MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Merrill Lynch Third Quarter 2008 Earnings Conference Call. [Operator instructions]. 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 our third quarter and first nine months 2008 results.

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You should 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 calculation of non-GAAP financial measures that is posted on our Investor Relations website, www.ir.ml.com where an online rebroadcast of this conference call will be available.

And with that I'll turn the call over to John Thain, Merrill Lynch's Chairman and Chief Executive Officer.

John A. Thain, Chairman and Chief Executive Officer

Thank you, Sara. Good morning everyone. I'm going to make a few comments on the big picture and then a couple of comments about the quarter and then I'll turn it over to Nelson to give you the details.

On the macro basis the package put together the U.S. Treasury the Fed and the FDIC announced on Monday I believe resolves the core issues with the U.S. financial institutions. The combination of the capital injection, the access to FDIC insured debt and the ability to issue CP through the Fed's facility provides the capital and liquidity and financing that I think is necessary to start to unlock the credit markets and I think you will gradually see credit conditions get better.

Unfortunately the focus of the markets and of course all the commentators now is on the real economy. And I believe that we are beginning to see a significant contraction in economic activity in the United States that will also impact economic growth around the world. The focus on that slowdown in economic activity is going to continue and I think the real question is not whether or not we're in a recession but the real question will be how deep and how long. And, of course, government actions will have an impact on that. But I do think that you will start to see improvements in the credit markets and I do think that any questions about the U.S. financial system and those participants in the program that was announced on Monday have been resolved.

As we enter into a more difficult economic environment, I think the logic behind the Bank of America-Merrill Lynch transaction, the strategic rationale, is only reinforced and made stronger. The combination of Bank of America-Merrill Lynch will be one of if not the leading financial institutions in the world. The diversity of our businesses and earnings power, the strength of our balance sheet, the access to financing and to liquidity all, I think, make the combination very powerful and I'm optimistic in spite of a difficult economic environment certainly for the next year or two, we will be very successful and I am certainly both excited about it and happy to be part of that team going forward.

In terms of our quarter, the core businesses did relatively well in a very difficult environment. September was particularly difficult for us. But starting first with our Wealth Management business it continued to be a very stable, very good business. We were up 160 financial advisors over the quarter. That's as good an indication as any of the strength of the franchise, the fact that in this environment we were continuing to attract financial advisors.

Net new money was down slightly. Our net annuitized money was up slightly. But that business continues to do well and, in fact, our pre-tax margins were up 2 percentage points to just under 24%. So I think that that's a great example even in a very difficult environment the fact that that business continues to do well.

On our Investment Banking side although activity level was down, market share and our position was good. We are currently the number two global advisors in M&A on an announced basis. Our trading businesses, our rates and currency business did well in this environment on a year -- year-to-year basis, they're up about 27% and our equity derivative business, particularly given the volatility, did very well and so that our core businesses, in spite of the difficult environment, did well.

In terms of strategy, we have continued to de-risk our balance sheet in this environment. We are now down to less than $1 billion in ABS CDOs. We sold all of our Alt-A positions in our trading books, so we have no Alt-A on our trading books. We're down to $295 million in subprime on our trading books. We cut our non-U.S. mortgage business positions in half. We are continuing to sell down our portfolio in our bank. It's down to about 15.7 billion. And our risk weighted assets are down to about 304 billion which is down about 15%.

So the de-risking which we've talked about before is continuing. Our commercial book was also down about 25%, commercial real estate book down about 25% and our leveraged book has also continued to shrink. We're down – less than 7 billion now on our leveraged finance book. So overall just continuing to bring down risky assets and continuing to bring down illiquid assets.

We've also, as you already know, boosted our equity position both through the completion of the sale of our 20% stake in Bloomberg and in the $9.8 billion common stock offering that we did. We both improved our common equity position and improved our total equity position so common equity was up to 29.8 billion which is actually up about 40% and our total stockholders' equity was up 10% to $38.4 billion. And if you pro forma our capital ratios for the $10 billion of preferred stock agreed to on Monday, we will have a Tier 1 equity to risk weighted asset ratio pro forma again of about 12% and we'll have a total equity to risk weighted asset ratio of about 19%.

So the themes that you've heard before of shrinking our balance sheet, shrinking our risk weighted assets, improving our capital position, improving our capital ratios is what we've been focused on.

Finally we've also been focusing on our liquidity positions. You've seen from the release our excess liquidity pool was about 77 billion at the end of our quarter. That was impacted by some of the events of September but we continue to focus on and pay a lot of attention to our liquidity positions. And, of course, we will shortly have access to both the CP facilities and the FDIC facilities as those programs come online.

So we are moving forward with the transition teams on the completion of our deal with Bank of America. That is progressing smoothly and, as I think you all know, we are targeting to close that transaction at the end of this calendar year.

So with that I'll turn it over to Nelson.

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Nelson Chai, Chief Financial Officer

Thanks, John. Let me take a moment to review our major segments.

In our Global Markets and Investment Banking, third quarter net revenues were a negative $3.2 billion and the pre-tax loss for the quarter was $6 billion. However, as we have detailed in attachment eight of our press release GMI adjusted revenues were positive 2.5 billion for the quarter.

I'll remind you, adjusted revenues excluded significant items, both positive and negative, that are less indicative of the underlying performance of our franchise such as the gain on the Bloomberg sale, write-downs on legacy exposures and fair value of gains on our debt.

While adjusted GMI revenues are down substantially from prior periods, as John mentioned, our results were particularly impacted by the month of September which represented one of the worst months in the history of the credit markets on top of the typical late summer seasonal slowdown.

The difference between adjusted and GAAP revenues in GMI was primarily attributable to five things. First, we had 5.7 billion in write-downs from our previously announced CDO sale and the related hedge tariffs. Secondly we had a $4.3 billion gain from the sale of our Bloomberg stake. Third, we had 3.8 billion of losses arising from severe market dislocations in September including real estate-related asset write-downs and losses related to certain government sponsored entities and major U.S. broker dealers. Fourth, similarly impacted by the severe movements in September we had $2.8 billion in net gains due to the widening of our credit spreads on our debt. Finally 2.6 billion of net losses arising from completed and planned asset sales across residential and commercial mortgage exposures, predominantly for cash.

Turning to the revenue detail by business lines, FICC revenues were negative $9.9 billion in the quarter as strong Rates and Currencies and solid performance in Commodities were more than offset by asset write-downs, realized losses from sales and overall weakness across other business areas. FICC recorded significant losses as a result of the severe market dislocation in September including unusually high credit spreads and the default of a major U.S. broker dealer. A positive fair value adjustment on our debt mitigated the impact of the losses to some extent.

If you turn to attachment six on our release I will briefly walk you through our major exposures starting with the U.S. ABS CDOs and related monoline exposure. As we discussed previously, we sold $30.6 billion of gross notional value of CDOs to Lone Star and tore up most of our associated hedges with the monoline.

Largely as a result of this we ended the quarter with net exposures of $1.1 billion and if you net out secondary trading positions that number is actually less than 1 billion. The majority of the remaining hedges on this portfolio are with highly rated insurance companies and banks that typically have strong collateral posting requirements.

Under $1 billion of exposure is hedged with MBIA and the carrying value of these hedges was $1.4 billion at the end of the quarter. We also have hedges in place with monolines on asset classes away from CDOs primarily corporate CLOs, CMBS and RMBS. The market value deterioration of these asset classes has been modest relative to CDOs. During the quarter our credit valuation adjustments on these exposures was not material and our remaining carrying value was $4.5 billion.

With respect to residential mortgages which are detailed in exhibit 7, the vast majority of our exposure continues to be U.S. prime mortgages that we have primarily originated with our high net worth First Republic and GWM clients. These are not the typical prime mortgages you see in the

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marketplace. They are much higher quality. On average, these clients have FICO scores in excess of 750, loan to value ratios are less than 60% and there is virtually zero loss history.

We did recognize $123 million loss on prime exposures this quarter but this loss was driven by the sale of six entire prime RMBS trading portfolios in our trading book for approximately $400 million during the quarter. Away from the U.S. prime mortgages and on a pro forma basis, we decreased our other residential real estate exposures by 64%, effectively eliminating Alt-As in our book and significantly reducing subprime and non-U.S. exposures.

On the commercial real estate and leveraged finance front, in leveraged finance we reduced our exposure by approximately $1.4 billion in the quarter through sales and syndications, partially offset by a new commitment made during the quarter. In commercial real estate excluding First Republic Bank we reduced our exposures to about $11 billion, down 25% from the second quarter on a pro forma basis primarily due to sales of whole loan conduit exposures in the EMEA region. Net exposures related to First Republic Bank were about $3 billion, up 10% from the second quarter.

Finally within our U.S. bank investment securities portfolio we recognized net pre-tax write-downs of approximately $850 million during the third quarter. At quarter end our total portfolio was down to $15.7 billion. For much of this portfolio we continue to believe the market prices are ahead of fundamentals and we continue to have the intent and the ability to hold these securities until fair value recovers and as of quarter end the banks remain well capitalized.

Turning to equity markets, third quarter net revenues of $6 billon were up significantly on a GAAP basis, largely due to the gain of the Bloomberg sale and positive fair value adjustments on our debt. On an adjusted basis, strong sequential revenue growth in equity linked trading was offset by revenue declines in other business areas due to seasonality and the volatile market environment at the end of the quarter particularly in prime brokerage and our equity prop trading businesses.

Private equity revenues also continued to be a headwind in this quarter with negative revenues of $289 million.

Investment banking revenues were down 27% sequentially as the 12% increase in advisory revenues was more than offset by substantially reduced underwriting fees in the quarter. In the third quarter we ranked number two in announced M&A and year to date continued to be ranked in the top five in global debt, global equity, global IPOs and global announced M&A. Our investment banking pipeline remained stable, down 11% from year ago levels and down only 7% from the second quarter, although execution continues to be dependent on market conditions.

Turning to Global Wealth Management, GWM continued to be our most consistent segment in this environment with quarterly revenues of $3.2 billion, down 4% from the second quarter despite the continued market depreciation and persistent market volatility. However, pre-tax earnings of $774 million were up 5% despite our continued spend on growth initiatives. Our profit margins increased from 22% to nearly 24% during the quarter, demonstrating our strong focus on operating discipline.

Notable highlight for GWM during the quarter include: $2 billion in net new annuitized inflows, client assets of approximately $1.5 trillion, record proportion of recurring revenues, and continued international FA growth of 9% year-over-year excluding Japan. Global private client net revenues in the third quarter of $3 billion were down 5% from the second quarter, largely driven by declines in transaction origination revenues as a result of the market environment.

During the quarter, net new money was negative 3 billion, mostly as a result of the activity of the last month of the quarter. We believe this is largely reflective of clients' reactions to persistent equity market declines across the industry. We continue to invest in our market leading technology and product platforms to increase our FA population, which grew by nearly 160 professionals during the quarter, and about 240 from the year ago period.

Let me now discuss expenses overall for the firm. I'll start with the compensation expenses for the quarter, which were $3.5 billion, flat from the second quarter, but up versus the prior period quarter. The increase was due largely to timing of compensation accruals as we reduced incentive compensation accruals in the third quarter of 2007 that had been taken during the first half of the record year last year. In fact, on a year-to-date basis, comp expense is down slightly from comparable 2007 levels.

Non-comp expenses included two previously disclosed items: the $2.5 billion payment to Temasek and a $425 million expense related to auction rate securities. Non-comp costs excluding these items decreased 12% sequentially. Finally, our effective tax rate was 37.9% for the quarter.

As John mentioned earlier, this week we agreed, along with a number of other U.S. major financial institutions, to participate in the TARP Capital Purchase Program. As part of Bank of America's $25 billion participation in the program, we have agreed and expect to issue $10 billion of nonvoting preferred stock and related warrants to the U.S. Treasury.

At quarter end, our Tier 1 and total capital ratios were approximately 8.7 and 14%, respectively. Pro forma for the planned asset sales and the preferred issuance to the Treasury, our Tier 1 ratio will be 12%, and total capital ratio will be 19%. Again, these figures exclude any impact from the contemplated sale of the controlling stake in FDS in light of the pending transaction with Bank of America.

This concludes my prepared remarks. And lastly, I'd want to echo John's comments that we look forward to completing our announced transaction with Bank of America. Thank you. And now we'll open up to questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator instructions]. Our first question comes from the line of Meredith Whitney with Oppenheimer.

<Q – Meredith Whitney>: Good morning.

<A – Nelson Chai>: Hi, Meredith

<A – John Thain>: Good morning, Meredith.

<Q – Meredith Whitney>: Could you help me with Lehman exposure in terms of what was included in – or sort of break that out for the quarter and then break out future exposure or if you don't want to quantify, just qualify it?

<A – Nelson Chai>: Well, Meredith, we don't actually specify specific exposures to specific counterparties we have. And I would tell you that obviously the dislocations that happened in September with Lehman were certainly a big driver of the numbers that we disclosed. I would say that they were across a couple of different lines. Some of it had to do with just receivables we had with Lehman, some of it had to do with just unwinding trades where they're a counterparty. And then frankly, there was an add-on effect if you will on the overall credit markets regarding their default if you will. So again, it was across a couple different areas, some were direct, some were more indirect. But again, we're not going to disclose the specific numbers.

<Q – Meredith Whitney>: Okay, and then given the fact that you've cleaned up your books so extensively during the quarter I'm trying to be paranoid about what additional risks could take place this quarter, market exclusive?

<A – Nelson Chai>: Well, I think the...

<Q – Meredith Whitney>: What we know.

<A – Nelson Chai>: Meredith, I think as you know, I mean, over the past year, John and I have been very focused on basically addressing our exposures, understanding where the market was and moving forward to trying to de-risk our balance sheet. I think you've seen us quarter after quarter to continue to do so. If you look at where the exposures are that I talked through briefly, I think you'll see us continue to try to reduce some of our real estate exposures, particularly outside the U.S. And you will see us continue to focus on other key areas where there's opportunity.

We're hopeful, obviously, that some of the actions taken this week as well as actions around the world will hope free up some of the credit markets. And I think you will see us continue over the fourth quarter to continue to find opportunity to de-risk the balance sheet.

<Q – Meredith Whitney>: Okay, and then lastly, can you give me an update on your technology initiatives and then what type of technology synergies you'll have with Bank of America or how that all will work in its early stages? Thanks.

<A – Nelson Chai>: Well, there's been a number of different technology efforts across the firm. I would bucket them in three primary areas. And again, Tom Sanzone and Chris Augustine who both joined the firm during the course of the year, have been very focused at looking across all of our technology platforms. And certainly, there's a tremendous amount of opportunities given the fragmentation, or the way the businesses were run. And I think they were making good progress in terms of coming up with what I call an initial plan. As you try to optimize if you will, technology trading platforms, those are long lead time type projects. And I would tell you that we actually had a fairly good game plan we were developing.

The second area would be really around the collateral management area in terms of the way the trading business operated, if you will, and again I think there's a lot of progress made towards there. If you look at both our sales and our ability to manage our collateral, I think it has improved dramatically. And again, people – Mark Alexander who works with Tom, has done tremendous progress there as well.

And then the last area, which is closer to home for me, is our financial trading systems, where we've actually been out front from the firm and it started before actually I got here. But they were actually – we've been pretty far along in terms of taking our sub-ledgers, and there are numerous sub-ledgers if you will, that go into our general ledger. And we're going to continue to make that progress.

Now in terms of your question on where it goes relative to Bank of America, it's hard to answer that, I will tell you, as John mentioned earlier, engaged with the transition teams with Bank of America. We're going through a process of both evaluating our systems and their systems and we'll take the best of the two systems and working through that. It is premature to comment on both which system we are and our progress to date. But I will tell you that the teams are fully engaged and we actually have segregated teams that are specifically working just on that.

<Q – Meredith Whitney>: Okay, thank you.

Operator: Our next question comes from the line of Roger Freeman with Barclays Capital.

<A – Nelson Chai>: Roger, how are you?

<Q – Roger Freeman>: Hi. Good, Nelson, thanks. I guess first a couple macro questions. With respect to the latest, you know, Treasury announcement, is it fair to think about your short-term financing such that you'll look to move repo financing into short-term unsecured borrowings given that three year and less maturities are going to be backed by the government?

And secondly, with respect to the 10 billion coming in, what are sort of the directives with respect to how that capital can and should be allocated? Should we look at that merely as a capital cushion or over time could that actually be put to work to generate higher returns?

<A – John Thain>: Well, let me start on that. The capital injection, you know, is a cushion. And in this environment, I think you will see us continue to shrink our assets and continue to improve and de-risk our balance sheet. But, you know, that capital cushion, you know, will provide an opportunity, really it will be really after the merger closes. So I think you really have to think about it more from the point of view of the combined companies, which of course will have 25 billion of this capital injected into it. I think we will have the ability to redeploy that on a combined basis going forward, but at least for the next quarter it's just going to be a cushion.

In terms of liquidity, we do have access, because of the way the deal was structured, you know, we have the ability to issue somewhat north of $40 billion of FDIC-guaranteed long-term debt. And we also have the ability to access the commercial paper program. And so I think that's – just also provides us with incremental liquidity. It doesn't really change how we're going to fund ourselves going forward.

<Q – Roger Freeman>: Got it. And just back on the capital injection, and again I was just asking more from a macro perspective than sort of longer term. But are there stipulations where capital ratios have to remain to any extent above where they were say prior to the Treasury's injection.

<A – Nelson Chai>: I guess I don't know if there are stipulations or not, but if you look at actually the injections that were made or that the firms are getting it seems like they are – people are kind of going around the 10% Tier 1 ratio now. Again, as you know, Roger, those numbers fluctuate over

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time in markets versus more challenging market. But it looks like they're trying to earmark, based at least from our view, that they're on a 10% Tier 1 ratio.

<Q – Roger Freeman>: Okay, thanks. Just two Merrill specific questions, one coming back to Meredith's question, is it fair to think about the majority of the exposure on Lehman being CDS protection that you had written? There are some $6 billion in the system that has to get settled, and then I think people are trying to figure out where those exposures are. So is it fair to assume that's your exposure in there?

<A – Nelson Chai>: Again, we're not going to be specific, and so, you know, we...

<A – John Thain>: It is a significant part of it

<A – Nelson Chai>: It is.

<A – John Thain>: But there is also, as Nelson said, there's also a fair amount of disruption, I would say, in the settling-out of the Lehman contracts. And then also because Lehman was one side of a trade, we also had to settle, we have to close out or re-hedge the other side of the trade. And so the closeout process of both the Lehman side and the other side, I think, turned out to be significantly more expensive than anybody would have thought.

<Q – Roger Freeman>: Right, okay. And then the Fannie Freddie exposure was preferred primarily?

<A – Nelson Chai>: Yes.

<Q – Roger Freeman>: Okay. Last question, on your private wealth, just looking at some of the metrics, you pointed out net new money was down second quarter in a row, cash deposits were down sequentially, transactions were lower. I mean, to read anything into that there's been any sort of fallout in the system because I understand money coming out of risky assets, but it doesn't look like it's going into cash inside of the Merrill system.

<A – John Thain>: I don't think you can read into it much. Net new money was down $3 billion, it's just – I don't think there's any particular trend to that. I don't think there's any deterioration in the franchise. And the fact that we're basically adding financial advisors who are bringing their customers here means that the franchise continues to be strong. I just don't think when you have over $1.5 trillion of assets, 2 to 3 billion is really flat for all practical purposes.

<A – Nelson Chai>: And actually, Roger, since we've announced the transaction with Bank of America, the acceleration of the number of FAs joining has actually increased relative to competitors. So I think that is affirmation both of the strategic value of the deal, but again -- as well as the health of the franchise.

<Q – Roger Freeman>: Okay, great, good news and good luck with the merger.

<A – John Thain>: Thank you.

Operator: Our next question comes from the line of Glenn Schorr with UBS.

<Q – Glenn Schorr>: Hi, thanks. I wonder if you could help us on the liquidity move from 92 billion last quarter to 77 billion? Just generically, what are the sources of a liquidity move like that? Is that just that you haven't issued debt and you had some maturities along the way? If you could help on that, that would be...

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<A – Nelson Chai>: Actually Glenn, that's exactly right, so as you know, we increased our liquidity pool tremendously in the second quarter, a lot of that was because we did issue a lot of debt in April. During the third quarter, as you know, credit markets were tough, so we didn't issue a lot of debt and we had $20 billion of maturities come due. And so, you know, with all the puts and takes, that is largely the answer.

<Q – Glenn Schorr>: Okay. And then in terms of the FDIC coverage guarantee, the Bank of America deal isn't slotted to close for a while. Do you plan on issuing at all before – into the deal, participating in the FDIC plan? You do have upcoming maturities between the fourth and first quarter.

<A – Nelson Chai>: Yeah, I guess, you know, the fine tune is still working through that plan, Glenn, as you know. And so we are going to have some discussions internally about how best to fund the maturities that are coming due. It'd be premature for us to comment on exactly if we're going to go that route or a different route. As you know, we continue to shrink our balance sheet as well, which is a good source of funding for us. John mentioned that risk weighted assets are down 15% in the third quarter versus the second.

Our balance sheet, our overall asset base, will likely be down 8 to 9% as well, and so you'll see us continue to move down and sell things off our balance sheet which actually frees up liquidity. As you heard in my comments, some of the sales we did, the sale of the U.S. residential positions in Alt-A and subprime were done all for cash as well. And so some of the other sales we have targeted, there will be a number of them that will be done for cash. So we will also try to fund through selling down our balance sheet.

<A – John Thain>: The other thing I would just add is that we will coordinate with Bank of America because the debt that we could issue will be up to three years with the FDIC guarantee. And so we just want to coordinate with them to make sure it's attractive funding from not only our point of view, but also from their point of view going forward.

<Q – Glenn Schorr>: Right. By the way, side bar, do you know, are securitizations, if there was ever going to be another one, are securitizations covered by the plan or is that not worked out yet or is it just senior unsecured?

<A – John Thain>: It is just senior unsecured.

<Q – Glenn Schorr>: Okay, I appreciate that. Last thing is, do you have any insight as to when the shareholder votes are going to be.

<A – John Thain>: Well, we are expecting them to be mid to latter part of November.

<Q – Glenn Schorr>: Okay, thanks very much, good luck with everything.

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

<Q – William Tanona>: Hey, good morning, guys. The deposits declined by about 10% in the quarter. Obviously given everything that's going on, not necessarily surprising but was that more or less just people kind of getting under the – what was the FDIC cap at the time because it doesn't seem that people necessarily withdrew all that money. Was it just them shifting out of the deposits into Treasuries.

<A – Nelson Chai>: I think there is some of the cash sweeping going on that you're talking about, Bill. Other than that as you know there was a little bit of flight to some of the commercial banks as well. Ken Lewis during his call talked about the fact that their retail and commercial deposits grew by $27 billion in the third quarter as well and so again, I think it just continues to reinforce what John started with was the strategic rationale for the transaction.

<Q – William Tanona>: Understood. And then lastly, in terms of the investment management revenues, obviously they were up pretty strongly quarter-over-quarter about 25%, I guess that was a little bit surprising considering, you know, what happened in the marketplace so I just want to get a sense as to what was driving the revenues in that segment.

<A – Nelson Chai>: You know, it just reflected, you know, investments and certain alternative investment managers that delivered good returns.

<Q – William Tanona>: Okay, thanks.

Operator: There are no more analysts in Q&A at this time. I will now turn it over to Sara Furber for closing 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) 449-7119. Fixed income investors should call (866) 607-1234. Thank you for joining us today. We appreciate your interest in Merrill Lynch.

Operator: Thank you, this concludes today's conference.

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