

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Merrill Lynch Third Quarter 2007 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session [Operator Instructions]. Thank you.

I would now like to turn the call over to Sara Furber, Head of Investor Relations. Please go ahead.

Sara Furber, Head of Investor Relations

Good morning and welcome to Merrill Lynch's conference call to review results for the third quarter and first nine months of 2007. To address the market environment and our performance, I am joined today by Merrill Lynch's senior management team, including Chairman and Chief Executive Officer Stan O'Neal; Co-Presidents Ahmass Fakahany and Greg Fleming; and Chief Financial Officer, Jeff Edwards.

The following live broadcast is copyrighted to Merrill Lynch. Statements made today may contain forward-looking information. While this information reflects management's current expectations or beliefs, you should not place undue reliance on such statements as our future results may be affected by a variety of factors we cannot control.

I would direct you to read the forward-looking disclaimer in our quarterly earnings release as it contains additional important disclosures on this topic. You should also consult our reports filed with the SEC for any additional information, including risk factors specific to our business and the information on the calculation of non-GAAP financial measures that is posted on our Investor Relations website, <http://www.ir.ml.com>, where an online rebroadcast of this conference call will be available today at approximately 1:00 p.m. Eastern Time.

Unless otherwise indicated, comment will exclude the impact of one-time compensation expenses related to adopting FAS 123(R) in the first quarter of 2006 as well as the one-time net gain from the closing of the combination of Merrill Lynch Investment Managers or MLIM with BlackRock in the third quarter of last year. In addition, comments will exclude the operations of Merrill Lynch Insurance Group or MLIG which is being reported under discontinued operations. Full GAAP financials, which include these items, are available in the attachments to Merrill Lynch earnings release, as are schedules reconciling those data to the numbers that will be discussed.

And now, I will turn the call over to Stan O'Neal.

Stan O'Neal, Chairman and Chief Executive Officer

Thank you, Sara. And thank each of you for joining us today. Sara is our new head of Investor Relations and an important addition to our team. And if you haven't already, you will get to know her in the coming months.

This morning, I will make some comments on the quarter, our performance and our focus going forward, and then Jeff Edwards will briefly take you through our operating results; and after that, Jeff, Ahmass Fakahany and Greg Fleming and I will be happy to answer your questions.

Today, we reported a net loss per diluted share of \$2.85, which is larger than our previously announced expected loss of up to \$0.50. As you know, earlier this month, we announced a number of important changes beginning with the appointment of David Sobotka into his new role at the helm of FICC. These changes have occurred in a market environment that has shown renewed signs of volatility and weakness as evidenced by recent residential mortgage-backed securities and

CDO downgrades by rating agencies, increased expectations of future rating agency actions, and increased default and delinquency trends.

Over the past few weeks, our FICC management team led by David has worked with our finance staff to undertake a rigorous and comprehensive review of our remaining CDO and subprime-related exposures. This collective review has resulted in the use of more conservative valuation assumptions and a total net write-down of approximately \$7.9 billion for this quarter. A significant increase from the write-downs and overall net loss we had previously estimated.

While Jeff will provide specific details around our remaining exposures and valuation assumptions, let me start by giving you a summary of the events that have occurred over the course of this year and have led to the losses that we're reporting today.

The bottom line is we got it wrong by being overexposed to subprime. And we suffered as a result of an unprecedented liquidity squeeze and deterioration in that market. No one, no one, is more disappointed than I am in that result. As the market for these securities began to deteriorate during the first quarter, we began substantially reducing our warehouse risk by constructing CDOs and retaining the highest parts of the capital structure which we expected then to be more resistant to market disruptions in terms of both liquidity and price.

We sold and hedged our exposures to the lower-rated tranches of these securities, but our hedging of the higher-rated tranches was not sufficiently aggressive nor was it fast enough. Despite the fact that nearly all of our remaining CDO exposure is super senior, it turned out that both our assessment of the potential risk and our mitigation strategies were inadequate. By the end of August, it became apparent that we were in the midst of an unprecedented event. A complete withdrawal of liquidity from the market for these securities, and as events progressed throughout August and into September; it became clear that these were now structural changes in the market, driving values far lower than contemplated by our models' most punitive stress event scenarios.

We were left with a position that was difficult to manage and suffered significant market value erosion as a result. During the quarter and throughout the year, we substantially reduced our net exposures and continued to work to do more. But our exposures remain subject to market valuations. As part of our valuation process, we mark to observable trading levels wherever possible, and we are judicious in applying model-driven valuations where necessary. As always, our valuation processes are fully reviewed by independent finance and control staff.

And as I mentioned, in finalizing our valuations, our FICC management team has worked with that staff, including our independent price verification group, to review the validity of our pricing assumptions and ensure that these assumptions are consistent with levels we see in the marketplace.

As a result of completing this process, we recorded a more significant loss for the quarter than we had initially estimated on October 5th. We're not, I'm not going to talk around the fact that there was some mistakes that were made. We, I am accountable for these mistakes, just as I am accountable for the performance of the firm overall, and my job, our job, the leadership team's job, is to address where we went wrong, what changes were necessary to make sure that we respond to changes in risk dynamics early, correctly, and in every asset class at every stage of markets' evolution.

So as I mentioned, we have made a number of changes, important changes, beginning with our moving of David Sobotka into his new role leading the FICC organization. David brings the right mix of strong leadership, trading acumen and experience, and risk management skills to his new position. He is a business builder who developed a culture in our commodities group based on risk management. And I am looking to him to bring that same orientation to the rest of the FICC organization.

We've also moved Ed Moriarty, who did an excellent job of stewarding our leverage finance exposures over the past few years, and through this liquidity squeeze. We've moved him into the role of Chief Risk Officer for the firm. We're back after a brief musical interlude.

Ed Moriarty is going to assume responsibility for market risk in addition to his existing brief, credit risk, and now has the title of Chief Risk Officer, integrating both of those functions. He's already at work creating tighter linkages among market and credit risk and the businesses, and he has begun re-evaluating parts of our risk framework. Given the current and expected market environment, we are continuing to resize our balance sheet, including rescaling our CDO, mortgages, and First Franklin businesses and we're optimizing our capital allocation across businesses firm-wide where we see higher growth and higher return opportunities.

As part of this optimization, we continue to explore the divestiture of certain non-core assets, along the lines of the recently announced transaction related to our insurance manufacturing business. Opportunities being actively explored include the potential divestiture of other non-core capital-intensive businesses and monetization of one or several of our private holdings.

We take risk in many parts of our firm, as a natural consequence of our position in the markets, and as we have been doing this effectively and consistently across all of our other businesses. In commodities, for example, we have successfully and profitably managed risk both for our clients and for ourselves. We are expanding our platform beyond natural gas and power into asset classes such as coal, oil, metals, and into key markets, especially the Pacific Rim.

Importantly, we've achieved this despite periods of extreme market volatility and disruption over the past few years, such as during the collapse of the hedge fund Amaranth. In other areas of FICC, we continued to increase risk-taking capability. Rates and currencies are running at record levels, and we continue to invest in these businesses.

In credit trading, our businesses, away from CDOs, has performed well. We're capitalizing on the explosive growth in emerging markets and products such as credit derivatives. Our performance in equity markets demonstrates that we are also managing our risk well and earning appropriate returns on the risk that we are taking.

We've successfully built our proprietary trading capability and are completing groundbreaking deals such as the \$19 billion rights issue for Fortis. This transaction was the largest international equity deal ever done and the largest single equity commitment we have ever made.

In private equity, despite a weaker result this quarter which was primarily driven by fluctuations in our publicly traded positions, that business continues to deliver a strong risk reward proposition. And in leverage finance, which is important to our Investment Banking business, our coverage of private equity firms, our M&A practice, it is impossible to participate and avoid taking risk.

We're a big player in this marketplace and have been for years. But we've managed our aggregate exposure well by aggressively selling down our positions, successfully hedging, and maybe, most importantly, by being selective in our choice of deals to underwrite.

We remain confident in our business capabilities and risk management, but we recognize we still have exposure in specific areas where the markets remain illiquid. We're continuing to manage our remaining positions by reducing risk at prudent transaction values wherever possible.

On the other hand, we expect our other businesses to continue to perform well as they have all year and as they did in this quarter. I would note that year-over-year performance, for example, for the businesses, including FICC, where revenues excluding subprime mortgages and CDOs were up 11% year-over-year for the quarter.

Our Equity Markets' revenues were up 40%. Investment Banking was up 23%. Our Global Wealth Management was up nearly 30%. And from my point of view, this is the best business of its kind in the world and continues to get stronger.

And for the firm as a whole, our non-U.S. revenues were up 25% for the first nine months of the year. I would also note that our BlackRock investment continues to perform exceedingly well.

In the marketplace today, at the current stock prices, we're roughly \$12 billion, which is about a 30% increase in value from the time that we announced the transaction. A strong performance of these businesses convinces me that overall we are on the right path and we're executing on the right set of long-term strategies. While we are intensively focused on managing through this period of dislocation, we remain equally focused on driving future growth. Outside of mortgages, our execution has been consistent. So, our plan is to continue investing to take advantage of a longer-term secular opportunities we see.

Let me just wrap up by touching on what we see as these opportunities. The first is globalization. Today, Merrill Lynch is truly a global firm. Business outside the U.S. contributed 55% of the firm's total net revenues for the first nine months of 2007. This percentage was 60% for our GMI business when you exclude the subprime mortgages and CDOs.

In the Pacific Rim, for example, our pre-tax earnings are up 100% year-to-date, and we're continuing to leverage both strong market growth and our on-the-ground presence in the region.

Another core priority for us is to take advantage of the opportunities for our institutional and Global Wealth Management franchises to work more closely together on a fully integrated basis to accelerate growth. This is especially important in the Pacific Rim, in India, in Latin America, the Middle East, and in parts of Europe.

In many of these markets, our model for growth will be more of a high-net-worth Private Investment Banking model that emphasizes the increasing product and customer overlap, which occurs between high-net-worth individuals and institutions.

The third theme, one I've already touched on, is principal investing, deploying our own and our clients' capital to generate growth in returns. We're now applying the discipline that we've brought to the private equity space more broadly as recent market events are also presenting opportunities in distressed assets and restructuring, for example.

And finally, we believe Merrill Lynch is uniquely positioned to benefit from the industry-wide growth of alternative investment products for both institutions and private clients. We've made a series of investments in best-in-class hedge funds, such as Sterling Stamos and GSO Capital, and the addition of First Republic has added to GPC's already unique service-driven distribution capabilities in the ultrahigh-net-worth's clients segment.

We have a great organization, which despite this event remains a great organization. And is filled with extremely talented people who are committed to the success of this firm, as am I. Accordingly, we're focused on ensuring that we can retain and reward these people, despite short-term events, because the long-term value of this firm is paramount and is both greater than currently reflected in the markets and has yet to be fully realized.

Let me now turn the microphone over to Jeff Edwards, and we'll come back for questions.

Jeffrey N. Edwards, Chief Financial Officer

Thank you, Stan.

Third quarter net revenues were \$577 million, a substantial decline from both the third quarter of last year, and a very strong second quarter. Diluted earnings per share and net earnings were also negatively impacted with Merrill Lynch reporting a net loss of \$2.3 billion, a net loss per diluted share of \$2.85.

Let me now review each of our major segments; GMI third quarter revenues of negative \$3 billion were down substantially from prior period, although away from CDOs and mortgages, our businesses performed well. GMI revenues for the nine-month period were \$9.7 billion, down 28% from the prior year period. GMI's pre-tax loss for the quarter was \$4.4 billion.

Turning to the revenue detailed by business line. Total net losses for the third quarter across our CDO and subprime mortgage businesses equaled \$7.9 billion. The vast majority of these losses were related to CDOs and net exposure related to our trading position is currently \$15.2 billion, down over 50% from the second quarter.

As Stan mentioned, almost all of our remaining CDO exposure is in the form of super senior positions, and nearly 100% is rated AAA. Although our current valuations are substantially less than these ratings would indicate.

Let me provide you some detail behind these exposures. Our super senior CDO exposures consist of three buckets: high-grade, mezzanine and CDO-squared. And is predominately in the highest detachment points in each category. At the end of the third quarter, our high-grade net exposure was approximately \$8 billion. Our mezzanine net exposure was approximately \$5 billion. And our CDO-squared net exposure was approximately \$600 million.

Within our subprime mortgage business, our exposure was less than \$6 billion, down approximately 35% from the second quarter, and approximately 75% from year-end. This exposure consists of residential whole loans, warehouse lending, residential mortgage-backed security positions, and residual.

At the end of the third quarter, our subprime residential whole loan exposure was approximately \$3 billion, down nearly 80% from year-end. Our funded and unfunded warehouse lines totaled approximately \$730 million, down 90% from year-end. Our RMBS net positions outside of the CDO business were less than \$350 million net, down over 65% from year-end. And our residual positions were approximately \$1.6 billion at quarter end.

In aggregate, our net write-downs related to these exposures totaled \$1 billion during the quarter. Across our CDO and subprime positions, wherever possible, we marked to observable prices in other transparent market data. For less liquid positions, we utilize various quantitative valuation techniques, employing relevant market-based parameters and indices.

We also recorded \$463 million of net write-downs related to our non-investment grade lending commitments, net of fees were \$967 million on a gross basis. In aggregate, these losses resulted in fixed third quarter revenues of negative \$5.6 billion. Revenues for the first nine months of 2007 were negative \$153 million, down significantly from the prior year period.

Apart from those areas discussed above, rates and currencies both generated record revenues on the strength of client volumes and trading results for the quarter. Real estate and commodities remain steady, although commodities revenues were lower than in the comparable 2006 period. FICC revenues were also positively impacted by a net benefit of approximately \$400 million related to changes in the carrying value of certain long-term debt liabilities.

Turning to Equity Markets, where third quarter net revenues of \$1.6 billion were up 4% compared with a year-ago quarter. Notably, excluding private equity, third quarter revenues actually increased

40% year-on-year. Third quarter net revenues from private equity were negative \$61 million, down from a positive \$342 million in the prior-year period and \$125 million in the second quarter.

However, even including this quarter's losses in private equity, Equity Markets year-to-date net revenues reached a record \$6.1 billion, up 23% from the prior-year period. Our cash equities, financing and services, and equity-linked businesses generated significant year-on-year increases and performed well despite hedge fund deleveraging during the quarter. In fact, our prime brokerage client balances are back to near-peak levels after dipping in August. Equity Markets results also included sequential declines from the Strategic Risk Group as well as equity-linked trading, which had set a revenue record in the second quarter.

In Investment Banking, we have demonstrated global strength and are leading new groundbreaking transactions such as the successful \$101 billion acquisition of ABN AMRO by our client RBS, Santander and Fortis where we acted as exclusive financial advisor to the consortium. In Investment Banking we generated solid revenues despite seasonally slower market activity level with \$1 billion in total, up 23% year-on-year. Revenues for the first nine months increased 38% over the 2006 period to a record \$3.8 billion.

This quarter, our advisory and equity underwriting revenues were up significantly year-over-year, while debt origination revenues were down from both comparable periods due to weakness in leveraged finance origination revenues. Our Investment Banking fee pipeline remained strong. We ended the third quarter down from peak levels in the second quarter, but higher than at this time last year with particular strength in advisory and equity underwriting mandates.

Turning to GWM. This quarter, we've made significant strategic progress and achieved record results in our Global Wealth Management business. On the strategic front, we closed our acquisition of First Republic and announced the sale of our insurance manufacturing operations to AEGON as part of the creation of a broader strategic relationship between our two firms. Aggregate GWM third quarter revenues of \$3.5 billion were up 29% year-on-year and down less than 1% sequentially, even in this seasonally slow period which included significant market volatility. Pre-tax profits were \$953 million and the pre-tax margin of 26.9% is near historical highs.

GPC net revenues for the third quarter were \$3.3 billion and were a record \$9.6 billion for the first nine months of 2007. Revenues were the highest achieved in any third fiscal quarter, up 23% from the prior-year period.

Year-on-year, revenues rose across all major categories led by record fee-based revenues which reflected higher asset values and continued strength in flows from annuitized products. Transaction and origination revenues also increased substantially. Nearly half of the growth in transactional revenues was driven by regions outside the U.S. and origination revenues were driven by a few particularly large deals. Record net interest revenues also contributed to the overall increase.

Highlights for the quarter within GPC include success in retaining our industry-leading team of financial advisors who have generated over \$850,000 of annualized revenues per FA for the year-to-date. We also continued to recruit and train FAs adding 410 on a net basis during the quarter. Recruiting was positive against our major competitors and we also capitalized on recent industry consolidation to bring in high-quality experienced FAs.

Turnover among our top two quintiles remains at historically low levels and the FA force continued to grow more rapidly outside the U.S. We saw our strongest quarterly net new money in over six years at \$26 billion. And client assets reached a record of \$1.8 trillion with net new money into annuitized-revenue products being a robust \$10 billion.

Moving on to GIM, which generated net revenues of \$270 million, the year-over-year growth of over 200% was driven by the inclusion of our share of BlackRock's results in the current period, but not

in the 2006 third quarter, as well as growth in revenues from our investments in alternative asset managers.

That concludes my discussion of the segments, now I'll return to the firm as a whole and discuss expenses. I'll start with compensation expenses which were \$2 billion for the quarter versus \$4.8 billion in the second quarter and \$3.9 billion in the 2006 third quarter.

The year-to-date comp ratio of 58.1%, about nine percentage points higher than the first nine months of 2006 and reflects our focus on continuing to recruit and retain top-tier talent to drive our growth initiatives forward. We are not wedded to specific compensation ratios and do not expect to reduce overall compensation levels in line with our significantly lower revenues. Given that managers and employees of other businesses are producing record performance, it is critical to our plans for growth. As always, our progression toward the full-year ratio will depend on the environment, but we anticipate it could remain at elevated levels in the fourth quarter.

Moving on to non-compensation costs, which increased to \$2.1 billion for the quarter, driven by approximately \$100 million from the write-off of First Franklin identifiable intangible assets as well as significant growth in our BC&E expenses reflecting higher volume.

Effective tax rate was 23.1% for the first nine months of 2007, down from 25.9% during the prior-year period. At this point, we expect that rate to increase modestly in the fourth quarter, subject of course to the usual factors: Business mix, changes in tax laws, and settlements.

And finally, the company's liquidity position at quarter end includes cash and other highly liquid securities of approximately \$70 billion readily available to the holding company. Additionally, we have close to \$100 billion of deposits and significant additional liquidity resources across our global banking and key other regulated entities. Total equity capital was \$43 billion at quarter end.

As always, we closely monitor our liquidity. Given that market conditions remain unsettled, we remain focused on pursuing opportunities to preserve and enhance our liquidity and capital position such as our recently announced strategic transaction with our insurance group and AEGON. However, our liquidity and capital position are strong and we are confident in our financial position and our ability to manage through turbulent markets such as those we have seen over the past quarter.

As part of its active management of equity capital, Merrill Lynch repurchased 19.9 million shares of its common stock for \$1.5 billion during the third quarter of 2007, largely to offset the 11.6 million shares issued as consideration upon closing the First Republic Bank acquisition. In the near term, we do not anticipate repurchases but will balance our future pace with potential investment opportunities and our capital needs.

With that, Stan, Greg, Ahmass and I are happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. We'll pause for just a moment to compile the Q&A roster. Your first question comes from Glenn Schorr with UBS.

<Q – Glenn Schorr>: Hey, guys, how are you? Jeff, question for you. As of the end of June, you noted that your ABS CDO related exposure was around \$32 billion, 15 as of the end of September, you marked down around 6. Where did the other 11 go? Last I checked, there weren't a lot of sales on the market.

<A – Jeffrey Edwards>: Even, Glenn, in the most challenging times of the market, in August, September, we were able to reduce our exposure through market transactions for a good part of the exposure.

<Q – Glenn Schorr>: Okay, so most of that other 11 was sold off? Okay, that's good. And you had mentioned that you plan to continue to do so if the market lets you. Now since September 30th, the rating agencies have been active on the catch-up mode on marking down some of the underlying RMBS collateral. Could you just kind of talk through how we should think about that post these more conservative assumptions you used? And then very importantly, given that most of the remaining of your exposure is super senior tranches, how much of those super seniors have the EOD, the event of default language in it, such that you can accelerate the cash flows on the markdown of the collateral?

<A – Jeffrey Edwards>: Well let me start, Glenn, by saying you're 100% right. We are – the primary exposure is in what continue to be AAA-rated super senior exposures, and primarily with the highest attachment points by category. Given the environment, we believe that the valuations are conservative and appropriate. And going forward we'll continue to take opportunities to reduce inventory, but in a prudent way.

<Q – Glenn Schorr>: But to the rating agency, downgrades specifically, does that matter? In other words, when you go through and do your marks as of September 30th, my gut is it's not a shock that the rating agencies needed to move some collateral positions lower.

<A – Jeffrey Edwards>: I think it's fair to say that the market has been ahead of where the rating agencies are, and we've looked to the market wherever possible as an indicator of value.

<A – Gregory Fleming>: And I would just add that the trajectory that we saw at the end of the quarter, it was clear that some of these actions were going to take place.

<Q – Glenn Schorr>: Great, no, that's clear, that's the comment I was looking for. And then just in terms of which – the underlying language, the event of default language, do you in the super senior structures that you own, do the cash flows get accelerated? And do you move into liquidation mode and do the super senior tranches start to hoard all that cash flow now?

<A – Jeffrey Edwards>: No, Glenn, I don't want to get into all the details around how we look at the different securities. Clearly in some cases, that's exactly what we'll be thinking, in other cases it's different. But I just don't want to go into too much further detail on that.

<Q – Glenn Schorr>: Okay, last one. Over the last couple of years obviously, number one or two in underwriter on the CDO side. How much of that paper has been sold into the wealth management organization, and do you see that as an issue?

<A – Stan O'Neal>: A relatively small amount, and we don't see that as an issue.

<Q – Glenn Schorr>: Okay, thanks.

<A – Stan O’Neal>: Thanks, Glenn.

Operator: Your next question comes from the line of William Tanona with Goldman Sachs.

<Q – William Tanona>: Good morning, guys.

<A – Stan O’Neal>: Good morning, Bill.

<Q – William Tanona>: Just quickly a follow-up on Glenn’s question in terms of the reduction in exposure. You mentioned that you were able to reduce it through market actions. I’m just wondering, were you actually able to sell it, or were you able to hedge it? And if you could give us a breakdown of what you were able to sell versus what you might have been able to hedge?

<A – Jeffrey Edwards>: The answer is both. But I don’t want to get into details about the breakdown. This is a market where there are both cash opportunities for reduction and derivative opportunities.

<Q – William Tanona>: Okay. Is it safe to say that the majority of it was hedging, though?

<A – Jeffrey Edwards>: I just don’t want to get into the details behind that.

<Q – William Tanona>: Okay. And then in terms of looking at the super senior pieces, I mean could you give us more color and a breakdown of that, of your total \$15 billion exposure that’s remaining by kind of ratings? Whether – what’s AAA, what’s AA, what might be single and BBB?

<A – Jeffrey Edwards>: Well, I think we’ve gone to pretty substantial lengths here to provide more insight into that than others have provided. And as you can see, it’s overwhelmingly AAA-rated, senior, super senior, and other super senior levels. It’s primarily investment grade and mezzanine, with very small amount of CDO squared. And then a very small amount of other securities remaining in our retained warehouse inventory.

<Q – William Tanona>: Okay. Were those ratings basically at the time of the actual underwriting of the CDO, or is that kind of the exposure, the ratings of the current exposure?

<A – Jeffrey Edwards>: They were at the time, and they are today.

<Q – William Tanona>: Okay. And then in terms of kind of the markdowns in your existing exposure, you had mentioned in your comments about where available, what – you chose observable market prices in order to mark these things to market. Can you give us a percentage of what percentage of your markdowns were observable market prices and what might have been kind of your subjectivity, as well as kind of what might be remaining with the 15.2 billion?

<A – Jeffrey Edwards>: The markdowns reflect both. I think that’s the level that we’ll get to at this point. But it reflects both cash market observable levels as well as quantitative valuation.

<Q – William Tanona>: Okay, thanks.

Operator: Your next question comes from the line of Roger Freeman with Lehman Brothers.

<Q – Roger Freeman>: Oh, hi, good morning. I just wanted to follow-up on a couple of these issues that have been raised. I guess have you thought about the revised marks, I guess my assumption is that you’ve actually marked the majority of these CDOs to a model because [as you had] [inaudible] anticipated these recent rating changes on the underlying collateral it doesn’t seem

like that's necessarily reflected in the market value but rather expectations of what would happen. Is that fair to say?

<A – Jeffrey Edwards>: I think it's fair to say that as we looked at those quantitative valuations as we went through the quarter-end process, in light of the environment, we felt that it was appropriate to adjust the assumptions that went into those to a much more conservative level.

<Q – Roger Freeman>: Okay and is it fair to say that you also – in thinking about rating changes that you are considering the likely downgrades of CDOs that are coming in addition to what's happened to the underlying collateral? I guess the other piece of that is how do you think about the potential, you know, liquidity dislocation that could occur as the downgrades happen and insurance companies and pension funds are forced to liquidate in the market?

<A – Jeffrey Edwards>: Well I think part of our perspective on the markets is that while markets generally for most of our businesses remain extremely strong, we recognize that there are potential continued elements that could challenge certain parts of the credit and liquidity markets and that's absolutely part of our planning.

<Q – Roger Freeman>: Okay, and where are these – are the CDO exposures – can you give us a breakdown of where they're held within the broker deal versus the bank balance sheet?

<A – Jeffrey Edwards>: No, I mean this is – let me just say that what we have provided again we think is an extraordinarily high level of disclosure and it should be sufficient.

<Q – Roger Freeman>: Okay. And then I guess just with respect to regulatory capital within the broker dealer, I think that in the queue some \$4 billion of 15(c)(3)(1) capital with these write-downs how does that impact? Are there any issues around the regulatory capital environments?

<A – Jeffrey Edwards>: All of our regulated entities are well capitalized.

<Q – Roger Freeman>: Okay. And just lastly any – can you comment on what your leverage position was at the end of the quarter in terms of ratio?

<A – Jeffrey Edwards>: We'll come out with our balance sheet in our Q. You should expect it to go up obviously in light of the earnings results.

<Q – Roger Freeman>: Okay. All right thank you.

Operator: Your next question comes from the line of Mike Mayo with Deutsche Bank.

<Q – Mike Mayo>: Hi. I guess it's the view of our firm or me is the disclosure is not sufficient to completely understand how much that remaining 15 billion of ABS CDOs have been written down. So I guess can you give us that percentage?

<A – Jeffrey Edwards>: No. Obviously substantially.

<Q – Mike Mayo>: And I appreciate that the level of disclosure is so much more but your peers didn't take an \$8 billion write-down and this is the big lingering issue in the market. Is there another shoe to drop? How about – what are gross write-downs since you gave net write-downs?

<A – Jeffrey Edwards>: We're not disclosing our gross amount. Let me just observe that we took substantial mark-downs here. We think that reflects conservative assumptions again and that we incorporated the trajectory of the environment as we took these into account.

<Q – Mike Mayo>: All right. And maybe if I could just ask a question – Stan, do you feel comfortable that there's not another shoe to drop and a lot more write-downs on the ABS CDOs?

<A – Stan O'Neal>: Mike, we've tried to capture everything that we can capture at this point in the market and the expectation for progression of these securities as of the date that we took the mark-downs. I cannot tell you what the market trajectory might be from here, but as of the date that we took these mark-downs and even looking at it as we sit here today and observing the general environment we're comfortable that we've marked these positions conservatively.

<Q – Mike Mayo>: And how did you wind up with such a large concentration in the first place? I mean the number of employees is such a small fraction of the overall firm and it results in results like this. I guess I'm asking about risk management and kind of what went wrong and what happened the last three weeks to wind up with 3 billion of additional charges?

<A – Stan O'Neal>: Well the 3 billion additional charges is taking a look at the methodology and going through the marking models again and coming to a conclusion that still within the same range that we had before that it was more appropriate to be at a more conservative end of the range than we had previously indicated. That's where the \$3 billion comes from.

Why do we have such a large position in the first place? We made a mistake. There were some errors of judgment made in the business themselves, there were some errors of judgment made within the risk management function and that is the primary reason why those exposures exist.

<Q – Mike Mayo>: And as far as potential divesting of non-core assets when might we hear more about that?

<A – Stan O'Neal>: As soon as we're able to talk about it. It would be nothing that you would think would be core to any of our Investment Banking or Global Wealth Management business.

<Q – Mike Mayo>: So, for – you mentioned BlackRock, the value being up \$4 billion, I guess you have an ownership in Bloomberg, things like that?

<A – Stan O'Neal>: We really are quite happy with our investment in BlackRock and as I said at the time we announced the transaction we want to own this asset for the foreseeable future. We never wanted to decrease our exposure to our ability to participate in the asset management business. We think we've created a way in which we can participate in a much better form and it is our intent to continue to be a part of that and nurture that investment as long as I can see.

<Q – Mike Mayo>: All right, thanks.

Operator: Your next question comes from Prashant Bhatia with Citigroup.

<Q – Prashant Bhatia>: Hi.

<A – Stan O'Neal>: Hi.

<Q – Prashant Bhatia>: On the 8 billion in losses, can you give us a feel for how much of that is realized versus unrealized?

<A – Stan O'Neal>: I think we already said, Prashant, we're not breaking that down.

<Q – Prashant Bhatia>: Okay. And then you've talked about the marks being conservative. Can we interpret that as the marks right now reflect where you can sell these assets in the marketplace? Or, you know, what is the – I understand the markets are liquid and so called good assets are

selling at depressed prices but have you marked them down to where they can clear the market and you're just not, you know – you don't want to sell them at these depressed prices?

<A – Stan O'Neal>: I would say the markets are highly illiquid and we have, wherever we can, marked them to market prices and in other instances we believe we've been conservative in modeling the values.

<Q – Prashant Bhatia>: Where you've been conservative, how do you think that compares to where it would actually clear the market?

<A – Stan O'Neal>: I have no comment on that.

<Q – Prashant Bhatia>: Okay. And, can you just talk about the process or the methodology of actually marking the inventory and how that's changed based on what you've learned this quarter?

<A – Stan O'Neal>: It actually hasn't changed, we have the same inputs. And as I think I said, the range is still the range, it's just that we're at a more conservative – significantly more conservative end of that range with the same methodology.

<Q – Prashant Bhatia>: Okay. And then, the losses, how do you – how does that change the risk appetite, near-term? You've got a new head of FICC that's been in the business at your firm I think for a couple of years, you have big losses. What does that do to the risk appetite?

<A – Stan O'Neal>: Look, the losses here are outside of the parameters of our risk appetite. And there were some mistakes made in us having these results. Primary mistakes were errors of judgment and understanding the nature of the risk as the markets were changing for these securities. That has nothing to do with the fundamental appetite for risk. Our appetite for risk is driven by the need to perform well in the marketplace for our clients. And as a consequence of being in these markets, many markets, both geographically and product-wise, we have to have the expertise for taking risks. That is just a core competency that is required to be successful in this business. And we see no scenario under which we would move back from that idea.

In other areas of the firm, as I have mentioned, we take risk on a regular basis in commodities, in our equity business, in parts of leverage finance. There are many other areas; interest rate trading, FX trading. We will continue to have an appetite in all of those areas. We just got too big in this area.

<Q – Prashant Bhatia>: Okay, thank you.

Operator: Your next question comes from Michael Hecht with Banc of America.

<Q – Michael Hecht>: Hey guys, how you doing? Maybe just a follow up on Prashant's question on kind of diminished risk appetite. I mean, so, I mean we shouldn't think about this as kind of – how should we think about this affecting kind of the new run rate of kind of FICC revenues going forward, and then GMI's business, kind of more broadly?

<A – Stan O'Neal>: The reality is we believe – couple of things; one is, there's been a structural change in market for these structured products, particularly those which have underlying related to mortgages. But the whole structural change of the market makes it less of a market opportunity, I think, for everyone for some significant timeframe, and perhaps the foreseeable future. We can generate, we believe, higher rates of return at more attractive risk reward ratios away from this business anyway. And we intend to – and we are in the process of, wherever possible, reallocating balance sheet and risk capital to areas that produce better risk reward ratios. So, while it may be true that to some degree revenues are diminished a bit, we don't see that as over time diminishing our return capability.

<Q – Michael Hecht>: Okay. And then maybe shifting over to the LBO side, I mean the exposure that you talked about on October 5th, the \$31 billion, down a lot, obviously quarter-over-quarter and it seems you navigated through with outsized marks there, but still a pretty big number relative to equity. I mean how long do you think it will take to work that down and kind of implications for the high yield and leveraged finance business and really I guess the M&A business, near term and longer term?

<A – Stan O’Neal>: Well we’ve already seen some liquidity return to that market and I think a number of notable deals have gotten priced. There are pools of capital that have formed to take advantage of dislocation. And the process of repricing and resetting terms and conditions in that market are taking place in an orderly fashion in contrast to the process in other parts of the market. How – we are seeing renewed discussions and activity around potential deals. I think already in the marketplace there are, as I said, some new sources of capital are coming into the market as well. And we feel comfortable with the remaining exposures that we have, and I think we’ve done a very good job in managing our way through this tightening of liquidity and leveraged finance.

<Q – Michael Hecht>: Okay. And then, you mentioned First Franklin, your marks, and how you guys had a write-down for intangibles. But how should we think about the potential for a write-down of goodwill there?

<A – Stan O’Neal>: First Franklin has integrated into our overall business and that’s how we evaluate it. And there is no impairment appropriate.

<Q – Michael Hecht>: Okay. And then maybe we just shifting over to GPC really quickly. Can you talk a little bit about the – the acceleration of retail flows you’re seeing? I mean, what do you think is really driving them? Do they’ve more to do with the market or just free-town investors becoming more active or more about share gains in the part of Merrill, and things you’ve been doing to kind of re-energize the platform?

<A – Stan O’Neal>: I think the platform is really strong. It’s been getting stronger year by year, and it continues to separate itself from the competition. It is a well-run business. It is a great franchise. We have the best financial advisors and I think the best product suite and platform to support those financial advisors. Throughout all of this period, the business has continued to perform well, both in terms of revenues and profitability, but most importantly in terms of capturing new clients and bringing in new assets. I think it is a function of the quality of the business that we have, and the fact that the issues in the marketplace generally have been severe in some cases as we’ve discussed. But they’ve been isolated.

<Q – Michael Hecht>: Okay. And then actually just as we’re kind of on the call here, I saw S&P is just going to cut their – cut the rating and change the outlook. I mean, how should we think about that implications for kind of funding costs? I mean, any other implications?

<A – Stan O’Neal>: In terms of our liquidity planning, we incorporate various rating scenarios and we’re comfortable within the parameters of our liquidity. In terms of pricing, the market will ultimately determine what that price is.

<Q – Michael Hecht>: Okay, fair enough. Thanks guys.

Operator: Your next question comes from the line of Jeff Harte with Sandler O’Neill.

<Q – Jeffery Harte>: Good morning. Can you give us some more comfort with your understanding of your current risk loss exposures? And I suppose it’s coming from – I’m having a little trouble with how you can feel that you understand your risk exposures when September 28th marks deteriorated extra 75% on you after the quarter had closed.

<A – Stan O’Neal>: It’s because we’ve had some time to do a lot more work and we’ve reviewed the methodology, reviewed the pricing standards, we’ve reviewed the inputs and we’ve come to the conclusion that, again, within the same range is appropriate to market much more towards more conservative end of the range.

<Q – Jeffery Harte>: Should we read that that essentially at the end of the quarter you had certain positions or directional understandings and you were wrong, as opposed to maybe you didn’t understand the potential magnitude of the exposures?

<A – Stan O’Neal>: I’m sorry, this at the end of the third quarter you’re talking about?

<Q – Jeffery Harte>: Yeah, on September – the 28th. But I guess I’m kind of getting to, when you pre-announced the dollar values you pre-announced versus what you’re reporting now. I’m having trouble getting my arms around or accepting how you effectively understood your risk exposures from a risk management or hedging standpoint on September 28th given that the retroactive changes you made.

<A – Stan O’Neal>: Okay.

<Q – Jeffery Harte>: Did the directional bet go the wrong way, or were you surprised by the magnitude of the exposures you wound up having?

<A – Stan O’Neal>: Again, as of the date we pre-announced, the amount that we’re now indicating was one which was within a range of valuations that we did at the time. But as we have looked at it, as we have gone back and examined it in the context of where the markets are, we believe it’s now more appropriate to be at the more conservative end of the range, not – there’s no change in the perspective on it. There’s no change in hedging assumptions or how we think the hedging will work. It’s more about just making sure that we verified all of the prices and came to the conclusion that we were within the range, but we should be more appropriately at the conservative end of the range.

<Q – Jeffery Harte>: Okay. In looking back at the CDO kind of underwriting franchise, can you give us some idea what portion of kind of the CDOs you’ve underwritten have been more to client-specific specifications versus just generally securitizing, saying that you hope to spin out, and I suppose ultimately what I’m getting at is – I’m sorry, go ahead.

<A – Stan O’Neal>: No, I think I understand the question. I would say that the business was originally designed to be all specified for clients. And although it’s hard to tell looking back and understanding precisely how things evolved, it would appear that we drifted away to some degree from that specification for the design of the business. How much of that was function of sort of drift and focus and strategy and how much of that was just a function of competitive forces in the marketplace is unclear. But the business was originally designed to be essentially the spoke for portfolios.

<Q – Jeffery Harte>: And if that’s the case, you just can’t afford specifically structured per client, at what point in time do the kind of mortgages and whatever assets you’re collecting to put into the CDO or the CDO itself get moved to a bank or purposely remote location as opposed to being on your balance sheet? At what point in time does it become someone else’s risk as opposed to your risk?

<A – Stan O’Neal>: I think as soon as the structuring process – there’s a sufficient amount of resources that are accumulated in order to make it the risk of the investor, and the arrangements in many cases differed from investor to investor.

<Q – Jeffery Harte>: Okay, thank you.

Operator: Your next question comes from the line of Douglas Sipkin with Wachovia.

<Q – Douglas Sipkin>: Yes, hi, good morning. Most of my questions have been answered. I just had a couple of follow ups. One, were you guys forced to bring assets that you didn't have previously on your balance sheet because of the events that transpired in August and September?

<A – Stan O'Neal>: We did see some assets come on our balance sheet as a result of the extreme liquidity crunch in August and September, and our liquidity position that we've described reflects that.

<Q – Douglas Sipkin>: Okay. Just drilling down a little bit more on the sale of non-core assets, I know there's always speculation around your stake in Bloomberg. Is it a conscious decision of you guys not to revalue it to market, or is there more to it than that, considering, I guess, the ratings – the potential ratings implications and your capital position, I would think it would make sense maybe to revalue that and improve your equity position? So I'm just wondering, is that your decision as an elective, or is it actually just something you can't do?

<A – Stan O'Neal>: We are not going to comment on any specific investments at this point, including Bloomberg.

<Q – Douglas Sipkin>: Okay, great. And then, finally, you talked about the consortium transaction, the banking fees around that. Is some of that falling into Q3, or will all of that be a Q4 event?

<A – Stan O'Neal>: Sorry, could you repeat the question?

<Q – Douglas Sipkin>: Sure, you guys, I believe Jeff mentioned in his comments about the landmark financial transaction with ABN AMRO, and I know you guys are the lead advisor and banker on that. Are the bulk of the fees still to be recognized in the fourth quarter, or are there some that had already flowed through in the third quarter?

<A – Stan O'Neal>: The answer to that is there were some that have been recognized previously, the bulk are in the fourth quarter.

<Q – Douglas Sipkin>: Okay, great. Okay, great, thanks a lot.

Operator: Your final question comes from Meredith Whitney with CIBC World Markets.

<Q – Meredith Whitney>: Good morning. I have a general question. With respect to your comments on subprime and the mistake associated with the subprime bet, it seems to me that the subprime bet was firm-wide extending from CDOs to the First Franklin acquisition and if you could provide some color in terms of directionally, obviously, the revenues head down as you make a strategic bet away from that. But, in terms of firm-wide then what are the steps that we'll see over the next couple of quarters in terms of replacing those revenues, management shifts, further management shifts, and then further an ability to match expenses with the declines in revenues?

<A – Stan O'Neal>: Sure. Two things; one is I think I said earlier that the – while revenues related to this area will obviously be severely constrained for some foreseeable period of time, we think that despite that we can actually earn a higher rate of return in areas away from this. So, and secondly, with regard to First Franklin, First Franklin, the idea behind First Franklin was to be able to more directly control the quality of the loans that were being taken into inventory as raw material, if you will, for securitization. By having a high-quality originator, which we could directly control the parameters, which they were originating mortgages, we believed that we would be able to gain more quality control over the assets as opposed to purchasing from third-party mortgage brokers.

We did not buy a portfolio with First Franklin. We bought a platform, and First Franklin's platform is very high quality. We have shrunk that platform. Reflecting the current state of the market, we've closed some 20 branches. And we've scaled back the personnel in line with that. So there will be an impact, obviously, in terms of revenues related to these areas, but I really don't believe over the intermediate to longer term that it will affect our ability to generate returns. It may diminish revenues, but not overall returns.

<Q – Meredith Whitney>: Okay, thanks. And then just a nitty-gritty question on the – since you're talking about such big numbers, I'm going to press on some of the issues that you've avoided, with respect to the hedge on the 11 billion in sales, or sort of relocation of assets. Can you talk about what type of hedges and whether there are liquidity hedges imbedded in that and if – any more color, I know everyone would appreciate, and that's all I have, thanks.

<A – Stan O'Neal>: Yes, sorry. We don't have any more color. Thank you.

Operator: Ladies and gentlemen, let me now turn the call back to Sara Furber for some final remarks.

Sara Furber, Head of Investor Relations

Thank you. This concludes our earnings call. If you have further questions, please call Investor Relations at 212-499-7119. Fixed income investors call 866-607-1234. Thanks for joining us today. We appreciate your interest in Merrill Lynch.

Operator: This concludes today's Merrill Lynch conference call. You may now disconnect.

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