

News

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Release date: October 14, 2003

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MERRILL LYNCH REPORTS HIGHEST THIRD QUARTER NET EARNINGS IN COMPANY'S HISTORY

\$1 BILLION, OR \$1.04 PER DILUTED SHARE

YEAR-TO-DATE 2003 EARNINGS EXCEED FULL-YEAR 2002

NEW YORK, October 14 – Merrill Lynch (NYSE: MER) today reported net earnings of \$1.04 billion for the third quarter of 2003, up 50% from \$693 million in the third quarter of 2002 and slightly higher than the strong 2003 second quarter. These are Merrill Lynch's highest-ever third quarter earnings and the second-best quarterly earnings in the company's history. Third quarter 2003 earnings per diluted share were \$1.04, compared with \$0.73 for the year-ago period. The third quarter annualized return on average common equity was 16.5%, up from 12.7% in the prior-year quarter.

Third quarter 2002 and second quarter 2003 results included \$115 million after-tax, or \$0.12 per diluted share, and \$36 million after-tax, or \$0.04 per diluted share, respectively, related primarily to September 11-related net recoveries. Results for the 2003 third quarter include a \$13 million after-tax, or \$0.01 per diluted share, September 11-related net recovery.

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Third quarter net revenues were \$5.1 billion, up 16% from the 2002 third quarter. The third quarter pre-tax profit margin rose to 29.8%, more than five percentage points higher than the 24.2% reported for the year-ago quarter.

“Merrill Lynch had another excellent quarter in an environment that remains challenging,” said Stan O’Neal, chairman and chief executive officer. “We grew earnings substantially from the year-ago quarter, and even exceeded the very strong results we posted in the second quarter. This performance demonstrates continued progress developing a portfolio of businesses that can enhance earnings consistency by generating diverse revenues from multiple asset classes, client segments and geographic regions. We continue to invest in a number of strategic growth initiatives while maintaining a commitment to disciplined execution.”

Net earnings for the first nine months of 2003 were \$2.7 billion, 39% higher than the first nine months of 2002, as net revenues increased 6%, to \$15.2 billion. The first nine months’ pre-tax margin of 26.2% in 2003 was more than five percentage points higher than the 20.9% achieved in the 2002 period. Non-compensation expenses were reduced by \$271 million, or 7%, excluding the impact of net recoveries and research-related expenses. The year-to-date annualized return on average common equity was 15.2%, up from 12.5% in the prior-year period.

Business Segment Review:

September 11-Related Net Recovery

The September 11-related net recovery in the third quarter of 2003 included a partial pre-tax insurance recovery of \$25 million, offset by September 11-related costs of \$4 million. The insurance recovery represented a partial business interruption settlement for GMI and was recorded as a reduction of expenses in that segment. The costs were booked in the Corporate segment.

Global Markets and Investment Banking (GMI)

GMI achieved strong year-over-year growth in net revenues and profits, and a record pre-tax profit margin for the second successive quarter. GMI demonstrated that it has diversified revenues within and among asset classes, leveraging extensive client relationships and product capabilities. Additionally, GMI’s scale and distribution advantages led to increased revenues in equity products as market conditions improved.

- GMI's third quarter pre-tax earnings were \$1.0 billion, up 88% from the year-ago quarter, on net revenues that increased 29%, to \$2.5 billion. Excluding the net recoveries in both periods, pre-tax earnings doubled from the 2002 third quarter. On the same basis, the pre-tax margin was 40.1%, over 14 percentage points higher than the year-ago quarter. GMI's net revenues and pre-tax earnings declined from second quarter levels, due primarily to the less robust debt markets environment which offset improved equity markets revenues.
- Despite a more challenging interest rate environment, GMI's debt markets net revenues increased substantially from the prior-year quarter, with strong growth in credit products, principal investments and foreign exchange as well as a solid performance in interest rate trading.
- Net revenues in GMI's equity business increased from both the year-ago quarter and the 2003 second quarter, and were the highest in six quarters. The improvements from the year-ago and the prior quarters were achieved across all components of equity trading, origination and financing activities.
- Merrill Lynch's investment banking net revenues rose strongly from the year-ago quarter, primarily due to increased equity and debt origination activity, and were essentially unchanged from the second quarter.
- To further the execution of its client-focused growth strategy, GMI implemented a new organization structure that combines debt and equity sales and trading capabilities-- and aligns relationship managers and capital markets professionals across debt, equity and advisory services. This structure enhances Merrill Lynch's ability to integrate ideas, products and capital into innovative, value-added solutions for a wide range of clients.
- GMI's year-to-date pre-tax earnings were \$2.9 billion, up 60% from the prior year period, on net revenues that rose 18%, to \$7.8 billion. The year-to-date pre-tax profit margin increased to 37.4%, nearly ten percentage points higher than the first nine months of 2002.

Global Private Client (GPC)

GPC achieved its highest pre-tax earnings in fourteen quarters and a record pre-tax margin. This strong performance reflects growth in client transaction activity, increased demand for fee-based services and credit products, and continued operating discipline.

- GPC's third quarter pre-tax earnings of \$466 million were 47% higher than the third quarter of 2002, and up 37% from the 2003 second quarter. Excluding the net recovery in the 2002 third quarter, GPC pre-tax earnings increased 61% from the prior year. Net revenues increased 11% from the year-ago quarter and 8% from the 2003 second quarter, to \$2.3 billion. The third quarter pre-tax margin rose to 20.2%, five percentage points higher than the year-ago quarter. The third quarter margin exceeds an important financial performance objective for GPC.

- GPC continued to diversify revenues, and fee-based revenues were higher than in the 2003 second quarter as the result of improved equity markets. Net inflows into annuitized products continued at a strong pace at \$7 billion during the quarter. These products are meeting client demand for managed account and fee-based services, and are well-positioned to deliver improved revenues, both from new business and asset appreciation, if equity market values continue to improve. Total assets in GPC accounts increased 9% from the year-ago quarter, to \$1.2 trillion, of which 17.4% were in asset-priced accounts.
- The financial performance of GPC's non-U.S. business continues to improve. The pre-tax profit margin of this business is now comparable to that of the U.S. business.
- GPC increased its recruiting of top quality Financial Advisors and trainees, adding 75 Financial Advisors in the United States during the quarter, bringing the global total to 13,400. This is the first quarterly increase in Financial Advisors for eleven quarters.
- For the first nine months of 2003, GPC's pre-tax earnings were \$1.1 billion, up 15% from the year-ago period, on net revenues that declined 2%, to \$6.5 billion. Despite the revenue decline, GPC's year-to-date pre-tax profit margin improved to 16.4%, up from 14.0% reported for the first nine months of 2002, due to a \$254 million, or 4%, reduction in non-interest expenses.

Merrill Lynch Investment Managers (MLIM)

MLIM reported its first sequential quarter increase in net revenues in over two years, and solid pre-tax earnings growth. Leveraging strong investment performance to grow distribution is central to MLIM's operating philosophy.

- MLIM's pre-tax earnings for the third quarter were \$77 million, up 15% from the year-ago quarter. Net revenues declined 2%, to \$352 million, but increased 7% from the 2003 second quarter. Non-interest expenses were reduced from the prior year quarter, enabling MLIM to increase its pre-tax margin by over three percentage points, to 21.9%. That pre-tax margin is also nearly two percentage points higher than the second quarter.
- MLIM funds continued to demonstrate superior relative investment performance. For the 1-, 3- and 5-year periods ended August 2003, more than 70% of MLIM's global assets under management were ahead of their benchmark or category median.
- Market appreciation and positive currency movements resulted in a net increase in MLIM assets under management of \$21 billion, or 5%, to \$473 billion, from the year-ago quarter.
- MLIM's year-to-date pre-tax earnings were \$189 million, down 30% from the prior-year period, on net revenues that declined 16%, to \$1.0 billion. The year-to-date pre-tax profit margin was 18.5%, compared to 22.2% for the first nine months of 2002. The 2002 results included a pre-tax gain of \$17 million on the sale of MLIM's Canadian asset management business.

Third Quarter Income Statement Review:

Revenues

Net revenues were \$5.1 billion, 16% higher than the 2002 third quarter.

Asset management and portfolio service fees were \$1.2 billion, down 3% from the third quarter of 2002 but up 3% from the 2003 second quarter. These variances are due primarily to changes in portfolio servicing fees, a large portion of which are calculated on beginning-of-period asset values.

Commission revenues were \$1.1 billion, up 7% from the 2003 second quarter and essentially unchanged from the year-ago period. The increase from the second quarter is due primarily to increased mutual fund and equity commissions.

Principal transactions revenues increased 87% from the 2002 third quarter, to \$705 million, due primarily to increased debt and equity markets trading revenues. Principal transactions and net interest revenues in GMI are closely related and need to be analyzed in aggregate to understand the changes in net trading revenues.

Net interest profit was \$1.1 billion, up 9% from the 2002 third quarter, due to a more favorable yield curve environment.

Underwriting revenues were \$545 million, 66% higher than the 2002 third quarter, due primarily to increased equity underwriting revenues. Strategic advisory revenues of \$133 million declined 18% from the 2002 third quarter due to reduced activity levels.

Other revenues were \$300 million, up \$135 million from the 2002 third quarter due to increased revenues from investments and sales of mortgages.

Expenses

Compensation and benefits expenses were 47.2% of net revenues for the third quarter of 2003, compared to 51.1% in the year-ago quarter and 50.3% in the 2003 second quarter. Compensation and benefits expenses were \$2.4 billion, a 7% increase from the 2002 third quarter, due primarily to higher incentive compensation accruals related to increased revenues. Year-to-date, compensation and benefits expenses were 49.7% of net revenues, down from 51.7% in the first nine months of 2002.

Excluding the impact of the net recoveries related to September 11 and the 2002 restructuring credit, non-compensation expenses declined 7%, or \$88 million, from the 2002 third quarter to \$1.2 billion.

Details of the significant changes in non-compensation expenses from the 2002 third quarter are as follows:

- communications and technology costs were \$352 million, down 16%, due primarily to reduced communications costs and lower technology equipment depreciation and rental costs;
- advertising and market development expenses were \$89 million, down 29%, due primarily to lower advertising and sales promotion expenses;
- office supplies and postage decreased 26%, to \$46 million, due to efficiency initiatives; and,
- the net recovery related to September 11 in the current quarter includes a partial pre-tax insurance recovery of \$25 million, offset by September 11-related costs of \$4 million.

Merrill Lynch's year-to-date effective tax rate was 27.7%.

Staffing

Merrill Lynch's full-time employees totaled 47,800 at the end of the third quarter, a decline of 400 during the quarter.

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Ahmass Fakahany, executive vice president and chief financial officer, will host a conference call today at 10:30 a.m. EDT to discuss the company's third quarter 2003 results. The conference call can be accessed via a live audio webcast available through the Investor Relations website at www.ir.ml.com or by dialing (888) 810-0245 (U.S. callers) or (706) 634-0180 (non-U.S. callers). On-demand replay of the webcast will be available from approximately 1:00 p.m. EDT today at the same web address.

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Merrill Lynch is one of the world's leading financial management and advisory companies with offices in 36 countries and total client assets of approximately \$1.4 trillion. As an investment bank, it is a leading global underwriter of debt and equity securities and strategic advisor to corporations, governments, institutions, and individuals worldwide. Through Merrill Lynch Investment Managers, the company is one of the world's largest managers of financial assets, with assets under management of \$473 billion. For more information on Merrill Lynch, please visit www.ml.com.

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Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated expense savings and financial results, anticipated results of litigation and regulatory proceedings, and other similar matters. A variety of factors, many of which are beyond Merrill Lynch's control, affect the operations, performance, business strategy and results of Merrill Lynch and could cause actual results and experiences to differ materially from the expectations and objectives expressed in these statements. These factors include, but are not limited to, financial market volatility, actions and initiatives by current and potential competitors, the effect of current and future legislation or regulation, and certain other additional factors described in Merrill Lynch's 2002 Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K, which are available on the Merrill Lynch Investor Relations website at www.ir.ml.com and at the SEC's website, www.sec.gov.

Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. Merrill Lynch does not undertake to update such statements to reflect the impact of circumstances or events that arise after the date these statements were made. Readers should, however, consult any further disclosures Merrill Lynch may make in its reports filed with the SEC.

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Preliminary Unaudited Earnings Summary

	For the Three Months Ended			Percent Inc / (Dec)	
	September 26, 2003	June 27, 2003	September 27, 2002	3Q03 vs. 2Q03	3Q03 vs. 3Q02
(in millions, except per share amounts)					
Net Revenues					
Asset management and portfolio service fees	\$ 1,184	\$ 1,154	\$ 1,217	2.6 %	(2.7) %
Commissions	1,120	1,044	1,125	7.3	(0.4)
Principal transactions	705	1,100	377	(35.9)	87.0
Investment banking					
Underwriting	545	565	329	(3.5)	65.7
Strategic advisory	133	133	163	-	(18.4)
Other	300	271	165	10.7	81.8
Subtotal	3,987	4,267	3,376	(6.6)	18.1
Interest and dividend revenues	2,873	3,028	3,484	(5.1)	(17.5)
Less interest expense	1,794	1,976	2,498	(9.2)	(28.2)
Net interest profit	1,079	1,052	986	2.6	9.4
Total Net Revenues	5,066	5,319	4,362	(4.8)	16.1
Non-Interest Expenses					
Compensation and benefits	2,393	2,678	2,228	(10.6)	7.4
Communications and technology	352	357	421	(1.4)	(16.4)
Occupancy and related depreciation	226	221	218	2.3	3.7
Brokerage, clearing, and exchange fees	188	169	182	11.2	3.3
Advertising and market development	89	113	125	(21.2)	(28.8)
Professional fees	146	140	135	4.3	8.1
Office supplies and postage	46	50	62	(8.0)	(25.8)
Other	138	186	130	(25.8)	6.2
Net recoveries related to September 11	(21)	(61)	(191)	(65.6)	(89.0)
Restructuring - related credit	-	-	(2)	N/M	(100.0)
Total Non-Interest Expenses	3,557	3,853	3,308	(7.7)	7.5
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	1,509	1,466	1,054	2.9	43.2
Income tax expense	422	398	313	6.0	34.8
Dividends on preferred securities issued by subsidiaries	48	47	48	2.1	-
Net Earnings	\$ 1,039	\$ 1,021	\$ 693	1.8	49.9
Preferred Stock Dividends	\$ 9	\$ 10	\$ 10	-	-
Earnings Per Common Share					
Basic	\$ 1.14	\$ 1.13	\$ 0.79	0.9	44.3
Diluted	\$ 1.04	\$ 1.05	\$ 0.73	(1.0)	42.5
Average Shares Used in Computing Earnings Per Common Share					
Basic	904.8	897.2	864.6	0.8	4.6
Diluted	991.1	965.3	934.5	2.7	6.1
Annualized Return on Average Common Equity	16.5%	17.0%	12.7%		

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.

Preliminary Unaudited Earnings Summary

(in millions, except per share amounts)	For the Nine Months Ended		
	September 26, 2003	September 27, 2002	Percent Inc / (Dec)
Net Revenues			
Asset management and portfolio service fees	\$ 3,465	\$ 3,808	(9.0) %
Commissions	3,233	3,579	(9.7)
Principal transactions	2,815	1,982	42.0
Investment banking			
Underwriting	1,478	1,296	14.0
Strategic advisory	391	540	(27.6)
Other	776	603	28.7
Subtotal	<u>12,158</u>	<u>11,808</u>	3.0
Interest and dividend revenues	8,922	9,966	(10.5)
Less interest expense	<u>5,841</u>	<u>7,371</u>	(20.8)
Net interest profit	<u>3,081</u>	<u>2,595</u>	18.7
Total Net Revenues	<u>15,239</u>	<u>14,403</u>	5.8
Non-Interest Expenses			
Compensation and benefits	7,567	7,443	1.7
Communications and technology	1,112	1,307	(14.9)
Occupancy and related depreciation	663	684	(3.1)
Brokerage, clearing, and exchange fees	527	552	(4.5)
Advertising and market development	323	426	(24.2)
Professional fees	430	397	8.3
Office supplies and postage	154	196	(21.4)
Other	548	466	17.6
Net recoveries related to September 11	(82)	(191)	(57.1)
Restructuring - related credit	-	(2)	(100.0)
Research - related expenses	<u>-</u>	<u>111</u>	(100.0)
Total Non-Interest Expenses	<u>11,242</u>	<u>11,389</u>	(1.3)
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	3,997	3,014	32.6
Income tax expense	1,109	896	23.8
Dividends on preferred securities issued by subsidiaries	<u>143</u>	<u>144</u>	(0.7)
Net Earnings	<u>\$ 2,745</u>	<u>\$ 1,974</u>	39.1
Preferred Stock Dividends	<u>\$ 28</u>	<u>\$ 29</u>	-
Earnings Per Common Share			
Basic	\$ 3.03	\$ 2.26	34.1
Diluted	\$ 2.81	\$ 2.07	35.7
Average Shares Used in Computing Earnings Per Common Share			
Basic	896.5	860.4	4.2
Diluted	965.2	942.0	2.5
Annualized Return on Average Common Equity	15.2%	12.5%	

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.

Preliminary Segment Data (unaudited)

(dollars in millions)	For the Three Months Ended			For the Nine Months Ended	
	September 26,	June 27,	September 27,	September 26,	September 27,
	2003	2003	2002	2003	2002
Global Markets & Investment Banking					
Non-interest revenues	\$ 1,690	\$ 2,154	\$ 1,270	\$ 5,651	\$ 5,028
Net interest profit	796	732	652	2,183	1,590
Total net revenues	2,486	2,886	1,922	7,834	6,618
Pre-tax earnings	1,022 (a)	1,115 (a)	544 (a)	2,928 (a)	1,832 (a)
Pre-tax profit margin	41.1% (a)	38.6% (a)	28.3% (a)	37.4% (a)	27.7% (a)
Global Private Client					
Non-interest revenues	\$ 1,958	\$ 1,795	\$ 1,762	\$ 5,532	\$ 5,636
Net interest profit	350	333	323	1,004	1,015
Total net revenues	2,308	2,128	2,085	6,536	6,651
Pre-tax earnings	466	339	317 (b)	1,071	932 (b)
Pre-tax profit margin	20.2%	15.9%	15.2% (b)	16.4%	14.0% (b)
Merrill Lynch Investment Managers					
Non-interest revenues	\$ 346	\$ 325	\$ 356	\$ 1,001	\$ 1,199
Net interest profit	6	5	4	18	13
Total net revenues	352	330	360	1,019	1,212
Pre-tax earnings	77	67	67	189	269
Pre-tax profit margin	21.9%	20.3%	18.6%	18.5%	22.2%
Corporate					
Non-interest revenues	\$ (7)	\$ (7)	\$ (12)	\$ (26)	\$ (55)
Net interest profit	(73)	(18)	7	(124)	(23)
Total net revenues	(80)	(25)	(5)	(150)	(78)
Pre-tax earnings (loss)	(56)	(55)	126	(191)	(19)
Total					
Non-interest revenues	\$ 3,987	\$ 4,267	\$ 3,376	\$ 12,158	\$ 11,808
Net interest profit	1,079	1,052	986	3,081	2,595
Total net revenues	5,066	5,319	4,362	15,239	14,403
Pre-tax earnings	1,509 (c)	1,466 (c)	1,054 (c)	3,997 (c)	3,014 (c)
Pre-tax profit margin	29.8% (c)	27.6% (c)	24.2% (c)	26.2% (c)	20.9% (c)

Note: Certain prior period amounts have been restated to conform to the current period presentation.

- (a) Includes the impact of insurance recoveries related to September 11, which have been recorded as a contra-expense, of \$25 million, \$75 million and \$50 million for the three months ended September 26, 2003, June 27, 2003, and September 27, 2002, respectively, and \$100 million and \$50 million for the nine months ended September 26, 2003 and September 27, 2002, respectively. Excluding these items, GMI's pre-tax earnings were \$997 million (\$1,022 million minus \$25 million), \$1,040 million (\$1,115 million minus \$75 million), and \$494 million (\$544 million minus \$50 million) for the three months ended September 26, 2003, June 27, 2003 and September 27, 2002, respectively, and \$2,828 million (\$2,928 million minus \$100 million) and \$1,782 million (\$1,832 million minus \$50 million) for the nine months ended September 26, 2003 and September 27, 2002, respectively. Excluding these items, GMI's pre-tax profit margin was 40.1% (\$997 million/\$2,486 million), 36.0% (\$1,040 million/\$2,886 million), and 25.7% (\$494 million/\$1,922 million) for the three months ended September 26, 2003, June 27, 2003 and September 27, 2002, respectively, and 36.1% (\$2,828 million/\$7,834 million) and 26.9% (\$1,782 million/\$6,618 million) for the nine months ended September 26, 2003 and September 27, 2002, respectively.
- (b) Includes the impact of an insurance recovery related to September 11 (\$25 million) and a restructuring-related credit (\$2 million) which have been recorded as a contra-expense. Excluding these items, GPC's pre-tax earnings were \$290 million (\$317 million minus \$27 million) and GPC's pre-tax profit margin was 13.9% (\$290 million/\$2,085 million). For the year-to-date period, excluding these items, GPC's pre-tax earnings were \$905 million (\$932 million minus \$27 million) and GPC's pre-tax profit margin was 13.6% (\$905 million/\$6,651 million).
- (c) Excluding the impact of September 11, restructuring, and research-related items, total pre-tax earnings were \$1,488 million (\$1,509 million minus \$21 million), \$1,405 million (\$1,466 million minus \$61 million), and \$861 million (\$1,054 million minus \$193 million) for the three months ended September 26, 2003, June 27, 2003, and September 27, 2002, respectively, and \$3,915 million (\$3,997 million minus \$82 million) and \$2,932 million (\$3,014 million minus \$82 million) for the nine months ended September 26, 2003 and September 27, 2002, respectively. Excluding these items, total pre-tax profit margins were 29.4% (\$1,488 million/\$5,066 million), 26.4% (\$1,405 million/\$5,319 million), and 19.7% (\$861 million/\$4,362 million) for the three months ended September 26, 2003, June 27, 2003 and September 27, 2002, respectively, and 25.7% (\$3,915 million/\$15,239 million) and 20.4% (\$2,932 million/\$14,403 million) for the nine months ended September 26, 2003 and September 27, 2002, respectively.

Consolidated Quarterly Earnings (unaudited)

(in millions)

	<u>3Q02</u>	<u>4Q02</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>
Net Revenues					
Asset management and portfolio service fees					
Asset management fees	\$ 402	\$ 386	\$ 385	\$ 394	\$ 401
Portfolio service fees	526	480	476	469	511
Account fees	138	122	135	136	128
Other fees	151	118	131	155	144
Total	<u>1,217</u>	<u>1,106</u>	<u>1,127</u>	<u>1,154</u>	<u>1,184</u>
Commissions					
Listed and over-the-counter securities	653	623	618	617	634
Mutual funds	277	274	266	234	291
Other	195	181	185	193	195
Total	<u>1,125</u>	<u>1,078</u>	<u>1,069</u>	<u>1,044</u>	<u>1,120</u>
Principal transactions	377	358	1,010	1,100	705
Investment banking					
Underwriting	329	414	368	565	545
Strategic advisory	163	163	125	133	133
Total	<u>492</u>	<u>577</u>	<u>493</u>	<u>698</u>	<u>678</u>
Other	165	148	205	271	300
Subtotal	<u>3,376</u>	<u>3,267</u>	<u>3,904</u>	<u>4,267</u>	<u>3,987</u>
Interest and dividend revenues	3,484	3,212	3,021	3,028	2,873
Less interest expense	2,498	2,274	2,071	1,976	1,794
Net interest profit	986	938	950	1,052	1,079
Total Net Revenues	<u>4,362</u>	<u>4,205</u>	<u>4,854</u>	<u>5,319</u>	<u>5,066</u>
Non-Interest Expenses					
Compensation and benefits	2,228	1,983	2,496	2,678	2,393
Communications and technology	421	434	403	357	352
Occupancy and related depreciation	218	225	216	221	226
Brokerage, clearing, and exchange fees	182	175	170	169	188
Advertising and market development	125	114	121	113	89
Professional fees	135	155	144	140	146
Office supplies and postage	62	62	58	50	46
Other	130	145	224	186	138
Research and other settlement-related expenses	-	180	-	-	-
Net recoveries related to September 11	(191)	(21)	-	(61)	(21)
Restructuring and other charges	(2)	10	-	-	-
Total Non-Interest Expenses	<u>3,308</u>	<u>3,462</u>	<u>3,832</u>	<u>3,853</u>	<u>3,557</u>
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries					
	1,054	743	1,022	1,466	1,509
Income tax expense	313	157	289	398	422
Dividends on preferred securities issued by subsidiaries	48	47	48	47	48
Net Earnings	\$ 693	\$ 539	\$ 685	\$ 1,021	\$ 1,039
Per Common Share Data					
	<u>3Q02</u>	<u>4Q02</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>
Earnings - Basic	\$ 0.79	\$ 0.61	\$ 0.76	\$ 1.13	\$ 1.14
Earnings - Diluted	0.73	0.56	0.72	1.05	1.04
Dividends paid	0.16	0.16	0.16	0.16	0.16
Book value	25.17	25.69	24.97	26.04	27.21 est.

Certain prior period amounts have been reclassified to conform to the current period presentation

Percentage of Quarterly Net Revenues (unaudited)

	<u>3Q02</u>	<u>4Q02</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>
Net Revenues					
Asset management and portfolio service fees					
Asset management fees	9.2%	9.2%	7.9%	7.4%	7.9%
Portfolio service fees	12.1%	11.4%	9.8%	8.8%	10.1%
Account fees	3.2%	2.9%	2.8%	2.6%	2.5%
Other fees	3.4%	2.8%	2.7%	2.9%	2.9%
Total	27.9%	26.3%	23.2%	21.7%	23.4%
Commissions					
Listed and over-the-counter securities	15.0%	14.8%	12.7%	11.6%	12.5%
Mutual funds	6.4%	6.5%	5.5%	4.4%	5.7%
Other	4.4%	4.3%	3.8%	3.6%	3.9%
Total	25.8%	25.6%	22.0%	19.6%	22.1%
Principal transactions	8.6%	8.5%	20.8%	20.7%	13.9%
Investment banking					
Underwriting	7.6%	9.8%	7.6%	10.6%	10.8%
Strategic advisory	3.7%	3.9%	2.6%	2.5%	2.6%
Total	11.3%	13.7%	10.2%	13.1%	13.4%
Other	3.8%	3.6%	4.2%	5.1%	5.9%
Subtotal	77.4%	77.7%	80.4%	80.2%	78.7%
Interest and dividend revenues	79.9%	76.4%	62.3%	56.9%	56.7%
Less interest expense	57.3%	54.1%	42.7%	37.1%	35.4%
Net interest profit	22.6%	22.3%	19.6%	19.8%	21.3%
Total Net Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Non-Interest Expenses					
Compensation and benefits	51.1%	47.2%	51.4%	50.3%	47.2%
Communications and technology	9.7%	10.3%	8.3%	6.7%	6.9%
Occupancy and related depreciation	5.0%	5.4%	4.4%	4.2%	4.5%
Brokerage, clearing, and exchange fees	4.2%	4.2%	3.5%	3.2%	3.7%
Advertising and market development	2.9%	2.7%	2.5%	2.1%	1.8%
Professional fees	3.1%	3.7%	3.0%	2.6%	2.9%
Office supplies and postage	1.4%	1.5%	1.2%	0.9%	0.9%
Other	2.9%	3.3%	4.6%	3.5%	2.7%
Research and other settlement-related expenses	-	4.3%	-	-	-
Net recoveries related to September 11	-4.4%	-0.5%	-	-1.1%	-0.4%
Restructuring and other charges	-0.1%	0.2%	-	-	-
Total Non-Interest Expenses	75.8%	82.3%	78.9%	72.4%	70.2%
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	24.2%	17.7%	21.1%	27.6%	29.8%
Income tax expense	7.2%	3.7%	6.0%	7.5%	8.4%
Dividends on preferred securities issued by subsidiaries	1.1%	1.2%	1.0%	0.9%	0.9%
Net Earnings	15.9%	12.8%	14.1%	19.2%	20.5%
Common shares outstanding (in millions):					
3Q02	864.6	868.2	887.6	897.2	904.8
Weighted-average - basic	864.6	868.2	887.6	897.2	904.8
Weighted-average - diluted	934.5	942.9	939.2	965.3	991.1
Period-end	869.0	873.8	929.8	935.2	942.6

Supplemental Data (unaudited)	(dollars in billions)				
	3Q02	4Q02	1Q03	2Q03	3Q03
Client Assets					
Private Client					
U.S.	\$ 997	\$ 1,021	\$ 1,009	\$ 1,076	\$ 1,093
Non - U.S.	87	89	86	92	92
Total Private Client Assets	1,084	1,110	1,095	1,168	1,185
MLIM direct sales ⁽¹⁾	205	201	193	205	202
Total Client Assets	<u>\$ 1,289</u>	<u>\$ 1,311</u>	<u>\$ 1,288</u>	<u>\$ 1,373</u>	<u>\$ 1,387</u>
Assets in Asset-Priced Accounts	\$ 177	\$ 182	\$ 181	\$ 200	\$ 206
Assets Under Management	\$ 452	\$ 462	\$ 442	\$ 471	\$ 473
Retail	182	189	187	195	194
Institutional	234	235	220	239	241
Private Investors	36	38	35	37	38
U.S.	305	313	303	320	327
Non-U.S.	147	149	139	151	146
Equity	190	191	183	209	202
Fixed Income	119	122	108	108	125
Money Market	143	149	151	154	146
Net New Money					
Private Client Accounts					
U.S.	\$ 4	\$ 11	\$ (4)	\$ (2)	\$ 4
Non-U.S.	(2)	-	(1)	1	1
Total	<u>2</u>	<u>11</u>	<u>(5)</u>	<u>(1)</u>	<u>5</u>
Assets Under Management	\$ (12)	\$ 5	\$ (11)	\$ 4	\$ (4)
Balance Sheet Information (estimated)					
Commercial Paper and Other Short-term Borrowings	\$ 6.6	\$ 5.4	\$ 3.5	\$ 5.5	\$ 3.0
Deposits	80.8	81.8	81.9	80.5	79.3
Long-term Borrowings	73.9	78.5	77.0	79.1	80.8
Preferred Securities Issued by Subsidiaries	2.7	2.7	2.7	2.7	2.7
Total Stockholders' Equity	22.3	22.9	23.6	24.8	26.1
Global Equity and Equity-Linked Underwriting ⁽²⁾⁽³⁾					
Volume	\$ 3	\$ 6	\$ 4	\$ 8	\$ 8
Market Share	5.9%	10.4%	8.1%	7.8%	7.4%
Ranking	5	2	5	6	6
Global Debt Underwriting ⁽²⁾⁽³⁾					
Volume	\$ 65	\$ 59	\$ 95	\$ 86	\$ 85
Market Share	7.6%	6.5%	7.1%	6.5%	7.8%
Ranking	3	6	3	4	4
Global Completed Mergers and Acquisitions ⁽²⁾⁽³⁾					
Volume	\$ 79	\$ 118	\$ 39	\$ 31	\$ 59
Market Share	23.7%	29.8%	15.5%	10.5%	21.4%
Ranking	3	5	3	8	4
Full-Time Employees ⁽⁴⁾	53,200	50,900	49,500	48,200	47,800
Private Client Financial Advisors	14,600	14,000	13,600	13,300	13,400

⁽¹⁾ Reflects funds managed by MLIM not sold through Private Client channels.

⁽²⁾ Certain prior period amounts have been restated to conform to the current period presentation.

⁽³⁾ Full credit to book manager. Market shares derived from Thomson Financial Securities Data statistics.

⁽⁴⁾ Excludes 300, 500, 500, 1,500 and 700 full-time employees on salary continuation severance at the end of 3Q03, 2Q03, 1Q03, 4Q02 and 3Q02, respectively.

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