MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Merrill Lynch First Quarter 2007 Financial Results 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 Jonathan Blum, Head of Investor Relations. Please go ahead.

Jonathan Blum, Head of Investor Relations

Good morning and welcome to the Merrill Lynch's conference call to review first quarter 2007 results. The following live broadcast by Jeff Edwards, Chief Financial Officer, is copyrighted to Merrill Lynch.

Statements made today may contain forward-looking information about management's expectations, strategic objectives, growth opportunities, business prospects, investment banking pipelines, acquisition synergies, anticipated expense levels and financial results, and other similar matters. Such forward-looking statements are not statements of historical facts and represent only Merrill Lynch's current beliefs regarding future performance, which is inherently uncertain.

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Investors should consult Merrill Lynch's reports filed with the SEC for any additional information, including risk factors specific to Merrill Lynch's business described in the company's 2006 Annual Report on Form 10-K.

Investors should also read the information on the calculation of non-GAAP financial measures that is posted on Merrill Lynch's 'Investor Relations' website, www.ir.ml.com, where an online rebroadcast of this conference call will be available today at approximately 2 p.m. Eastern time.

And with that, I will turn the call over to Jeff.

Jeffrey N. Edwards, Senior Vice President and Chief Financial Officer

Thank you, Jonathan, and good morning to everyone. Welcome to our first quarter call. As in the past, unless otherwise indicated, I will exclude the impact of the one-time compensation expenses related to adopting FAS 123(R) in the first quarter of last year from comparisons to that period.

I will also exclude 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 from the determination of quarterly records.

Full GAAP financials, which include the one-time compensation expenses are available in the attachments to our earnings release as are schedules reconciling those data to the numbers I will discuss.

This morning, Merrill Lynch reported another outstanding quarter. Highlights include our highest quarterly revenues ever, record earnings and earnings per share for our first quarter, a solid increase in ROE compared to the year-ago quarter, consistency in our results in each month despite varied market conditions; very strong performances across both business segments, including record net revenues from Fixed Income, Currencies and Commodities or FICC, as well as from Equity Markets and Investment Banking, and our continued momentum evident in all global regions, as each major global region also achieved record revenues.

The record net revenues for the quarter were $9.9 billion, up 24% from the prior year period, and 14% from the 2006 fourth quarter. This is the 10th consecutive quarter, where we have generated year-on-year revenue growth. Excluding MLIM and BlackRock, the year-on-year revenue growth in our remaining businesses would have been even stronger, a little over 30%, which we think is more indicative of our growth trajectory.

In addition to the strong growth in revenues, we improved our operating leverage, as the pre-tax profit margin increased to 31.4% up from 29.5% in last year's first quarter, reflecting both the growth in diversified sources of revenue and a continued focus on expense management. This is the highest quarterly pre-tax margin we have ever recorded, other than in the 2006 fourth quarter, which benefited from an unusually low compensation expense ratio that reflected the finalization of full year compensation expenses.

Net earnings per diluted share of $2.26 were up 37% year-over-year and down 6% sequentially, while net earnings of $2.2 billion were up 31% and down 8% respectively, as our ongoing stock repurchases continue to enable EPS growth to surpass earnings growth.

Importantly, our annualized return on common equity of 23.3% increased by more than 4 points from the first quarter of 2006, as we continue to focus on this important measure of operating efficiency.

From a regional perspective, in the U.S., we grew revenues at double-digit rates both sequentially and year-over-year, but our growth outside the U.S. continued to be faster, at a rate more than 10 percentage points higher than in the U.S.

Non-U.S. net revenues comprised 39% of Merrill Lynch's total net revenues for the quarter and 54% of net revenues in Global Markets & Investment Banking, or GMI. Both those proportions set new quarterly records. We continue to believe that the profit pools in international markets will grow faster than those in the U.S. for the foreseeable future, and therefore we continue to make investments necessary to build out our platforms broadly in these markets, complementing our strong presence in the U.S.

I want to stress the importance of the investments we have made to diversify and grow our businesses, not just geographically, but also across asset classes, products and clients. In key businesses, in both GMI and Global Wealth Management, or GWM, we continue to successfully execute our strategy to broaden and deepen our platform. The benefits of this diversification become especially evident in quarters such as this one, where a clear dislocation in an individual market, the subprime mortgage space in the U.S., did not impede the overall momentum of our franchise. As we have seen in other quarters in past years, it is not at all uncommon, and in fact it's a virtual certainty that different markets will experience different periods of both strength and weakness at different times.

As we have built many sources of revenue growth into our portfolio of businesses across many regions, we can continue to expand even as individual businesses experience slowdowns or corrections. This also allows us to maintain our strategic commitment to continue to build our capabilities in the areas experiencing tougher conditions so that as the market turns, we are even better positioned than before. And new initiatives that will drive future growth continue apace.

During the first quarter, we announced the acquisition of First Republic Bank which is on track for a third quarter closing. First Republic is a uniquely complementary platform to our GWM business, as we look to expand in the high growth private banking sector. We also opened new institutional offices in Turkey, Russia, and Dubai. The key long-term drivers of our strategy, economic growth, wealth creation and globalization remain in place and continue to give rise to substantial opportunities for us to grow and diversify revenues further. Now I will provide a more detailed review of our first quarter performance by segment.

First GMI. GMI turned in another record setting performance as momentum accelerated across its expanding global portfolio of businesses, and investments for growth continue to pay off. Net revenues of $6.5 billion were 22% higher than the 2006 fourth quarter and an even stronger 43% higher than the 2006 first quarter.

Pre-tax earnings for the quarter were $2.3 billion, up 48% from the prior-year period on the strength of both the higher revenues and good operating leverage driving the pre-tax margin to 35.8%. Sequentially, pre-tax earnings were down 10% as the compensation ratio rose from the unusually low fourth quarter.

Now turning to FICC, which produced an outstanding first quarter performance. Net revenues in FICC set a new record for the third consecutive quarter at $2.8 billion, up 22% from the fourth quarter of 2006, and 36% from last year's first quarter.

The sequential increase was reflective of our enhanced positioning in a highly diversified set of asset classes including record revenues from our credit, commercial real estate, rates and currencies businesses, which substantially more than offset the impact of revenue declines for mortgages and commodities. Compared with the first quarter of 2006, all major product lines with the exception of mortgages have reported higher revenues.

I want to pause here to make a few comments about our U.S. subprime mortgage business, since I know it has been a topic of much discussion and speculation. Let me put this business into context. As we noted in our earnings release, if you looked at both last year and the first quarter of this year and added up all of the origination, securitization, warehouse lending, trading and servicing revenues, both directly in our subprime business as well as our CDO activity involving subprime, including all the retained interests, you would see that revenues from subprime mortgage-related activities comprise less than 1% of our net revenues for those five quarters. And even if you were to incorporate, pro forma, the revenues of First Franklin as if they were a part of our firm for all of 2006, the aggregate contribution would still be less than 2%.

That said, this is an asset class that will continue to be significant, both in the U.S. and worldwide. And the strategic importance of the First Franklin acquisition was clearly evident this quarter, as having both origination and servicing capabilities enabled us to see trends emerge sooner and adjust underwriting standards and pricing more rapidly.

I would also point out that our risk management capabilities are better than ever, and crucial to our success in navigating turbulent markets. In fact, we've been capitalizing on the market dislocation by recruiting the best talent from competitors, and we fully expect to emerge from this cyclical downturn even better positioned.

At this point, we believe the issues in this narrow slice of the market remain contained and have not negatively impacted other sectors. Finally, it's important to understand that we manage our FICC businesses in aggregate as a portfolio and that portfolio delivered record revenues for the quarter.

On a broader basis, most FICC markets experienced a continued favorable environment characterized by both high levels of client activity and opportunities for proprietary trading, enabling outstanding results as we continue to build out our capabilities in areas that are poised for growth.

Let me give you some more color. We had a broad-based performance in our rates business including strength in derivatives and exotics. In credit, we saw a particular strength in trading distressed assets in emerging markets. In commercial real estate, we saw solid gains on our principal investments and in our CMBS conduit business. We had a very strong trading performance in commodities, especially in the core gas and power areas where we are a market leader both in Europe and the U.S. And regionally, we set revenue records in both the Pac-Rim and EMEA regions, complementing strong double-digit growth in the U.S.

Next, I will talk about equity markets. Equity markets' net revenues increased very strongly as well, setting a new record at $2.4 billion, up 35% from the fourth quarter and 50% from the year-ago quarter. Every major revenue category increased both sequentially and year-on-year with the exception of private equity, which was down slightly from the fourth quarter. In particular, the equity-linked trading business showed the strongest absolute and relative growth among the trading areas, setting a new quarterly record as client demand for derivatives products continues to accelerate.

In the cash trading business, growth was driven by improvements in electronic trading, demonstrating the impact of the investments we have been making combined with favorable market conditions. The strategic risk group, which is dedicated to proprietary trading, registered a record quarterly result for the second consecutive period as we continue to build out that unit.

Revenues from the financing and services business, which includes prime brokerage, were also up as this business continues to gain momentum as evidenced by our recent ranking as the number 2 prime broker in Europe by Global Custodian. While down sequentially, revenues from private equity were still quite robust and up significantly year-on-year, as our publicly traded investments continue to perform well.

From a regional perspective, EMEA was a clear standout. We believe EMEA now represents the largest and fastest-growing market within equities and we are extremely well-positioned with EMEA contributing nearly a third of our global equity markets revenue. Across our global markets businesses, our capabilities have never been stronger and we are in a better position than ever to drive growth and manage risk across our global franchise.

Now to Investment Banking which generated record net revenues for the second quarter in a row at $1.4 billion, up 4% from the fourth quarter and 47% year-on-year. This quarter's revenues were particularly strong in merger and acquisition advisory and leveraged finance, two core areas of focus for us and were achieved despite the typical seasonal slowdown in broader market volumes. Regionally, EMEA stood out in terms of growth, also setting a quarterly record for Investment Banking revenues.

M&A advisory revenues of $399 million were the second best ever for our firm, up 55% year-on-year and 40% sequentially. For the quarter, Merrill Lynch was number 2 in global completed M&A volume and debt origination revenue set a new record up 38% from the prior year period and 9% from the previous record set in the fourth quarter of 2006.

Strength in this category was driven by leveraged finance where we set a new revenue record as we ended the quarter number 2 in the global high yield league tables. Equity origination was up 53% from the year-ago period, but down 24% from the particularly strong fourth quarter as activity levels moderated around the globe. Our market share remains strong as we finished the quarter in second place in the global equity and equity-linked league tables and we're number one in IPOs.

Our increasing emphasis on providing multi-facetted solutions for our clients was evidenced by the work we did for Freeport-McMoRan around its acquisition of Phelps Dodge creating the world's largest publicly traded copper company.

In this situation, we advised Freeport-McMoRan on the transaction, arranged $17.5 billion in debt financing, which included the largest high-yield note transaction ever at $6 billion, and led $5.8 billion in equity and equity-linked financings, setting a record for an already public U.S. company.

Our outstanding performance in Investment Banking underscores the progressively more powerful market position we have attained through key investment and personnel. And beyond these strong results, our investment bankers are increasingly adding value to other areas of the firm, sourcing revenues in derivatives, commodities and principal investments and introducing clients to our private wealth advisors. These non-traditional sources of revenue will continue to be a significant area of focus as we work to maximize the revenue potential from the high quality relationships our investment bankers have with their clients.

The environment for Investment Banking remains constructive, particularly for large multi-product transactions. Even after this strong first quarter, our pipeline closed the quarter at a new period-end record. The sequential increase in the pipeline was driven primarily by debt and equity origination. The year-on-year increase was broader across all three product areas and all three primary regions. Subject to market conditions, as always, we are optimistic about our ability to convert this pipeline into revenues.

Now turning to GWM. GWM comprises our Global Private Client and Global Investment Management businesses. The firm's share of after tax earnings for BlackRock are included in the GIM portion of GWM revenues for both the fourth quarter of last year and the first quarter of this year, but not the first quarter of 2006 when our asset management activities were reported in the former MLIM segment.

GWM generated solid revenue growth and strong pre tax profits in the first quarter, driven by revenue growth in both GPC and GIM. Net revenues of $3.4 billion were up 16% year-on-year and 4% sequentially. Pre tax profits of $842 million were up 31% and 11% respectively. The pre tax margin was 24.7% higher than both prior periods.

GPC net revenues for the first quarter were $3.1 billion, up a little over 2% sequentially and 11% from the prior year quarter. These were GPCs second highest quarterly net revenues ever, short of the record set in the first quarter of 2000.

Sequentially, the overall revenue increase was driven by every major category. Transaction and origination revenues rose amidst a meaningful pickup in activity early in the quarter. Net interest and fee-based revenues also reached all-time highs.

Year-over-year, the overall GPC revenue increase also came across every revenue line with fees-based revenues contributing the most. Transaction and origination revenues were driven by higher new issue origination activity in closed end funds, and net interest increased meaningfully.

GPC continues to make progress on key growth initiatives, including private banking, where as I mentioned earlier, the First Republic acquisition will enhance our ability to grow in this attractive sector. We believe that First Republic will be able to expand on a more rapid basis as part of Merrill Lynch than as a standalone company. Once the acquisition is completed, together we will focus on intelligently building out the bank's footprint as well as leveraging Merrill Lynch's wealth management expertise and tailoring products for First Republic's clientele.

Also expanding non-U.S. operations remains a priority. GPC again grew non-U.S. revenues at a faster sequential pace than the U.S. business, and is implementing a new business model focusing on ultra-high net worth clients.

We continue to invest in technology. In an increasingly competitive industry, the level and consistency of our revenues and earnings enables us to afford the substantial investments in technology required to empower FAs to deliver best-in-class client service, products and advice.

On to GIM, which recorded first quarter revenues of $261 million, up 24% sequentially and 151% from last year's first quarter. Sequentially, growth was driven by an increased contribution from our investments in BlackRock and other investment management companies. Compared to the first quarter last year, most of the increase reflects the inclusion of BlackRock in the current quarter, but not in the earlier period. However, other areas of GIM also generated revenue growth. We continue to be extremely pleased with the successful integration of MLIM and BlackRock, and refer you to their earnings release this morning for a review of their outstanding progress.

For GWM as a whole, first quarter asset flows into private client accounts were strong. Net inflows into products that generate annuitized-revenues were $16 billion for the quarter. Total net new money into the firm was also $16 billion, bringing total client assets to a new record level. The GWM strategy remains consistent; investing in an industry-leading global platform that attracts superior professionals and enables them to act as the central partners to their clients, providing best-in-class service, products and advice, and positioning the business for further growth.

That concludes my discussion of our segments. I will now return to the income statement for the firm as a whole, beginning with expenses.

First, compensation. The ratio of compensation expenses to net revenues for the first quarter was 49.6%, about 50 basis points lower than in the first quarter of 2006. The decline in this ratio reflects operating leverage to increased revenues, driven by our continued bottoms-up discipline around compensation, even as we continue to hire aggressively around the world to enact our growth plans. As usual, the quarterly progression of our compensation ratio will depend on how the environment evolves, both in terms of revenues and competitive trends in compensation.

Next, non-compensation costs, which in the first quarter totaled $1.9 billion, up 15% from last year's first quarter, consistent with the growth of our business; and down 3% sequentially. The ratio of non-compensation expenses to net revenues in the quarter reached a record low of 19.0%, down 1.4 points from the year-ago period as we were able to deliver operating leverage, despite the significant growth in activity levels and the inclusion of First Franklin, an expense intensive business. We will stay focused on non-compensation expenses, even as we make further investments in infrastructure to drive growth.

Now our effective tax rate, which for the first quarter was 30.3%, up 3 points from the full year 2006. At this point, we expect this rate to continue to increase modestly as our earnings grow. But again, let me point out that both the rate for individual quarters and the full year rate can be impacted by various factors, including changes in tax laws, settlements and business mix.

Finally, capital management. We continued to execute aggressively on the share buyback front, repurchasing more than 22 million shares, $2 billion worth of our common stock during the first quarter. Our plan is to remain active in repurchasing our stock, although as we seek approval from First Republic's shareholders for that acquisition, we will be required to withdraw from the market for a period of time. That may impact the absolute amount we are able to buy back in the coming quarter.

We continue to effectively balance increasing our ROE while growing book value per share. Book value per share at the end of the quarter was $41.95, up 13% from a year ago, and up $0.60 from year end, despite the impact of share repurchases and our annual stock-based compensation grant. We also increased our ROE, which is up more than 4 points from the year-ago period to 23.3%. This is a direct result of our efforts to grow revenues, drive higher margins and actively management both our balance sheet and equity capital.

We are pleased with our continuing progress but remained focused on further improving this important metric. We are confident that in similarly conducive markets, the successful execution of our growth strategy will allow us to drive our ROE higher and to continue to increase both book value per share, and over time, dividends.

This wraps up my formal review of first quarter results. Having produced our best revenues ever, we enter the second quarter with strong momentum and great optimism about our future. The market environment has been favorable for most of our businesses, but we are mindful that the markets can turn quickly. We also recognize that seasonally, the first quarter is often the strongest in the year, particularly for transaction-oriented businesses such as trading and parts of GPC. But with each quarter, Merrill Lynch becomes stronger and more balanced across businesses, across regions and across asset classes. We have invested aggressively to build our platform, so we continue to see opportunities for further investment to drive future growth. We continue to successfully add and develop outstanding talent around the world, increasing our ability to deliver superior service to our growing client base. As always, execution will be key but our track record to-date makes us confident we will deliver.

Now, I will be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first question comes from the line of Glenn Schorr with UBS.

<Q – Glenn Schorr>: Hello there.

<A – Jeffrey Edwards>: Good morning Glenn.

<Q – Glenn Schorr>: Good morning, just a couple quickies on the balance sheet first. I see that you issued about 1.6 billion, is that all in preferred this quarter?

<A – Jeffrey Edwards>: That's right, which of course will increase our dividends as you model going forward by about $20 million a quarter.

<Q – Glenn Schorr>: Right. A question for you, it is now – I don't know, over 11% of total equity. Is there any limitation on that in terms of what applies to your capital ratios and your thinking around that? Because obviously there is a boost on ROE in a good way.

<A – Jeffrey Edwards>: Well, I think as we approach our capital management, one important component certainly is how we look at different pieces of our capital base. To that end, both preferred stock and other hybrids are critical components of that.

At this point, we feel that we have got an appropriate balance and will continue to look at that on a quarter-by-quarter basis going forward. We are not constrained from a ratio perspective at this point. But we do think it reflects good capital management and is part of our improving ROE story, as you point out.

<Q – Glenn Schorr>: Cool. Staying there, long-term debt was up like 24 billion or thereabouts. We can't see the asset side. A, if you could just tell us what went on there, or maybe talk about it in terms of leverage and then how you are thinking about that.

<A – Jeffrey Edwards>: Yeah, I think a couple of points there. I would say that you should expect to see our balance sheet will be bigger at quarter end, consistent with the pattern you have seen over the last several quarters as we have grown our business. Certainly that's a part of the growth in our business. Part of that growth of balance sheet, as you point out, reflects a – needs to occur in a way that's consistent with sound capital management and liquidity and part of that increase in long-term debt certainly reflects that.

But a couple of other points I would make as well. One, it's been an important part of our strategy to not just grow our balance sheet but increase the strength of our liquidity as well, and that certainly has happened over the course of the last several quarters and happened again this quarter and that long-term debt issuance is partly reflective of that. We issued some subordinated debt during the quarter which is part of our strategy to comply with CSE guidelines for total capital. So all of that comes into play during the course of the quarter.

The last thing I think I would say is that markets were quite conducive, quite favorable during the quarter. We funded a good amount and I would expect over the course of the next few quarters you would see that grow at a slower pace.

<Q – Glenn Schorr>: Got it. Cool. Okay last questions. FAS 157, 159; assuming no comments, that means no material impact. And then just curious how the ownership position in Bloomberg falls under there? In other words, is there a piece that's optional in applying?

<**A – Jeffrey Edwards**>**:** The first part of the question, 157, 159, you know, the starting point is if you look at retained earnings or shareholders' equity broadly, was there any adjustments to first quarter? If you look at the adoption of 157, 159, 48, which also occurred during the quarter, no significant impact at all in shareholders' equity as a starting point.

In terms of the income statement for the quarter, as you know, under the new guidelines, we will no longer be deferring our '02/'03 revenue so that is now going into the income statement directly.

The last thing that I would say there is there was a portfolio of – part of our liquidity portfolio that previously had been under available for sale. We elected to put under fair value and there was a moderate amount of income associated with that, but less than 1% of revenues. Bloomberg we did not elect to put under fair value. We continue to equity method account for that.

<**Q – Glenn Schorr**>**:** Okay, thanks for everything.

<**A – Jeffrey Edwards**>**:** Thanks Glenn.

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

<**Q – Mike Mayo**>**:** Good morning.

<**A – Jeffrey Edwards**>**:** Hi Mike.

<**Q – Mike Mayo**>**:** Could you elaborate more on the non-U.S. growth? You said 10 percentage points higher growth outside the U.S., is that correct?

<**A – Jeffrey Edwards**>**:** That's correct, and that's true for both the sequential growth and for the year-on-year growth.

<**Q – Mike Mayo**>**:** That implies 30% growth outside the U.S.? Did I do my math right?

<**A – Jeffrey Edwards**>**:** I won't get into the arithmetic of exactly how that works in different periods, but if you assume at least 10% more rapid growth both sequentially and year-on-year, I think you get a sense for the greater momentum that that business is producing.

<**Q – Mike Mayo**>**:** I guess is that sustainable? It is a pretty high rate. And can you give us some color by region, too?

<**A – Jeffrey Edwards**>**:** Well, as I think I mentioned on the call, we set records really in all our global regions, not to understate the importance of the U.S., we also had record revenues there. It is just that the growth was more rapid in the international markets. But I think you can tell from that that the growth has been strong, really across the board there. That's how I would characterize it. Really strong growth in both Europe, Pac Rim and even in the Canada and Latin America sub-regions of the Americas.

<**Q – Mike Mayo**>**:** Okay, then a separate question. Retail brokerage revenues, they were up linked quarter but not as strong as that of a few others. Was there any slowdown in March, and is that continuing?

<**A – Jeffrey Edwards**>**:** Yeah, I guess on the private client side, let me make a couple of observations. The first one I would say is that, if you look on a year-on-year basis, the growth continues to be quite solid. Up 11% in revenues from the first quarter of last year. Fund flows were strong. We continue to get operating leverage in the Global Wealth Management business broadly. So I think that business continues to show steady growth as it continues to steadily execute.

<Q – Mike Mayo>: As far as March activity?

<A – Jeffrey Edwards>: I would say it was not unusual in that business from the first quarter. You tended to see a little bit more active transactional volumes in the early part of the quarter than you do in the late part of the quarter. That typically follows into the second quarter as tax season comes up, but nothing unusual.

<Q – Mike Mayo>: All right, thank you.

<A – Jeffrey Edwards>: Thanks Mike.

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

<A – Jeffrey Edwards>: Hi Bill.

<Q – William Tanona>: Good morning Jeff. Obviously, the environment became a little bit more tricky this first quarter and there were concerns with subprime, which you guys seem to have squashed any concerns regarding your exposure there. But I'm wondering if you guys have changed your appetite in this environment, or kind of rethinking what you put on your balance sheet or what type of risks you might take? Or if at all it has changed how you are approaching the business right now?

<A – Jeffrey Edwards>: Well, let me make a couple of points about that. Certainly risk management, as I said in the prepared remarks, is a crucial aspect of our business. I think we have done a very good job in negotiating these markets as a result of that. So how are we approaching that? We are certainly looking at new ways to do business where there are opportunities for us to either share risk or pre-sell some of the risk and still do good business. So I think we are approaching it in a prudent way given the environment.

But let me just reiterate that in these markets, in these asset classes, it is important to recognize that there are going to be periods of dislocation. This particular quarter, there was one in the U.S. subprime business and it's, as you point out, it is important to react to that. But it is going to – as part of a broader portfolio of businesses, you are able to deal with those types of markets. As you can see, the fixed income business just powered right through that.

<Q – William Tanona>: Okay. That's helpful. And then, your commentary there in terms of sharing risk, obviously I think there is a lot of concern out there because you guys are pretty active on the CDO side and the warehouse side of that business. Can you share your thought process as it relates to that and what the trends you are seeing there in the overall business, as well as possibly even in the subprime space there?

<A – Jeffrey Edwards>: Well, it was a very active quarter for securitizations, both in the ABS space directly and in the CDO space broadly. In CDOs, in addition to having a very active ABS calendar, we saw the tension in that business broadening out to other asset classes as well. But I would point out that even during the most uncertain times during the quarter, we were able to price transactions. We priced 28 CDO transactions in the quarter, 19 of them were ABS CDOs and more than 10 of those deals were in the first couple of weeks of March, so while it was certainly a more difficult environment, we continued to see an ability to transact and to move volume.

And on the subprime business, maybe just a couple of more comments there. While it was a difficult environment, we were able to actually increase origination volumes at First Franklin in the quarter. And in fact, we had record volumes in both January and February. And we did that in a background where we were enhancing our already strong underwriting standards. We rationalized our array of products, eliminating certain products that were performing less well, and we successfully raised coupon rates. And we also saw during the quarter the first payment defaults at

First Franklin, of First Franklin-originated paper fall steadily throughout the quarter. They started out and remain at a level far below the industry.

So I think the trends there show some signs of positiveness, and while it is early to say anything obviously about the second quarter, I'd just point out that we did our First Franklin securitization earlier in the week. It was a $2 billion securitization and we saw spreads tighter really across all tranches from where they were a month ago, as investors have clearly begun to reengage.

<Q – William Tanona>: Great. Those are helpful details. Thanks.

<A – Jeffrey Edwards>: Thanks Bill.

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

<Q – Roger Freeman>: Hey, good morning.

<A – Jeffrey Edwards>: Hi Roger.

<Q – Roger Freeman>: Just with respect to the retail trends, just following up on Mike's question, what's the sense you are getting about the activity levels of your retail client base? The online brokers that have reported have issued pretty subdued outlooks with respect to the retail environment. Are you seeing some of those same trends in your business?

<A – Jeffrey Edwards>: Well, I think the most important trend to point to in our business is continued good flows on the money funds, on the fund flow side, particularly among products going into annuitized revenue products, which were up $16 billion for the quarter. I think we continue to execute on our strategy of improving our platform, adding financial advisors, attracting assets, and we believe we will continue to drive steady growth as a result of that.

<Q – Roger Freeman>: Okay, and I guess just staying on the GPC side of the business, you talked in your prepared comments about the high-net-worth initiative in Europe. Can you talk a little bit about where that initiative is, how early days that is there? And then maybe the growth rates, you talked sort of broadly that international is growing 10% above the U.S. What would that look like in the GPC business and how could that accelerate if this high-net-worth initiative takes off?

<A – Jeffrey Edwards>: I would say we are at the early stages of the repositioning internationally of our ultra-high-net-worth client initiative. So I expect that the impact there will be more pronounced going forward. Private Client internationally, let's talk about each of the different regions there. EMEA, first of all, we continue to focus on the U.K. and the Middle East in particular. And in Asia, the two countries, while I would say we're seeing good growth in the platform broadly, I would highlight two countries in particular. India, where we have been investing aggressively to increase our platform in India, and in Japan, where we have a joint venture with Mitsubishi UFJ and we have now added about 20 new financial advisors since that initiative began in the second quarter of last year.

<Q – Roger Freeman>: Okay, that's helpful, thanks. And I guess lastly, can you talk at all to the VaR [Value at Risk] during the quarter, or at least directionally from the fourth quarter?

<A – Jeffrey Edwards>: Yes, you will see it in our Q of course, but directionally, it won't surprise you, I don't think, that it will be up, consistent with the performance in our trading businesses. We have talked for some time now about our strategy of adding capabilities, both people and technology to support growth in risk taking. That risk taking is evident in the results and you will see the VaR reflect that as well.

<Q – Roger Freeman>: Okay, thanks a lot.

<A – Jeffrey Edwards>: Thank you.

Operator: Your next question comes from the line of James Mitchell with Buckingham Research.

<Q – James Mitchell>: Hey, good morning.

<A – Jeffrey Edwards>: Good morning, Jim.

<Q – James Mitchell>: Just a quick question on trading, particularly equities. We did see some pretty choppy markets late February, early March. Can you, I guess number one, comment on whether you saw your results weaken a little bit in March, particularly in the prop side. And, considering that you had a record level on the proprietary side, how did the risk management perform during that choppy period? Thanks.

<A – Jeffrey Edwards>: Okay. One of the points that I made at the beginning was that we saw a balance in our business across all three months, so let me reiterate that. Now that obviously suggests that there are some businesses as you would expect in the portfolio that will perform better in different months, and we certainly saw that. The equity trading businesses were strongest in February, but March was almost as strong as February, and that reflects of course all of our trading businesses. I don't want to particularly get into SRG on a month-by-month basis, but their performance did set a second consecutive record. Part of that has been adding people in the business directly; part of it has been augmenting the people with appropriate technology; and certainly a key part is making sure we have appropriate risk management in place to support that effort. And all of that, I think, came together in the quarter.

<Q – James Mitchell>: You felt that your risk management techniques were pretty on-the-mark this quarter in terms of disruptions?

<A – Jeffrey Edwards>: Yes. There is nothing that occurred in the quarter that caused us to question our risk management. I think that wouldn't surprise you given the strength of the trading numbers obviously in the quarter.

<Q – James Mitchell>: Sure. Okay. Great, that's helpful. Thanks.

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

<Q – Douglas Sipkin>: Yeah, hi, good morning Jeff. How are you?

<A – Jeffrey Edwards>: Good morning Doug.

<Q – Douglas Sipkin>: Just a couple of questions, first off, you guys provided in the press release here about 1.2 billion remaining on the buyback authorization. Obviously some limitations now come into play with the First Republic transaction. How should we be thinking about re-upping that authorization subsequent to the closing and when some of those restrictions come off?

<A – Jeffrey Edwards>: Well, we have announced, I think, it's three different authorizations over the course of the last three years. We have executed on them. We have regular dialog with our Board about the level of repurchases. We certainly intend to continue that dialog, and we anticipate remaining active. But as you point out, there will be some constraints during the coming quarter or quarters around that that are specifically related to the First Republic acquisition, and we will obviously abide by those restrictions during those periods.

<Q – Douglas Sipkin>: Okay. And just sort of asking a little bit differently, obviously you guys have been overcapitalized, the BlackRock transaction probably just augmented that subsequent to some of these acquisitions and the buybacks. After that transaction closes, how should we be thinking about your relative overcapitalization?

<A – Jeffrey Edwards>: Well, we have been focused on optimizing our capitalization for some period, and there are many elements to that. The most important one I would remind you is that we want to make sure we have appropriate capital to execute on our organic investment strategy, to be able to look at inorganic opportunities as appropriate and to drive higher revenues and higher earnings. That remains the primary focus of our focus on capital. But when we have the opportunity, when as a result of our balance sheet efficiency initiatives, we feel we have excess capital that we can return to shareholders, either through dividends or through share buybacks, we will look to continue to do that. At this point we anticipate remaining active and will update people on a quarterly basis on that.

<Q – Douglas Sipkin>: Okay, great. Can you provide any color, obviously, this being the first quarter of First Franklin, but maybe, you know, what potential of your securitization was funded by your own originations this quarter? That's a metric I know that -- some of your competitors have started disclosing, some for longer than others, and now that you actually have made an acquisition, just wondering if you had any color around that?

<A – Jeffrey Edwards>: Well, I don't have the number for you specifically. But your point is exactly right, that part of the strategic thinking behind First Franklin was that it provides us an ability to control our origination. And that gives us both more insight into trends at an earlier level, which allows us to better risk manage our activities and it allows us to control our underwriting standards and pricing standards better. And the first quarter, as a new acquisition, there certainly was a period of ramp up, if you will, such that we would expect the securitizations from First Franklin going forward to be at a more regular pace than we saw in the first quarter. And going forward, we still expect correspondent activity to be important, but we can be much more selective than we have been in the past as to who we correspond with, and I think that will be to our benefit as well.

<Q – Douglas Sipkin>: I believe initially, when you first announced the transaction, you said that it would be – you know, accretive. You didn't provide magnitude to '07. Does that still exist, given some of the turmoil we have seen in the marketplace?

<A – Jeffrey Edwards>: You know, I think it is very difficult to say exactly when that turning point will come, given the volatility we saw in the first quarter. Long-term there is no question that the attractiveness of the acquisition remains absolutely intact as we described, with increasing origination volumes in a period where in general, we think the market was in decline, we believe we will be able to gain market share. We are clearly able to hire talent, which will augment our position. The benefits of the origination and servicing platforms as I just described are certainly intact. But it is a more volatile period and it's a little bit more difficult to predict the exact quarter at which that transition takes place.

<Q – Douglas Sipkin>: Okay, and then just finally, obviously, you know, valuations have come in a lot, and a lot of the capacities are in the process of coming out of the industry. Will you guys consider making another move from an acquisition standpoint if the right opportunity presented itself in the mortgage space?

<A – Jeffrey Edwards>: Well, let me make two comments there. One is that we continue to look for opportunities to grow this business on a worldwide basis, you know, we have talked a lot about our U.S. activities this quarter, but it is important to understand that our mortgage activities are part of a global initiative on our part. In the past quarters, we have talked about some of the opportunities and the efforts and the contributions in both Europe and Asia and that continues to be an important part of our strategy.

In the U.S., I would say our focus right now is on executing the First Franklin acquisition, making sure that the integration continues to go seamlessly and maximizing the benefit of that platform. That's our near-term focus.

<Q – Douglas Sipkin>: Great, thanks for taking all my questions.

<A – Jeffrey Edwards>: Thanks a lot.

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

<Q – Michael Hecht>: Hey Jeff, morning, how you doing.

<A – Jeffrey Edwards>: Hey Mike.

<Q – Michael Hecht>: Sounds like you had a pretty good broad-based quarter, you know, they strengthened in equity markets. Also, if we can just talk a little bit about what's driving the strength in equity linked derivatives, it sounds like it was a standout, and is it kind of structured products, flow-based, more concentrated in Europe or the U.S.? And is some of this environmental with the pickup in volatility, or just, you guys think you are taking share there?

<A – Jeffrey Edwards>: Well, let me sum it up by sort of all of the above. I think client activity levels were certainly very strong in the business. We did see a pickup in volatility in March and so we clearly benefited from that pickup in volatility there. We continue to build out platforms to invest in technology. Structured products has always been important to that business and certainly continues to be the case.

<Q – Michael Hecht>: Okay, fair enough. Then on the fixed side, you guys noted strength in commodities trading, and I'm just wondering, should we think about that as the environment being stronger in your favor, you know, in your core areas like power and gas, or you know, just stronger growth in some of the newer product areas you have been investing in or just, you know, good positioning there?

<A – Jeffrey Edwards>: Well, we did see very strong results in our core areas, growth in power and in our core geographic markets, U.S. and Europe. But we do continue to make good progress in our other newer businesses as well. On a sequential basis, if you look at the broad-based new products: oil, coal, weather, our index products, we did see sequential growth there. There is more activity clearly in our metals business as we build out that capability. And going forward, I think, we will have more to talk about there.

Internationally, in Asia, it was also a good quarter of growth. I mean just one thing to point out in Asia, we received a license, really the first license by a non-utility in Japan to trade power. We expect those markets will develop similarly to the power markets that we have seen historically develop in, first the U.S. and then Europe. So continued good progress on the initiatives there and we believe that ultimately that will drive more revenue growth in the future.

<Q – Michael Hecht>: Okay, thanks. Is it possible for you to touch on the level of your overall retained interest for mortgage securitizations, non-investment grade in particular and are you seeing any big shifts since the beginning of the year?

<A – Jeffrey Edwards>: If you look at our retained interest in general, I mean, one important point to make there is that the majority of them clearly are investment grade rated securities that are either part of our CDO warehouse or the result of securitizations that are effectively in inventory, that we intend to sell on to investors. So there is only a small part that reflects the sub-prime residuals. And in general, given the level of activity in securitization that I described earlier, you would expect and you will see retained interest will be up. The residual on that will be up at a much lower rate.

<Q – Michael Hecht>: Okay, that's fair enough. Just to come back on the retail business, any more color just on what seemed to be somewhat sluggish fee growth, you know, it was about 1% versus 5% at the beginning of the period, client assets at about 3% growth and like average annuitized assets, I mean, just seem like there was a little bit of a lag there.

<A – Jeffrey Edwards>: Well, a couple of points to make there. When you look at our asset-based fees, first of all, I think it's fair to look at it on a year-on-year basis up 11%, which I think is a very solid performance by GPC. When you look at it on a linked quarter basis, there are a couple of things going on. One, the fourth quarter always has higher Visa fees and Visa fee levels will obviously come off on a sequential basis. So that retards the growth rate to some extent.

The other point to make is that we had a very strong response, particularly at the end of the fourth quarter carrying through into the first quarter to our strengthening deposit platform, and you saw a continued growth in our deposits. And some of the growth in GPC that you would otherwise see go into asset-based fees, ends up going into the interest line, which was obviously up much stronger on a sequential basis.

<Q – Michael Hecht>: Okay, well, that actually answers my next question which was the strong NII growth, your net interest deposit growth, so that answers that I think, unless there is anything else going on there.

<A – Jeffrey Edwards>: I think that, you know, gives you the primary color on that.

<Q – Michael Hecht>: Got you, and then just last question, can you talk a little bit about the recruiting environment for brokers. You guys saw, I think, about a 50-broker increase quarter over quarter, still good, I think relative to your peers but you know, bit slower than I think, in recent quarters. I mean, is that intentional, or I guess, are you seeing any impact from, you know, pick up in recruiting from any of your peers?

<A – Jeffrey Edwards>: I think every quarter we say and mean that competition is intense. I would say that was certainly true this quarter as well. It is important from our perspective to maintain good discipline when it comes to competing for brokers and we certainly did that. Our focus remains on building our platform, investing in technology and training, which we think will continue to provide an attractive environment for brokers.

The one other thing that I think is worth pointing out in the first quarter is we did have a restructuring in our small institutional division and that group went down a little bit. So when you look at it on a net basis, there is a little bit of noise sequentially.

<Q – Michael Hecht>: Okay, thanks, that's helpful. Thanks for taking my question.

<A – Jeffrey Edwards>: Thank you.

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

Jonathan Blum, Head of Investor Relations

Thank you. This concludes our earnings call. If you have further questions, please call investor relations at 212-449-7119. Fixed income investors should call 866-607-1234. Thanks for joining us today. We appreciate your interest in Merrill Lynch.