of such option or right; and

(ii) in the case of the Other ML & Co. Security itself (where there is no outstanding option or right relating to such Other ML & Co. Security), the Fair Market Value of the Other ML & Co. Security on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value.

Section 8.2 A Change in Control.

A "Change in Control" shall mean a change in control of ML & Co. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of

Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, a Change in Control shall be deemed to have occurred if:

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

(b) during any period of two consecutive years (not including any period prior to the Effective Date of this Plan) individuals who at the beginning of such period constituted the Board of Directors and any new directors, whose election by the Board of Directors or nomination for election by the stockholders of ML & Co. was approved by a vote of at least three quarters of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

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

Section 8.3 Effect of Agreement Resulting in Change in Control.

If ML & Co. executes an agreement, the consummation of which would result in the occurrence of a Change in Control as described in Section 8.2, then, with respect to a termination of employment without Cause or for Good Reason occurring after the execution of such agreement (and, if such agreement expires or is terminated prior to consummation, prior to such expiration or termination of such agreement), a Change in Control shall be deemed to have occurred as of the date of the execution of such agreement.

Section 8.4 Termination for Cause.

Termination of the Participant's employment by the Company for "Cause" shall mean termination upon:

(a) the willful and continued failure by the Participant substantially to perform his or her duties with the Company (other than any such failure resulting from the Participant's incapacity due to physical or mental illness or from the Participant's Retirement or any such actual or anticipated failure resulting from termination by the Participant for Good Reason) after a written demand for substantial performance is delivered to him or her by the Board of Directors, which demand specifically identifies the manner in which the Board of Directors believes that he or she has not substantially performed his or her duties; or

(b) the willful engaging by the Participant in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise.

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

Notwithstanding the foregoing, the Participant shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him or her a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board of Directors at a meeting of the Board called and held for such purpose (after reasonable notice to the Participant and an opportunity for him or her, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, the Participant was guilty of conduct set forth above in clause (a) or (b) of the first sentence of this Section 8.4 and specifying the particulars thereof in detail.

Section 8.5 Good Reason.

"Good Reason" shall mean the Participant's termination of his or her employment with the Company if, without the Participant's written consent, any of the following circumstances shall occur:

(a) Inconsistent Duties. A meaningful and detrimental alteration in the Participant's position or in the nature or status of his or her responsibilities (including those as a director of ML & Co., if any) from those in effect immediately prior to the Change in Control;

(b) Reduced Salary or Bonus Opportunity. A reduction by the Company in the Participant's annual base salary as in effect immediately prior to the Change in Control; a failure by the Company to increase the Participant's salary at a rate commensurate with that of other key executives of the Company; or a reduction in the Participant's annual cash bonus below the greater of (i) the annual cash bonus that he received, or to which he was entitled, immediately prior to the Change in Control, or (ii) the average annual cash bonus paid to the Participant by the Company for the three years preceding the year in which the Change in

Control occurs;

(c) Relocation. The relocation of the office of the Company where the Participant is employed at the time of the Change in Control (the "CIC Location") to a location that in his or her good faith assessment is an area not generally considered conducive to maintaining the executive offices of a company such as ML & Co. because of hazardous or undesirable conditions including without limitation a high crime rate or inadequate facilities, or to a location that is more than twenty-five (25) miles away from the CIC Location or the Company's requiring the Participant to be based more than twenty-five (25) miles away from the CIC Location (except for required travel on the Company's business to an extent substantially consistent with his or her customary business travel obligations in the ordinary course of business prior to the Change in Control);

(d) Compensation Plans. The failure by the Company to continue in effect any compensation plan in which the Participant participates, including but not limited to this Plan, the Company's retirement program, Employee Stock Purchase Plan, 1978 Incentive Equity Purchase Plan, Equity Capital Accumulation Plan, Canadian Capital

Accumulation Plan, Management Capital Accumulation Plan, limited partnership offerings, cash incentive compensation or any other plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue the Participant's participation therein on at least as favorable a basis, both in terms of the amount of benefits provided and the level of his or her participation relative to other Participants, as existed immediately prior to the Change in Control;

(e) Benefits and Perquisites. The failure of the Company to continue to provide the Participant with benefits at least as favorable as those enjoyed by the Participant under any of the Company's retirement, life insurance, medical, health and accident, disability, deferred compensation or savings plans in which the Participant was participating immediately prior to the Change in Control; the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive the Participant of any material fringe benefit enjoyed by him or her immediately prior to the Change in Control, including, without limitation, the use of a car, secretary, office space, telephones, expense reimbursement, and club dues; or the failure by the Company to provide the Participant with the number of paid vacation days to which the Participant is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the Change in Control;

(f) No Assumption by Successor. The failure of ML & Co. to obtain a satisfactory agreement from any successor to assume and agree to perform a Participant's employment agreement as contemplated thereunder or, if the business of the Company for which his or her services are principally performed is sold at any time after a Change in Control, the purchaser of such business shall fail to agree to provide the Participant with the same or a comparable position, duties, compensation, and benefits as provided to him or her by the Company immediately prior to the Change in Control.

Section 8.6 Effect on Plan Provisions.

In the event of a Change in Control, no changes in the Plan, or in any documents evidencing grants of Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities and no adjustments, determinations or other exercises of discretion by the Committee or the Board of Directors, that were made subsequent to the Change in Control and that would have the effect of diminishing a Participant's rights or his or her payments under the Plan or this Article shall be effective, including, but not limited to, any changes, determinations or other exercises of discretion made to or pursuant to the Plan. Once a Participant has received a payment pursuant to this Article VIII, shares of Common Stock that were reserved for issuance in connection with any Performance Shares, Restricted Shares, Stock Options, or Other ML & Co. Securities for which payment is made shall no longer be reserved and shares of Common Stock that are Restricted Shares or that are restricted and held by the Company pursuant to Section 2.6(a)(i), for which payment has been made, shall no longer be registered in the name of the Participant and shall again be available for grants under the Plan. If the Participant's employment is terminated without Cause or for Good Reason after a Change in Control, any election to defer payment for Performance Shares or Performance Units pursuant to Section 2.8 hereof or Restricted Shares or Restricted Units pursuant to Section 3.8 hereof shall be null and void.

ARTICLE IX - MISCELLANEOUS.

Section 9.1 Designation of Beneficiary.

A Participant, or the transferee of a Restricted Share, Restricted Unit or Stock Option pursuant to Sections 3.9 or 4.4(d), may designate, in a writing delivered to ML & Co. before his or her death, a person or persons or entity or entities to receive, in the event of his or her death, any rights to which he or she would be entitled under the Plan. A Participant or Restricted Share, Restricted Unit or Stock Option transferee, may also designate an alternate beneficiary to receive payments if the primary beneficiary does not survive the Participant or the transferee. A Participant or transferee may designate more than one person or entity as his or her beneficiary or alternate beneficiary, in which case such beneficiaries would receive payments as joint tenants with a right of survivorship. A beneficiary designation under the Plan will apply to future grants unless changed or revoked by a Participant or the transferee by filing a written or electronic notification of such change or revocation with the Company. If a Participant or transferee fails to designate a beneficiary, then his or her estate shall be deemed to be his or her beneficiary.

Section 9.2 Employment Rights.

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

Section 9.3 Nontransferability.

Except as provided in Sections 3.9 and 4.4(d), a Participant's rights under the Plan, including the right to any amounts or shares payable, may not be assigned, pledged, or otherwise transferred except, in the event of a Participant's death, to his or her designated beneficiary or, in the absence of such a designation, by will or the laws of descent and distribution.

Section 9.4 Withholding.

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

Section 9.5 Relationship to Other Benefits.

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

Section 9.6 No Trust or Fund Created.

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

Section 9.7 Expenses.

The expenses of administering the Plan shall be borne by the Company.

Section 9.8 Indemnification.

Service on the Committee shall constitute service as a member of the Board of Directors so that members of the Committee shall be entitled to indemnification and reimbursement as directors of ML & Co. pursuant to its Certificate of Incorporation, By-Laws, or resolutions of its Board of Directors or stockholders.

Section 9.9 Tax Litigation.

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

ARTICLE X - AMENDMENT AND TERMINATION.

The Board of Directors or the Committee (but no other committee of the Board of Directors) may modify, amend or terminate the Plan at any time. No modification, amendment or termination of the Plan shall have a material adverse effect on the rights of a Participant under a grant previously made to him without the consent of such Participant.

ARTICLE XI - INTERPRETATION.

Section 11.1 Governmental and Other Regulations.

The Plan and any grant hereunder shall be subject to all applicable federal, state and local laws, rules, and regulations and to such approvals by any regulatory or governmental agency that may, in the opinion of the counsel for the Company, be required.

Section 11.2 Governing Law.

The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the State of New York applicable to contracts entered into and performed entirely in such State.

ARTICLE XII - EFFECTIVE DATE.

The Plan shall not be effective unless it is approved by the Board of Directors of the Corporation.

EXHIBIT 10(xxxii)

Form of Executive Annuity Agreement

Executive Annuity Agreement dated as of [______________], by and between Merrill Lynch & Co., Inc. ("ML & Co.") and [_________] (the "Executive").

WHEREAS, the Executive has worked for ML & Co. for an extended period and is at present the [TITLE] of ML & Co.; and

WHEREAS, ML & Co. desires to establish an incentive for the Executive, based on the Executive's compensation and total period of qualifying service, to continue to serve in the above-referenced position with ML & Co., or in such other high senior executive position as the Board of Directors of ML & Co. may hereafter specify, until such time as the Executive retires from ML & Co.;

WHEREAS, the Executive's substantial expertise and knowledge relating to the operation of the activities of ML & Co. and its affiliates is such that ML & Co. desires that the Executive not compete with ML & Co. and its affiliates in certain respects following the Executive's retirement from ML & Co.; and

WHEREAS, in view of the foregoing ML & Co. has decided that an appropriate benefit for the Executive, conditioned on continuing executive service until retirement and non-competition after retirement, would be to provide the Executive, and the Executive's surviving spouse, if any, with a retirement annuity which supplements retirement benefits otherwise payable to the Executive and the Executive's surviving spouse; and

WHEREAS, the Executive is willing to enter into this Agreement;

NOW THEREFORE, in consideration of the foregoing and the Executive's further service with ML & Co., ML & Co. and the Executive agree as follows:

SECTION 1

Definitions

In addition to the defined terms indicated above, unless otherwise required by the context for purposes of this Agreement, each of the following terms shall have the meaning indicated for that term:

"Affiliate" means any subsidiary or other entity that is owned at least 50% by ML & Co. or by another such subsidiary or entity, or that is designated by ML & Co. as an Affiliate for purposes of this Agreement.

"Agreement" means this Executive Annuity Agreement, as it may be amended from time to time.

"Beneficiary" means the Executive's surviving spouse, if any.

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

"Committee" means the Management Development and Compensation Committee of the Board, as constituted from time to time.

"Compensation" means the highest consecutive five calendar year average of the Executive's Eligible Compensation, as defined in the Merrill Lynch & Co., Inc. Retirement Accumulation Plan, as amended from time to time, included in the Retirement Program, but without regard to the limit prescribed under Internal Revenue Code Section 401(a)(17) and excluding for all years any non-recurring cash compensation awards such as awards under the Merrill Lynch & Co., Inc. ROE Incentive Compensation Plan.

"Disability" means a physical or mental impairment as a result of which the Executive is eligible to receive, or is in receipt of, long term disability benefits under the Merrill Lynch & Co., Inc. Basic Long Term Disability Plan, as amended from time to time.

"Executive Annuity" means the annual amount determined under Section 3.

"401(k) Savings Plan" means the Merrill Lynch & Co., Inc. 401(k) Savings & Investment Plan, as amended from time to time and any successor plans thereto.

"Index Value" means the "Personal Consumption Expenditures" index amount published by the Economics and Statistics Administration of the U.S. Department of Commerce for the period ending on the December 31 or June 30 immediately prior to the relevant date or, if such index amount is no longer published on a regular basis, such successor index published by an agency or instrumentality of the United States government as the Committee determines in its sole and absolute discretion to most closely replace that index.

"Initial Index Value" means the Index Value as of [_______].

"Merrill Lynch" means ML & Co. and each Affiliate.

"Metropolitan Contract" means Group Annuity Contract No. 10438 issued as of December 29, 1988 by Metropolitan Life Insurance Company to the Trustees of the Pension Plan for Employees of Merrill Lynch & Co., Inc. and Affiliates (terminated as of December 13, 1988) to provide for the payment of Pension Plan Annuities as provided therein.

"Qualified Retirement Annuity" means an annual amount calculated as the sum of the following, payable monthly for the life of the Executive commencing as of the Retirement Date provided in Section 4:

(a) the single life annuity, if any, of the Executive under the provisions of the Metropolitan Contract,

(b) the annuitized value of the aggregate of the Executive's account balances under the Retirement Program and the 401(k) Savings Plan as adjusted to reflect only the balance in the SIP account thereunder allocable to employer contributions and investment experience thereon (not including any amount allocable to elective 401(k) deferrals or investment experience thereon), such value to be calculated by dividing such aggregate by the applicable conversion factor for immediate annuities payable at or after age 55 as set forth in the table attached hereto as Appendix "A". Arithmetic interpolation (in increments of one-twelfth for each month or any part thereof, rounded up to the third decimal place) between the conversion factors for two consecutive ages shall be used to determine the conversion factor for Retirement Dates that are not coincident with or next following the Executive's birthday, and

(c) 50% of the Executive's Social Security Primary Insurance amount computed as of the Executive's Retirement Date.

Annuitized values shall be determined based upon the quarterly (in the case of the Retirement Program) or monthly (in the case of the 401(k) Savings Plan) valuation occurring coincident with or immediately preceding the Executive's Retirement Date or death while in Merrill Lynch employment, as applicable.

"Retirement" means termination of the Executive's employment with Merrill Lynch after attaining age [_], except that Retirement shall not include such termination by (a) affirmative vote of a majority of the whole Board, either for or without cause, unless the Board specifically directs that such termination shall be treated as Retirement, or (b) resignation of the Executive without the approval of the Board, which shall not be unreasonably withheld.

"Retirement Date" means the first day of any month coincident with or next following the Executive's Retirement as of which payment of the Executive Annuity to or in respect of the Executive is to commence as provided in Section 4.

"Retirement Program" means the Merrill Lynch & Co., Inc. Retirement Accumulation Plan, as amended from time to time, and the Merrill Lynch & Co., Inc. Employee Stock Ownership Plan, as amended from time to time, and any successor plans thereto.

"Service", shall have the same meaning as under the Retirement Program for purposes of determining the Executive's "Basic

Credits" thereunder, but excluding any periods after the Executive's 65th birthday, Retirement, or the date of termination of this Agreement. Service includes all periods of Disability.

SECTION 2

Eligibility

An Executive Annuity shall be payable to or in respect of the Executive only in the event of the Retirement or death of the Executive while in Merrill Lynch employment.

SECTION 3

Amount

Except as otherwise provided in Section 6, the amount of the Executive Annuity to or in respect of the Executive shall be an annual sum equal to 1.25% of the Executive's Compensation multiplied by the Executive's Service, reduced by the Executive's Qualified Retirement Annuity. Notwithstanding the foregoing, however, the sum of the amount payable annually to or in respect of the Executive under this Agreement shall not exceed (i) $1,750,000, if the Executive's Executive Annuity is payable as a Life Annuity, or a 10-year Certain and Life Annuity as referred to in Section 4, or (ii) $1,480,000, if the Executive's Executive Annuity is payable as a 50% or 100% Joint and Survivor Life Annuity as referred to in Section 4, in either case less the amount of the Executive's Qualified Retirement Annuity.

The $1,750,000 and $1,480,000 limits established under the preceding paragraph shall be adjusted as of each December 31 and June 30 prior to the earlier of the Executive's Retirement or death by multiplying the respective amount by a fraction, the numerator of which is the Index Value as of the relevant date and the denominator of which is the Initial Index Value; provided that no adjustment shall be made as of any December 31 or June 30 if such adjustment would result in a decrease in the limit then in effect.

Following the Executive's Retirement or death, the amount of an Executive Annuity as determined under this Section 3 will neither be increased by any cost of living adjustments nor reduced by any such adjustments made to the Pension Plan Annuity under the Metropolitan Contract.

SECTION 4

Time and Forms of Payment

One-twelfth of the Executive Annuity shall be payable monthly commencing as of the Executive's Retirement Date, which shall be at the same time and in the same form (namely, as a Life Annuity, a 50% Joint and Survivor Life Annuity, a 100% Joint and Survivor Life Annuity, or a 10-Year Certain and Life Annuity) as the Pension Plan Annuity under the Metropolitan Contract that is actually so payable to or in respect of the Executive. For purposes of computing an amount payable under this Agreement, the computation shall be made in all cases by applying the relevant reduction factors provided for in the Metropolitan Contract with reference to the Beneficiary, whether or not the Beneficiary is also the Executive's beneficiary, if any, under the Metropolitan Contract.

Notwithstanding the foregoing, in the event of the death of the Executive while in Merrill Lynch employment and before Retirement, payments to the Beneficiary, if any, shall be made as if the Executive's Retirement was on the day before the Executive's death with the Executive having elected a 100% Joint and Survivor Life Annuity, computed as stated in the foregoing paragraph.

SECTION 5

Administration

The Committee is authorized in its sole and absolute discretion, without limitation, to make all determinations which it deems necessary or advisable for the operation of this Agreement, to construe and interpret the Agreement, to establish such rules and to delegate such of its authority as it deems appropriate, and to perform all other acts believed reasonable and proper in connection with this Agreement.

SECTION 6

Amendment and Termination

ML & Co. reserves the right to amend, modify, restate, or terminate this Agreement in whole or in part, at any time for any reason; provided, however, that no such action shall reduce the amount of the Executive Annuity determined under Section 3, based on the Executive's Compensation and Service as of the effective date of such action, but with the Qualified Retirement Annuity for purposes of the offset under Section 3 to be determined as of the Executive's Retirement Date, or otherwise deprive the Executive or Beneficiary of any entitlement to such Executive Annuity determined as of the effective date of such action.

SECTION 7

Miscellaneous

7.1 Source of Payments

The obligation of ML & Co. to pay the Executive Annuity shall be unfunded and is solely an unsecured Promise by ML & Co. All monthly payments shall be made, as and when due, from the general assets of ML & Co. ML & Co. is not obligated to, but may, in its sole and absolute discretion, make arrangements with banks or insurance companies, and establish special reserve, accounts or funds, including a "grantor trust", and may make such investments as deemed desirable, to assist in meeting its obligations under this Agreement. Any such arrangements with their underlying assets, reserves, accounts, or funds shall at all times remain general assets of ML & Co., subject to the claims of its general creditors, and neither the Executive nor the Beneficiary shall have any right, title, or interest whatsoever therein.

7.2 Non-Alienation

No payment or right under this Agreement is subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any such action, shall be void and of no effect; nor are any such payments subject to seizure, attachment, execution, garnishment, or other legal or equitable process, or for the payment of any debts, judgments, alimony, or separate maintenance; nor are such payments transferable by operation of law in the event of bankruptcy, insolvency, or similar occurrence of the Executive or Beneficiary. In the event a person who is receiving or is entitled to receive payments under this Agreement attempts to assign, transfer, or dispose of such payment or right, or if an attempt is made to subject said payment or right to such process, such assignment, transfer, or disposition shall be null and void.

7.3 Forfeiture

The Executive and the Beneficiary, in the sole discretion of the Committee, shall forfeit any right to payments under this Agreement not yet made in the event that the Executive, following Retirement, enters into any employment, consulting, or other relationship with any person or entity which the Committee determines, in its sole

discretion, to be in competition with Merrill Lynch. Competition, for purposes of this section, means any involvement in any business in the financial services industry, including, but not limited to, investment banking, securities brokerage, securities trading, asset management, insurance, and banking.

7.4 Merger, Consolidation, Sale, or Transfer of Assets

In the event ML & Co. is merged or consolidated with another entity, or all or substantially all of the assets of ML & Co. are sold or otherwise transferred to another entity, this Agreement shall be binding upon and inure to the benefit of the successor or transferee resulting from or of such merger, consolidation, sale or transfer.

7.5 Agreement Not a Condition of Employment

Nothing in this Agreement or any action taken hereunder shall be deemed or construed as giving the Executive any right to continued employment or as affecting the right of Merrill Lynch to discipline (including, without limitation, the right to discharge) the Executive at any time.

7.6 No Trust or Fiduciary Relationship Created

Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind or a fiduciary relationship between Merrill Lynch, the Executive, or any Beneficiary.

7.7 Application for Payments

An application for payments under this Agreement shall be in a form acceptable to the Committee. The Committee may require any applicant to furnish the Committee with such documented evidence or information as the Committee may consider reasonably necessary or desirable.

7.8 Claims Procedure

(a) If an application for payments under this Agreement is denied, in whole or in part, the Committee shall promptly give the applicant written notice of the denial, setting forth the specific reasons therefor. The notice shall include the following:

(i) The basis for the denial;

(ii) A reference to each Agreement provision on which the denial is based;

(iii) A description of any additional information required of the applicant; and

(iv) An explanation of the procedure for having a denied application reviewed under this Agreement.

(b) The applicant may, upon receipt of a notice of a denied application, request a review of the application by the Committee. Such request shall be delivered in writing to any member of the Committee. After the Committee has reviewed the application, the final decision of the Committee shall be communicated in writing to the applicant. Such communication shall set forth the specific reasons for the decision with reference to each appropriate Agreement provision.

7.9 Payments to Incompetents

If the Committee receives evidence satisfactory to it that the Executive or Beneficiary entitled to receive any payment under this Agreement is, at the time when such payment becomes payable, physically or mentally incompetent to receive such payment and to give a valid release therefor and that another person or institution is then maintaining or has custody of the Executive or Beneficiary, and that no guardian, committee, or other representative of the estate of the Executive or Beneficiary shall have been duly appointed, the Committee may

direct payment of such payment otherwise payable to the Executive or Beneficiary to such other person or institution, and the release of such other person or institution shall be a valid and complete discharge for the payments.

7.10 Governing Law and Exclusive Venue

This Agreement shall be construed, performed and enforced under the laws of the State of New York, without giving effect to its conflict of laws rules, except to the extent such laws are pre-empted by Federal law. The venue with respect to any litigation involving the Agreement and a claimant shall lie exclusively in either (a) the Supreme Court of the State of New York, New York County, or (b) the United States District Court for the Southern District of New York. By continuing in employment with Merrill Lynch after executing this Agreement, the Executive, on behalf of the Executive and the Executive's Beneficiary, hereby waives any right to a trial by jury in connection with any dispute relating to this Agreement.

IN WITNESS WHEREOF, the Executive and ML & Co. have duly executed this Agreement.

Merrill Lynch & Co., Inc.

By: -----------------------------------

Name:

Title: Senior Vice President,
Head of Human Resources

Executive

APPENDIX "A"

(See "Qualified Retirement Annuity" under Section 1)

CONVERSION FACTORS FOR IMMEDIATE ANNUITIES

UP 1984 Mortality - 8% p.a. Discount Rate

Age at birthday coincident with or immediately preceding Retirement Date	Conversion Factor
55	9.955
56	9.801
57	9.642
58	9.477
59	9.308
60	9.133
61	8.954
62	8.770
63	8.582
64	8.390
65	8.196
66	7.999
67	7.801
68	7.601
69	7.399
70	7.192
71	6.983
72	6.771
73	6.556
74	6.339
75	6.122
76	5.905
77	5.690
78	5.476
79	5.264
80	5.053

EXHIBIT 12

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollars in millions)

<TABLE>
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	YEAR ENDED LAST FRIDAY IN DECEMBER				
	2001	2000	1999	1998	1997
	(52 WEEKS)	(52 WEEKS)	(53 WEEKS)	(52 WEEKS)	(52 WEEKS)
<S>	<C>	<C>	<C>	<C>	<C>
Pre-tax earnings	$ 1,377	$ 5,717	$ 4,206	$ 2,120	$ 3,102
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	17,097	18,307	13,235	17,237	15,128
Pre-tax earnings before fixed charges	18,474	24,024	17,441	19,357	18,230
Fixed charges:					
Interest	16,843	18,052	12,987	17,014	14,938
Other (a)	451	465	451	354	240
Total fixed charges	17,294	18,517	13,438	17,368	15,178
Preferred stock dividends	55	55	56	58	62
Total combined fixed charges and preferred stock dividends	$17,349	$18,572	$13,494	$17,426	$15,240
Ratio of earnings to fixed charges	1.07	1.30	1.30	1.11	1.20
Ratio of earnings to combined fixed charges and preferred stock dividends	1.06	1.29	1.29	1.11	1.20

</TABLE>

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

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SELECTED FINANCIAL DATA

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(dollars in millions, except per share amounts)

YEAR ENDED LAST FRIDAY IN DECEMBER

	2001	2000	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
RESULTS OF OPERATIONS					
Total Revenues	$ 38,757	$ 44,852	$ 35,332	$ 34,828	$ 31,460
Less Interest Expense	16,877	18,086	13,019	17,038	14,957
Net Revenues	21,880	26,766	22,313	17,790	16,503
Non-Interest Expenses	20,503	21,049	18,107	15,670	13,401
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	1,377	5,717	4,206	2,120	3,102
Income Tax Expense	609	1,738	1,319	725	1,127
Dividends on Preferred Securities Issued by Subsidiaries	195	195	194	124	47
Net Earnings	$ 573	$ 3,784	$ 2,693	$ 1,271	$ 1,928
Net Earnings Applicable to Common Stockholders(a)	$ 535	$ 3,745	$ 2,654	$ 1,233	$ 1,889
FINANCIAL POSITION					
Total Assets	$ 419,419	$ 407,200	$ 309,850	$ 286,446	$ 298,057
Short-Term Borrowings(b)	$ 178,146	$ 186,714	$ 115,409	$ 98,655	$ 123,946
Long-Term Borrowings	$ 76,572	$ 70,223	$ 54,043	$ 57,599	$ 43,176
Preferred Securities Issued by Subsidiaries	$ 2,695	$ 2,714	$ 2,725	$ 2,627	$ 627
Total Stockholders' Equity	$ 20,008	$ 18,304	$ 13,004	$ 10,264	$ 8,663
COMMON SHARE DATA(c)					
(in thousands, except per share amounts)					
Earnings Per Share:					
Basic	$ 0.64	$ 4.69	$ 3.52	$ 1.69	$ 2.70
Diluted	$ 0.57	$ 4.11	$ 3.11	$ 1.49	$ 2.33
Weighted-Average Shares Outstanding:					
Basic	838,683	798,273	754,672	728,929	698,300
Diluted	938,555	911,416	853,499	830,276	809,819
Shares Outstanding at Year End(d)	843,474	807,955	752,501	729,981	696,611
Book Value Per Share	$ 23.03	$ 21.95	$ 16.49	$ 13.31	$ 11.69
Dividends Paid Per Share	$ 0.64	$ 0.61	$ 0.53	$ 0.46	$ 0.38
FINANCIAL RATIOS					
Pre-tax Profit Margin(e)	6.3%	21.4%	18.8%	11.9%	18.8%
Common Dividend Payout Ratio	100.0%	13.0%	15.1%	27.2%	14.1%
Return on Average Assets	0.1%	1.1%	0.9%	0.4%	0.7%
Return on Average Common Stockholders' Equity	2.7%	24.2%	23.8%	13.4%	25.9%
Average Leverage(f)	18.8x	19.0x	21.4x	29.9x	34.9x
Average Adjusted Leverage(g)	13.1x	13.2x	14.2x	19.0x	21.1x
OTHER STATISTICS					
(dollars in billions)					
Full-Time Employees:					
U.S.	43,500	51,800	49,700	47,900	46,600
Non-U.S.	13,900	20,200	18,200	17,300	13,900
Total(h)	57,400	72,000	67,900	65,200	60,500
Private Client Financial Advisors	16,400	20,200	18,600	17,800	14,900
Client Assets	$ 1,458	$ 1,681	$ 1,696	$ 1,446	$ 1,229

</TABLE>

(a) Net earnings less preferred stock dividends.
(b) Consists of Payables under repurchase agreements, Payables under securities loaned transactions, Commercial paper and other short-term borrowings, and Deposits.
(c) All share and per share data have been restated for the two-for-one common stock split paid in August 2000 (see Note 11 to the Consolidated Financial Statements).
(d) Does not include 4,195; 4,654; 8,019; 9,012; and 9,436 shares exchangeable into common stock (see Note 11 to the Consolidated Financial Statements) at year-end 2001, 2000, 1999, 1998, and 1997, respectively.
(e) Earnings before income taxes and dividends on preferred securities issued by subsidiaries to Net revenues.
(f) Average total assets to average total stockholders' equity and Preferred

securities issued by subsidiaries.

(g) Average total assets less average (i) Receivables under resale agreements, (ii) Receivables under securities borrowed transactions, and (iii) Securities received as collateral to average total stockholders' equity and Preferred securities issued by subsidiaries.

(h) Excludes 3,200 full-time employees on salary continuation severance at year-end 2001.

Management's Discussion and Analysis Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries and affiliates, "Merrill Lynch") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, banking, and related products and services on a global basis. The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility and trading volumes of financial markets. Greater volatility increases risk but also could lead to increased order flow and revenues in the trading and brokerage businesses. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility and volumes.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, competition from new and established competitors using the Internet or other technology, and diminishing margins in many mature products and services. The trend of consolidation of commercial and investment banks made possible by the Gramm-Leach-Bliley Act has also increased the competition for investment banking business through the use of lending activities in conjunction with investment banking activities.

In addition to providing historical information, Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated expense savings and financial results, and other similar matters. A variety of factors, many of which are beyond Merrill Lynch's control, affect its operations, performance, business strategy, and results and could cause actual results and experience to differ materially from the expectations and objectives expressed in these statements. These factors include, but are not limited to, the factors listed in the previous two paragraphs, as well as actions and initiatives of both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks and uncertainties detailed in Merrill Lynch's Form 10-K and in the following sections.

MERRILL LYNCH UNDERTAKES NO RESPONSIBILITY TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS.

BUSINESS ENVIRONMENT

Global financial markets, particularly equity markets, had a difficult year in 2001 as a slowdown in economic activity, reduced corporate earnings, widespread corporate downsizing, the devaluation of technology and telecommunications companies, and the September 11th terrorist attacks caused equity markets to fall and investors to shift to less volatile, fixed-income investments. The U.S.

Federal Reserve's interest rate cuts during the year did little to help the slumping U.S. economy. The September 11th terrorist attacks negatively impacted stock markets around the world, and forced a suspension of trading in U.S. equity markets for an unprecedented four consecutive business days. A modest rally occurred in global equity markets during the fourth quarter 2001, but was not enough to put global indices in positive territory for the year.

Long-term U.S. interest rates, as measured by the yield on the 10-year U.S. Treasury note, slipped slightly from 5.11% at year-end 2000 to 5.02% at the end of 2001. Treasury bond prices rose sharply in 2001, as demand grew from investors seeking an alternative to the stock market. The Federal Reserve Bank cut interest rates 11 times during 2001, for a total of 475 basis points on the federal funds

rate and the discount rate, bringing these rates to 40-year lows of 1.75% and 1.25%, respectively. Credit spreads, which represent the risk premium over the risk-free rate paid by an issuer (based on the issuer's perceived creditworthiness), tightened significantly through September 11th, after which credit spreads widened.

Despite the fourth quarter rally, U.S. equity indices declined for the second consecutive year. The Nasdaq Composite Index fell 21.1% in 2001, after declining 39.3% in the prior year, as telecommunications and technology stocks continued to perform poorly. The Dow Jones Industrial Average and the S&P 500 dropped 7.1% and 13.0%, respectively, for the year.

Equity indices around the world dropped to their lowest levels in more than three years amid a global recession. The Dow Jones World Index, excluding the United States, sank 21.0% from the end of 2000, the worst one-year performance since inception of the index. European stock markets were hit hard, as virtually all industry sectors declined, leading to one of the worst annual performances ever. In Japan, the Nikkei 225 index fell 23.5%, marking the seventh losing year since 1990. Latin American markets also performed poorly, led by Argentina, where interest rates surged and the stock market declined 29.1% amid concerns about that country's solvency.

The volume of global debt underwriting rose 24.7% in 2001, as U.S. companies attempted to lock in low interest rates amid the series of short-term interest rate cuts made by the U.S. Federal Reserve. Global equity and equity-linked underwriting volumes decreased 29.8% in 2001, despite an increase in U.S. convertible debt issuances, which reached a record $103 billion, nearly double the previous record set in 2000. The volume of U.S. Initial Public Offerings ("IPOs") sank 37.7% in 2001, while global IPOs fell 57.4%.

After reaching record levels in 2000, global announced mergers and acquisitions slid 49.6% in 2001, while U.S. announced mergers and acquisitions fell 52.9%, as the global economic slowdown and the volatile U.S. stock markets negatively affected merger and acquisition activity.

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

RESULTS OF OPERATIONS

In the fourth quarter of 2001, Merrill Lynch recorded a pre-tax charge of $2.2 billion ($1.7 billion after-tax) related to the resizing of selected businesses and other structural changes. This charge, which is recorded as Restructuring and other charges on the Consolidated Statements of Earnings, was the result of a detailed review of all businesses, with a focus on improving profit margins and aligning capacity with growth initiatives. These actions are expected to yield pre-tax annual expense savings of approximately $1.4 billion, a portion of which will be reinvested in priority growth initiatives. The expense reductions will result primarily from lower compensation and benefits, depreciation, and occupancy expenses. For further information regarding the details of restructuring and other charges see Note 2 to the Consolidated Financial Statements and the sections that follow.

<TABLE>
<CAPTION>
(dollars in millions, except per share amounts)

	2001	2000	1999

<S>	<C>	<C>	<C>
Total revenues	$ 38,757	$ 44,852	$ 35,332
Net revenues	21,880	26,766	22,313
Pre-tax operating earnings, before September 11th-related expenses and restructuring and other charges in 2001	3,701	5,717	4,206
After-tax operating earnings, before September 11th-related expenses and restructuring and other charges in 2001	2,381	3,784	2,693
Net earnings	573	3,784	2,693
Operating earnings per common share, before September 11th-related expenses and restructuring and other charges in 2001:			
Basic	2.79	4.69	3.52
Diluted	2.50	4.11	3.11
Earnings per common share:			
Basic	0.64	4.69	3.52
Diluted	0.57	4.11	3.11
Return on average common stockholders' equity--operating basis(1)	11.7%	24.2%	23.8%
Operating pre-tax profit margin(1)	16.9%	21.4%	18.8%

</TABLE>

(1) Before September 11th-related expenses ($131 million pre-tax and $83 million after-tax) and restructuring and other charges ($2,193 million pre-tax and $1,725 million after-tax) in 2001.

Merrill Lynch reported net earnings of $573 million in 2001, or $0.57 per diluted share, including after-tax restructuring and other charges of $1.7 billion ($2.2 billion pre-tax) and $83 million of after-tax September 11th-related expenses ($131 million pre-tax). Excluding these items, net operating earnings were $2.4 billion, or $2.50 per diluted share in 2001, down from $3.8 billion, or $4.11 per diluted share in 2000. Operating earnings, which exclude September 11th-related expenses and restructuring and other charges, should not be considered an alternative to net earnings (as determined in accordance with accounting principles generally accepted in the United States), but rather as a measure considered relevant by management in comparing current year results with prior year results. These

results represent a 37% decrease in operating earnings and an 18% decrease in net revenues from 2000.

Operating return on average common stockholders' equity was 11.7% and the operating pre-tax profit margin was 16.9%. In 2000, the return on average common stockholders' equity was 24.2% and the pre-tax profit margin was 21.4%. Net earnings in 1999 were $2.7 billion, or $3.11 per diluted share. Return on average common stockholders' equity for 1999 was 23.8% and the pre-tax profit margin was 18.8%.

The following chart illustrates the composition of net revenues by category in 2001.

[PIE CHART]

2001 NET REVENUES BY CATEGORY

Commissions	24%
Principal transactions	18%
Investment banking	16%
Asset management and portfolio service fees	25%
Net interest profit	15%
Other	2%

The following discussion provides details of the operating performance for each Merrill Lynch business segment, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Certain prior year amounts have been restated to conform with the current year presentation. For further segment information, see Note 3 to the Consolidated Financial Statements.

BUSINESS SEGMENTS

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

[PIE CHART]

2001 NET REVENUES BY SEGMENT

GMI	45%
Private Client	46%
MLIM	9%

Certain MLIM and GMI products are distributed through Private Client distribution channels, and to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these intersegment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for shared activities between segments are in place and the results of each segment reflect the agreed-upon portion of these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported in the Corporate segment, including September 11th-related expenses. Restatements occur to reflect reallocations of revenues and expenses which result from changes in Merrill Lynch's business strategy and structure (see Note 3 to the Consolidated Financial Statements for further information).

GLOBAL MARKETS AND INVESTMENT BANKING

GMI provides investment banking and strategic merger and acquisition advisory services, as well as equity and debt trading and capital markets services to its clients around the world. GMI raises capital for its clients through securities underwriting, private placements, and loan syndications. GMI trades securities, currencies, over-the-counter derivatives and other financial instruments to satisfy customer demand for these instruments, and for proprietary positioning. Merrill Lynch has one of the largest equity trading and underwriting operations of any firm in the world. Through its expertise in fixed-income trading, GMI is also a leader in the global distribution of debt market products. GMI's client-focused strategy provides investors with opportunities to diversify their portfolios, manage risk, and enhance returns by tailoring investments and structuring derivatives to meet their customized needs. In addition, through Merrill Lynch Securities Services Division ("SSD"), GMI provides clients with financing, securities clearing, settlement, and custody services.

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

In early 2001, Merrill Lynch sold essentially all of its energy trading assets, effectively exiting the business. In 2000, the merger with Herzog, Heine, Geduld, Inc. ("Herzog"), a leading Nasdaq market-maker, was completed.

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

GMI'S RESULTS OF OPERATIONS

(dollars in millions)

	2001	2000	1999
Commissions	$ 2,128	$ 2,415	$ 2,037
Principal transactions and net interest profit	4,137	6,003	4,194

Investment banking	3,126	3,449	3,060
Other revenues	598	813	527
Total net revenues	$ 9,989	$12,680	$ 9,818
Pre-tax operating earnings(1)	$ 2,479	$ 3,963	$ 2,653
Pre-tax earnings	$ 1,646	$ 3,963	$ 2,653
Pre-tax operating profit margin(1)	24.8%	31.3%	27.0%
Total full-time employees	12,600	15,300	14,000

(1) Before $833 million of pre-tax restructuring and other charges in 2001.

In 2001, GMI's pre-tax operating earnings were $2.5 billion, 37% lower than in 2000, with a pre-tax operating profit margin of 24.8%. GMI's net revenues in 2001 declined 21% from 2000 to $10.0 billion due principally to reduced equity and equity-linked trading and origination. Additionally, lower strategic advisory revenues and increased write-downs of credit and private equity positions contributed to the decline. These declines were partially offset by increased debt trading and origination revenues in 2001. Included in GMI's results are net revenues related to investments, including dividend income and realized and unrealized gains and losses. Investment-related net revenues were $291 million in 2001, $611 million in 2000 and $206 million in 1999. In 2000, pre-tax earnings and net revenues rose 49% and 29%, respectively, from 1999, due primarily to strong performance in equity and equity-linked trading and origination, and record strategic advisory fees.

The September 11th terrorist attacks on the World Trade Center had a negative impact on GMI's 2001 results, as the temporary closure of markets, loss of communication with key clients, and business disruption caused by the relocation of approximately 9,000 Merrill Lynch employees led to lower than normal market shares and reduced business activity in the period immediately following the attacks. For further information regarding September 11th, see Note 2 to the Consolidated Financial Statements.

A detailed discussion of GMI's revenues follows:

CLIENT FACILITATION AND TRADING

COMMISSIONS

Commissions revenues primarily arise from agency transactions in listed and over-the-counter equity securities and commodities, money market instruments, and options. In addition, in late 2001 Merrill Lynch instituted a program for providing enhanced brokerage services to certain of its customers with large size Nasdaq orders in exchange for an agreed upon commission in lieu of the traditional spread.

Commissions revenues decreased 12% in 2001 to $2.1 billion, due primarily to a global decline in client transaction volumes. In 2000, commissions revenues rose 19% from 1999 to $2.4 billion, due primarily to increased volumes of listed and over-the-counter securities transactions.

PRINCIPAL TRANSACTIONS AND NET INTEREST PROFIT

(dollars in millions)

	2001	2000	1999
Equities and equity derivatives	$1,929	$3,870	$2,366
Debt and debt derivatives	2,208	2,133	1,828
Total	$4,137	$6,003	$4,194

Principal transactions and net interest profit includes realized gains and losses from the purchase and sale of securities in which Merrill Lynch acts as principal and unrealized gains and losses on trading assets and liabilities. In addition, principal transactions and net interest profit includes unrealized gains of $213 million and $212 million in 2001 and 2000, respectively, related to equity investments held by Merrill Lynch's broker-dealers. Changes in the composition of trading inventories and hedge positions can cause the recognition of principal transactions and net interest profit to fluctuate.

Net interest profit is a function of the level and mix of total assets and liabilities, including financial instruments owned, repurchase and reverse repurchase agreements, trading strategies associated with GMI's institutional securities business, and the prevailing level, term structure, and volatility of interest rates. Net interest profit is an integral component of trading activity. In assessing the profitability of its client facilitation and trading activities, Merrill Lynch views net interest profit and principal transactions in the aggregate.

Net trading revenues, which include principal transactions and net interest profit, were $4.1 billion in 2001, down 31% from 2000. Equities and equity derivatives net trading revenues decreased 50% from 2000 to $1.9 billion, due to reduced global transaction volumes and lower volatility through much of the year. Debt and debt derivatives net trading revenues were $2.2 billion, up 4% from 2000, as improvements in interest rate trading results were partially offset by provisions and write-downs of credit positions of approximately $470 million. Included in debt and debt derivatives trading revenues in 2001 and 2000 are net revenues from the energy-trading business of $53 million and $38 million, respectively. The 2001 energy-trading net revenues include a first quarter gain on the sale of essentially all of the assets of this business.

In 2000, net trading revenues were up $1.8 billion from 1999. Equities and equity derivatives net trading revenues advanced 64% from 1999 to $3.9 billion due to significantly higher revenues from both U.S. and non-U.S. equities, as well as portfolio trading. Debt and debt derivatives net trading revenues were $2.1 billion, up 17% from 1999 due to increased global derivative trading, partially offset by lower trading revenue in investment-grade and emerging market debt. Net revenues from the energy-trading business were $36 million in 1999.

INVESTMENT BANKING

(dollars in millions)

	2001	2000	1999
Debt underwriting	$ 690	$ 441	$ 508
Equity underwriting	1,336	1,630	1,257
Total underwriting	2,026	2,071	1,765
Strategic advisory services	1,100	1,378	1,295
Total	$3,126	$3,449	$3,060

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

Total underwriting revenues were $2.0 billion in 2001, essentially unchanged from 2000, as a 56% increase in debt underwriting revenues was more than offset by an 18% decline in equity and equity-linked underwriting revenues. In global equity and equity-linked underwriting, Merrill Lynch ranked first for the year with an increased market share of 14.4%. Merrill Lynch's debt underwriting focus shifted during the year towards higher margin businesses and away from the achievement of aggregate market share goals.

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

<TABLE>
<CAPTION>

	2001		2000		1999	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
<S>	<C>	<C>	<C>	<C>	<C>	<C>
GLOBAL PROCEEDS						
Equity and equity-linked	14.4%	1	10.4%	2	8.7%	4
Debt	10.2	2	11.6	1	12.8	1
Debt and equity	10.6	2	11.5	1	12.4	1
U.S. PROCEEDS						
Equity and equity-linked	17.4%	2	12.1%	4	10.6%	4
Debt	11.5	2	13.7	1	15.7	1
Debt and equity	12.2	2	14.2	1	15.8	1

</TABLE>

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

STRATEGIC ADVISORY SERVICES
Strategic advisory services revenues, which include merger and acquisition and

other advisory fees, decreased 20% in 2001 to $1.1 billion, due to a reduced volume of completed merger and acquisition transactions. Merrill Lynch ranked second in global announced mergers and acquisitions, increasing market share to 27.4%. Merrill Lynch advised on 10 of the largest 25 global transactions announced in 2001.

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

	2001		2000		1999	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
ANNOUNCED TRANSACTIONS						
Global	27.4%	2	21.4%	4	34.5%	2
U.S.	35.3	2	26.8	4	30.0	3
COMPLETED TRANSACTIONS						
Global	27.4%	3	31.5%	3	21.7%	4
U.S.	33.2	3	29.2	3	22.2	4

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

OTHER REVENUES

Other revenues, which include realized investment gains and losses and partnership distributions, decreased 26% to $598 million in 2001. In 2001, other revenues also included a pre-tax gain related to the sale of the Canadian securities clearing business as well as write-downs of private equity investments. The decrease from 2000 is primarily due to lower gains on investments. Other revenues were up 54% in 2000 as compared with 1999 as a result of higher investment gains recorded in 2000.

PRIVATE CLIENT GROUP

Private Client provides wealth management services to assist clients around the world in building financial assets, and maximizing returns relative to risk tolerance and investment objectives. Private Client offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services, and self-directed online accounts, many of which include access to Merrill Lynch's award-winning research. Assets in Private Client accounts totaled $1.3 trillion at December 28, 2001.

Private Client offers a wide range of products and services, including retail brokerage, asset and liability management, retail and private banking, trust and generational planning services, and insurance products. Private Client's private banking services help high-net-worth individuals meet their financial objectives with investing and borrowing strategies, investment management, trust and personal holding company services, and currency management. Private Client serves individual investors, corporations, and institutions through various distribution networks, including nearly 16,400 Financial Advisors in approximately 750 Private Client offices around the world at year-end 2001.

Financial Advisors and other investment professionals work to address clients' financial concerns by matching Merrill Lynch and third-party product offerings with clients' customized needs. These products include:

- The Cash Management Account ("CMA(R)") for individuals, and Working Capital Management Account ("WCMA(R)") for small and mid-sized businesses, which encompass securities transactions, money sweeps, electronic funds-transfer capabilities, debit card access, and many other financial management features.

- A global array of mutual fund products covering a wide cross section of industries and regions of the world.

- Various brokerage and investment advisory services, including Merrill Lynch Consults,(R) Unlimited Advantage,/SM/ and Merrill Lynch Mutual Fund Advisor./SM/

- Other services provided include mortgages and other consumer loans, margin lending, commercial financing, insurance products, and advisory and administrative activities for defined contribution, defined benefit, and other stock plans.

During 2001, Private Client conducted a detailed business review to reallocate and focus the use of resources in its businesses. In the United States, this process began in 2000 and resulted in the completion of several actions in 2001, including: a long-term outsourcing arrangement for certain mortgage origination and servicing operations of Merrill Lynch Credit Corporation; outsourcing the administrative services for smaller U.S. 401(k) plans; and the sale of the health and welfare division of Merrill Lynch's Howard Johnson and Company. In addition, in 2001, Private Client consolidated certain offices and announced the closing of one of three operation centers in the United States. Outside the United States, Private Client is focusing on serving high-net-worth and ultra-high-net-worth clients, Merrill Lynch's traditional strength. This resulted in several strategic actions in 2001, including: the sale of the Canadian Private Client business; the consolidation of branch offices in Europe, the Middle East, and Asia Pacific; and the announced refocusing of the Private Client business in Japan. These strategic changes were made with the goal of retaining and growing the elements of the business where Merrill Lynch can make the best returns on its investments.

To be more responsive to client needs and enhance the quality of our clients' experience, Merrill Lynch adopted a multi-channel service model in the United States, more closely aligning Financial Advisors with clients based on levels of investable assets. For example, ultra-high-net-worth clients will be aligned with Private Wealth Advisors ("PWAs"). PWAs are Financial Advisors who have completed a rigorous accreditation program built around skill requirements including trust, tax minimization, restricted stock, and executive stock options, and focus on clients with more than $10 million of investable assets. For clients with less than $100,000 of investable assets, Merrill Lynch developed the Financial Advisory Center ("FAC") to more effectively serve these clients. All FAC customers receive a team-based advisory relationship, with 24-hour-a-day, seven-day-a-week access by phone or online.

Beginning in mid-2000 Merrill Lynch modified the cash sweep options for certain CMA(R) and other types of Merrill Lynch accounts to generally sweep cash into interest-bearing bank deposits at Merrill Lynch's U.S. banks, rather than MLIM-managed money market mutual funds. U.S. bank deposits, included in Deposits on the Consolidated Balance Sheets grew to $73.6 billion at year-end 2001 from $54.9 billion at the end of 2000 primarily as a result of individual investors increasing the cash component of their holdings. These deposits were invested primarily in high-quality marketable investment securities. Interest rates on the deposits are set at competitive levels based on prevailing interest rate levels, and are tiered based on the scope of clients' relationships with Merrill Lynch.

In April 2000, Merrill Lynch formed a 50/50 joint venture with HSBC Holdings plc ("HSBC") to create a global online investment and banking services company, serving individual self-directed customers outside the United States ("MLHSBC"). The venture launched online integrated investment and banking services, including research, in Canada and Australia during 2000, and in the United Kingdom in 2001. As the decline in worldwide equity markets has reduced the demand for online trading, MLHSBC has not achieved the growth that was forecast when the venture was formed and has not yet achieved profitability.

PRIVATE CLIENT'S RESULTS OF OPERATIONS

(dollars in millions)

	2001	2000	1999
Commissions	$ 2,981	$ 4,394	$ 4,118
Principal transactions and new issue revenues	1,546	2,000	2,023
Asset management and portfolio service fees	3,608	3,760	3,055
Net interest profit	1,880	1,632	1,171
Other revenues	121	175	212
Total net revenues	$10,136	$11,961	$10,579
Pre-tax operating earnings(1)	$ 1,239	$ 1,561	$ 1,424
Pre-tax earnings	$ 162	$ 1,561	$ 1,424
Pre-tax operating profit margin(1)	12.2%	13.1%	13.5%
Total full-time employees	36,900	46,800	44,900
Total Financial Advisors	16,400	20,200	18,600

(1) Before $1,077 million of pre-tax restructuring and other charges in 2001.

Private Client's 2001 pre-tax operating earnings were $1.2 billion, a decrease of 21% from 2000. Net revenues were $10.1 billion, down 15% from 2000. The overall decline in net revenues and pre-tax operating earnings resulted from lower transaction volumes and reduced demand for mutual fund and equity products, partially offset by an increase in net interest profit. In addition, as a result of the completion of a detailed business review, Private Client recorded $1.1 billion of pre-tax restructuring and other charges in the fourth quarter of 2001, primarily related to severance and the write-down of real estate and technology assets. These charges include costs associated with a decision to focus the non-U.S. business more exclusively on high-net-worth individuals and institutional middle markets clients. In addition to the amounts included in the fourth quarter restructuring charge, Private Client's pre-tax operating earnings reflect severance expenses in both 2001 and 2000. In 2000, pre-tax earnings increased 10% and net revenues rose 13% from 1999. The 2001 pre-tax operating profit margin was 12.2%, compared with 13.1% in 2000 and 13.5% in 1999. The 2001 results reflect a solid performance

in the United States and a weaker performance outside the United States. Pre-tax operating earnings in the United States for 2001 were 9% lower than 2000 levels, and a pre-tax operating loss was recorded outside the United States in 2001.

COMMISSIONS
Commissions revenues primarily arise from agency transactions in listed and over-the-counter equity securities, as well as sales of mutual funds, insurance products, and options.

Commissions revenues decreased 32% to $3.0 billion in 2001, as a result of a global decline in client transaction volume, particularly in mutual fund and equity products. In addition, over the past two years, commissions revenues have decreased as clients have opened asset-priced accounts, paying fees in place of commissions. Commissions revenues increased 7% in 2000 compared with 1999 primarily as a result of increased mutual fund commissions.

PRINCIPAL TRANSACTIONS AND NEW ISSUE REVENUES
Private Client's principal transactions and new issue revenues primarily represent bid-offer revenues in over-the-counter equity securities, government bonds, and municipal securities as well as selling concessions on underwritings of debt and equity products. Private Client does not take any significant principal trading risk positions.

Principal transactions and new issue revenues decreased 23% to $1.5 billion in 2001 due to a reduction in both debt and equity sales volume to retail customers in a less favorable market environment compared with 2000. Principal transactions and new issue revenues were essentially unchanged in 2000 from 1999.

ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES
Asset management and portfolio service fees include asset management fees from taxable and tax-exempt money market funds as well as portfolio fees from fee-based accounts such as Unlimited Advantage/SM/ and Merrill Lynch Consults,(R) servicing fees related to such accounts, as well as account and other fees.

Asset management and portfolio service fees were $3.6 billion in 2001, 4% lower than in 2000. This decrease primarily reflects a market-driven decline in asset values in asset-priced accounts. In 2000 these fees were $3.8 billion, up from $3.1 billion in 1999 primarily due to a rise in portfolio service fees as assets shifted to asset-priced accounts such as Unlimited Advantage/SM/ and Merrill Lynch Consults.(R)

The value of assets in Private Client accounts at year-end 2001, 2000, and 1999 is summarized as follows:

(dollars in billions)

	2001	2000	1999
Assets in Private Client accounts			
U.S.	$1,185	$1,337	$1,338
Non-U.S.	101	140	137
Total	$1,286	$1,477	$1,475
Assets in asset-priced accounts	$ 205	$ 209	$ 168

Analysis of changes in assets in Private Client accounts from year-end 2000 to year-end 2001 are detailed below:

<TABLE>
<CAPTION>
(dollars in billions)

NET CHANGES DUE TO

	YEAR-END 2000	NEW MONEY	ASSET DEPRECIATION	OTHER	YEAR-END 2001
Assets in Private Client accounts:					
<S>	<C>	<C>	<C>	<C>	<C>
U.S.	$1,337	$ 49	$ (198)	$ (3)	$1,185
Non-U.S.	140	13	(20)	(32)	101
Total	$1,477	$ 62	$ (218)	$ (35)	$1,286

</TABLE>

[BAR CHART]

PRIVATE CLIENT ASSETS
(in billions of dollars)

	2001	2000	1999	1998	1997
U.S.	$1,185	$1,337	$1,338	$1,164	$979
Non-U.S.	101	140	137	98	84
Total	$1,286	$1,477	$1,475	$1,262	$1,063

Total assets in Private Client accounts in the United States declined 11% to $1.2 trillion at the end of 2001, with net new money inflows of $49 billion during the year. Outside the United States, client assets were $101 billion at the end of 2001, down 28% from year-end 2000, due largely to the sale of the Canadian Private Client business, with net new money inflows of $13 billion in 2001. Total assets in asset-priced accounts were $205 billion at the end of 2001, a decrease of 2% from the end of 2000. The decline in asset levels in 2001 is due primarily to market depreciation.

NET INTEREST PROFIT

Interest revenue for Private Client is derived primarily from interest earned on the investment portfolio, principally related to Merrill Lynch's U.S. banks, as well as interest earned on margin and other loans. Interest expense mainly consists of interest paid on bank deposits and other borrowings.

Net interest profit was $1.9 billion, up 15% from $1.6 billion in 2000 and $1.2 billion in 1999. The increase in net interest profit in 2001 and 2000 resulted from growth in deposits and the related investment portfolio at Merrill Lynch's U.S. banks and, in 2001, an increase in investment portfolio spreads, particularly following the rate cuts by the Federal Reserve.

OTHER REVENUES

Other revenues decreased 31% in 2001, from $175 million to $121 million. Included in Private Client's other revenues are realized and unrealized gains and losses associated with investments. Investment-related net revenues were a loss of $52 million in 2001 and a gain of $18 million in 2000. Investment-related net revenues in

2001 include a pre-tax gain on the sale of the Canadian Private Client business which was more than offset by losses on various e-commerce investments.

MERRILL LYNCH INVESTMENT MANAGERS

MLIM is among the world's largest asset managers with $529 billion of assets under management at the end of 2001. MLIM offers a wide array of taxable fixed-income, tax-exempt fixed-income, equity and balanced open-ended mutual funds, private accounts, and alternative investments to a diverse global clientele of institutions, including pension plans and corporations, high-net-worth individuals, mutual funds, and other investment vehicles. In the United States, MLIM-branded mutual fund products are available through the Private Client distribution channel, and through GMI and third-party distribution networks. Outside the United States, MLIM-branded mutual fund products are available through Private Client and GMI distribution networks as well as through other financial intermediaries. MLIM also maintains a significant sales and marketing presence in both the United States and overseas that is focused on acquiring and maintaining institutional investment management relationships. MLIM markets its services both directly to these investors and through pension consultants.

During 2001, MLIM reviewed all of its business activities to further enhance future profit potential and target selected growth opportunities. As a result of these in-depth reviews, MLIM consolidated the management of its Japan, Asia Pacific and European activities into a single management structure, reduced its staff by nearly 25%, and significantly reduced its global real estate footprint by selling, closing or downsizing offices in Los Angeles, Korea, and Singapore and consolidating its New York metropolitan area-based operations. MLIM also undertook strategic outsourcing opportunities, consolidated real estate in Tokyo and London, reduced technology spending, and exited its Defined Asset Funds business. In addition, in January 2002, MLIM sold its Canadian retail investment management operations.

MLIM'S RESULTS OF OPERATIONS

(dollars in millions)

	2001	2000	1999
Commissions	$ 295	$ 392	$ 394
Asset management fees	1,722	1,913	1,684
Other revenues	76	148	169
Total net revenues	$2,093	$2,453	$2,247
Pre-tax operating earnings(1)	$ 307	$ 501	$ 483
Pre-tax earnings	$ 24	$ 501	$ 483
Pre-tax operating profit margin(1)	14.7%	20.4%	21.5%
Total full-time employees	3,200	4,200	3,800

(1) Before $283 million of pre-tax restructuring and other charges in 2001.

Pre-tax operating earnings for MLIM were $307 million in 2001, down 39% from $501 million in 2000. Net revenues decreased 15% from 2000 to $2.1 billion, and the pre-tax operating profit margin in 2001 was 14.7%, compared with 20.4% in 2000, and 21.5% in 1999. The reduction in pre-tax operating earnings was primarily the result of a market-driven decline in assets under management combined with an increase in costs related to litigation. In addition, as a result of the completion of the previously mentioned detailed business review, MLIM recorded $283 million of pre-tax restructuring and other charges in the fourth quarter of 2001, primarily related to severance and costs associated with the closing of certain mutual funds, including investment write-downs of $32 million principally related to mutual fund seed capital.

COMMISSIONS

Commissions for MLIM principally consist of distribution and redemption fees related to mutual funds. The distribution fees represent revenues for promoting and distributing mutual funds ("12b-1 fees"). As a result of lower transaction volumes, commissions decreased 25% to $295 million in 2001. Commissions were relatively unchanged in 2000 as compared with 1999.

ASSET MANAGEMENT FEES

Asset management fees primarily consist of fees earned from the management and administration of funds as well as performance fees earned by MLIM. Asset management fees declined 10% to $1.7 billion from a record $1.9 billion in 2000. These fees were $1.7 billion in 1999. The reduction in 2001 is due to a market-driven decline in assets under management as well as a shift from equity funds to lower-fee fixed-income products. The increase in 2000 was primarily the result of higher management and performance fees.

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

(dollars in billions)

	2001	2000	1999
Assets Under Management			
Retail(1)	$220	$250	$300
Institutional	266	262	255
Private investors(2)	43	45	39
Total	$529	$557	$594

(1) Net of outflows of $10 billion and $36 billion of money market funds, which transferred to bank deposits at Merrill Lynch's U.S. banks in 2001 and 2000, respectively.
(2) Represents segregated portfolios for individuals, small corporations, and institutions.

[BAR CHART]

ASSETS UNDER MANAGEMENT BY TYPE
(in billions of dollars)

	2001	2000	1999	1998	1997

Equity	$229	$274	$296	$266	$245
Fixed income	110	113	108	104	95
Money market	147	125	151	139	115
Private investors	43	45	39	35	32
Total	$529	$557	$594	$544	$487

At year-end 2001, assets under management totaled $529 billion, a 5% decline from 2000. This decline is primarily market-driven, partially offset by $19 billion of global net inflows.

An analysis of changes in assets under management from year-end 2000 to year-end 2001 is as follows:

(dollars in billions)

		NET CHANGES DUE TO			
	YEAR-END 2000	NEW MONEY	ASSET DEPRECIATION	OTHER(1)	YEAR-END 2001
Assets under management	$557	$ 19	$(41)	$(6)	$529

(1) Includes reinvested dividends of $7 billion, net outflows of $10 billion of retail money market funds which transferred to bank deposits at Merrill Lynch's U.S. banks, and other changes, primarily related to foreign exchange rate movements.

[PIE CHART]

2001 ASSETS UNDER MANAGEMENT

CLIENT TYPE	
Institutional	50%
Retail	42%
Private Investors	8%

CLIENT LOCATION	
Americas	65%
Europe	27%
Other Non-U.S.	8%

OTHER REVENUES

Other revenues, which primarily include net interest profit and investment gains, fell 49% to $76 million in 2001. The decrease was due to losses on investments. Other revenues in 2000 were $148 million, 12% lower than 1999 levels. In 1999, other revenues included a pre-tax gain of $89 million on the sale of an investment.

GLOBAL OPERATIONS

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

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

The following chart illustrates the regional operating results excluding all items included in the corporate segment. For further geographic information see Note 3 to the Consolidated Financial Statements.

[PIE CHART]

2001 NET REVENUES BY GEOGRAPHIC REGION

U.S.	69%
Europe	16%
Japan	5%
Other Non-U.S.	10%

EUROPE, MIDDLE EAST, AND AFRICA

(dollars in millions)

	2001	2000	1999
Net revenues	$3,640	$4,876	$3,976
Pre-tax operating earnings(1)	335	1,315	1,132
Pre-tax earnings	42	1,315	1,132
Total full-time employees	7,200	8,800	7,600

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

Merrill Lynch operates in Europe, the Middle East, and Africa as a dealer in a wide array of equity and debt products, and also provides asset management, investment banking, private banking, and research services. Merrill Lynch believes this region is poised for accelerated growth due to changes in demographics, the growth in equity markets, and the development of the Euroland economy. In line with its strategy of becoming a global leader with a strong local presence in key markets, Merrill Lynch has offices in 18 countries in the region. Merrill Lynch has preeminent asset management capabilities in this region, operating under the Merrill Lynch Investment Managers brand.

As a result of a detailed business review in the fourth quarter of 2001, Private Client consolidated offices in Europe and the Middle East, MLIM consolidated its Japan, Asia Pacific and European activities into a single management structure and GMI streamlined its management and reorganized its investment banking division. These actions resulted in a fourth quarter pre-tax charge of $293 million in the region, primarily related to severance.

In May 2001, following the launch in the United Kingdom of a free research service by MLHSBC in 2000, a full transactional service for self-directed investors was launched.

Merrill Lynch demonstrated leadership in investment banking in the region in 2001, ranking first in equity origination, according to IFR magazine, with a market share of 16.6% and third in announced mergers and acquisitions, up from fifth in 2000, according to Thomson Financial Securities Data. In addition, in the Reuters/Tempest Survey of U.K. Larger Companies, Merrill Lynch was ranked top broker for research by corporations and managers and best firm for equity derivatives for the third consecutive year. Merrill Lynch ranked second in the Institutional Investor 2001 All-Europe Research Team Survey.

In 2001, net revenues for the region decreased 25% from 2000. Pre-tax operating earnings decreased 75% from 2000 to $335 million due primarily to decreased equity trading and origination revenues. In 2000, net revenues and pre-tax earnings for the region were up 23% and 16%, respectively, from 1999, primarily due to strong equity trading and advisory revenues.

JAPAN

(dollars in millions)

	2001	2000	1999
Net revenues	$ 1,023	$ 1,511	$ 1,193
Pre-tax operating earnings (loss)(1)	(7)	243	(33)
Pre-tax earnings (loss)	(387)	243	(33)
Total full-time employees	2,900	3,500	3,200

(1) Before $380 million of pre-tax restructuring and other charges in 2001.

In Japan, Merrill Lynch provides an integrated range of GMI, Private Client, and MLIM products and services to individual, corporate and institutional clients. In March 2001, Merrill Lynch completed the consolidation of GMI and Private Client businesses into the single Japan-incorporated entity, Merrill Lynch Japan Securities Co., Ltd. ("MLJS"). GMI and Private Client successfully distributed several debt and equity public offerings through MLJS in 2001.

GMI maintained its strong presence in Japan in 2001. Despite the further deterioration of the Japanese economy, the debt business achieved record earnings and completed the consolidation of various management and support units, resulting in a more cost-effective structure. Investment banking also demonstrated its strong international network and ability to provide innovative services in underwriting.

Private Client is sharpening its focus on small- to medium-sized business clients and high-net-worth individual investors. To accomplish this, Private Client will close a number of branch offices in 2002, but maintain several smaller locations across Japan, including complexes in Tokyo and Osaka, and a Financial Service Center in Tokyo to serve the non-Financial Advisor-assisted client base. These actions resulted in a fourth quarter 2001 pre-tax charge of $380 million and will result in additional wind-down expenses of $80-$100 million in 2002. While representing less than 20% of total accounts, the middle markets and high-net-worth client base has accounted for the majority of Merrill Lynch's Private Client assets in Japan since inception in 1998.

MLIM is one of the leading institutional money managers in Japan and, despite the challenging economic conditions in 2001, MLIM attracted $1.5 billion in net new money for institutional clients.

Net revenues in the Japan region in 2001 were down 32% from 2000 to $1.0 billion, reflecting weak market conditions, except in the GMI debt business. The corresponding decrease in pre-tax operating earnings was partially alleviated by the reduction in expenses as a result of strict cost management in 2001. In 2000, net revenues and pre-tax earnings were up $318 million and $276 million, respectively, from 1999, reflecting increased debt and equity trading revenues and higher asset management fees.

ASIA PACIFIC

(dollars in millions)

	2001	2000	1999
Net revenues	$ 874	$ 1,247	$ 1,018
Pre-tax operating earnings(1)	49	269	183
Pre-tax earnings (loss)	(40)	269	183
Total full-time employees	2,200	2,700	2,500

(1) Before $89 million of pre-tax restructuring and other charges in 2001.

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific region, and offers a full range of GMI, Private Client, and MLIM products. Merrill Lynch has an established trading presence and exchange memberships in major financial markets in the region. The Private Client business operates 13 offices, including four in the Western United States, offering investment services and wealth management products to its clients. MLHSBC began providing online financial services to self-directed investors in Australia in 2001. MLIM operates 10 offices offering a diverse mix of investment management products and services to institutional and retail clients.

As part of Merrill Lynch's detailed business review in 2001, Private Client restructured its operations in Australia by moving the focus to high-net-worth investors and consolidating offices. MLIM restructured its operations by consolidating the investment management activities for the region into its London location, and GMI sold its equity brokerage operation in the Philippines to a local management team. As a result of the completion of these detailed business reviews, a pre-tax charge of $89 million was recorded in the fourth quarter of 2001.

In 2001, IFR magazine named Merrill Lynch "Asian Equity and Equity-Linked House of the Year," the Far Eastern Economic Review named Merrill Lynch "Most Respected Investment Bank in Asia," and Institutional Investor magazine ranked Merrill Lynch first in Asian Equity Research for the third consecutive year.

Merrill Lynch experienced a reduction in business volumes in the region during 2001. Net revenues in the region declined 30% in 2001 to $874 million. Pre-tax operating earnings declined 82% to $49 million. The decline was a direct result of the deterioration in business volumes related to a slowdown in the regional economy. In 2000, net revenues in the region were $1.2 billion, up from $1.0 billion in 1999, due to strong revenues in the equity markets and record Private Client revenues, as well as higher advisory fees. Pre-tax earnings increased 47% in 2000 to $269 million, primarily as a result of strong equity markets.

CANADA

(dollars in millions)

	2001	2000	1999
Net revenues	$ 877	$ 854	$ 652
Pre-tax operating earnings(1)	283	176	57
Pre-tax earnings	253	176	57
Total full-time employees	500	4,000	3,700

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

During 2001 Merrill Lynch operated a full-service Canadian securities firm, providing an integrated range of GMI, Private Client and MLIM products and services. However, as a result of the completion of a detailed business review in the fourth quarter of 2001, Merrill Lynch sold its Private Client and securities clearing businesses in Canada in December and, in January 2002, sold its MLIM retail investment management business. The 2001 sales resulted in a significant reduction in the number of full-time employees in the region. MLHSBC began providing online services to self-directed Canadian investors in late 2000.

All GMI businesses performed well in 2001, with notable contributions from debt markets and investment banking. The fixed income markets performed at record highs, resulting in increased debt underwriting and trading revenues. Euromoney magazine named Merrill Lynch "Best Foreign Bond House" in Canada. Merrill Lynch has been the leading non-domestic Canadian Dollar debt underwriter for the last three years, according to Bloomberg rankings. In 2001, Merrill Lynch ranked first in announced mergers and acquisitions, having advised on 10 of the 24 largest transactions in Canada. Equity trading continued its significant progress and the Brendan Woods International Survey ranked Merrill Lynch third in the institutional equity commission business in Canada, with the largest year-over-year market share gain in the country.

In 2001, net revenues in the region were essentially unchanged as increases in GMI revenues and a gain on the sale of businesses were principally offset by decreases in Private Client operating revenues. Pre-tax operating earnings increased to $283 million in 2001, due to record earnings in investment banking and a pre-tax gain of $158 million on the sale of the Private Client and securities clearing businesses. Excluding the impact of the sales, the Private Client and securities clearing businesses contributed $358 million and $7 million to net revenues and pre-tax earnings, respectively, in Canada in 2001. In 2000, net revenues and pre-tax earnings in the region increased 31% and 209%, respectively, compared with 1999. These increases were primarily the result of improvements in equity origination and trading as well as improved profitability in Private Client.

LATIN AMERICA

(dollars in millions)

	2001	2000	1999
Net revenues	$ 475	$ 731	$ 672
Pre-tax operating earnings(1)	32	175	127
Pre-tax earnings	18	175	127
Total full-time employees	1,000	1,200	1,200

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

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

In July 2001, Merrill Lynch closed its broker-dealer in Argentina. The economies of Latin America took a downward turn in 2001. Argentina suspended payment on a portion of its $141 billion of debt, a prelude to the largest sovereign default in history. The depreciation of Brazil's currency and an energy crisis have also taken a toll on the Latin American economy.

In Institutional Investor's 2001 survey, Merrill Lynch's Latin American Research team was ranked first, for the fifth year in a row.

Net revenues for the region in 2001 decreased 35% from 2000. Pre-tax operating earnings were $32 million, a decrease of $143 million from 2000. A major contributing factor to this decline was the volatility of the Latin American economy. Despite the economic environment, Private Client's business in Latin America has remained strong. Net revenues and pre-tax earnings in 2000 increased 9% and 38%, respectively, from 1999 due to higher commission revenues and the gain on a sale of the Puerto Rico retail brokerage business in 2000.

NON-INTEREST EXPENSES

Merrill Lynch's non-interest expenses are summarized as follows:

<TABLE>
<CAPTION>
(dollars in millions)

<S>	2001 <C>	2000 <C>	1999 <C>
Compensation and benefits	$11,269	$13,730	$11,337
Non-compensation expenses:			
Communications and technology	2,232	2,320	2,053
Occupancy and related depreciation	1,077	1,006	953

Brokerage, clearing, and exchange fees	895	893	779
Advertising and market development	703	939	783
Professional fees	545	637	571
Office supplies and postage	349	404	346
Goodwill amortization	207	217	227
Other	902	903	1,058
Total non-compensation expenses, excluding September 11th-related and restructuring and other charges in 2001	6,910	7,319	6,770
September 11th-related	131	-	-
Restructuring and other charges	2,193	-	-
Total non-compensation expenses	9,234	7,319	6,770
Total non-interest expenses	$20,503	$21,049	$18,107
Compensation and benefits as a percentage of net revenues	51.5%	51.3%	50.8%
Non-compensation expenses, excluding September 11th-related and restructuring and other charges in 2001, as a percentage of net revenues	31.6	27.3	30.3
Total full-time employees(1)	57,400	72,000	67,900

</TABLE>

(1) Excludes 3,200 full-time employees on salary continuation severance at year-end 2001.

Non-interest expenses were $20.5 billion in 2001, compared with $21.0 billion in 2000. Excluding September 11th-related expenses and restructuring and other charges, non-interest expenses were $18.2 billion in 2001. Compensation and benefits were down 18% from 2000 due to a

decrease in incentive and production-related compensation, resulting from a decline in revenue and a lower number of employees. Compensation and benefits expenses include severance expenses not included in the restructuring charge of $281 million and $70 million in 2001 and 2000, respectively. Compensation and benefits were 51.5% of net revenues for 2001, relatively unchanged from 2000. Non-compensation expenses, excluding September 11th-related expenses and restructuring and other charges, were 31.6% of net revenues in 2001, compared with 27.3% in 2000 and 30.3% in 1999.

Communications and technology expense declined 4% in 2001 to $2.2 billion due to reduced systems consulting costs. Occupancy and related depreciation increased 7% in 2001, primarily due to a new London headquarters building.

Brokerage, clearing, and exchange fees were $895 million, essentially unchanged from 2000. Advertising and market development expense was $703 million, down 25% from 2000 due to reduced spending on travel, advertising, and recognition programs. Professional fees decreased 14% to $545 million as a result of a reduction in spending on employment and non-technology consulting services. Office supplies and postage expense decreased 14% to $349 million due primarily to lower expenses for supplies. Other expenses were $902 million, essentially unchanged from 2000.

Non-interest expenses in 2000 were up 16% compared with 1999, largely due to compensation and benefits, which rose 21% to $13.7 billion. This increase was caused by higher incentive and production-related compensation resulting from increased revenues.

Non-compensation expenses also increased in 2000 as compared with 1999, due primarily to a 13% increase in communications and technology expenses that resulted from higher technology-related depreciation and systems consulting, as well as increased expenses related to market data services. Brokerage, clearing, and exchange fees were 15% higher than 1999 due to higher execution and clearing costs as a result of increased transaction volumes. Higher travel expenses and sales promotion costs resulting from increased business activity were the cause of a 20% increase in advertising and market development in 2000. Professional fees rose 12% partly as a result of higher employment service fees. Office supplies and postage expense increased 17% due primarily to higher printing expenses.

SEPTEMBER 11TH-RELATED EXPENSES

September 11th-related expenses of $131 million pre-tax ($83 million after-tax) were recorded in 2001. These amounts are net of an insurance recovery of $100 million and insurance receivables of $115 million. The majority of the September

11th-related gross expenses pertain to the write-off of damaged assets and sublease income, the repair and replacement of equipment, as well as transportation, moving, and related costs for displaced workers. For additional information see Note 2 to the Consolidated Financial Statements.

RESTRUCTURING AND OTHER CHARGES

As a result of actions taken to position Merrill Lynch for improved profitability and growth, including the resizing of selected businesses and other structural changes, a pre-tax charge of $2.2 billion ($1.7 billion after-tax) was recorded during the fourth quarter of 2001. A detailed review of all businesses was conducted in the fourth quarter and these in-depth reviews led to a number of actions, primarily focused on resizing the businesses for the current environment. The charge included the following components:

- Approximately $1.2 billion of the charge is associated with severance costs related to workforce reductions, and other staff-related costs. Workforce reductions were made through a combination of divestitures, voluntary separations, and managed reductions. The majority of the employee separations associated with the fourth-quarter charges have been completed or announced, and all have been identified. Approximately half of the 9,000 employee separations are associated with divestitures and discontinued businesses; the remainder result from voluntary separation, or targeted actions in selected businesses.

- Real estate initiatives include the consolidation of Private Client offices in the United States, Europe, Asia, and Australia and the closure or subletting of excess office space in the United States. Approximately $500 million of the charge is associated with real estate initiatives.

- Technology initiatives include the disposal of certain technology assets and the sale-leaseback and related write-down of other technology assets. Approximately $300 million of the charge is associated with technology initiatives.

- Other business rationalization costs, which comprise $200 million of the charge are principally related to costs associated with the refocusing of the Private Client business in Japan.

Management expects the restructuring plan to yield pre-tax cost savings of $1.4 billion annually, beginning in the first quarter of 2002, a portion of which will be reinvested in priority growth initiatives. These savings largely relate to reduced employee-related and facilities costs and are expected to be realized in compensation and benefits, depreciation, and occupancy expenses. Merrill Lynch expects to substantially complete the restructuring by the end of 2002. Management will continue to review its business groups and product offerings throughout 2002 to meet the needs of the changing economic environment and to ensure its goal of improved profitability.

For additional information on these charges, see Note 2 to the Consolidated Financial Statements.

INCOME TAXES

Merrill Lynch's 2001 income tax provision was $609 million, representing a 44.2% effective tax rate compared with 30.4% in 2000 and 31.4% in 1999. The increase in the 2001 effective tax rate is due primarily to prior and current year non-deductible losses associated with the refocusing of the Japan Private Client business, which were included in the fourth-quarter charge, including a write-off of previously recognized deferred tax assets of approximately $135 million. The decline in the 2000 effective tax rate was primarily attributable to an increase in lower-taxed non-U.S. income and additional tax-advantaged financing. 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 a strong earnings history and the absence of negative evidence as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." During the last 10 years, average pre-tax earnings were $2.7 billion. Accordingly, management believes that it is more likely than not that remaining deferred tax assets, net of the related valuation allowance, will be realized (see Note 15 to the Consolidated Financial Statements).

BALANCE SHEET

OVERVIEW

Management continually monitors and evaluates the level and composition of the balance sheet. The following chart illustrates the composition of the balance sheet at December 28, 2001.

[PIE CHART]

ASSETS

Securities Financing Transactions	30%
Trading Assets	26%
Marketable Investment Securities	18%
Other	16%
Trading-Related Receivables	10%

LIABILITIES

Seuritities Financing Transactions	22%
Deposits	22%
Trading Liabilities	20%
Long-Term Borrowings	19%
Trading-Related Payables	9%
Other	7%
Short-Term Borrowings	1%

In 2001, average total assets were $429 billion, up 16% from $371 billion in 2000. Average total liabilities in 2001 increased 15% to $406 billion from $352 billion in 2000, and average equity capital increased 23% to $23 billion during 2001. The major components of the increase in average total assets and liabilities are summarized as follows:

(dollars in millions)

	2001 VS. 2000	
	INCREASE (DECREASE)	CHANGE
AVERAGE ASSETS		
Marketable investment securities	$ 39,299	158%
Receivables under resale agreements	18,314	24
Loans, notes and mortgages	6,358	48
AVERAGE LIABILITIES		
Deposits	$ 46,219	134%
Payables under repurchase agreements	17,390	21
Long-term borrowings	14,908	24
Commercial paper and other short-term borrowings	(14,158)	(59)

The significant growth in deposits in 2001 resulted from the mid-2000 modification of the cash sweep options for certain CMA(R) and other types of Merrill Lynch accounts to generally sweep cash into interest-bearing bank deposits at Merrill Lynch's U.S. banks, rather than MLIM-managed money market mutual funds. This increase in deposits was primarily used by the U.S. banks to purchase marketable investment securities. Receivables under resale agreements and payables under repurchase agreements rose due to increased matched-book activity. Additionally, the increase in long-term borrowings is related to the reduction in the use of commercial paper and other short-term borrowings in 2001.

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

TRADING-RELATED ASSETS AND LIABILITIES

Trading-related balances primarily consist of trading assets (including securities pledged as collateral) and liabilities, receivables under resale agreements and securities borrowed transactions, payables under repurchase agreements and securities loaned transactions, and certain receivable/payable balances that result from trading activities. At December 28, 2001 total trading-related assets and liabilities were $273.6 billion and $203.4 billion, respectively.

Although trading-related balances comprise a significant portion of the balance sheet, the magnitude of these balances does not necessarily convey a sense of the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following section (see Note 6 to the Consolidated Financial Statements for descriptions of market and credit risks).

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related receivables by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies.

Conversely, Merrill Lynch may be required to post cash or securities to counterparties in accordance with similar policies.

TRADING ASSETS AND LIABILITIES

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

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

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

Trading assets, including securities pledged as collateral, at year-end 2001 were up 4% from year-end 2000, and trading liabilities increased 10% to $75.9 billion.

SECURITIES FINANCING TRANSACTIONS

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

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

Receivables under resale agreements and securities borrowed transactions at year-end 2001 increased 9% from 2000, and payables under repurchase agreements and securities loaned transactions decreased 16% from year-end 2000.

OTHER TRADING-RELATED RECEIVABLES AND PAYABLES

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

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

Trading-related receivables at year-end 2001 were $40.8 billion, down 32% from 2000, and trading-related payables increased 55% to $37.1 billion from year-end 2000, primarily due to changes in broker-dealer balances.

NON-TRADING ASSETS

INVESTMENTS

Marketable investment securities, including those held for liquidity management purposes, consist of highly liquid debt and equity securities. Marketable investment securities grew to $77.8 billion at December 28, 2001 from $49.3 billion at December 29, 2000, funded by increased bank deposits (see the Non-Trading Liabilities -- Borrowings section for further information). Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities, and venture capital investments, including technology investments, and investments that economically hedge deferred compensation liabilities (see Note 5 to the Consolidated Financial Statements).

LOANS, NOTES, AND MORTGAGES

Merrill Lynch's portfolio of loans, notes, and mortgages consists of mortgage loans on residences, working capital loans to small- and medium-sized businesses, and syndicated loans. Merrill Lynch generally maintains collateral on some of these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees. Loans, notes, and mortgages increased 9% in 2001 to $19.0 billion due to

increased consumer lending activities. Merrill Lynch maintained collateral of $14.7 billion at December 28, 2001 to reduce related default risk against certain of these credits.

OTHER

Other non-trading assets, which include cash and cash equivalents, goodwill, equipment and facilities, and other assets, decreased $12.8 billion from year-end 2000 levels. This decrease is primarily due to decreased cash equivalent investment balances at Merrill Lynch's U.S. banks.

NON-TRADING LIABILITIES

BORROWINGS

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

Commercial paper decreased from $14.0 billion at year-end 2000 to $3.0 billion at year-end 2001. Deposits increased $18.2 billion in 2001 as a result of higher customer deposits in U.S. banking subsidiaries which resulted from the mid-2000 modification of the cash sweep options for certain CMA(R) and other types of Merrill Lynch accounts to generally sweep cash into interest-bearing bank deposits at Merrill Lynch's U.S. banks, rather than MLIM-managed money market mutual funds. Outstanding long-term borrowings increased to $76.6 billion at December 28, 2001 from $70.2 billion at December 29, 2000. In the second quarter of 2001, Merrill Lynch issued Liquid Yield Option/TM/ Notes ("LYONs"(R)) due in 2031. LYONs(R) are zero-coupon senior debt instruments convertible into Merrill Lynch common stock at a premium under certain defined terms and conditions. For additional information on LYONs(R) see Note 8 to the Consolidated Financial Statements.

Major components of the changes in long-term borrowings for 2001 and 2000 follow:

(dollars in billions)

	2001	2000
Beginning of year	$ 70.2	$ 54.0
Issuances	38.5	33.7
Maturities	(32.8)	(15.7)
Other	0.7	(1.8)
End of year(1)	$ 76.6	$ 70.2
Average maturity in years of long-term borrowings, when measured to:		
Maturity	4.1	3.6
Earlier of the call or put date	2.8	3.0

(1) At year-end 2001 and 2000, $54.1 billion and $48.8 billion of long-term

borrowings had maturity dates beyond one year, respectively.

OTHER

Other non-trading liabilities, which include liabilities of insurance subsidiaries and other payables, increased slightly from year-end 2000 levels.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred securities issued by subsidiaries consist primarily of Trust Originated Preferred Securities/SM/ ("TOPrS"/SM/) (see Note 10 to the Consolidated Financial Statements for further information). TOPrS/SM/ proceeds are utilized as part of general balance sheet funding (see Capital Adequacy and Funding section for more information).

STOCKHOLDERS' EQUITY

Stockholders' equity at December 28, 2001 increased 9% to $20.0 billion from $18.3 billion at year-end 2000. This increase primarily resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

At December 28, 2001, total common shares outstanding, excluding shares exchangeable into common stock, were 843.5 million, 4% higher than the 808.0 million shares outstanding at December 29, 2000. The increase was attributable principally to employee stock grants and option exercises. There were no common stock repurchases during 2001 or 2000.

Total shares exchangeable into common stock at year-end 2001, issued in connection with the 1998 merger with Midland Walwyn Inc., were 4.2 million, compared with 4.7 million at year-end 2000. For additional information see Note 11 to the Consolidated Financial Statements.

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CAPITAL ADEQUACY AND FUNDING

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

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

CAPITAL ADEQUACY

At December 28, 2001, Merrill Lynch's equity capital was comprised of $19.6 billion in common equity, $425 million in preferred stock, and $2.7 billion of TOPrS./SM/

Merrill Lynch continually reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, as well as the regulatory and legal capital requirements of its subsidiaries. Merrill Lynch uses statistically based risk models, developed in conjunction with risk management practices, to estimate potential losses arising from market and credit risks. Equity capital needs are determined based on these models, which dynamically capture changes in risk profile. Merrill Lynch also assesses the need for equity capital to support business risks, such as process risk, that may not be adequately measured through these risk models, as well as the potential use of equity capital to support growth. Merrill Lynch determines the appropriateness of its equity capital composition, which includes common stock, preferred stock, and TOPrS,/SM/ taking into account the perpetual nature of its preferred stock and TOPrS./SM/ Based on these

analyses and criteria, management believes that Merrill Lynch's equity capital base of $22.7 billion is adequate.

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 16 to the Consolidated Financial Statements for further information). Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making affiliated investments. Merrill Lynch's capital adequacy models and planning take into account these regulatory considerations.

Merrill Lynch's leverage ratios were as follows:

	LEVERAGE RATIO(1)	ADJUSTED LEVERAGE RATIO(2)
YEAR-END		
December 28, 2001	18.5x	12.8x
December 29, 2000	19.4x	13.9x
AVERAGE(3)		
Year ended December 28, 2001	18.8x	13.1x
Year ended December 29, 2000	19.0x	13.2x

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

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

FUNDING

Merrill Lynch strives to continually expand and globally diversify its funding programs, markets, and investor and creditor base. Merrill Lynch benefits by distributing a significant portion of its liabilities and equity through its own sales force to a large, diversified global client base. Available funding sources include:

- repurchase agreements and securities loaned transactions,
- U.S., Euro, Canadian, Japanese, and Australian commercial paper programs,
- deposits at Merrill Lynch's banking subsidiaries,
- bank loans,
- U.S., Euro, Canadian, and Australian medium- and long-term debt programs,
- letters of credit,
- TOPrS,/SM/
- preferred stock, and
- common stock.

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

During 2001 and 2000, Merrill Lynch reduced its reliance on commercial paper as a source of funding. Commercial paper represented 4% and 16% of total unsecured borrowings at year-end 2001 and 2000, respectively. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor.

LIQUIDITY MANAGEMENT

Liquidity risk occurs when there are timing differences between cash inflows from the businesses and cash outflows for business needs and maturing debt obligations. Merrill Lynch's liquidity policy is to maintain alternative funding sources such that all unsecured debt obligations maturing within one year can be repaid when due without issuing new unsecured debt or requiring business assets to be liquidated. The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, and secured bank loans, which require pledging unencumbered marketable securities held for trading or investment purposes.

As an additional source of liquidity, Merrill Lynch maintains a portfolio of segregated U.S. government and agency obligations, and asset-backed securities of high credit quality, which had a carrying value, net of related hedges of $8.4 billion at December 28, 2001 and $7.4 billion at December 29, 2000. These assets may be sold or pledged to provide immediate liquidity even during periods of adverse market conditions.

For funding purposes, Merrill Lynch assesses its assets and commitments in order to determine the appropriate level of short-term and long-term funding. Long-term funding sources include a portion of deposits, the non-current portion of long-term debt, TOPrS/SM/, preferred stock, and common equity. Generally, trading and other current assets are financed with a combination of short-term and long-term funding. Long-term, less liquid assets are fully financed with long-term funding. Merrill Lynch also finances the long-term funding requirements of commitments and other contingent obligations, including additional collateral that may be required under derivative contracts in certain rating downgrade scenarios. In assessing the appropriate tenor of its short-term and long-term funding, Merrill Lynch seeks to ensure sufficient coverage over the spectrum of maturities.

Merrill Lynch recognizes that regulatory restrictions may limit the free flow of funds among affiliates. For example, a portion of deposits held by Merrill Lynch bank subsidiaries fund securities that can be sold or pledged to provide immediate liquidity for the banks. However, there are regulatory restrictions on the use of this liquidity for non-bank affiliates of Merrill Lynch.

Approximately $81.7 billion of indebtedness at December 28, 2001 is considered senior indebtedness as defined under various indentures. Merrill Lynch's debt obligations do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. Merrill Lynch may issue structured notes that, under certain circumstances, require Merrill Lynch to immediately settle the obligation for cash or other securities. A limited number of structured notes may be accelerated based on the value of the underlying securities. Merrill Lynch typically hedges these notes with positions in the underlying securities.

Merrill Lynch maintains a committed, senior, unsecured bank credit facility that totaled $5 billion at December 28, 2001 and $8 billion at December 29, 2000. The current facility expires in May 2002. While Merrill Lynch expects to renew the facility, it may choose to do so in a reduced amount. In 2001, Merrill Lynch elected to reduce the amount of its credit facility. This reduction was offset by an increase in the liquidity portfolio of unencumbered securities that may be sold or pledged to provide immediate liquidity. At December 28, 2001 and December 29, 2000, there were no borrowings outstanding under these credit facilities. Merrill Lynch's revolving line of bank credit contains covenants, including a minimum net worth requirement, with which Merrill Lynch has maintained compliance at all times. The credit facility does not, however, require Merrill Lynch to maintain specified credit ratings.

Merrill Lynch maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

ASSET AND LIABILITY MANAGEMENT

Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible and an appropriate liability maturity profile. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to enable interest rate risk to be managed within limits set by Corporate Risk Management. Interest rate swaps also serve to reduce Merrill Lynch's interest expense and effective borrowing rate, when interest rates decline. Merrill Lynch also enters into currency swaps to ensure that foreign-currency 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). Investments in subsidiaries in foreign currencies are also effectively hedged to a level which minimizes translation adjustments in the Cumulative Translation Account. For further information, see Notes 1 and 6 to the Consolidated Financial Statements.

CREDIT RATINGS

The cost and availability of unsecured funding generally are dependent on credit ratings. Merrill Lynch's senior long-term debt, preferred stock, and TOPrS/SM/ were rated by several recognized credit rating agencies at February 25, 2002 as indicated below. These ratings do not reflect outlooks that may be expressed by the rating agencies from time to time, which are currently negative. Subsequent to the announcement of Merrill Lynch's fourth quarter 2001 restructuring and other charges, all of these rating agencies reaffirmed Merrill Lynch's current ratings.

RATING AGENCY	SENIOR DEBT RATINGS	PREFERRED STOCK RATINGS	TOPrS/SM/ RATINGS
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated	Not Rated
Fitch Ratings	AA	AA-	AA-
Moody's Investors Service, Inc.	Aa3	A2	A1
Rating & Investment Information, Inc.(1)	AA	A+	A+
Standard & Poor's Ratings Services	AA-	A	A

(1) Located in Japan.

NON-TRADING RELATED CONTRACTUAL OBLIGATIONS

As a part of its normal operating strategy, Merrill Lynch enters into various contractual obligations and commitments which may require future payments. The table below outlines the significant contractual obligations outstanding as of December 28, 2001 and provides reference to where further information on each obligation can be found elsewhere in this document:

CONTRACTUAL OBLIGATION	REFERENCE
Long-term borrowings	Note 8
Leases	Note 12
Deferred compensation plans	Note 14
Additional commitments to invest in partnerships	Note 12 and Non-Investment Grade Holdings and Highly Leveraged Transactions
Unutilized revolving lines of credit and other commitments to extend credit	Note 12

CAPITAL PROJECTS AND EXPENDITURES

Merrill Lynch continually prepares for the future by reviewing its operations and investing in new technology to improve service to clients.

Merrill Lynch has agreed to invest not more than $600 million in MLHSBC, the 50/50-owned corporation created to provide global online investment and banking services. At December 28, 2001, Merrill Lynch had invested $197 million. The timing of the funding of additional investments will be determined by the Board of Directors of MLHSBC, which has equal representation from Merrill Lynch and HSBC.

RISK MANAGEMENT

RISK MANAGEMENT PHILOSOPHY

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

- a formal risk governance organization that defines the oversight process and its components;
- a regular review of the entire risk management process by the Audit Committee of the Board of Directors;
- clearly defined risk management policies and procedures supported by analytic tools;
- communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight; and
- clearly articulated risk tolerance levels as defined by a group composed of executive management ("the Management Group") 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 businesses 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.

RISK GOVERNANCE STRUCTURE

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

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

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

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

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

CORPORATE RISK MANAGEMENT

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

CRM's chief monitoring and risk measurement tool is Merrill Lynch's Risk Framework. The Risk Framework defines and communicates Merrill Lynch's risk tolerance and establishes aggregate and broad risk limits for the firm. Market risk limits are intended to constrain exposure to specific classes and factors of market risk and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and tenor of exposure to individual counterparties and issuers, types of counterparties and issuers, countries, and financing collateral. Risk Framework exceptions and violations are reported and investigated at pre-defined and appropriate levels of management. The Risk Framework and

its limits have been approved by the Management Group and the risk parameters that define the Risk Framework have been reviewed by the Audit Committee. The Management Group reviews the Risk Framework annually and approves any material changes. The ROC reports all substantive Risk Framework changes to the Audit Committee.

The overall effectiveness of Merrill Lynch's risk processes and policies can be seen on a broader level when analyzing weekly net trading revenues over time. CRM policies and procedures of monitoring and controlling risk combined with the businesses' focus on customer order-flow driven revenues and selective proprietary positioning have helped Merrill Lynch to reduce earnings volatility within its portfolios. While no guarantee can be given regarding future earnings volatility, Merrill Lynch will continue to pursue policies and procedures that assist the firm in measuring and monitoring its risks. A graph of Merrill Lynch's weekly revenues from trading-related activities for 2001 follows:

[BAR CHART]

2001 DISTRIBUTION OF WEEKLY REVENUES FROM
TRADING-RELATED ACTIVITIES
(in millions of dollars)

	Number of Weeks
Less than $50	2
$50 - 75	4
$75 - 100	4
$100 - 125	17
$125 - 150	11
$150 - 175	6
$175 - 200	5
Over $200	3

MARKET RISK

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

In the Merrill Lynch VaR system, CRM uses a historical simulation approach to estimate VaR using a 99% confidence level and a two-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level VaR. The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products, e.g., options. The table that follows presents Merrill Lynch's VaR for trading instruments at year-end 2001 and 2000 and the 2001 average VaR. Additionally, high and low VaR is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

<TABLE>
<CAPTION>

(dollars in millions)

	YEAR-END 2001	YEAR-END 2000	DAILY AVERAGE 2001	HIGH 2001	LOW 2001
Trading value-at-risk(1)					
<S>	<C>	<C>	<C>	<C>	<C>
Interest rate and credit spread	$ 113	$ 81	$ 84	$ 124	$ 52
Equity	94	77	61	103	35
Commodity	2	9	3	14	0
Currency	3	14	11	50	1
Volatility	44	34	35	67	14
	256	215	194		
Diversification benefit	(144)	(116)	(92)		
Overall(2)	$ 112	$ 99	$ 102	$ 138	$ 76

</TABLE>

(1) Based on a 99% confidence level and a two-week holding period.
(2) Overall VaR using a 95% confidence level and a one-day holding period was $21 million and $20 million at year-end 2001 and 2000, respectively.

Due to the mix of the trading portfolio, overall VaR increased in 2001 due to increases in interest rate and credit spread VaR and equity VaR. These increases were partially offset by an increase in diversification benefit.

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

(dollars in millions)

	YEAR-END 2001	YEAR-END 2000	QUARTERLY AVERAGE 2001
Non-trading value-at-risk(1)			
Interest rate and credit spread	$ 77	$ 67	$ 76
Currency	20	23	19
Equity	57	47	51
Volatility	11	3	9
	165	140	155
Diversification benefit	(59)	(44)	(45)
Overall	$ 106	$ 96	$ 110

(1) Based on a 99% confidence level and a two-week holding period.

Non-trading VaR increased modestly during 2001 due to increases in interest rate and credit spread VaR and equity VaR. The higher interest rate and credit spread risk is primarily due to an increase in marketable investment securities held for liquidity purposes. The increase in the non-trading equity VaR is primarily due to the increased volatility in the U.S. equity markets. Non-trading VaR does not include the risk related to Merrill Lynch's $2.4 billion of outstanding LYONs(R) since management expects that the LYONs(R) will be converted to common stock and will not be replaced by fixed income securities.

In addition to the amounts reported in the accompanying table, non-trading interest rate VaR associated with Merrill Lynch's TOPrS/SM/ at year-end 2001 and 2000 was $82 million and $138 million, respectively. TOPrS,/SM/ which are fixed-rate perpetual preferred securities, are considered a component of Merrill Lynch's equity capital and, therefore, the associated interest rate sensitivity is not hedged.

Beginning in mid-2000 Merrill Lynch modified the cash sweep options for certain CMA(R) and other types of Merrill Lynch accounts to generally sweep cash into interest-bearing bank deposits at Merrill Lynch's U.S. banks, rather than MLIM-managed money market mutual funds. This increase in deposits was used to fund the growth in high quality marketable investment securities. The overall VaR for the U.S. banks, driven largely by these securities and based on a 99% confidence level and a two-week holding period, was $156 million at year-end 2001 compared with $113 million at year-end 2000. The increase in comparable year-over-year measures reflects continued asset growth and changes in asset mix within the banks. For more information on Merrill Lynch's U.S. banks see Capital Adequacy and Funding.

CREDIT RISK

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

The Credit Risk Group uses a variety of methodologies to set limits on exposure resulting from a counterparty or issuer failing to perform on its contractual obligations. The Group performs analysis in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, product type, and tenor to maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default protection. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view toward early problem identification and protection against unacceptable credit-related losses. In 2001, the Credit Risk Group invested additional resources to enhance its methods and policies to assist in the management of Merrill Lynch's credit risk.

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

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its derivative 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.

In addition, to reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. The following is a summary of the replacement value of trading derivatives in a gain position (net of $7.3 billion of collateral) by counterparty credit rating and maturity at December 28, 2001. (Note that the following table is inclusive of credit exposure from derivative transactions only and does not include other credit exposures, which may be material.)

(dollars in millions)

CREDIT RATING(1)	YEARS TO MATURITY 0-3	3-5	5-7	OVER 7	CROSS-MATURITY NETTING(2)	TOTAL
AAA	$ 4,013	$1,069	$ 987	$1,530	$ (822)	$ 6,777
AA	4,397	2,599	912	1,838	(1,545)	8,201
A	2,696	1,309	436	891	(580)	4,752
BBB	1,605	602	266	343	(364)	2,452
Other	1,138	291	144	87	(116)	1,544
Total	$13,849	$5,870	$2,745	$4,689	$(3,427)	$23,726

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

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

PROCESS RISK

Process Risk Management is an evolving risk management discipline. Merrill Lynch defines process risk as the risk of loss resulting from inadequate controls or business disruption relating to people, internal processes, systems, or external events. Examples of process risks faced by the firm include systems failure, human error, fraud, and major fire or other disasters. Merrill Lynch manages process risks in a variety of ways including maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring risk events, employing experienced personnel, monitoring business activities by compliance professionals, maintaining backup facilities, conducting internal audits, requiring education and training of employees, and emphasizing the importance of management oversight.

On September 11th terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, including some occupied by Merrill Lynch. These events precipitated the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North Tower of the World Financial Center, and from offices at the South Tower of the World Financial Center and 222 Broadway. Merrill Lynch has reoccupied the North Tower of the World Financial Center and 222 Broadway and is restoring the South Tower of the World Financial Center. Although some of Merrill Lynch's businesses were temporarily disrupted, resulting in lower than normal market shares and reduced business activity, all its businesses are now functioning and serving clients worldwide. In certain instances, Merrill Lynch is utilizing temporary locations and backup infrastructures.

OTHER RISKS

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

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

In mid-2001, in a further effort to ensure the independence and objectivity of its research, Merrill Lynch announced a new policy, which prohibits equity analysts and their staff members from buying equity shares for companies they cover. In addition, for shares they already hold, they must either divest, transfer the securities to a managed account over which they have no discretion, or maintain existing shares under stricter disclosure and disposition rules. Further, the existence of any equity position maintained by any analyst with responsibility for any security discussed in a research report will be described in the research report.

NON-INVESTMENT GRADE HOLDINGS AND
HIGHLY LEVERAGED TRANSACTIONS

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

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

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

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

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

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

TRADING EXPOSURES

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2001 and 2000:

(dollars in millions)

	2001	2000
Trading assets:		
Cash instruments	$ 4,597	$ 5,227
Derivatives	4,478	3,982
Trading liabilities--cash instruments	(1,535)	(1,087)
Collateral on derivative assets	(2,934)	(1,796)
Net trading asset exposure	$ 4,606	$ 6,326

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 28, 2001, the carrying value of such debt and equity securities totaled $58 million, of which 18% resulted from Merrill Lynch's market-making activities in such securities. This compared with $43 million at December 29, 2000, of which 64% related to market-making activities. Also included are distressed bank loans totaling $245 million and $122 million at year-end 2001 and 2000, respectively.

NON-TRADING EXPOSURES

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2001 and 2000:

(dollars in millions)

	2001	2000
Marketable investment securities	$ 221	$ 199
Investments of insurance subsidiaries	114	136
Loans (net of allowance for loan losses):		
Bridge loans	130	524
Other loans(1)	2,578	2,741
Other investments:		
Partnership interests(2)	1,359	993
Other equity investments(3)	140	284

(1) Represents outstanding loans to 138 and 135 companies at year-end 2001 and 2000, respectively.
(2) Includes $712 million and $504 million in investments at year-end 2001 and 2000, respectively, related to deferred compensation plans, for which the default risk of the investments rests with the participating employees.
(3) Includes investments in 81 and 98 enterprises at year-end 2001 and 2000, respectively.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 2001 and 2000:

(dollars in millions)

	2001	2000
Additional commitments to invest in partnerships	$ 288	$ 467
Unutilized revolving lines of credit and other lending commitments	1,947	3,664

At December 28, 2001, the largest industry exposure was to the financial services sector, which accounted for 22% of total non-investment grade positions and highly leveraged transactions.

Merrill Lynch sponsors certain deferred compensation plans in which eligible employees, who meet certain minimum compensation and net worth levels, may participate. Contributions to the plans are made on a tax-deferred basis by participants. Contributions are invested by Merrill Lynch in mutual funds and other funds as directed by the employee, and the plans may include a leverage feature which is non-recourse to the employees. In addition, certain Merrill Lynch employees, who manage the assets of certain of these plan partnerships, participate in the profits of these entities.

Merrill Lynch also allows certain qualified high-net-worth employees to invest in certain private equity investments in selected third-party funds.

LITIGATION

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

CRITICAL ACCOUNTING POLICIES

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

USE OF ESTIMATES

In presenting the Consolidated Financial Statements, management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of goodwill, the allowance for loan losses, the realization of deferred tax assets, recovery of insurance deferred acquisition costs, September 11th-related insurance recoveries, restructuring and other charges, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 to the Consolidated Financial Statements.

USE OF VALUATION OF FINANCIAL INSTRUMENTS

Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. 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, complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for non-exchange-traded derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

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

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

CONSOLIDATION AND TRANSACTIONS INVOLVING SPECIAL PURPOSE ENTITIES

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

Merrill Lynch follows the guidance in Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" and Emerging Issues Task Force ("EITF") Topic D-14, "Transactions Involving Special-Purpose Entities" and EITF Issue No. 90-15, "Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions" to determine whether or not an SPE is required to be consolidated in its Consolidated Financial Statements. Many of the SPEs with which Merrill Lynch enters into transactions meet the requirements of qualifying special purpose entities ("QSPEs") as defined by SFAS No. 140. Based on the requirements of SFAS No. 140, QSPEs are not consolidated by Merrill Lynch.

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

Merrill Lynch may also act as a liquidity provider to investors in securities issued by SPEs or enter into other guarantees related to SPEs. Additional information regarding liquidity facilities and guarantees to SPEs is provided in Note 12 to the Consolidated Financial Statements. Merrill Lynch may also retain interests in assets securitized by an SPE, or enter into derivative transactions with SPEs, both of which are recorded at estimated fair value in the financial statements. Therefore, material economic exposures to SPEs related to these transactions are recorded or disclosed in the Consolidated Financial Statements. Refer to Balance Sheet Captions -- Marketable Investment Securities in Note 1 to the Consolidated Financial Statements for more information on interests retained in securitization transactions.

In addition to the SPEs described above, Merrill Lynch has entered into transactions with two SPEs to facilitate the financing of physical property for its own use (facilities and aircraft). Merrill Lynch's U.S. banking subsidiaries have also entered into transactions with SPEs in order to improve the liquidity of mortgage portfolios and reduce credit risk of investment portfolios, which resulted in reduced regulatory capital requirements. See Note 16 to the Consolidated Financial Statements for more information regarding these transactions.

RECENT DEVELOPMENTS

NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of the business as previously defined in that opinion. SFAS No. 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 provides guidance on the financial accounting and reporting for the impairment or disposal of long-lived assets. Merrill Lynch will adopt the provisions of SFAS No. 144 in the first quarter of 2002 and has not yet determined the impact of adoption.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible

Assets." Under SFAS No. 142, intangible assets with indefinite lives and goodwill will no longer be amortized. Instead, these assets will be tested annually for impairment. Merrill Lynch adopted the provisions of SFAS No. 142 at the beginning of fiscal year 2002.

SFAS No. 142 will require that Merrill Lynch perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. This test is required to be completed within six months of the date of adoption. If an indication of impairment exists, quantification of the impairment is required to be completed as soon as possible, but no later than the end of the year. Any impairment loss, as of the first day of fiscal year 2002, will be recognized as the cumulative effect of a change in accounting principle in Merrill Lynch's statement of earnings upon adoption. Merrill Lynch is currently assessing the impact of adopting this standard; annual amortization expense related to goodwill approximated $200 million in 2001.

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

MANAGEMENT'S DISCUSSION OF FINANCIAL RESPONSIBILITY

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

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

Merrill Lynch regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, and other opportunities for improvement are implemented when cost effective.

The framework of internal control includes policies, procedures, and organizational structures that are overseen by a predominantly independent Board of Directors. Several committees of the Board actively participate in setting policy and overseeing controls. The Audit Committee, which consists of five independent directors, reviews the annual Consolidated Financial Statements with management and Merrill Lynch's independent auditors. The Audit Committee also recommends the appointment and reviews the performance, independence and fees of the independent auditors and the professional services they provide. The Audit Committee also oversees Merrill Lynch's system of internal accounting controls and the internal audit function. In addition, the Audit Committee oversees compliance with risk management and compliance policies, procedures, and functions.

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

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards.

Corporate Audit reports directly to the Audit Committee, providing independent appraisals of Merrill Lynch's internal accounting controls and compliance with established policies and procedures.

The Finance Division establishes accounting policies and procedures, measures and monitors financial risk, and prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks.

The Office of the General Counsel serves in a counseling and advisory role to Management and the business groups. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; and provides legal advice, representation, execution, and transaction support to the businesses.

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

/s/ David H. Komansky	/s/ E. Stanley O'Neal	/s/ Thomas H. Patrick
David H. Komansky	E. Stanley O'Neal	Thomas H. Patrick
Chairman of the Board and	President and	Executive Vice President and
Chief Executive Officer	Chief Operating Officer	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

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 28, 2001 and December 29, 2000 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 28, 2001. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 28, 2001 and December 29, 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2001 in conformity with accounting principles generally accepted in the United States of America.

/S/ Deloitte & Touche LLP

Deloitte & Touche LLP
New York, New York
February 25, 2002

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CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions, except per share amounts)

	Year Ended Last Friday in December		
	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)

NET REVENUES			
Commissions	$ 5,266	$ 6,977	$ 6,355
Principal transactions	3,930	5,964	4,671
Investment banking			
Underwriting	2,438	2,699	2,382
Strategic advisory	1,101	1,381	1,313
Asset management and portfolio service fees	5,351	5,688	4,753
Other	528	967	746
	18,614	23,676	20,220
Interest and dividend revenues	20,143	21,176	15,112
Less interest expense	16,877	18,086	13,019
Net interest profit	3,266	3,090	2,093
Total Net Revenues	21,880	26,766	22,313
NON-INTEREST EXPENSES			
Compensation and benefits	11,269	13,730	11,337
Communications and technology	2,232	2,320	2,053
Occupancy and related depreciation	1,077	1,006	953
Brokerage, clearing, and exchange fees	895	893	779
Advertising and market development	703	939	783
Professional fees	545	637	571
Office supplies and postage	349	404	346
Goodwill amortization	207	217	227
Other	902	903	1,058
September 11th-related	131	-	-
Restructuring and other charges	2,193	-	-
Total Non-Interest Expenses	20,503	21,049	18,107
EARNINGS BEFORE INCOME TAXES AND DIVIDENDS ON PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	1,377	5,717	4,206
Income Tax Expense	609	1,738	1,319
Dividends on Preferred Securities Issued by Subsidiaries	195	195	194
NET EARNINGS	$ 573	$ 3,784	$ 2,693
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 535	$ 3,745	$ 2,654

EARNINGS PER COMMON SHARE			
Basic	$ 0.64	$ 4.69	$ 3.52
Diluted	$ 0.57	$ 4.11	$ 3.11

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See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
(dollars in millions, except per share amounts)

<S>	December 28, 2001 <C>	December 29, 2000 <C>
ASSETS		
Cash and cash equivalents	$ 11,070	$ 23,205
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	4,467	6,092
Securities financing transactions		
Receivables under resale agreements	69,702	79,240
Receivables under securities borrowed transactions	54,930	35,341
	124,632	114,581
Marketable investment securities	77,820	49,251
Trading assets, at fair value		
Contractual agreements	31,040	25,614
Corporate debt and preferred stock	18,134	17,180
Equities and convertible debentures	13,923	15,425
Mortgages, mortgage-backed, and asset-backed	11,184	8,225
U.S. Government and agencies	9,445	17,270
Municipals and money markets	5,306	2,791
Non-U.S. governments and agencies	3,851	5,009
	92,883	91,514
Securities pledged as collateral	12,084	9,097
Securities received as collateral	3,234	-

Other receivables		
Customers (net of allowance for doubtful accounts of $81 in 2001 and $68 in 2000)	39,856	41,613
Brokers and dealers	6,868	26,421
Interest and other	8,226	8,879
	54,950	76,913
Investments of insurance subsidiaries	3,983	4,002
Loans, notes, and mortgages (net of allowance for loan losses of $425 in 2001 and $176 in 2000)	19,005	17,472
Other investments	5,869	4,938
Equipment and facilities (net of accumulated depreciation and amortization of $4,910 in 2001 and $4,658 in 2000)	2,873	3,444
Goodwill (net of accumulated amortization of $924 in 2001 and $720 in 2000)	4,071	4,407
Other assets	2,478	2,284
TOTAL ASSETS	$419,419	$407,200

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	December 28, 2001	December 29, 2000
LIABILITIES		
<S>	<C>	<C>
Securities financing transactions		
Payables under repurchase agreements	$ 74,895	$ 89,901
Payables under securities loaned transactions	12,291	13,982
	87,186	103,883
Commercial paper and other short-term borrowings	5,141	15,183
Deposits	85,819	67,648
Trading liabilities, at fair value		
Contractual agreements	36,679	30,683
U.S. Government and agencies	18,674	14,137
Equities and convertible debentures	9,911	10,387
Non-U.S. governments and agencies	5,857	7,135
Corporate debt, municipals, and preferred stock	4,796	6,515
	75,917	68,857
Obligation to return securities received as collateral	3,234	-
Other payables		
Customers	28,704	24,762
Brokers and dealers	11,932	9,514
Interest and other	18,474	22,204
	59,110	56,480
Liabilities of insurance subsidiaries	3,737	3,908

Long-term borrowings	76,572	70,223
TOTAL LIABILITIES	396,716	386,182
PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	2,695	2,714
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	62	68
Common stock (par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2001 and 2000-- 962,533,498 shares)	1,283	1,283
Paid-in capital	4,209	2,843
Accumulated other comprehensive loss (net of tax)	(368)	(345)
Retained earnings	16,150	16,156
	21,336	20,005
Less: Treasury stock at cost (2001 -- 119,059,651 shares; 2000 -- 154,578,945 shares)	977	1,273
Unamortized employee stock grants	776	853
Total Common Stockholders' Equity	19,583	17,879
TOTAL STOCKHOLDERS' EQUITY	20,008	18,304
TOTAL LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY	$ 419,419	$ 407,200

</TABLE>

See Notes to Consolidated Financial Statements.

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Merrill Lynch 2001 Annual Report

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2001	2000	1999	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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	68	118	133	4,654,378	8,018,698	9,011,530
Exchanges	(6)	(50)	(15)	(458,971)	(3,364,320)	(992,832)
Balance, end of year	62	68	118	4,195,407	4,654,378	8,018,698
Common Stock						
Balance, beginning of year	1,283	1,286	1,286	962,533,498	964,779,105	964,428,711
Shares issued to employees	-	-	-	-	203,483	350,394
Shares retired	-	(3)	-	-	(2,449,090)	-

Balance, end of year	1,283	1,283	1,286	962,533,498	962,533,498	964,779,105
Paid-in Capital						
Balance, beginning of year	2,843	1,156	711			
Shares issued to employees	1,366	1,686	440			
Other	-	16	5			
Shares retired	-	(15)	-			
Balance, end of year	4,209	2,843	1,156			
Accumulated Other Comprehensive Loss						
Foreign Currency Translation Adjustment (net of tax)						
Balance, beginning of year	(309)	(302)	(138)			
Translation adjustment	7	(7)	(164)			
Balance, end of year	(302)	(309)	(302)			
Net Unrealized Losses on Available-for-Sale Securities (net of tax)						
Balance, beginning of year	(36)	(88)	16			
Net unrealized gains (losses) on available-for-sale securities	(70)	110	(223)			
Other adjustments(a)	14	(58)	119			
Balance, end of year	(92)	(36)	(88)			
Deferred Gains on Cash Flow Hedges (net of tax)						
Balance, beginning of year	-	-	-			
Net deferred gains on cash flow hedges	151	-	-			
Net reclassification adjustment to earnings	(115)	-	-			
Balance, end of year	36	-	-			
Minimum Pension Liability						
Balance, beginning of year	-	-	-			
Minimum pension liability adjustment	(10)	-	-			
Balance, end of year	(10)	-	-			
Balance, end of year	(368)	(345)	(390)			
Retained Earnings						
Balance, beginning of year	16,156	12,887	10,620			
Net earnings	573	3,784	2,693			
9% Cumulative Preferred stock dividends declared	(38)	(39)	(39)			
Common stock dividends declared	(541)	(476)	(387)			
Balance, end of year	16,150	16,156	12,887			
Treasury Stock, at cost						
Balance, beginning of year	(1,273)	(1,835)	(2,113)	(154,578,945)	(212,278,192)	(234,447,670)
Shares issued to employees(b)	291	488	267	35,060,323	51,885,837	21,176,646
Other	5	56	11	458,971	3,364,320	992,832
Shares retired	-	18	-	-	2,449,090	-
Balance, end of year	(977)	(1,273)	(1,835)	(119,059,651)	(154,578,945)	(212,278,192)
Unamortized Employee Stock Grants						
Balance, beginning of year	(853)	(643)	(676)			
Net issuance of employee stock grants	(720)	(709)	(380)			
Amortization of employee stock grants	797	510	407			
Other	-	(11)	6			
Balance, end of year	(776)	(853)	(643)			
TOTAL COMMON STOCKHOLDERS' EQUITY	19,583	17,879	12,579			
TOTAL STOCKHOLDERS' EQUITY	$20,008	$18,304	$13,004			

</TABLE>

(a) Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes.
(b) Shares are net of reacquisitions from employees of 4,756,694; 1,139,116; and 1,037,982 in 2001, 2000, and 1999, respectively.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in millions)

	Year Ended Last Friday in December		
	2001	2000	1999
<S>	<C>	<C>	<C>
NET EARNINGS	$ 573	$ 3,784	$ 2,693
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment:			
Foreign currency translation gains (losses)	127	127	(116)
Income tax expense	(120)	(134)	(48)
Total	7	(7)	(164)
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	(51)	236	(229)
Reclassification adjustment for realized (gains) losses included in net earnings	(19)	(126)	6
Net unrealized gains (losses) on investment securities available-for-sale	(70)	110	(223)
Adjustments for:			
Policyholder liabilities	(10)	(15)	35
Deferred policy acquisition costs	(13)	(20)	35
Income tax (expense) benefit	37	(23)	49
Total	(56)	52	(104)
Deferred gains on cash flow hedges	36	-	-
Minimum pension liability	(10)	-	-
Total Other Comprehensive Income (Loss)	(23)	45	(268)
COMPREHENSIVE INCOME	$ 550	$ 3,829	$ 2,425

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	2001	2000	1999
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Earnings	$ 573	$ 3,784	$ 2,693
Noncash items included in earnings:			
Depreciation and amortization	888	846	723
Amortization of stock-based compensation	797	510	407
Deferred taxes	(783)	202	(91)
Policyholder reserves	183	193	205
Goodwill amortization	207	217	227
Amortization of debt discount	327	152	54

Restructuring and other charges	491	-	-
Other	(38)	(375)	547
CHANGES IN OPERATING ASSETS AND LIABILITIES(a):			
Trading assets and securities pledged as collateral	(4,378)	(4,236)	4,153
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	1,625	(14)	690
Receivables under resale agreements	9,538	(22,399)	(6,652)
Receivables under securities borrowed transactions	(19,589)	7,098	(4,507)
Customer receivables	1,741	(1,607)	(10,371)
Brokers and dealers receivables	19,553	(17,217)	(296)
Trading liabilities	7,060	1,581	3,538
Payables under repurchase agreements	(15,006)	24,947	5,453
Payables under securities loaned transactions	(1,691)	6,725	(757)
Customer payables	3,942	1,596	624
Brokers and dealers payables	2,418	(1,925)	3,531
Other, net	(1,437)	1,226	709
CASH PROVIDED BY OPERATING ACTIVITIES	6,421	1,304	880
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Maturities of available-for-sale securities	33,135	10,643	4,155
Sales of available-for-sale securities	14,138	7,036	3,071
Purchases of available-for-sale securities	(76,201)	(57,822)	(11,802)
Maturities of held-to-maturity securities	811	822	995
Purchases of held-to-maturity securities	(757)	(634)	(1,015)
Loans, notes, and mortgages	(1,882)	(6,303)	(3,541)
Proceeds from sale of business	344	-	-
Other investments and other assets	(801)	(587)	(876)
Equipment and facilities	(663)	(1,150)	(1,090)
CASH USED FOR INVESTING ACTIVITIES	(31,876)	(47,995)	(10,103)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(10,042)	(10,413)	6,917
Deposits	18,171	50,046	5,141
Issuance and resale of long-term borrowings	38,454	33,687	15,601
Settlement and repurchase of long-term borrowings	(32,827)	(15,719)	(18,600)
Issuance of subsidiaries' preferred securities	-	-	98
Issuance of treasury stock	515	658	212
Other common stock transactions	(372)	(3)	(203)
Dividends	(579)	(515)	(426)
CASH PROVIDED BY FINANCING ACTIVITIES	13,320	57,741	8,740
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,135)	11,050	(483)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,205	12,155	12,638
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,070	$ 23,205	$ 12,155

(a) Net of effects of acquisitions and divestitures.

SUPPLEMENTAL DISCLOSURES

Cash paid for:			
Income taxes	$ 887	$ 641	$ 669
Interest	18,042	17,311	13,125

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See Notes to Consolidated Financial Statements.

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Merrill Lynch 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.") 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 derivatives;
- Merrill Lynch Government Securities Inc. ("MLGSI"), a U.S.-based dealer in U.S. Government securities;
- Merrill Lynch Capital Services, Inc., a U.S.-based dealer in interest rate, currency, and credit derivatives;
- Merrill Lynch Investment Managers, LP, a U.S.-based asset management company;
- Merrill Lynch Investment Managers Limited, a U.K.-based asset management company;
- Merrill Lynch Bank USA ("MLBUSA"), a U.S.-based FDIC-insured depository;
- Merrill Lynch Bank & Trust Co. ("MLB&T"), a U.S.-based FDIC-insured depository;
- Merrill Lynch International Bank Limited, a U.K.-based bank;
- Merrill Lynch Capital Markets Bank Limited, an Ireland-based bank;
- 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 ML & Co. and subsidiaries (collectively, "Merrill Lynch") include:

- securities brokerage, trading, and underwriting;
- investment banking, strategic services (including mergers and acquisitions), and other corporate finance advisory activities;
- asset management;
- origination, brokerage, dealer, and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, and foreign exchange products;
- securities clearance and settlement services;
- equity, debt, foreign exchange, and economic research;
- private equity investing activities;
- banking, trust, and lending services, including commercial and mortgage lending and related services;
- insurance underwriting and sales; and
- investment advisory and related recordkeeping services.

BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Merrill Lynch and 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. All 1999 amounts have been restated to reflect the 2000 merger of Herzog, Heine, Geduld, Inc. ("Herzog") with Merrill Lynch, which was accounted for as a pooling-of-interests (see Note 2 for further information).

On April 1, 2001, Merrill Lynch completed the adoption of the provisions of Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" that were required to be adopted as of this date. These provisions changed the accounting for certain securities lending transactions. Under the new provisions, when Merrill

Lynch acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold, it recognizes on the Consolidated Balance Sheet the securities received and an obligation to return those securities. Accordingly, the Consolidated Balance Sheet separately reflects these assets and liabilities as Securities received as collateral and Obligation to return securities received as collateral, respectively. SFAS No. 140 does not require comparative information for prior periods. In addition, this standard revised the accounting for securitizations and other transfers of financial assets and collateral. This guidance clarifies and further restricts the requirements for recording a transfer of financial assets as a sale. Under this guidance, the accounting for transfers to Special Purpose Entities ("SPEs") that were established prior to April 1, 2001, and that met the sale requirements of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and related guidance, is not affected by the provisions of SFAS No. 140 as long as no additional assets are transferred into the SPE and no additional beneficial interests are issued by the SPE. As such, the adoption of this aspect of the guidance had no material effect on the financial condition of Merrill Lynch. (See Consolidation and Transactions Involving Special Purpose Entities section for additional information regarding SPEs.)

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 also uses derivatives to manage the currency exposure arising from investments in non-U.S. subsidiaries. (See the Derivatives section for additional information on accounting for derivatives.)

USE OF ESTIMATES

In presenting the Consolidated Financial Statements, management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of goodwill, the allowance for loan losses, the realization of deferred tax assets, recovery of insurance deferred acquisition costs, September 11th-related insurance recoveries, restructuring and other charges, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements and it is possible that such changes could occur in the near term. A discussion of the areas in which estimates are a significant component of the amounts reported in the Consolidated Financial Statements follows:

Trading Assets and Liabilities

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions and other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Estimating the fair value of certain illiquid securities requires significant management judgment. Merrill Lynch values trading security assets at the institutional bid price and recognizes bid-offer revenues when assets are sold. Trading security liabilities are valued at the institutional offer price and bid-offer revenues are recognized when the positions are closed.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments.

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

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 greater attention 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., consent of other investors) that may limit Merrill Lynch's ability to realize the quoted market price. Accordingly, Merrill Lynch estimates the fair value of these securities taking into

account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors. Such estimation may result in a fair value for a security that is less than its quoted market price.

Valuation Allowance for Deferred Tax Assets

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assesses its ability to realize deferred tax assets primarily based on the earnings history of the legal entities to which the deferred tax assets are attributable and the absence of negative evidence as discussed in SFAS No. 109, "Accounting for Income Taxes," such as circumstances that if unfavorably resolved would adversely affect future operations or profit levels or a history of tax credit carryforwards expiring unused.

Allowance for Loan Losses

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 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 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 estimate of loan losses include considerable judgment about collectibility based on available facts and evidence at the balance sheet date, and the uncertainties inherent in those assumptions. While management uses the best information available on which to base its estimates, future adjustments to the allowance may be necessary based on changes in the economic environment or variances between actual results and the original assumptions used by management.

Deferred Acquisition Costs Relating to Insurance Policies

Deferred insurance policy acquisition costs are amortized in proportion to the estimated future gross profits for each group of contracts over the anticipated life of the insurance contracts utilizing an effective yield methodology. These future gross profit estimates are subject to periodic evaluation by the Company, 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 which have either been asserted or are deemed probable of assertion, and are subject to significant estimation by management and outside counsel. Accruals for other reserves are also subject to significant estimation.

CONSOLIDATION AND TRANSACTIONS INVOLVING SPECIAL PURPOSE ENTITIES

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

Merrill Lynch follows the guidance in SFAS No. 140 and Emerging Issues Tasks Force ("EITF") Topic D-14, "Transactions Involving Special-Purpose Entities" and EITF Issue No. 90-15, "Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions" to determine whether or not an SPE is required to be consolidated in its Consolidated Financial Statements. Many of the SPEs with which Merrill Lynch enters into transactions meet the requirements of qualifying special purpose entities ("QSPEs") as defined by SFAS No. 140. Based on the requirements of SFAS No. 140, QSPEs are not consolidated by Merrill Lynch.

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

Merrill Lynch may also act as a liquidity provider to investors in securities issued by SPEs or enter into other guarantees related to SPEs. Additional information regarding liquidity facilities and guarantees to SPEs is provided in Note 12 -- Commitments and Contingencies. Merrill Lynch may also retain interests in assets securitized by an SPE, or enter into derivative transactions with SPEs, both of which

are recorded at estimated fair value in the Consolidated Financial Statements. Therefore, material economic exposures to SPEs related to these transactions are recorded or disclosed in the financial statements. Refer to Marketable Investment Securities section for more information on interests retained in securitization transactions.

In addition to the SPEs described above, Merrill Lynch has entered into transactions with SPEs to facilitate the financing of physical property for its own use (facilities and aircraft). The physical property is purchased or constructed by the SPE and leased to Merrill Lynch. For these structures, Merrill Lynch follows the guidance in EITF Issue No. 90-15 and EITF Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction," to determine whether or not consolidation of the SPE is required. Under this guidance, a company that leases property from an SPE is not required to consolidate that SPE if, among other conditions, a third-party investor has made a substantive residual equity capital investment in the SPE that is at risk during the entire term of the lease. Substantive residual equity capital is currently defined as amounting to at least 3% of the value of the assets held by the SPE. Merrill Lynch has met the requirements of EITF Issues No. 90-15 and 97-10 for these SPEs and accordingly, these SPEs are not consolidated in the Consolidated Financial Statements. See Note 12 -- Commitments and Contingencies, for additional detail regarding these transactions.

Merrill Lynch's U.S. banking subsidiaries have also entered into transactions with SPEs in order to improve the liquidity of mortgage portfolios and reduce credit risk of investment portfolios, which resulted in reduced regulatory capital requirements. Refer to Note 16 -- Regulatory Requirements and Dividend Restrictions for more information regarding these transactions.

FAIR VALUE

At December 28, 2001, $384 billion, or 91%, of Merrill Lynch's total assets and $304 billion, or 77%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 29, 2000, $371 billion, or 91%, of Merrill Lynch's total assets and $298 billion, or 77%, 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 segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, available-for-sale and trading securities included in marketable 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. Of the remaining liabilities not at fair value, the majority relate to Merrill Lynch's borrowings, which are generally issued or swapped to a floating rate.

The fair value amounts for financial instruments are disclosed in each respective footnote.

SECURITIES ACCOUNTING

Merrill Lynch generally follows the guidance prescribed by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," when accounting for investment 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 securities are classified as available-for-sale with unrealized gains and losses reported in stockholders' equity. Securities held by a broker-dealer subsidiary are subject to specialized industry guidance as prescribed by the American Institute of Certified Public Accountants Audit and Accounting Guide, Brokers and Dealers in Securities. Merrill Lynch accounts for substantially all securities held by a broker-dealer subsidiary 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. For purposes of the Consolidated Statements of Cash Flows, cash flows from trading derivatives are classified in operating activities.

Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations

Cash and securities segregated for regulatory purposes or deposited with clearing organizations contain 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, and obtain securities for settlement. 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.

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

On the Consolidated Balance Sheets as of December 28, 2001 and December 29, 2000, all firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are classified as Securities pledged as collateral as required by SFAS No. 140.

On the Consolidated Balance Sheet as of December 28, 2001, transactions where Merrill Lynch acts as the lender in a securities lending agreement and receives securities as collateral that can be pledged or sold are recognized as Securities received as collateral and an Obligation to return securities received as collateral.

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.)

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

Merrill Lynch securitizes commercial and residential mortgage and home equity loans, government and corporate bonds, and lease and trade receivables. Merrill Lynch may retain an interest in the securitized assets in the form of residual interests or one or more subordinated tranches. The gain or loss on sale of the receivables 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. To obtain fair values, quoted market prices are used if available. Where quotes are unavailable for retained interests, Merrill Lynch generally estimates fair value initially and on an on-going basis based on the present value of expected future cash flows using management's best estimates of the key assumptions, including credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests categorized as available-for-sale are reported in Other Investments in the Consolidated Balance Sheets (see Note 5 -- Investments).

Retained interests in securitized receivables were not material at December 28, 2001 and December 29, 2000. In 2001 and 2000, cash proceeds from securitizations totaled $12.3 billion and $26.6 billion, respectively, related to the following asset types:

(dollars in millions)

	2001	2000
Asset category		
Municipal bonds	$ 7,402	$ 7,830
Residential mortgage loans	2,833	14,306
Corporate and government bonds	1,262	4,419
Commercial loans	810	-
	$ 12,307	$ 26,555

In 2001, Merrill Lynch recognized pre-tax gains of $18 million from the securitization of residential mortgage loans, and $28 million from the securitization of corporate and government bonds.

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 in the current period. Realized gains and losses and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, depending on the nature of the instrument.

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. As previously noted, estimating the fair value of long-dated derivative contracts and illiquid securities requires significant management judgment.

Derivatives

A derivative is an instrument whose value is "derived" from an underlying instrument or index such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

The fair value of all derivatives is recorded on a net-by-counterparty basis on the Consolidated Balance Sheets where management believes a legal right of setoff exists under an enforceable netting agreement.

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

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 greater attention than simple application of the pricing models.

Use of Derivatives

Merrill Lynch enters into derivatives in a dealing capacity, providing them to clients and entering into them for proprietary trading and financing strategies and to manage its risk exposures arising from trading assets and liabilities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions.

Merrill Lynch also enters into derivatives in a non-dealing capacity, to manage its risk exposures arising from non-trading assets and liabilities. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to

minimize interest rate risk. Merrill Lynch also enters into currency swaps to ensure that non-U.S. dollar-denominated assets are funded with like-currency-denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Derivatives used most frequently include swap agreements that:

- Convert fixed rate interest payments into variable payments
- Change the underlying interest rate basis or reset frequency
- Convert non-U.S. dollar payments into U.S. dollars.

In addition, Merrill Lynch enters into hedges on marketable investment securities to manage the interest rate risk and net duration of the investment portfolio.

Merrill Lynch also uses forward-exchange contracts, currency swaps, and foreign-currency-denominated debt to hedge its net investments in foreign operations. These derivatives and cash instruments are used to mitigate the impact of adverse movements in exchange rates.

Risk Management of Derivatives

Derivative activity is subject to Merrill Lynch's overall risk management policies and procedures. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks. These risks include market, credit, liquidity, process, and other risks that are material and require comprehensive controls and management. (See Note 6 -- Trading Assets and Liabilities, Market Risk and Credit Risk sections). The Corporate Risk Management ("CRM") group, along with other control units, ensures that these risks are properly identified, monitored, and managed throughout Merrill Lynch.

To accomplish this, CRM has established a risk management process which includes:

- A formal risk governance organization that defines the oversight process and its components.

- A regular review of the entire risk management process by the Audit Committee of the Board of Directors.

- Clearly defined risk management policies and procedures supported by analytic tools.

- Communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight.

- Clearly articulated risk tolerance levels as defined by a group composed of executive management that are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

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

Accounting for Derivatives and Hedging Activities

On the first day of fiscal year 2001, Merrill Lynch adopted the provisions of SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

Derivatives entered into in a dealing capacity are recognized at fair value on the Consolidated Balance Sheets as trading assets and liabilities in Contractual agreements and the change in fair value is reported in current period earnings as Principal transactions revenues.

Derivatives entered into in a non-dealing capacity are designated, on the date they are entered into, as either (1) a hedge of the fair value of a recognized asset or liability ("fair value" hedge), (2) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) a hedge of a net investment in a foreign operation.

- Changes in the fair value of derivatives that are designated and qualify as fair value hedges, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings as interest revenue or expense.

- Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in Accumulated other comprehensive loss until earnings are affected by the variability of cash flows of the hedged asset or liability (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

- Changes in the fair value of derivatives that are designated and qualify as hedges of a net investment in a foreign operation are recorded in the Foreign currency translation adjustment account within Accumulated other comprehensive loss.

- Changes in the fair value of derivatives that are economically used to hedge non-trading assets and liabilities, but that do not meet the criteria in SFAS No. 133 to qualify as an accounting hedge are reported in current period earnings as either Principal transactions revenues or Other revenue.

Derivatives entered into by Merrill Lynch in a non-dealing capacity used to hedge its funding and its net investments in foreign subsidiaries are reported at fair value in Other assets or Other liabilities in the Consolidated Balance Sheet at December 28, 2001. Derivatives are also used to hedge Merrill Lynch's marketable investment securities portfolio. Prior to the adoption of SFAS No. 133, derivatives entered into in a non-dealing capacity were generally accounted for on an accrual basis and reported in Other receivables and Other payables. SFAS No. 133 does not require restatement of prior period balances.

Merrill Lynch documents its risk management objectives and strategies for undertaking various hedge transactions. The risk management objectives and strategies are monitored and managed by CRM in accordance with established risk management policies and procedures that include risk tolerance levels. Merrill Lynch also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Merrill Lynch discontinues hedge accounting. Under the provisions of SFAS No. 133, hedge effectiveness may be assumed for those derivatives whose terms match the terms of the asset or liability being hedged and that otherwise meet the conditions of SFAS No. 133.

Merrill Lynch issues debt whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. The contingent payment components of these debt obligations meet the definition of an "embedded derivative." The debt instruments are assessed to determine if the embedded derivative requires separate reporting and accounting, and if so, the embedded derivative is separated and reported in Long-term borrowings on the Consolidated Balance Sheet with the debt obligation; changes in the fair value of the embedded derivative and related hedges are reported in Interest expense. The risk exposures in embedded derivatives are economically hedged with other derivatives reported at fair value.

Merrill Lynch may also purchase financial instruments that contain embedded derivatives. These instruments may be part of either trading inventory or trading marketable investment securities. These instruments are generally accounted for at fair value in their entirety; the embedded derivative is not separately accounted for, and all changes in fair value are reported in earnings.

Upon adoption of SFAS No. 133, all existing hedge relationships were designated anew. Merrill Lynch recorded a pre-tax loss of $32 million ($22 million after-tax) in interest expense upon adoption of SFAS No. 133.

For the year ended December 28, 2001, the amount of hedge ineffectiveness on fair value hedges was not material. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

For the year ended December 28, 2001, $317 million of net gains related to non-U.S. dollar net investment hedges were included in Accumulated other comprehensive loss on the Consolidated Balance Sheet.

Substantially all deferred net gains on derivative instruments designated as cash flow hedges that were accumulated in Other comprehensive income at December 28, 2001 are expected to be reclassified into earnings as interest income during the next twelve months. The amount of ineffectiveness related to these hedges reported in earnings is not material.

Other Receivables and Payables

Customer Receivables and Payables

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

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Financial Advisors compensation and benefits expense is accrued in the same period as revenue is recognized.

Mutual fund distribution fee revenues are accrued as earned, and redemption fee revenues are recognized upon receipt. Performance-based incentive fees are recognized prior to the end of the contract measurement period based on performance to date. Certain compensation costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition. Amortization of deferred amounts is accelerated when it is determined that deferred expenses cannot be recovered.

Brokers and Dealers Receivables and Payables

Receivables from brokers and dealers include amounts receivable for securities not delivered by Merrill Lynch to a purchaser by the settlement date ("fails to deliver"), deposits for securities borrowed, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers and dealers include amounts payable for securities not received by Merrill Lynch from a seller by the settlement date ("fails to receive"), deposits received for securities loaned, and net payables arising from unsettled trades.

Interest and Other Receivables and Payables

Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, stock borrowed transactions, receivables from commissions and fees and income taxes. Interest and other payables include interest payable for stock loaned transactions, and amounts payable for employee compensation and benefits, restructuring reserves and income taxes.

Investments and Liabilities of Insurance Subsidiaries

Insurance liabilities are future benefits payable under annuity and interest-sensitive life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mor-

tality 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.

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with Merrill Lynch's other investment products. Accordingly, separate account assets and the related liabilities of approximately $12.3 billion are not consolidated with the assets and liabilities of Merrill Lynch.

Loans, Notes, and Mortgages

Merrill Lynch's lending and related activities include loan originations, syndications and securitizations. 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 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 assessment of the collectibility of the loan portfolio. Loans are charged off against the allowance for loan losses when management determines that collection of principal is unlikely.

Loans held for sale, which include certain residential mortgage and home equity loans, and commercial loans that are syndicated, are reported at the lower of cost (less allowance for loan losses) or estimated fair value. The impact of the loan loss provision, for syndicated loans not held by Merrill Lynch's U.S. banks, is included in Principal transactions revenues in the Consolidated Statements of Earnings. The loan loss provision related to other loans is included in Interest revenue in the Consolidated Statements of Earnings.

Other Investments

Other investments primarily consist of:

- Available-for-sale securities carried at fair value, with unrealized gains or losses reported in Accumulated other comprehensive loss.

- Investments held by a regulated broker-dealer carried at fair value with gains and losses reported in Principal transactions revenues. Certain of these investments are subject to restrictions that may limit Merrill Lynch's ability to realize currently the estimated fair value of its investment until such restrictions expire. Accordingly, Merrill Lynch estimates the fair value of these securities taking into account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors.

- Merchant banking investments held by non-broker-dealer subsidiaries carried at the lower of cost or net realizable value, or under the equity method depending on Merrill Lynch's ability to exercise significant influence over the investee. Gains and losses on these investments are reported in Other revenues.

- Investments economically hedging deferred compensation liabilities carried at fair value, with gains and losses reported in earnings.

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 $245 million, $235 million, and $207 million in 2001, 2000, and 1999, respectively. Depreciation and amortization recognized in the Communications and technology expense category was $643 million, $611 million, and $516 million for 2001, 2000, and 1999, 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

Goodwill, which represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition, is amortized on a straight-line basis. Goodwill associated with the 1997 purchase of the Mercury Asset Management Group is amortized over 30 years. Goodwill related to other acquisitions is amortized over periods generally not exceeding 15 years.

Merrill Lynch periodically assesses the recoverability of goodwill by comparing expected undiscounted future cash flows from the underlying business operation with recorded goodwill balances. If such assessments indicate that the undiscounted future cash flows are not sufficient to recover the related carrying value, the assets are adjusted to fair values. Refer to the New Accounting Pronouncements section for information regarding the change in accounting for goodwill.

Other Assets

Other assets consist of unrealized gains on derivatives used to hedge Merrill Lynch's borrowing activities. The majority of these derivatives are marked-to-market with changes in fair value reflected in earnings (refer to Derivatives section for more information). Other assets also include prepaid pension expense related to plan contributions in excess of obligations, other prepaid expenses, deferred deal-related expenses, and other deferred charges. Refer to Note 13 -- Employee Benefit Plans for further information.

Commercial Paper and
Short- and Long-Term Borrowings

Merrill Lynch's unsecured general-purpose funding is principally obtained from commercial paper and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums, adjusted for the effects of fair value hedges.

Merrill Lynch uses derivatives to manage the interest rate, currency, equity, and other risk exposures of its borrowings. (See the Derivatives section for additional information on accounting policy for derivatives.)

Deposits

Savings deposits are interest-bearing accounts 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, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may pay a penalty to do so.

STOCK-BASED COMPENSATION

Merrill Lynch accounts for stock-based compensation in accordance with the intrinsic value-based method in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," rather than the fair value-based method in SFAS No. 123, "Accounting for Stock-Based Compensation." Compensation expense for stock options is not recognized since Merrill Lynch grants stock options with no intrinsic value. Compensation expense related to other stock-based compensation plans is recognized over the vesting period. The unamortized portion of the grant value for such plans is reflected as a reduction of Stockholders' Equity in Unamortized employee stock grants on the Consolidated Balance Sheets.

INCOME TAXES

ML & Co. and certain of its wholly-owned subsidiaries file a consolidated U.S. federal income tax return. Certain other Merrill Lynch entities file tax returns in their local jurisdictions.

Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of the business as previously defined in that opinion. SFAS No. 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 provides guidance on the financial accounting and reporting for the impairment or disposal of long-lived assets. Merrill Lynch will adopt the provisions of SFAS No. 144 in the first quarter of 2002 and has not yet determined the impact of adoption.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, intangible assets with indefinite lives and goodwill will no longer be amortized. Instead, these assets will be tested annually for impairment. Merrill Lynch adopted the provisions of SFAS No. 142 at the beginning of fiscal year 2002.

SFAS No. 142 will require that Merrill Lynch perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. This test is required to be completed within six months of the date of adoption. If an indication of impairment exists, quantification of the impairment is required to be completed as soon as possible, but no later than the end of the year. Any impairment loss, as of the first day of fiscal year 2002, will be recog-

nized as the cumulative effect of a change in accounting principle in Merrill Lynch's statement of earnings upon adoption. Merrill Lynch is currently assessing the impact of adopting this standard; annual amortization expense related to goodwill approximated $200 million in 2001.

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

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NOTE 2. 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 fourth quarter pre-tax charge to earnings of $2.2 billion, which includes restructuring costs of $1.8 billion and other one-time charges of $396 million. In addition, a charge to deferred tax expense was recorded related to non-deductible prior and current year losses associated with the refocusing of the Japan Private Client business.

Restructuring Charge

Restructuring charges relate primarily to severance costs of $1.1 billion, facilities costs of $299 million, technology and fixed asset write-offs of $187 million and other costs of $178 million. Structural changes include targeted workforce reductions of approximately 6,200 through a combination of involuntary and voluntary separations, across all business groups. At December 28, 2001, the majority of employee separations were completed or announced and all had been identified. The $1.1 billion of severance costs include non-cash charges related to accelerated stock amortization for stock grants associated with employee separations totaling $135 million. Cash payments of $79 million have been made as of year-end. Facilities-related costs include the closure or subletting of excess space, and the consolidation of Private Client offices in the United States, Europe, Asia Pacific and Japan. Management expects both the remaining branch closings and employee separations to be completed in 2002 and anticipates that substantially all of the cash payments related to real estate and severance will be funded by cash from operations. Asset write-offs primarily reflect the write-off of technology assets and furniture and equipment which resulted from management's decision to close Private Client branch offices.

Included in the restructuring charge are branch closing costs associated with the refocusing of the Japan Private Client operations. As a result of the restructuring of this business, revenues are initially expected to be lower than the revenues reported in the region during 2001. Revenues for the Japan retail operations being discontinued were not significant.

Other Charges

During 2001, Merrill Lynch also incurred one-time charges of $396 million. As part of the resizing of Private Client branch offices, Merrill Lynch identified branch office hardware that will need to be replaced in stages over the next year in order to provide Financial Advisors with the most updated technology with which to serve clients. To facilitate this transition, Merrill Lynch entered into a sale-leaseback transaction on existing equipment with a third party, which resulted in a loss of $133 million as technology assets were written down to fair value. See Note 12 -- Commitments and Contingencies for information regarding the future lease payments related to this equipment. Other one-time charges include $99 million related to technology asset write-offs, $58 million associated with changes in compensation structures, $33 million of charges related to a building held-for-sale, $32 million of investment write-downs, $15 million of write-offs of deferred mutual fund distribution costs, and other costs of $26 million.

SEPTEMBER 11TH-RELATED EXPENSES

On September 11th, 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 backup facilities.

Some of Merrill Lynch's businesses were temporarily disrupted subsequent to September 11th. During the fourth quarter, Merrill Lynch reoccupied and reestablished business operations in the North Tower as well as in 222 Broadway. The South Tower of the World Financial Center is in the process of being restored.

For the year ended December 28, 2001, Merrill Lynch recorded September 11th-related expenses of $131 million ($83 million after-tax), which are net of actual recoveries and insurance receivables booked to date. These expenses include costs related to the write-off of damaged assets and sublease income; the repair and replacement of equipment; and employee relocation, which required reconfiguring alternative office facilities, technology, and telecommunications and providing transportation. Merrill Lynch continues to incur additional September 11th-related expenses, including the purchase of additional equipment and the restoration of facilities. Merrill Lynch is also assessing the impact on operations from physical damage to determine lost profits due to business interruption. Therefore, the full financial impact to Merrill Lynch cannot be currently determined.

Merrill Lynch 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. During the fourth quarter, Merrill Lynch received

its first insurance advance payment related to September 11th of $100 million and recognized an additional insurance receivable of $115 million. Merrill Lynch expects to recognize additional insurance receivables in future periods. Insurance payments are based on recoverable cash expenditures, which will not necessarily be the same as expenses recognized under accounting principles generally accepted in the United States of America.

MERGERS, ACQUISITIONS, AND DIVESTITURES

On December 28, 2001, Merrill Lynch sold its Canadian Private Client and securities clearing businesses for $344 million in cash in connection with its overall global business resizing. The sale resulted in a pre-tax gain of $158 million, which was included in Other Revenues on the Consolidated Statements of Earnings, and accounted for a reduction of approximately 3,200 full-time employees in the fourth quarter.

In July 2000, Merrill Lynch acquired Herzog, a leading Nasdaq market-maker, through an exchange offer followed by a merger of a wholly-owned subsidiary of Merrill Lynch & Co., Inc., with and into Herzog. Pursuant to the offer and the merger, each Herzog shareholder, after giving effect to the ML & Co. two-for-one common stock split, was entitled to receive 283.75502 shares of ML & Co. common stock for each share held. A total of 17,100,602 shares of ML & Co. common stock were issued in connection with this transaction. In addition, as specified in the merger agreement, Herzog treasury shares (2,449,090 shares of ML & Co. common stock) were cancelled and retired upon consummation of the merger.

The merger was accounted for as a pooling-of-interests, and accordingly, prior period financial statements and footnotes were restated to reflect the results of operations, financial position, and cash flows as if Merrill Lynch and Herzog had always been combined. The effect of combining Herzog into the results of operations, financial position, and cash flows of Merrill Lynch was not material.

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NOTE 3. SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT INFORMATION

In reporting to management during 2001, Merrill Lynch's operating results were categorized into three business segments: Global Markets and Investment Banking ("GMI"), the Private Client Group ("Private Client"), and Merrill Lynch Investment Managers ("MLIM"). Prior period amounts have been restated to conform to the 2001 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 transaction and investment banking revenues and related costs resulting from the client activities of Private Client are allocated among GMI and Private Client based on production credits, share counts, trade counts, and other measures which estimate relative value.

- Revenues and expenses related to certain retail money market funds comprising an average of $81 billion, $105 billion, and $118 billion in assets under management in 2001, 2000, and 1999, respectively, are assigned to Private Client.

- The 401(k) business is reported as a 50/50 joint venture between MLIM and Private Client.

- Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if MLIM and Private Client were unrelated entities.

- Interest (cost of carry) is allocated based on management's assessment of the relative liquidity of segment assets and liabilities.

. Goodwill amortization, Mercury financing costs, and September 11th-related expenses 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).

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated amounts:

<TABLE>
<CAPTION>

(dollars in millions)

	GMI	Private Client	MLIM	Corporate Items (including intersegment eliminations)	Total
2001					
Non-interest revenues	$ 8,561	$ 8,256	$2,058	$ (261)(1)	$ 18,614
Net interest revenue(2)	1,428	1,880	35	(77)(3)	3,266
Net revenues	9,989	10,136	2,093	(338)	21,880
Non-interest expenses	8,343	9,974	2,069	117 (4)	20,503
Earnings (loss) before income taxes	$ 1,646	$ 162	$ 24	$ (455)	$ 1,377
Earnings (loss) before income taxes, September 11th-related and restructuring and other charges	$ 2,479	$ 1,239	$ 307	$ (324)	$ 3,701
Year-end total assets	$283,792	$128,965	$2,591	$ 4,071	$419,419
2000					
Non-interest revenues	$ 11,208	$ 10,329	$2,374	$ (235)(1)	$ 23,676
Net interest revenue(2)	1,472	1,632	79	(93)(3)	3,090
Net revenues	12,680	11,961	2,453	(328)	26,766
Non-interest expenses	8,717	10,400	1,952	(20)(5)	21,049
Earnings (loss) before income taxes	$ 3,963	$ 1,561	$ 501	$ (308)	$ 5,717
Year-end total assets	$281,976	$118,390	$2,427	$ 4,407	$407,200
1999					
Non-interest revenues	$ 8,781	$ 9,408	$2,225	$ (194)(1)	

					$ 20,220
Net interest revenue(2)	1,037	1,171	22	(137)(3)	2,093
Net revenues	9,818	10,579	2,247	(331)	22,313
Non-interest expenses	7,165	9,155	1,764	23 (5)	18,107
Earnings (loss) before income taxes	$ 2,653	$ 1,424	$ 483	$ (354)	$ 4,206
Year-end total assets	$246,984	$ 55,641	$2,273	$ 4,952	$309,850

</TABLE>

(1) Primarily relates to the elimination of intersegment revenues.
(2) Management views interest income net of interest expense in evaluating results.
(3) Represents Mercury financing costs.
(4) Represents goodwill amortization of $207 and September 11th-related expenses of $131, net of elimination of intersegment expenses of $221.
(5) Represents goodwill amortization of $217 and $227, net of elimination of intersegment expenses and other corporate items of $237 and $202 for 2000 and 1999, respectively.

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 amounts:

(dollars in millions)

	2001	2000	1999
Net revenues			
Europe, Middle East, and Africa	$ 3,640	$ 4,876	$ 3,976
Japan	1,023	1,511	1,193
Asia Pacific	874	1,247	1,018
Canada	877	854	652
Latin America	475	731	672
Total Non-U.S.	6,889	9,219	7,511
United States	15,092	17,651	14,939
Corporate	(101)	(104)	(137)
Total	$ 21,880	$ 26,766	$ 22,313
Earnings (loss) before income taxes			
Europe, Middle East, and Africa	$ 42	$ 1,315	$ 1,132
Japan	(387)	243	(33)
Asia Pacific	(40)	269	183
Canada	253	176	57

Latin America	18	175	127
Total Non-U.S.	(114)	2,178	1,466
United States	1,946	3,847	3,094
Corporate	(455)	(308)	(354)
Total	$ 1,377	$ 5,717	$ 4,206

NOTE 4. SECURITIES FINANCING TRANSACTIONS

Merrill Lynch enters into secured borrowing and lending transactions to finance trading inventory positions, obtain securities for settlement, and meet customers' needs.

Under these agreements and transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. 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 and use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions. At December 28, 2001 and December 29, 2000, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $246 billion and $217 billion, respectively, and the fair value of the portion that has been sold or repledged was $221 billion and $161 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 classified as Securities pledged as collateral 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 2001 and 2000 are as follows:

(dollars in millions)

	2001	2000
Trading asset category		
Corporate debt and preferred stock	$ 6,135	$ 3,039
Equities and convertible debentures	157	657
Mortgages, mortgage-backed, and asset-backed	7,998	5,876
U.S. Government and agencies	10,634	11,048
Municipals and money markets	1,074	550
Non-U.S. governments and agencies	1,073	1,643
Total	$ 27,071	$ 22,813

NOTE 5. INVESTMENTS

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

Marketable investment securities consist of highly liquid debt and equity securities, including those held for liquidity management purposes and the investment portfolio for Merrill Lynch's U.S. banks. Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities.

The fair values of Other investments were $6.0 billion and $5.1 billion at year-end 2001 and 2000, respectively. Fair value for non-qualifying investments under SFAS No. 115, which include merchant banking and private equity investments including partnership interests, is estimated using a number of methods, including earnings multiples, cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., consent of other investors) that may limit Merrill Lynch's ability to realize currently the estimated fair value. Accordingly, Merrill Lynch's current estimate of fair value and the ultimate realization of these instruments may differ.

Included in Other investments on the Consolidated Balance Sheets are private equity investments which resulted from Merrill Lynch's merchant banking and other activities. Investment-related net revenues, which include dividend income and realized and unrealized gains and losses, were $229 million, $618 million and $295 million in 2001, 2000 and 1999, respectively. These revenues include net gains related to investments held by broker-dealer entities of $213 million and $212 million, which are included in Principal transactions revenues in 2001 and 2000, respectively. The remaining investment-related net revenues are included in Other revenues in the accompanying Consolidated Statements of Earnings, and include the $158 million pre-tax gain from the sale of the Private Client and securities clearing businesses in Canada in 2001.

Marketable investment securities and certain investments of insurance subsidiaries and other investments are classified as available-for-sale, held-to-maturity, or trading as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 28, 2001 and December 29, 2000 are as follows:

(dollars in millions)

	2001	2000
Marketable Investment Securities		
Available-for-sale	$ 70,320	$ 48,483
Trading	7,460(4)	632
Held-to-maturity	40(4)	136
Total	$ 77,820	$ 49,251
Investments of Insurance Subsidiaries		
Available-for-sale	$ 2,333	$ 2,382
Trading	24	25
Non-qualifying(1)(2)	1,626	1,595
Total	$ 3,983	$ 4,002
Other Investments		
Available-for-sale	$ 1,703	$ 1,746
Trading	358(4)	-
Held-to-maturity	394	693
Non-qualifying(1)(3)	3,414	2,499
Total	$ 5,869	$ 4,938

(1) Non-qualifying for SFAS No. 115 purposes.
(2) Primarily consists of insurance policy loans.
(3) Includes merchant banking investments and investments economically hedging deferred compensation liabilities.
(4) During 2001 certain municipals and mortgage- and asset-backed securities previously classified as available-for-sale or held-to-maturity were transferred to trading.

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

<TABLE>
<CAPTION>

(dollars in millions)

	December 28, 2001				December 29, 2000			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Available-for-Sale								
Mortgage- and asset-backed securities	$ 58,880	$ 611	$ (665)	$ 58,826	$ 35,698	$ 277	$ (241)	$ 35,734
Corporate debt	5,382	78	(77)	5,383	4,298	24	(53)	4,269
U.S. Government and agencies	5,130	237	(231)	5,136	5,384	177	(3)	5,558

Municipals	16	1	-	17	1,838	44	(39)	1,843
Other debt securities	3,149	4	(1)	3,152	4,629	16	(9)	4,636
Total debt securities	72,557	931	(974)	72,514	51,847	538	(345)	52,040
Equity securities	1,854	6	(18)	1,842	616	12	(57)	571
Total	$ 74,411	$ 937	$ (992)	$ 74,356	$ 52,463	$ 550	$ (402)	$ 52,611
Held-to-Maturity								
U.S. Government and agencies	$ 215	$ -	$ -	$ 215	$ 229	$ -	$ -	$ 229
Municipals	-	-	-	-	225	20	(2)	243
Mortgage- and asset-backed securities	34	-	-	34	54	-	-	54
Other debt securities	185	-	-	185	321	56	-	377
Total	$ 434	$ -	$ -	$ 434	$ 829	$ 76	$ (2)	$ 903

</TABLE>

The amortized cost and estimated fair value of debt securities at December 28, 2001, by contractual maturity, for available-for-sale and held-to-maturity investments follow:

<TABLE>
<CAPTION>

(dollars in millions)

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 4,036	$ 4,043	$ 3	$ 3
Due after one year through five years	4,102	4,115	216	216
Due after five years through ten years	4,011	4,015	-	-
Due after ten years	1,528	1,515	181	181
	13,677	13,688	400	400
Mortgage- and asset-backed securities	58,880	58,826	34	34
Total(1)	$ 72,557	$ 72,514	$ 434	$ 434

</TABLE>

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

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

(dollars in millions)

	2001	2000	1999
Proceeds	$ 14,138	$ 7,036	$ 3,071
Gross realized gains	85	247	22
Gross realized losses	(66)	(121)	(28)

Net unrealized gains (losses) from investment securities classified as trading included in the 2001, 2000, and 1999 Consolidated Statements of Earnings were $47 million, $(22) million, and $46 million, respectively.

Merrill Lynch has agreed to invest not more than $600 million in Merrill Lynch HSBC ("MLHSBC"), the 50/50-owned corporation created to provide global online investment and banking services to individual self-directed customers outside the United States. MLHSBC is not a consolidated subsidiary of Merrill Lynch. At December 28, 2001, Merrill Lynch had invested $197 million. The timing of the funding of additional investments will be determined by the Board of Directors of Merrill Lynch HSBC, which has equal representation from Merrill Lynch and HSBC Holdings, plc ("HSBC").

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NOTE 6. TRADING ASSETS AND LIABILITIES

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

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate.

Certain trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. Refer to Note 1 -- Summary of Significant Accounting Policies, Derivatives, for additional information on Risk Management.

MARKET RISK

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

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

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

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than 50 currencies, including the euro, Japanese yen, Swiss franc and British pound. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward market is not available or where the client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

Equity Price Risk

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

Credit Spread Risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality, (i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument)). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the Credit Risk section.

Commodity Price and Other Risks

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

Merrill Lynch is also a party to financial instruments that contain risks not correlated to typical financial risks. Merrill Lynch generally mitigates the risk associated with these transactions by entering into offsetting derivative transactions.

CREDIT RISK

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

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, Merrill Lynch executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by Merrill Lynch. These activities may expose Merrill Lynch to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, Merrill Lynch may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. 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 28, 2001, 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 $15.6 billion and $23.8 billion at December 28, 2001 and December 29, 2000, 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 28, 2001 and December 29, 2000 totaled $102.9 billion and $62.8 billion, respectively.

At December 28, 2001, Merrill Lynch had concentrations of credit risk with other counterparties, the largest of which were a financial institution rated AA by recognized credit rating agencies and a government-sponsored agency rated AAA by recognized credit rating agencies. Total unsecured exposure to each counterparty was approximately $1.5 billion, or 0.4% 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 derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

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

The notional or contractual amounts of derivatives by type of risk follow:
<TABLE>
<CAPTION>
(dollars in billions)

	Risk			
	Interest Rate(1)(2)	Currency(3)	Equity Price	Commodity and other
<S>	<C>	<C>	<C>	<C>
December 28, 2001				
Swap agreements	$ 3,512	$ 235	$ 20	$ 38
Forward contracts	120	184	1	2
Futures contracts	617	2	38	1
Options purchased	35	61	143	2
Options written	42	73	41	3
December 29, 2000				
Swap agreements	$ 2,970	$ 51	$ 17	$ 31
Forward contracts	132	165	1	1
Futures contracts	273	3	17	-
Options purchased	48	92	63	5
Options written	59	60	67	1

</TABLE>
(1) Certain derivatives subject to interest rate risk are also exposed to the credit-spread risk of the underlying financial instrument.

(2) Forward contracts subject to interest rate risk principally represent "To Be Announced" mortgage pools that bear interest rate as well as principal prepayment risk.

(3) Included in the currency risk category are certain contracts that are also subject to interest rate risk.

For derivatives outstanding at December 28, 2001, the following table presents the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

<TABLE>
<CAPTION>
(dollars in billions)

	2002	2003	2004	2005	After 2005	Total
Swap agreements	$ 546	$ 625	$ 477	$ 404	$ 1,753	$ 3,805
Forward contracts	242	61	3	-	1	307
Futures contracts	548	50	27	16	17	658
Options purchased	112	37	59	11	22	241
Options written	101	23	9	8	18	159
Total	$ 1,549	$ 796	$ 575	$ 439	$ 1,811	$ 5,170

</TABLE>

The notional or contractual values of derivatives do not represent default risk exposure. Default risk is primarily limited to the current cost of replacing derivative contracts in a gain position. Default risk can also occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of accounting loss is generally limited to a one-day net positive change in market value. Such receivables and payables are recorded in Customers receivables and payables on the Consolidated Balance Sheets. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk.

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.

To reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 28, 2001, such collateral amounted to $7.3 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.

NOTE 7. LOANS, NOTES, AND MORTGAGES

Loans, Notes, and Mortgages at December 28, 2001 and December 29, 2000 are presented below:

(dollars in millions)

	2001	2000
Commercial:		
In U.S. offices	$ 8,565	$ 9,399
In offices outside the U.S.	1,710	1,438
Total commercial	10,275	10,837
Consumer:		
In U.S. offices	8,730	6,635
Total	$ 19,005	$ 17,472

The above amounts are net of allowance for loan losses of $425 million and

$176 million as of December 28, 2001 and December 29, 2000, respectively. The increase in the allowance for loan losses in 2001 is primarily due to provisions made in 2001 for certain syndicated loans.

The fair values of Loans, Notes, and Mortgages were approximately $18.9 billion and $17.5 billion at December 28, 2001 and December 29, 2000, respectively. Fair value for loans made in connection with merchant banking activities, consisting primarily of senior debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

NOTE 8. COMMERCIAL PAPER AND SHORT-AND LONG-TERM BORROWINGS

Merrill Lynch issues U.S. and non-U.S. dollar-denominated debt instruments with both variable and fixed interest rates, primarily at the ML & Co. level. These borrowing activities may create exposure to market risk, most notably interest rate and currency risk. Refer to Note 1 -- Summary of Significant Accounting Policies, Derivatives section for additional information on the accounting policy for derivatives.

Borrowings at December 28, 2001 and December 29, 2000 are presented below:

(dollars in millions)

	2001	2000
Commercial paper and other short-term borrowings		
Commercial paper	$ 2,950	$ 14,022
Other	2,191	1,161
Total	$ 5,141	$ 15,183
Long-term borrowings		
Fixed-rate obligations:(1)		
U.S. dollar-denominated	$ 11,797	$ 12,680
Non-U.S. dollar-denominated	1,671	1,723
Zero-coupon contingent convertible debt	2,383	-
Variable-rate obligations:(2)(3)		
U.S. dollar-denominated	3,720	2,809
Non-U.S. dollar-denominated	4,014	2,089
Medium-term notes:(3)(4)		
U.S. dollar-denominated	37,600	37,483
Non-U.S. dollar-denominated	15,387	13,439
Total	$ 76,572	$ 70,223

(1) At December 28, 2001, U.S. dollar-denominated fixed-rate obligations are due between 2002 and 2028 at interest rates ranging from 2.4% to 8.4%; non-U.S. dollar-denominated fixed-rate obligations are due 2002 to 2019 at interest rates ranging from 0.38% to 7.63%.

(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.

(4) The medium-term note program provides for issuances that may bear fixed or variable interest rates and may have maturities that range up to 30 years from the date of issue.

Long-term borrowings at December 28, 2001, based on their contractual terms, mature as follows:

(dollars in millions)

2002	$ 22,448
2003	15,042
2004	11,191
2005	4,124

2006	7,187
2007 and thereafter	16,580
Total	$ 76,572

In May 2001, Merrill Lynch issued $4.6 billion of zero-coupon contingent convertible debt (Liquid Yield Option/TM/ notes or LYONs(R)) at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. The LYONs(R) 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(R) for a certain period exceeds 120% or more of the accreted value of the LYONs(R). In the case that payment is required, contingent interest will be equal to the greater of the common stock dividend for that period or $.16 multiplied by the initial amount of shares into which the LYONs(R) 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(R). Each LYONs(R) 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(R) on May 23, 2004, 2005, 2006, 2011, 2016, 2021 and 2026 at accreted value. Holders may also require Merrill Lynch to repurchase all or a portion of the LYONs(R) upon a change in control occurring on or before May 23, 2006 at a price equal to the 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(R) at any time after May 23, 2006.

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

Merrill Lynch's debt obligations do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. Merrill Lynch may issue structured notes that, under certain circumstances, require Merrill Lynch to immediately settle the obligation for cash or other securities. A limited number of structured notes may be accelerated based on the value of the underlying securities. Merrill Lynch typically hedges these notes with positions in the underlying securities.

The effective weighted-average interest rates for borrowings, which include the impact of hedges, at December 28, 2001 and December 29, 2000 were:

	2001	2000
Commercial paper and other short-term borrowings	2.00%	6.43%
Long-term borrowings	2.18	6.65

The fair values of long-term borrowings and related hedges were $76.6 billion and $71.0 billion at December 28, 2001 and December 29, 2000, respectively. These fair values are estimated using current market prices and pricing models.

Borrowing Facilities

Merrill Lynch has obtained a committed, senior unsecured revolving credit facility aggregating $5 billion under an agreement with a syndicate of banks. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 28, 2001, 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 2002.

NOTE 9. DEPOSITS

Deposits at December 28, 2001 and December 29, 2000 are presented below:

(dollars in millions)

	2001	2000
U.S.		
Savings Deposits	$ 72,200	$ 52,275
Time Deposits	1,355	2,612
Total U.S. Deposits	73,555	54,887
Non-U.S.		
Non-interest bearing	234	174
Interest bearing	12,030	12,587
Total Non-U.S. Deposits	12,264	12,761
Total Deposits	$ 85,819	$ 67,648

The effective weighted-average interest rates for deposits, which include the impact of hedges, at December 28, 2001 and December 29, 2000 were 1.74% and 5.71%, respectively. The fair values of deposits approximated carrying value at December 28, 2001 and December 29, 2000.

NOTE 10. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, primarily consist of perpetual trust-issued preferred securities.

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

The following table presents data related to the issuance of TOPrS/SM/ by Merrill Lynch Capital Trust I, II, III, IV, and V. All TOPrS/SM/ issued have a liquidation value of $25 per security, have a perpetual life, and can be redeemed at the option of the trusts, in whole or in part, at the liquidation value on or after their respective optional redemption dates (see chart below). The holders of the TOPrS/SM/ do not have the right to redeem the securities. Distributions, which are deductible for U.S. federal tax purposes, are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

(dollars in millions)

TOPrS	Annual Distribution Rate	Issue Date	Optional Redemption Date	Liquidation Value
I	7.75%	Dec. 1996	Dec. 2006	$ 275
II	8.00	Feb. 1997	Mar. 2007	300
III	7.00	Jan. 1998	Mar. 2008	750
IV	7.12	Jun. 1998	Jun. 2008	400
V	7.28	Nov. 1998	Sep. 2008	850
Other(1)	2.70	Jul. 1999	Jun. 2004	76
				$ 2,651

(1) Represents Yen-denominated TOPrS issued by Merrill Lynch Yen TOPrS Trust I.

In addition, $44 million of preferred securities of other subsidiaries were outstanding at year-end 2001.

NOTE 11. 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 2001, 2000, and 1999.

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

COMMON STOCK

In 2001, stockholders approved the proposal to amend ML & Co.'s certificate of incorporation to increase the authorized number of shares of common stock from 1 billion to 3 billion.

In 2000, the Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. The par value of the common stock remained at $1.33 1/3 per share. Accordingly, a transfer from Paid-in capital to Common stock and Exchangeable shares of $680 million was made to preserve the par value of the post-split

shares. All share and per share data have been restated for the effect of the split. Dividends paid on common stock were $0.64, $0.61, and $0.53 per share in 2001, 2000, and 1999, respectively.

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 2001 and 2000, 458,971 and 3,364,320 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 2001, 4,195,407 Exchangeable Shares were outstanding, compared with 4,654,378 at year-end 2000.

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 28, 2001 and December 29, 2000 are as follows:

(dollars in millions)

	2001	2000
Foreign currency translation adjustment		
Unrealized (losses), net of gains	$ (103)	$ (230)
Income taxes	(199)	(79)
Total	(302)	(309)
Unrealized gains (losses) on investment securities available-for-sale		
Unrealized (losses), net of gains	(127)	(57)
Adjustments for:		
Policyholder liabilities	(28)	(18)
Deferred policy acquisition costs	2	15
Income taxes	61	24
Total	(92)	(36)
Deferred gains on cash flow hedges	36	-

Minimum pension liability	(10)	-
Total accumulated other comprehensive loss	$ (368)	$ (345)

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)

	2001	2000	1999
Net earnings	$ 573	$ 3,784	$ 2,693
Preferred stock dividends	38	39	39
Net earnings applicable to common stockholders	$ 535	$ 3,745	$ 2,654
(shares in thousands)			
Weighted-average basic shares outstanding(1)	838,683	798,273	754,672
Effect of dilutive instruments(2)			
Employee stock options	53,336	68,190	55,701
FACAAP shares	27,305	29,637	31,894
Restricted shares and units	19,173	15,251	11,138
ESPP shares	58	65	94
Dilutive potential common shares	99,872	113,143	98,827
Diluted shares(3)	938,555	911,416	853,499
Basic EPS	$ 0.64	$ 4.69	$ 3.52
Diluted EPS	0.57	4.11	3.11

(1) Includes shares exchangeable into common stock.
(2) See Note 14 for a description of these instruments and issuances subsequent to December 28, 2001.
(3) At year-end 2001, 2000, and 1999, there were 38,174; 1,456, and 3,150 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations.

NOTE 12. COMMITMENTS AND CONTINGENCIES

LITIGATION

As of December 28, 2001, Merrill Lynch has been named as party in various actions, some of which involve claims for substantial amounts. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial position of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results for any particular period.

LENDING AND GUARANTEES

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. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. Merrill Lynch also issues various guarantees to counterparties in connection with certain leasing, securitization, and other transactions. These commitments and guarantees usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon or guarantees are issued, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and market conditions.

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

At December 28, 2001, Merrill Lynch had the following commitments and guarantees with commitment expirations as follows:

(dollars in millions)

	Total Commit-ment	Less than 1 year	1-3 years	4-5 years	Over 5 years
Commitments to extend credit	$ 17,833(1)	$ 8,213	$ 3,945	$ 3,083	$ 2,592
Third-party guarantees	316	205	94	7	10
SPE-related commitments	12,647	11,441	65	581	560

(1) Approximately $5.4 billion relates to secured lending activities.

SPE-related commitments include liquidity facilities and default protection to investors in securities issued by SPEs totaling $12 billion. The fair value of these commitments approximate zero as of December 28, 2001 as these positions are significantly overcollateralized. In addition, Merrill Lynch provides guarantees to holders of notes issued by SPEs relating to the residual value of property and equipment lease assets held by the SPEs.

The commitments to extend credit are comprised of commercial paper back-up lines of credit, syndicated loans, mortgages and other institutional and retail commitments to extend credit. The commitments do not include any amounts for commitments related to margin lending.

LEASES

Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

Merrill Lynch established two SPEs to finance its newly constructed Hopewell, New Jersey campus and an aircraft. Merrill Lynch leases the facilities and the aircraft from the SPEs. The assets and liabilities of these SPEs are not consolidated in the financial statements of Merrill Lynch as they meet the accounting requirements of EITF Issue No. 90-15. More specifically, in addition to the other requirements of EITF No. 90-15, both of these SPEs have third-party investors who have made a substantive capital investment in the SPEs in the amount of 3% that is at risk during the entire term of the lease. The total amount of funds raised by the SPEs to finance these transactions was $321 million at December 28, 2001 and $217 million at December 29, 2000.

Merrill Lynch entered into a five-year lease with two five-year renewal options with each of these SPEs. The minimum rental commitments for these transactions are included in the table that follows. Merrill Lynch also has an option to purchase the assets owned by the SPEs for the acquisition cost, upon thirty days' notice.

If Merrill Lynch does not renew the leases or purchase the assets held by the SPEs, the underlying assets will be sold to a third party. The proceeds of such sale will be used to repay the notes and equity issued by the SPEs. Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 85% of the acquisition cost of the assets. This guarantee does not extend to the equity investors. The maximum cash flow of this guarantee is reflected in the preceding commitments and guarantees table.

At December 28, 2001, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year are as follows:

(dollars in millions)

	WFC(1)	Other	Total
2002	$ 150	$ 389(2)	$ 539
2003	158	334	492
2004	179	298	477
2005	179	280	459
2006	179	247	426
2007 and thereafter	1,207	884	2,091
Total	$2,052	$2,432	$4,484

(1) World Financial Center Headquarters.
(2) Includes $4.7 million of lease payments related to a leaseback of Private Client technology equipment.

The minimum rental commitments shown above have not been reduced by $594 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)

	2001	2000	1999
Rent expense	$ 651	$ 636	$ 589
Sublease revenue	(106)	(108)	(101)
Net rent expense	$ 545	$ 528	$ 488

OTHER COMMITMENTS

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 28, 2001 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch had commitments at December 28, 2001 and December 29, 2000 to enter into resale and repurchase agreements as follows:

(dollars in millions)

	2001	2000
Resale agreements	$ 7,046	$ 2,803
Repurchase agreements	4,142	3,504

Merrill Lynch also obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated $1,687 million and $1,241 million at December 28, 2001 and December 29, 2000, respectively.

In connection with merchant banking activities, Merrill Lynch has committed to purchase $321 million and $670 million of partnership interests at December 28, 2001 and December 29, 2000, respectively.

Merrill Lynch has entered into agreements with providers of market data, communications, and systems consulting services. At December 28, 2001 minimum fee commitments over the remaining life of these agreements aggregated $349 million.

NOTE 13. EMPLOYEE BENEFIT PLANS

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

In 1999, Merrill Lynch changed its measurement date for both its defined benefit pension and other postretirement benefit plans from year-end to September quarter-end.

DEFINED CONTRIBUTION PENSION PLANS

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

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees with a minimum of one year of service. A separate retirement account is maintained for each participant. Under the RAP, employees are given the opportunity to invest their retirement savings in a number of different investment alternatives. Under the ESOP, all retirement savings are in ML&Co. common stock, until employees reach the age of 55 and have five years in the plan, when they are given the opportunity to diversify.

In 1989, the ESOP trust purchased from Merrill Lynch 95.7 million shares of ML & Co. common stock with residual funds from a terminated defined benefit pension plan ("Reversion Shares") and loan proceeds from a subsidiary of Merrill Lynch ("Leveraged Shares").

Merrill Lynch credited each participant's account and recorded pension expense under the Retirement Program based on years of service and eligible compensation. This expense was funded by quarterly allocations of Leveraged and Reversion Shares and, when necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares were released in accordance with the terms of the ESOP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in 1997. Leveraged Shares were allocated to participants' accounts as principal was repaid on the loan to the ESOP, which matured in 1999. Principal and interest on the loan were payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. At December 31, 1999, all Leveraged and Reversion Shares had been allocated.

On July 17, 2001 Merrill Lynch merged the assets of the Herzog ESOP with the Merrill Lynch ESOP. Merrill Lynch will allocate ESOP shares of Merrill Lynch stock to all participants of the ESOP as principal and interest are repaid. A loan payment of approximately $1 million was made in August 2001 and, as a result, 75,768 shares are committed to participants as of year-end 2001. At December 28, 2001, 1,124,260 shares were unallocated. These shares are scheduled to be allocated to participants through 2006.

Additional information on ESOP activity follows:

(dollars in millions)

	2001	2000	1999
Compensation costs funded with ESOP shares	$ 5	$ 11	$ 49
Dividends used for debt service	-	-	2(1)

(1) Dividends on all Merrill Lynch ESOP Leveraged Shares were used for debt service on the ESOP loan through April 1, 1999. Dividends on unallocated Leveraged Shares only were used for this purpose through the end of the 1999 third quarter, when the loan was repaid.

Employees can participate in the 401K by contributing, on a tax-deferred basis, up to 15% of their eligible compensation, but not more than the maximum annual amount allowed by law. Employees are given the opportunity to invest their 401K contributions in a number of different investment alternatives including ML&Co. common stock. Merrill Lynch's contributions are made in cash, and are equal to one-half of the first 6% of each participant's eligible compensation contributed to the 401K, up to a maximum of two thousand dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 14).

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

DEFINED BENEFIT PENSION PLANS

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 2001 and 2000, 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 28, 2001 and September 29, 2000 and the amounts recognized in the Consolidated Balance Sheets at year-end 2001 and 2000:

(dollars in millions)

	2001	2000
Projected benefit obligations		
Balance, beginning of year	$ 1,870	$ 1,987
Service cost	43	45
Interest cost	129	127
Net actuarial (gain) loss	108	(156)
Benefits paid	(120)	(89)
Other	(16)	(44)
Balance, end of period	2,014	1,870
Fair value of plan assets		
Balance, beginning of year	2,379	2,216
Actual return on plan assets	188	247
Contributions	69	41
Benefits paid	(120)	(89)
Other	(16)	(36)
Balance, end of period	2,500	2,379
Funded status	486	509
Unrecognized net actuarial (gains)	(255)	(343)
Unrecognized prior service benefit	(1)	(1)
Unrecognized net transition obligation	1	1
Fourth-quarter activity, net	11	10
Net amount recognized	$ 242	$ 176
Assets	$ 282	$ 258
Liabilities	(50)	(82)
Other comprehensive income	10	-
Net amount recognized	$ 242	$ 176

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 $561 million, $461 million, and $416 million, respectively, as of September 28, 2001, and $118 million, $111 million, and $61 million, respectively, as of September 29, 2000. 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 actuarial assumptions used in calculating the projected benefit obligation at September 28, 2001 and September 29, 2000 are as follows:

	2001	2000
Discount rate	6.7%	7.1%
Rate of compensation increase	4.3	4.4
Expected rate of return on plan assets	6.6	7.7

Pension cost included the following components:

(dollars in millions)

	2001	2000	1999
Defined contribution plan cost	$ 256	$ 244	$ 234
Defined benefit plans			
Service cost for benefits earned during the year	43	45	49
Interest cost on projected benefit obligations	129	127	114
Expected return on plan assets	(157)	(150)	(136)
Amortization of unrecognized items and other	(9)	(14)	-
Total defined benefit plan cost	6	8	27
Total pension cost	$ 262	$ 252	$ 261

POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS

Merrill Lynch provides health and life insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care component is contributory, with certain retiree contributions adjusted periodically; the life insurance component of the plan is noncontributory. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 28, 2001, 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 28, 2001 and September 29, 2000, and the amounts recognized in the Consolidated Balance Sheets at year-end 2001 and 2000:

(dollars in millions)

	2001	2000
Accumulated benefit obligations		
Balance, beginning of year	$ 199	$ 194
Service cost	8	7
Interest cost	16	14
Net actuarial (gain) loss	44	(11)
Benefits paid	(12)	(9)
Other	5	4
Balance, end of period	260	199
Fair value of plan assets		
Balance, beginning of year	-	-
Contributions	12	8
Benefits paid	(12)	(8)
Balance, end of period	-	-
Funded status	(260)	(199)
Unrecognized net actuarial (gains)	(4)	(47)
Unrecognized prior service cost	3	4
Fourth-quarter activity, net	3	2
Accrued benefit liabilities	$(258)	$(240)

The actuarial assumptions used in calculating the postretirement accumulated benefit obligations at September 28, 2001 and September 29, 2000 are as follows:

	2001	2000
Discount rate	7.0%	7.5%
Health care cost trend rates(1)		
Initial	8.9	7.9
2010 and thereafter	5.0	5.0

(1) Assumed to decrease gradually until 2010 and remain constant thereafter.

Other postretirement benefits cost included the following components:

(dollars in millions)

	2001	2000	1999
Service cost	$ 8	$ 7	$ 9
Interest cost	16	14	14
Other	8	-	(4)
Total other postretirement benefits cost	$ 32	$ 21	$ 19

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	
	2001	2000	2001	2000
Effect on:				
Other postretirement benefits cost	$ 5	$ 4	$ (4)	$ (3)
Accumulated benefit obligation	45	31	(36)	(25)

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 $298 million, $117 million, and $33 million in 2001, 2000, and 1999, respectively, of postemployment benefits expense, which included severance costs for terminated employees of $281 million, $70 million, and $26 million in 2001, 2000, and 1999, respectively. The 2001 severance costs exclude costs related to the restructuring and other charges recorded in the fourth quarter of 2001. (See Note 2 -- Other Significant Events for additional information). Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 28, 2001 since future severance costs are not estimable.

NOTE 14. EMPLOYEE INCENTIVE PLANS

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase shares. The total compensation cost recognized in earnings for stock-based compensation plans for 2001, 2000, and 1999 was $732 million, $633 million, and $463 million, respectively. The 2001 costs exclude restructuring related costs discussed in Note 2 -- Other Significant Events. Merrill Lynch also sponsors deferred cash compensation plans for eligible employees.

LONG-TERM INCENTIVE COMPENSATION PLANS

("LTIC PLANS") AND EQUITY CAPITAL
ACCUMULATION PLAN ("ECAP")

LTIC Plans and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans 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 provides for the issuance of Restricted Shares, as well as Performance Shares. All plans under both LTIC and ECAP may be satisfied using either treasury or newly issued shares. As of December 28, 2001, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, and Performance Options had been granted.

Restricted Shares and Units

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

The activity for Restricted Shares and Units under these plans during 2001 and 2000 follows:

	LTIC Plans		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
Authorized for issuance at:			
December 28, 2001	660,000,000	N/A	104,800,000
December 29, 2000	560,000,000	N/A	104,800,000
Available for issuance at:(1)			
December 28, 2001	163,316,331	N/A	10,738,237
December 29, 2000	80,562,524	N/A	4,013,790
Outstanding, end of 1999	26,292,892	25,337,225	7,657,832
Granted - 2000	209,313	17,746,449	18,927
Paid, forfeited, or released from contingencies	(7,790,512)	(7,925,185)	(7,303,458)
Outstanding, end of 2000	18,711,693	35,158,489	373,301
Granted - 2001	1,254,182	9,129,715	11,759
Paid, forfeited, or released from contingencies	(7,508,504)	(9,340,931)	(8,982)
Outstanding, end of 2001(2)	12,457,371	34,947,273	376,078

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

(2) In 2002, 1,353,481 and 12,353,105 Restricted Shares and Units under LTIC Plans, respectively, were granted to eligible employees.

The weighted-average fair value per share or unit for 2001, 2000, and 1999 grants follows:

	2001	2000	1999
LTIC Plans			
Restricted Shares	$ 75.76	$ 45.09	$ 37.90
Restricted Units	74.52	46.52	37.49
ECAP Restricted Shares	60.51	52.67	42.68

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares and units are granted to employees and non-employee directors. The table that follows summarizes information related to restricted shares and units for these other plans:

Restricted	Restricted

	Shares	Units
Authorized for Issuance at:		
December 28, 2001	3,800,000	N/A
December 29, 2000	3,800,000	N/A
Outstanding at:		
December 28, 2001	99,567	23,225
December 29, 2000	278,177	43,190

NON-QUALIFIED STOCK OPTIONS

Non-qualified Stock Options granted under LTIC Plans in 1989 through 1995 generally became exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 through 2000 generally are exercisable over five years. Beginning in 2001, new option grants become exercisable after approximately six months. 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 2001, 2000, and 1999 follows:

	Options Outstanding	Weighted-Average Exercise Price
Outstanding, beginning of 1999	148,761,186	$ 14.99
Granted -- 1999	59,849,880	36.00
Exercised	(14,970,240)	8.95
Forfeited	(5,636,320)	31.94
Outstanding, end of 1999	188,004,506	27.99
Granted -- 2000	39,839,546	43.83
Exercised	(35,672,581)	15.47
Forfeited	(5,116,248)	34.47
Outstanding, end of 2000	187,055,223	27.48
Granted -- 2001	35,136,631	76.49
Exercised	(23,558,452)	17.19
Forfeited	(4,182,983)	38.69
Outstanding, end of 2001(1)	194,450,419	37.36

(1) In January 2002, 44,970,614 Non-qualified Stock Options were granted to eligible employees.

At year-end 2001, 2000, and 1999, options exercisable under LTIC Plans were 126,979,165, 92,776,119, and 83,568,708, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2001:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)(1)	Number Exercisable	Weighted-Average Exercise Price
<S> <C>	<C>	<C>	<C>	<C>	<C>
$ 7.00 - $14.99	40,757,581	$10.69	2.78	40,757,581	$10.69
$15.00 - $31.99	38,486,727	25.59	5.68	27,375,103	24.85
$32.00 - $42.99	43,923,553	36.21	7.13	17,503,230	36.11
$43.00 - $60.99	37,649,508	43.88	8.09	7,710,201	43.87
$61.00 - $77.99	33,633,050	77.41	9.10	33,633,050	77.41

</TABLE>

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

The weighted-average fair value of options granted in 2001, 2000, and 1999 was $31.80, $18.05, and $12.39 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:

	2001	2000	1999
Risk-free interest rate	5.05%	6.73%	4.67%
Expected life	5 yrs.	5 yrs.	5 yrs.
Expected volatility	42.84%	40.64%	40.89%
Dividend yield	0.84%	1.23%	1.33%

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

EMPLOYEE STOCK PURCHASE PLANS ("ESPP")

ESPP plans allow eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 100,600,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 2001, 2000, and 1999 follows:

	2001	2000	1999
Available, beginning of year	6,518,168	8,949,796	11,702,344
Authorized during year	25,000,000	-	-
Purchased through plan	(2,093,101)	(2,431,628)	(2,752,548)
Available, end of year	29,425,067	6,518,168	8,949,796

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2001, 2000, and 1999 was $8.78, $7.30, and $6.25 per right, respectively.

Pro Forma Compensation Expense

No compensation expense has been recognized for Merrill Lynch's grants of stock options under LTIC Plans or ESPP purchase rights (see Note 1 -- Summary of Significant Accounting Policies, Stock-Based Compensation section for accounting policy). Pro forma compensation expense associated with option grants is recognized over the vesting period. Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of $854 million, $348 million, and $291 million for 2001, 2000, and 1999, respectively, resulting in pro forma net earnings (loss) and earnings (loss) per share as follows:

(dollars in millions, except per share amounts)

	2001	2000	1999
Net earnings (loss)			
As reported	$ 573	$ 3,784	$ 2,693
Pro forma	(281)	3,436	2,402
Earnings (loss) per share			
As reported:			
Basic	$ 0.64	$ 4.69	$ 3.52
Diluted	0.57	4.11	3.11
Pro forma:			
Basic	(0.38)	4.26	3.13
Diluted	(0.38)	3.73	2.77

FINANCIAL ADVISOR CAPITAL ACCUMULATION AWARD PLANS ("FACAAP")

Under FACAAP, eligible employees in Merrill Lynch's Private Client group are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The award is generally payable ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value 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.

At December 28, 2001, shares subject to outstanding awards totaled 50,102,357, while 28,915,344 shares were available for issuance through future awards. The fair value of awards granted under FACAAP during 2001, 2000, and 1999 was $64.60, $41.55, and $35.72 per award, respectively.

INCENTIVE EQUITY PURCHASE PLAN ("IEPP")

IEPP allowed selected employees to purchase shares of ML & Co. common stock ("Book Value Shares") at a price equal to book value per common share. Book Value Shares, which otherwise may not be resold, may be sold back to Merrill Lynch at book value or exchanged at any time for a specified number of freely transferable common shares. Book Value Shares outstanding under IEPP were 2,947,100 at December 28, 2001. In 1995, IEPP was amended to reduce the authorized shares to zero and prohibit the reuse of any surrendered shares. No further offerings will be made under this plan.

MERRILL LYNCH INVESTMENT CERTIFICATE PROGRAM ("MLICP")

Under MLICP, eligible employees in Merrill Lynch's Private Client group are issued investment certificates based on their performance. The certificates mature ten years from the date issued and are payable in cash if certain performance criteria are achieved and the employee is continuously employed for the ten-year period, with certain exceptions. The certificates bear interest commencing with the date on which the performance requirements are achieved. As of year-end 2001 and 2000, $138 million and $473 million, respectively, were accrued under this plan.

OTHER COMPENSATION ARRANGEMENTS

Merrill Lynch sponsors other deferred compensation plans in which eligible employees, who meet certain minimum compensation and net worth levels, may participate. Contributions to the plans are made on a tax-deferred basis by participants. As directed by the employee, contributions are invested by Merrill Lynch in mutual funds and other funds including company-sponsored investment vehicles that qualify as employee securities companies. Deferred amounts indexed to this investment option are augmented by "leverage" by Merrill Lynch on a two-for-one basis. This leverage bears interest and is repaid with accrued interest as the distributions are made to participants. The plans' investments and the amounts accrued by Merrill Lynch under the plans are both included in the Consolidated Balance Sheets. Plan investments totaled $1.8 billion and $1.1 billion, respectively, at December 28, 2001 and December 29, 2000. Accrued liabilities at year-end 2001 and 2000 were $1.1 billion and $1.0 billion, respectively. Certain Merrill Lynch employees, who manage the assets of certain of these plan partnerships, participate in the profits of these entities.

Merrill Lynch also allows certain qualified high-net-worth employees to invest in certain private equity investments in selected third-party funds.

NOTE 15. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)

	2001	2000	1999
U.S. federal			
Current	$ 950	$ 861	$ 816
Deferred	(573)	41	(80)
U.S. state and local			
Current	38	101	(23)
Deferred	(103)	29	(42)
Non-U.S.			
Current	404	574	617
Deferred	(107)	132	31
Total	$ 609	$ 1,738	$ 1,319

The corporate statutory U.S. federal tax rate was 35.0% 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)

	2001	2000	1999

U.S. federal income tax at statutory rate	$ 482	$ 2,001	$ 1,472
U.S. state and local income taxes, net	(43)	85	(40)
Non-U.S. operations	(130)	(194)	(80)
Tax-exempt interest	(90)	(62)	(64)
Dividends received deduction	(29)	(37)	(28)
Valuation allowance related to net operating losses	334	-	-
Other, net	85	(55)	59
Income tax expense	$ 609	$ 1,738	$ 1,319

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)

	2001	2000	1999
Deferred tax assets			
Deferred compensation	$ 1,268	$ 1,078	$ 1,020
Valuation and other reserves	843	546	783
Employee benefits	124	187	185
Restructuring related	616	-	-
Other	771	559	621
Gross deferred tax assets	3,622	2,370	2,609
Valuation allowances	(375)	(41)	(82)
Total deferred tax assets	3,247	2,329	2,527
Deferred tax liabilities			
Lease transactions	178	202	143
Employee benefits	90	81	74
Other	467	364	296
Total deferred tax liabilities	735	647	513
Net deferred tax assets	$ 2,512	$ 1,682	$ 2,014

At December 28, 2001, Merrill Lynch had U.S. net operating loss carryforwards of approximately $200 million and non-U.S. net operating loss carryforwards of $1.3 billion. The U.S. amounts are primarily state carryforwards expiring in various years after 2005 and the non-U.S. amounts are primarily U.K. carryforwards expiring in various years after 2002.

The valuation allowance in 2001 increased due to non-deductible prior and current year losses associated with the refocusing of the Japan Private Client business in connection with the restructuring. Refer to Note 2 -- Other Significant Events for additional information.

Income tax benefits of $790 million, $800 million, and $281 million were allocated to stockholders' equity related to employee compensation transactions for 2001, 2000, and 1999, respectively.

Earnings before income taxes included approximately $755 million, $2,293 million, and $1,447 million of earnings attributable to non-U.S. subsidiaries for 2001, 2000, and 1999, respectively. Cumulative undistributed earnings of non-U.S. subsidiaries were approximately $4.8 billion at December 28, 2001. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested in Merrill Lynch's non-U.S. operations. It is not practicable to determine the amount of additional tax that may be payable in the event these earnings are repatriated.

NOTE 16. REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch's principal regulated subsidiaries are discussed below.

SECURITIES REGULATION

MLPF&S, a U.S. registered broker-dealer and futures commission merchant, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and capital requirements of the Commodities Futures Trading

Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items ("ADI") arising from customer transactions. The CFTC also requires that minimum net capital should not be less than 4% of segregated and secured requirements. At December 28, 2001, MLPF&S's regulatory net capital of $2,521 million was approximately 14% of aggregate debit items, and its regulatory net capital in excess of the minimum required was $2,171 million at 2% of ADI. At December 28, 2001, MLPF&S's regulatory net capital of $2,521 million exceeded the CFTC minimum requirement of $187 million by $2,334 million.

MLI, a U.K. registered broker-dealer, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At December 28, 2001, MLI's financial resources were $5,006 million, exceeding the minimum requirement by $1,181 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 28, 2001, MLGSI's liquid capital of $1,318 million was 254% of its total market and credit risk, and liquid capital in excess of the minimum required was $695 million.

BANKING REGULATION

Two subsidiaries of ML & Co., MLBUSA, and MLB&T are subject to certain minimum aggregate capital requirements under applicable federal banking laws. Among other things, Part 325 of the FDIC Regulations establishes levels of Risk-Based Capital ("RBC") each institution must maintain and identifies the possible actions the federal supervisory agency may take if a bank does not maintain certain capital levels. RBC is defined as the ratios of (i) Tier I Capital or Total Capital to (ii) average assets or risk-weighted assets. The following table presents the actual capital ratios and amounts, for MLBUSA and MLB&T at December 28, 2001 and December 29, 2000.

As shown below, MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for Tier 1 leverage -- 5%, Tier 1 capital -- 6% and Total capital -- 10%:

(dollars in millions)

	2001		2000	
	Actual Ratio	Amount	Actual Ratio	Amount
Tier 1 leverage				
(to average assets)				
MLBUSA	5.61%	$ 3,576	7.29%	$ 3,017
MLB&T	6.90	1,047	5.89	841
Tier 1 capital				
(to risk-weighted assets)				
MLBUSA	14.30	3,576	10.60	3,017
MLB&T	20.47	1,047	10.26	841
Total capital				
(to risk-weighted assets)				
MLBUSA	15.44	3,860	10.79	3,072
MLB&T	20.48	1,048	10.28	843

In April 2001, MLBUSA entered into a synthetic securitization of specified reference portfolios of asset-backed securities ("ABS") owned by the institution totaling in aggregate up to $20 billion. This synthetic securitization remained effective as of December 28, 2001. In December 2000, MLBUSA and MLB&T each entered into a synthetic securitization of specified reference portfolios of ABS owned by each institution totaling in aggregate up to $20 billion. This synthetic securitization was terminated on December 12, 2001. For both synthetic securitizations, all of the ABS in the reference portfolios were rated AAA and all were further insured as to principal and interest payments by an insurer rated AAA. The synthetic securitizations allowed MLBUSA and MLB&T to reduce the credit risk on the respective reference portfolios by means of credit default swaps with a bankruptcy remote SPE. In turn, each of the SPEs issued a $20 million credit linked note ($40 million in total) to unaffiliated buyers. These transactions resulted in reductions in MLBUSA's risk-weighted assets as of December 28, 2001, and MLBUSA's and MLB&T's respective risk-weighted assets as of December 29, 2000. MLBUSA retained a first risk of loss equity tranche of $1 million in each of these transactions.

As a result of the April 2001 transaction, MLBUSA was able to reduce risk-weighted assets by $211 million at December 28, 2001, thereby increasing its Tier I and Total RBC ratios by 12 basis points and 13 basis points, respectively. As a result of the December 2000 transaction, MLBUSA was able to reduce risk-weighted assets by $5,949 million at December 29, 2000, thereby increasing its Tier 1 and Total RBC ratios by 183 and 186 basis points, respectively; and MLB&T reduced risk-weighted assets by $2,815 million at December 29, 2000, thereby increasing its Tier 1 and Total RBC ratios by 262 and 263 basis points, respectively. These structures did not result in a material change in the distribution or concentration risk in the retained portfolio.

INSURANCE REGULATION

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 28, 2001, $562 million, representing 83% 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 limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 28, 2001, restricted net assets of these subsidiaries were $3.9 billion.

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 28, 2001, this minimum capital requirement was $225 million.

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

SUPPLEMENTAL FINANCIAL INFORMATION
(UNAUDITED)

QUARTERLY INFORMATION

The unaudited quarterly results of operations of Merrill Lynch for 2001 and 2000 are prepared in conformity with U.S. generally accepted accounting principles 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.

<TABLE>
<CAPTION>

(dollars in millions, except per share amounts)

	For the Quarter Ended							
	Dec. 28, 2001	Sept. 28, 2001	June 29, 2001	Mar. 30, 2001	Dec. 29, 2000	Sept. 29, 2000	June 30, 2000	Mar. 31, 2000
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total Revenues	$ 7,574	$ 8,929	$ 10,320	$ 11,934	$ 11,661	$ 10,848	$ 11,044	$ 11,299
Interest Expense	2,822	3,784	4,747	5,524	5,396	4,704	4,204	3,782
Net Revenues	4,752	5,145	5,573	6,410	6,265	6,144	6,840	7,517
Non-Interest Expenses	6,264	4,459	4,721	5,059	4,957	4,833	5,427	5,832
Earnings (Loss) Before Income Taxes								

and Dividends on Preferred Securities Issued by Subsidiaries	(1,512)	686	852	1,351	1,308	1,311	1,413	1,685
Income Tax Expense (Benefit)	(297)	216	262	428	382	378	443	535
Dividends on Preferred Securities Issued by Subsidiaries	49	48	49	49	49	48	49	49
Net Earnings (Loss)	$ (1,264)	$ 422	$ 541	$ 874	$ 877	$ 885	$ 921	$ 1,101
Earnings (Loss) Per Common Share:								
Basic	$ (1.51)	$ 0.49	$ 0.63	$ 1.04	$ 1.07	$ 1.09	$ 1.15	$ 1.40
Diluted	(1.51)	0.44	0.56	0.92	0.93	0.94	1.01	1.24

</TABLE>

DIVIDENDS PER COMMON SHARE

(declared and paid)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2001	$ .16	$ .16	$ .16	$ .16
2000	.14	.15	.16	.16

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (a) ML & Co.'s obligation to make payments on its preferred stock and TOPrS/SM/, and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Note 16 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.

<TABLE>
<CAPTION>
(at calendar period-end)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
2001	$ 80.00	$ 50.31	$ 71.50	$ 51.15	$ 59.85	$ 33.50	$ 54.65	$38.49
2000	57.59	36.31	61.16	42.25	74.63	56.81	73.50	54.75

</TABLE>

The approximate number of holders of record of ML & Co. common stock as of February 26, 2002 was 13,965. As of February 26, 2002, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was $48.50.

EXHIBIT 21

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 26, 2002 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities Exchange Act of 1934.

<TABLE>
<CAPTION>

Name	State or Jurisdiction of Entity
<S>	<C>
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated/1/	Delaware
Broadcort Capital Corp.	Delaware
Merrill Lynch Life Agency Inc./2/	Washington
Merrill Lynch Professional Clearing Corp./3/	Delaware
Merrill Lynch Capital Services, Inc.	Delaware
Merrill Lynch Government Securities, Inc.	Delaware
Merrill Lynch Money Markets Inc.	Delaware
Merrill Lynch Group, Inc.	Delaware
Merrill Lynch Investment Managers Group Limited/4/	England
Merrill Lynch Investment Managers Holdings Limited	England
Merrill Lynch Investment Managers Limited	England
Merrill Lynch Investment Managers, L.P./5/	Delaware
MLIM Alternative Strategies LLC	Delaware
Merrill Lynch Capital Partners, Inc.	Delaware
Merrill Lynch Bank & Trust Co.	New Jersey
Merrill Lynch Insurance Group, Inc.	Delaware
Merrill Lynch Life Insurance Company	Arkansas
ML Life Insurance Company of New York	New York
Merrill Lynch International Finance Corporation	New York
Merrill Lynch International Bank Limited	England
Merrill Lynch Bank (Suisse) S.A.	Switzerland
Merrill Lynch Group Holdings Limited	Ireland
Merrill Lynch Capital Markets Bank Limited	Ireland
Merrill Lynch Mortgage Capital Inc.	Delaware
Merrill Lynch Trust Company FSB	New Jersey
MLDP Holdings, Inc./6/	Delaware
Merrill Lynch Derivative Products AG	Switzerland
ML IBK Positions, Inc.	Delaware
Merrill Lynch Capital Corporation	Delaware

</TABLE>

- ----------
1 MLPF&S also conducts business as "Merrill Lynch & Co."
2 Similarly named affiliates and subsidiaries that engage in the sale of life insurance and annuity products are incorporated in various other jurisdictions.
3 The preferred stock of the corporation is owned by an unaffiliated group of investors.
4 Held through several intermediate holding companies.
5 Merrill Lynch Investment Managers, L.P. is a limited partnership whose general partner is Princeton Services, Inc. and whose limited partner is ML & Co.
6 Merrill Lynch Group, Inc. owns 100% of this corporation's outstanding common voting stock. 100% of the outstanding preferred voting stock is held by outside parties.

<TABLE>

<S>	<C>
ML Leasing Equipment Corp./7/	Delaware
Merrill Lynch Canada Holdings Company	Nova Scotia
Merrill Lynch Canada Finance Company	Nova Scotia
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Canada Inc.	Canada
Merrill Lynch Bank USA	Utah
Merrill Lynch Business Financial Services Inc.	Delaware
Merrill Lynch Credit Corporation	Delaware
Merrill Lynch New Jersey Investment Corporation	New Jersey
Merrill Lynch Utah Investment Corporation	Utah
Merrill Lynch International Incorporated	Delaware
Merrill Lynch (Australasia) Pty Limited	New South Wales, Australia
Merrill Lynch Finance (Australia) Pty Limited	Victoria, Australia
Merrill Lynch International (Australia) Limited/8/	New South Wales, Australia

Merrill Lynch International Holdings Inc.	Delaware
Merrill Lynch Bank and Trust Company (Cayman) Limited	Cayman Islands, British West Indies
Merrill Lynch Capital Markets AG	Switzerland
Merrill Lynch Europe PLC	England
Merrill Lynch Holdings Limited	England
Merrill Lynch International/9/	England
Merrill Lynch Capital Markets Espana S.A. S.V.B.	Spain
Merrill Lynch (Singapore) Pte. Ltd./10/	Singapore
Merrill Lynch South Africa (Pty) Ltd./11/	South Africa
Merrill Lynch Mexico, S.A. de C.V., Casa de Bolsa	Mexico
Merrill Lynch S.A. Sociedad de Bolsa	Argentina
Banco Merrill Lynch S.A.	Brazil
Merrill Lynch S.A.	Luxembourg
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France S.A.	France
Merrill Lynch Finance S.A.	France
Merrill Lynch Capital Markets (France) S.A.	France
Merrill Lynch, Pierce, Fenner & Smith SAF	France
Merrill Lynch (Asia Pacific) Limited	Hong Kong
Merrill Lynch Far East Limited	Hong Kong
Merrill Lynch Japan Securities Co., Ltd.	Japan
Merrill Lynch Japan Finance Co., Ltd.	Japan
Herzog, Heine, Geduld, LLC	Delaware

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7 This corporation has more than 45 direct or indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships.

8 Held through an intermediate subsidiary.

9 Partially owned by another indirect subsidiary of ML & Co.

10 Held through intermediate subsidiaries.

11 Partially owned by another indirect subsidiary of ML & Co.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our reports dated February 25, 2002 appearing in and incorporated by reference in this Annual Report on Form 10-K of Merrill Lynch & Co., Inc. and subsidiaries for the year ended December 28, 2001.

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)

Filed on Form S-3:

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

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

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

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

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

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

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

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

/s/ Deloitte & Touche LLP

New York, New York
March 14, 2002

EXHIBIT 99(i)

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and its subsidiaries ("Merrill Lynch") as of December 28, 2001 and December 29, 2000, and for each of the three years in the period ended December 28, 2001, and have issued our report thereon dated February 25, 2002. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 31, 1999, December 25, 1998 and December 26, 1997, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 25, 1998 and December 26, 1997 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 28, 2001 included in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
February 25, 2002

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and its subsidiaries ("Merrill Lynch") as of December 28, 2001 and December 29, 2000 and for each of the three years in the period ended December 28, 2001 and have issued our report thereon dated February 25, 2002. Such consolidated financial statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Merrill Lynch as of December 31, 1999, December 25, 1998 and December 26, 1997, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 25, 1998 and December 26, 1997 (none of which are presented or incorporated by reference herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on the 1999 consolidated financial statements included an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1.) In our opinion, the information set forth in the "Selected Financial Data" under the captions "Operating Results," "Financial Position" and "Common Share Data" included in the 2001 Annual Report to Stockholders and incorporated by reference in this Annual Report on Form 10-K, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
February 25, 2002