

***MERRILL LYNCH***  
***BANK USA***

*(A Wholly Owned Subsidiary of  
Merrill Lynch & Co., Inc.)*

*Consolidated Financial Statements (Unaudited) for the  
Quarterly Periods Ended March 31, 2006 and April 1,  
2005*

# **MERRILL LYNCH BANK USA**

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

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# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except share amounts)

	March 31, 2006	December 30, 2005
<b>Assets</b>		
Cash and due from banks	\$ 433,214	\$ 73,881
Cash equivalents	4,800,000	3,900,000
Federal funds sold	-	25,000
Trading assets	721,900	1,039,829
Securities <i>(includes securities pledged as collateral that can be sold or repledged of \$17,056 and \$40,614 at March 31, 2006 and December 30, 2005)</i>	13,162,034	13,025,147
Loans and leases held for sale	5,826,382	4,869,596
Loans and leases receivable	35,983,383	36,160,157
Allowance for loan and lease losses	(243,621)	(237,005)
Loans and leases receivable, net	35,739,762	35,923,152
Accrued interest receivable	256,979	242,309
Property and equipment, net	42,776	43,640
Net deferred income taxes	230,553	215,431
Derivative assets	131,538	189,319
Investment in Federal Home Loan Bank	121,602	121,602
Receivable from Parent and affiliates	32,730	57,509
Other assets	496,986	491,816
Total assets	<u>\$ 61,996,456</u>	<u>\$ 60,218,231</u>
<b>Liabilities and Stockholder's Equity</b>		
Liabilities		
Deposits	\$ 54,152,586	\$ 52,783,371
Federal funds purchased and securities sold under agreements to repurchase	500,000	400,000
Unsettled securities payable	268,511	-
Payable to Parent and affiliates	368,830	413,282
Current income taxes payable	167,334	54,179
Subordinated debt	250,000	250,000
Other liabilities	541,600	603,722
Total liabilities	56,248,861	54,504,554
Stockholder's equity		
Preferred stock, 6% noncumulative, par value \$1,000; 1,000,000 shares authorized, issued, and outstanding	1,000,000	1,000,000
Common stock, par value \$1; 1,000,000 shares authorized, issued, and outstanding	1,000	1,000
Paid-in capital	2,367,679	2,367,679
Retained earnings	2,389,977	2,355,799
Accumulated other comprehensive loss, net of tax	(11,061)	(10,801)
Total stockholder's equity	<u>5,747,595</u>	<u>5,713,677</u>
Total liabilities and stockholder's equity	<u>\$ 61,996,456</u>	<u>\$ 60,218,231</u>

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31, 2006	April 1, 2005
<b>Interest income:</b>		
Loans and leases receivable	\$ 687,230	\$ 443,920
Mortgage-backed and asset-backed securities	140,154	151,618
U.S. Treasury and government agency securities	1,573	5,429
Non-U.S. government agency securities	1,100	6,866
Corporate debt securities	28,619	18,544
Trading assets	13,340	12,735
Federal funds sold, securities purchased under agreements to resell, and cash equivalents	29,544	7,363
Total interest income	901,560	646,475
<b>Interest expense:</b>		
Deposits	378,329	219,799
Federal funds purchased and securities sold under agreements to repurchase	2,065	27,786
Other borrowings	8,712	1,256
Total interest expense	389,106	248,841
Net interest income	512,454	397,634
Provision for loan and lease losses	15,535	24,229
Net interest income after provision for loan and lease losses	496,919	373,405
<b>Noninterest income:</b>		
Credit and banking fees	109,400	88,464
Servicing and other fees, net	28,549	21,279
Gains on sale of loans, net	13,956	14,447
Trustee fees	8,325	8,147
Gains on sale of securities, net	7,931	37,044
Trading gains, net	5,577	5,624
Equity and partnership interests	5,451	2,938
Gains on non-hedging derivatives, net	2,174	26,274
Other	10,793	2,969
Total noninterest income	192,156	207,186
<b>Noninterest expenses:</b>		
Compensation and benefits	162,972	78,527
Deposit administration fees	33,604	34,072
Communications and technology	8,640	10,446
Provision for unfunded loan commitments	7,265	(3,538)
Loan servicing and administration	6,694	7,483
Service fees to Parent and affiliates	5,863	2,984
Trust management fees	5,112	4,859
Occupancy and related depreciation	4,141	3,759
Professional fees	3,129	5,447
FDIC & state assessments	2,386	2,440
Other	10,562	8,056
Total noninterest expenses	250,368	154,535
<b>Earnings before income taxes</b>	438,707	426,056
Income taxes	154,529	158,328
<b>Net earnings</b>	<u>\$ 284,178</u>	<u>\$ 267,728</u>

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (Unaudited)

For the Three Months Ended March 31, 2006 and April 1, 2005

(Dollars in thousands)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Total Stock- holder's Equity
Balance, December 31, 2004	\$ 1,000,000	\$ 1,000	\$ 2,367,679	\$ 1,802,576	\$ (5,335)	\$ 5,165,920
Comprehensive income:						
Net earnings				267,728		267,728
Other comprehensive income:						
Net unrealized gains on securities (net of tax)					3,287	3,287
Deferred gains on cash flow hedges (net of tax and reclassification of \$1,897 of gains included in earnings)					1,692	<u>1,692</u>
Total comprehensive income						272,707
Cash dividends declared				(20,000)		(20,000)
Balance, April 1, 2005	<u>\$ 1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 2,367,679</u>	<u>\$ 2,050,304</u>	<u>\$ (356)</u>	<u>\$ 5,418,627</u>
Balance, December 30, 2005	\$ 1,000,000	\$ 1,000	\$ 2,367,679	\$ 2,355,799	\$ (10,801)	\$ 5,713,677
Comprehensive income:						
Net earnings				284,178		284,178
Other comprehensive income:						
Net unrealized gains on securities (net of tax)					2,067	2,067
Deferred losses on cash flow hedges (net of tax and reclassification of \$1,747 of gains included in earnings)					(2,327)	<u>(2,327)</u>
Total comprehensive income						283,918
Cash dividends declared				(250,000)		(250,000)
Balance, March 31, 2006	<u>\$ 1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 2,367,679</u>	<u>\$ 2,389,977</u>	<u>\$ (11,061)</u>	<u>\$ 5,747,595</u>

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31, 2006	April 1, 2005
<b>Cash Flows From Operating Activities</b>		
Net earnings	\$ 284,178	\$ 267,728
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Provision for loan and lease losses	15,535	24,229
Provision for unfunded loan commitments	7,265	(3,538)
Lower of cost or market adjustments on loans and leases held for sale	129	17,317
Gains on sales of securities	(7,931)	(37,044)
Deferred income taxes	(17,062)	526
Depreciation and amortization	2,152	2,353
Net amortization of premium	1,031	3,146
Federal Home Loan Bank stock dividend	-	496
Losses on trading assets	3,554	4,234
Gains on non-hedging derivatives	(2,174)	(26,274)
Gains on sale of loans	(14,085)	(31,764)
Other	(12,813)	25,988
Changes in operating assets and liabilities:		
Origination, purchases, and drawdowns on loans and leases held for sale, net of repayments	(3,037,346)	(1,917,793)
Net proceeds from sales of loans and leases held for sale	2,070,698	2,265,670
Purchases of trading assets	(2,086,932)	(1,761,533)
Proceeds from sales and maturities of trading securities	2,400,785	1,887,879
Proceeds from the sales of mortgage servicing assets	3,147	5,097
Net change in:		
Accrued interest receivable	(14,670)	46,101
Net deferred income taxes	(20,803)	(24,576)
Current income taxes payable	118,713	(38,731)
Unsettled securities purchased	268,511	150,960
Receivable from Parent and affiliated companies, net	(498,417)	215,174
Other, net	(62,876)	(49,708)
Net cash (used for) provided by operating activities	(599,411)	1,025,937
<b>Cash Flows From Investing Activities</b>		
Proceeds from (payments for) securities:		
Purchases	(4,019,774)	(3,559,534)
Sales	3,240,659	4,485,249
Maturities	657,992	1,325,356
Net change in:		
Federal funds sold	25,000	(150,000)
Loans and leases receivable	177,163	(789,779)
Cash received from counterparties to collateralize derivative obligations, net	59,779	139,554
Purchases of property and equipment	(1,290)	908
Net cash provided by investing activities	139,529	1,451,754
<b>Cash Flows From Financing Activities</b>		
Increase (decrease) in:		
Deposits	1,369,215	(602,520)
Federal funds purchased and securities sold under agreements to repurchase	100,000	(1,562,942)
Payment of dividends	250,000	(40,000)
Net cash provided by (used for) financing activities	1,719,215	(2,205,462)
Increase in cash, due from banks and cash equivalents	1,259,333	272,229
Cash, due from banks and cash equivalents, beginning of year	3,973,881	1,553,811
Cash, due from banks and cash equivalents, end of period	\$ 5,233,214	\$ 1,826,040

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)

(Dollars in thousands)

	Three Months Ended	
	March 31,	April 1,
	2006	2005
<b>Supplemental Disclosures of Cash Flow Information</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 378,515	\$ 250,028
Income taxes	41,374	222,924
<b>Supplemental Disclosures of Noncash Investing and Financing Activities:</b>		
Dividends declared and unpaid	(250,000)	-
Transfers of repossessed assets from loans to other assets	9,478	17,870
Unsettled purchases of securities with the related payable recorded in liabilities	268,511	531,513
Unrealized (losses) gains on cash flow swaps	(2,327)	1,692
Unrealized gains on available-for-sale securities, net of taxes	2,067	3,287
Charge-offs	(12,425)	(5,338)

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

# MERRILL LYNCH BANK USA

(A Wholly Owned Subsidiary of Merrill Lynch & Co., Inc.)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarterly Periods Ended March 31, 2006 and April 1, 2005

(Dollars in thousands)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a complete discussion of Merrill Lynch Bank USA's ("MLBUSA" or the "Bank") accounting policies, refer to the Bank's 2005 audited consolidated financial statements.

***Principles of Consolidation and Basis of Presentation*** – The consolidated financial statements of MLBUSA include the accounts of MLBUSA and its subsidiaries. MLBUSA's subsidiaries are controlled through a majority voting interest or are controlled through a risks and rewards approach required by the Financial Accounting Standards Board ("FASB") Revised Interpretation No. ("FIN") 46R *Consolidated Variable Interest Entities*. All significant intercompany accounts and transactions between MLBUSA and its subsidiaries have been eliminated. Although the interim amounts are unaudited, they do reflect all normal recurring adjustments that, in the opinion of management, are necessary for the fair statement of the consolidated financial statements for the interim periods. See Note 13 for discussion of the Bank's proposed reorganization for mid-2006.

These unaudited consolidated financial statements should be read in conjunction with the Bank's audited 2005 consolidated financial statements. The nature of MLBUSA's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the consolidated financial statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements, and it is possible that such changes could occur in the near term.

Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation.

MLBUSA's 2006 fiscal quarters end on the last Friday of March, June, September, and December. MLBUSA's 2005 fiscal quarters ended on the first Friday in April and July and the last Friday in September and December.

***Recently Issued Accounting Pronouncements*** – In April 2006, the Financial Accounting Standards Board ("FASB") issued a FASB Staff Position ("FSP") FIN 46(R)-6, *Determining the Variability to be Considered in Applying FIN 46R*. The new guidance clarifies how companies must evaluate whether a contract or arrangement creates or absorbs variability based on an analysis of the entity's design. The "by-design" approach may impact a company's determination of whether an entity is a variable interest entity and which party, if any, is the primary beneficiary. The standard is effective beginning in the third quarter of 2006 for all new entities with which a company becomes involved, and to all entities previously required to be analyzed under FIN 46R when a reconsideration event occurs. Retrospective application to the date of initial application of the FSP is permitted, but not required. MLBUSA does not expect the adoption of the FSP to have a material impact on the consolidated financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 156, *Accounting for Servicing of Financial Assets* (SFAS No. 156). SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to

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(Dollars in thousands)

require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits servicers to subsequently measure each separate class of servicing assets and liabilities at fair value rather than at the lower of cost or market. For those companies that elect to measure their servicing assets and liabilities at fair value, SFAS No. 156 requires the difference between the carrying value and fair value at the date of adoption to be recognized as a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year in which the election is made. SFAS No. 156 is effective for the Bank beginning in the first quarter of 2007. The Bank is currently assessing the impact of adoption, but does not expect the standard to have a material impact on the consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. The Bank expects to adopt the standard beginning in the first quarter of 2007. At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instruments and the fair value of the combined hybrid financial instruments will be recognized as a cumulative-effect adjustment to beginning retained earnings. The Bank is currently assessing the impact of adopting SFAS No. 155.

On December 19, 2005, the FASB issued FSP SOP No. 94-6-1, *Terms of Loans That May Give Rise to a Concentration of Credit Risk* (“FSP SOP 94-6-1”). This standard identifies nontraditional loan terms that may increase the Bank’s risk of non-payment or realization due to an increase in loan payments at a later period in the loan contract from those payments required at the beginning of the contract for reasons other than changes in market interest rates. Nontraditional loan terms may include:

- Terms that permit principal payment deferral or payments smaller than interest accruals (negative amortizing loans).
- A high loan-to-value ratio, including multiple loans with the same collateral that, when combined, result in a high loan-to-value ratio.
- Products that may expose the borrower to future increases in repayments in excess of increases that result solely from increases in market interest rate (such as option adjustable-rate mortgages (option ARMS) or once negative amortization results in a loan reaching a maximum principal accrual limit).
- An initial interest rate that is below market interest rate for the initial period of the loan term and that may increase significantly when that low interest rate period ends (teaser rate loans).
- Terms that initially require payment of interest that may result in payments increasing significantly when the interest only period ends and the loan principal begins to amortize (interest only loans).

This standard reaffirms that such terms may result in a concentration of credit risk, as that term is used in SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. Such concentrations must be disclosed if they are significant along with other qualitative and quantitative information to help the reader understand how the risks are managed and controlled. This guidance was fully reflected in the Bank’s 2005 audited consolidated financial statements previously referenced.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarterly Periods Ended March 31, 2006 and April 1, 2005

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(Dollars in thousands)

In November 2005, the FASB approved FSP Financial Accounting Standard (“FAS”) 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (“FSP FAS 115-1”). This standard defines debt or equity securities accounted for in accordance with SFAS 115 whose fair value is less than cost as of the balance sheet date as impaired. This guidance also requires the Bank to assess whether the impairment is temporary or other-than-temporary. If the impairment is other than temporary, the Bank is required to recognize in earnings the difference between the investment’s cost and its fair value at the balance sheet date. The fair value of the other than temporarily impaired security becomes the new cost basis of the security. FSP FAS 115-1 also requires disclosure of the fair value of investments with unrealized losses, and the amount of unrealized losses, for each disclosed investment category segregated by those investments in a continuous loss position for less than 12 months and greater than 12 months. This standard is fully reflected in these financial statements and accompanying notes, and the Bank’s 2005 audited consolidated financial statements previously referenced.

Effective for the first quarter of 2006, Merrill Lynch & Co. (the “Parent”) adopted the provisions of SFAS No. 123 (revised 2004), Share-Based Payment, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS No. 123R”). The Bank participates in the Parent’s stock based compensation plans and is affected by the Parent’s adoption of SFAS No. 123R. Under SFAS No. 123R, compensation expense for share-based awards that do not require future service is recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. The Parent adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for MLBUSA, SFAS No. 123R requires the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions. The total expense for the stock-based compensation awards for the 2005 performance year granted to retirement-eligible employees in January 2006 is being recognized in the first quarter of 2006. In addition, beginning with performance year 2006, for which the Bank expects to grant stock awards in early 2007, MLBUSA will accrue the expense for future awards granted to retirement eligible-employees over the award performance year. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

Prior to the adoption of SFAS No. 123R, the Bank had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees, including those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. MLBUSA had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left the firm. Because SFAS No. 123R applies only to awards granted or modified in 2006, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards prior to the adoption of SFAS No. 123R must continue to be amortized over the stated vesting period.

The Bank participates in the Parent’s long term incentive compensation plans. The Parent, after completing a comprehensive review of all stock-based incentive compensation awards, determined that future stock grants should contain more stringent provisions regarding age and length of service requirements for employees to be eligible to retire while the stock awards continue to vest. To facilitate

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarterly Periods Ended March 31, 2006 and April 1, 2005

(Dollars in thousands)

transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees were modified, effective March 31, 2006, to be immediately eligible for retirement with respect to those earlier awards, though the vesting and non-compete provisions for those awards remain in force. As the provisions of SFAS No. 123R also apply to awards modified in 2006, these modifications required the Bank to record an additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

The one-time charge associated with the adoption of SFAS No. 123R and the policy modifications to previous awards resulted in a net charge to compensation expense in the first quarter of 2006 of approximately \$72 million pre-tax and \$44 million after-tax. The adoption of SFAS No. 123R resulted in a first quarter charge to compensation expense of approximately \$34 million pre-tax and \$21 million after-tax. Policy modifications to previous awards amounted to \$38 million of the pre-tax charge and \$23 million of the after-tax charge.

### 2. CASH EQUIVALENTS

Cash equivalents include securities purchased under agreements to sell of \$4,800,000 and \$3,900,000. The estimated fair value of the securities received as collateral for these transactions that can be sold or pledged by MLBUSA totaled \$4,824,904 and \$3,945,352 as of March 31, 2006 and December 30, 2005, respectively.

### 3. SECURITIES

Securities reported on the consolidated balance sheets are as follows:

	<u>March 31, 2006</u>	<u>December 30, 2005</u>
Available-for-sale	\$ 10,910,380	\$ 10,744,152
Held-to-maturity	4,000	4,000
Non-qualifying (1)	<u>2,247,654</u>	<u>2,276,995</u>
Total	<u>\$ 13,162,034</u>	<u>\$ 13,025,147</u>

- (1) Non-qualifying includes preferred stock that does not qualify as a debt or marketable equity security under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS No. 115").

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarterly Periods Ended March 31, 2006 and April 1, 2005

(Dollars in thousands)

Information regarding investment securities subject to SFAS No. 115 follows:

	March 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-sale</b>				
Asset-backed securities	\$ 5,604,961	\$ 2,980	\$ (9,042)	\$ 5,598,899
Mortgage-backed securities	4,876,901	5,140	(125,480)	4,756,561
U.S. Treasuries and government securities	163,759	-	(11,314)	152,445
Corporate debt securities	91,425	289	(758)	90,956
Non-U.S. government securities	235,249	833	-	236,082
Other	74,937	4,803	(4,303)	75,437
Total	<u>\$ 11,047,232</u>	<u>\$ 14,045</u>	<u>\$ (150,897)</u>	<u>\$ 10,910,380</u>
<b>Held-to-maturity</b>				
Asset-backed securities	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,000</u>

  

	December 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-sale</b>				
Asset-backed securities	\$ 6,043,290	\$ 3,896	\$ (8,882)	\$ 6,038,304
Mortgage-backed securities	4,184,919	13,969	(56,027)	4,142,861
U.S. Treasuries and government securities	163,736	-	(6,767)	156,969
Corporate debt securities	92,074	471	(481)	92,064
Non-U.S. government securities	230,317	6,874	-	237,191
Other	74,522	5,661	(3,420)	76,763
Total	<u>\$ 10,788,858</u>	<u>\$ 30,871</u>	<u>\$ (75,577)</u>	<u>\$ 10,744,152</u>
<b>Held-to-maturity</b>				
Asset-backed securities	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,000</u>

# MERRILL LYNCH BANK USA

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarterly Periods Ended March 31, 2006 and April 1, 2005

(Dollars in thousands)

At March 31, 2006 and December 30, 2005, \$268,511 and \$0, respectively, of security purchases were unsettled with the related payable reported in unsettled securities payable.

The activity from sales of securities is summarized below:

	Three Months Ended	
	March 31, 2006	April 1, 2005
<b>Available-for-sale</b>		
Proceeds	\$ 3,240,659	\$ 4,485,249
Net realized gains (1)	7,931	37,044
Tax provision	3,043	13,002
<b>Trading</b>		
Proceeds	\$ 2,278,328	\$ 1,802,219
Realized losses	(3,554)	(4,234)
Tax benefit	(1,250)	(1,580)

(1) Includes losses on derivatives hedging the available-for-sale portfolio for the three months ended March 31, 2006 and April 1, 2005 of \$21,021 and \$64,666, respectively.

Available-for-sale securities with unrealized losses as of March 31, 2006 and December 30, 2005 are presented in the following table by the length of time individual securities have been in a continuous unrealized loss position. The fair value and unrealized loss amounts are reported net of derivatives qualifying as hedges.

	March 31, 2006						
	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss	Less than 12 months		Greater than 12 months	
				Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Asset-backed securities	\$ 2,262,402	\$ 2,254,938	\$ (7,464)	\$ 1,833,714	\$ (1,419)	\$ 421,224	\$ (6,045)
Mortgage-backed securities	901,912	897,968	(3,944)	795,080	(2,816)	102,888	(1,128)
U.S. Treasuries and government securities	163,759	157,085	(6,674)	-	-	157,085	(6,674)
Corporate debt securities	30,004	29,971	(33)	29,971	(33)	-	-
Non-U.S. government securities	235,249	225,947	(9,302)	-	-	225,947	(9,302)
Other	59,523	55,220	(4,303)	-	-	55,220	(4,303)
<b>Total</b>	<b>\$ 3,652,849</b>	<b>\$ 3,621,129</b>	<b>\$ (31,720)</b>	<b>\$ 2,658,765</b>	<b>\$ (4,268)</b>	<b>\$ 962,364</b>	<b>\$ (27,452)</b>

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(Dollars in thousands)

	December 30, 2005						
	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss	Less than 12 months		Greater than 12 months	
				Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Asset-backed securities	\$ 2,852,708	\$ 2,845,977	\$ (6,731)	\$ 2,000,121	\$ (932)	\$ 845,856	\$ (5,799)
Mortgage-backed securities	2,255,358	2,248,246	(7,112)	1,856,881	(6,016)	391,365	(1,096)
U.S. Treasuries and government securities	163,736	161,350	(2,386)	-	-	161,350	(2,386)
Non-U.S. government securities	194,681	187,469	(7,212)	-	-	187,469	(7,212)
Other	59,523	56,103	(3,420)	-	-	56,103	(3,420)
Total	<u>\$ 5,526,006</u>	<u>\$ 5,499,145</u>	<u>\$ (26,861)</u>	<u>\$ 3,857,002</u>	<u>\$ (6,948)</u>	<u>\$ 1,642,143</u>	<u>\$ (19,913)</u>

As of March 31, 2006 and December 30, 2005, approximately 88 percent and 89 percent, respectively, of the securities with unrealized losses are either AA or AAA rated. MLBUSA has the ability and the intent to hold the securities for a period of time sufficient for a forecasted market price recovery of at least the amortized cost of the securities.

No securities have been identified as other-than-temporarily impaired in 2006 or 2005.

The change in net unrealized gains on securities included in other comprehensive income represents the sum of the net unrealized holding gains and reclassification adjustments of securities net of the hedge accounting effects. Reclassification adjustments are amounts recognized in net earnings during the current period that had been part of other comprehensive income in previous periods. The components of the net change are summarized below:

	Three Months Ended	
	March 31, 2006	April 1, 2005
Net unrealized holding losses arising during the period, net of taxes	\$ (2,840)	\$ (20,725)
Reclassification adjustment for net gains included in net earnings, net of taxes	<u>4,907</u>	<u>24,012</u>
Net change	<u>\$ 2,067</u>	<u>\$ 3,287</u>

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The maturity schedule of all available-for-sale securities at amortized cost and estimated fair values is presented below. The distribution of mortgage-backed and asset-backed securities is based on contractual maturities. Actual maturities may differ because the issuer may have the right to call or prepay the obligations.

	<b>March 31, 2006</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
<b>Available-for-sale</b>		
Due in one year or less	\$ -	\$ -
Due after one year through five years	329,120	326,617
Due after five years through ten years	773,414	764,549
Due after ten years	9,944,698	9,819,214
Total	<u>\$ 11,047,232</u>	<u>\$ 10,910,380</u>
<b>Held-to-maturity</b>		
Due after ten years	<u>\$ 4,000</u>	<u>\$ 4,000</u>

#### 4. LOANS AND LEASES HELD FOR SALE AND LOANS AND LEASES RECEIVABLE

Loans and leases held for sale consist of:

	<b>March 31, 2006</b>	<b>December 30, 2005</b>
Automobile	\$ 1,560,625	\$ 1,655,849
Commercial	2,691,602	1,551,454
Residential mortgages - 1-4 family	1,449,864	1,493,945
Leases	207,551	203,442
Credit card	179,111	191,316
Hedge fund loans	-	45,154
Deferred fees, net	(262,371)	(271,564)
Total	<u>\$ 5,826,382</u>	<u>\$ 4,869,596</u>

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Loans and leases held for sale are reported in the consolidated financial statements at the lower of aggregate cost or market value (LOCOM). Changes in the LOCOM adjustment for the three months ended March 31, 2006 and April 1, 2005 are summarized below:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 1,</b>
	<b>2006</b>	<b>2005</b>
Balance, beginning of period	\$ 52,035	\$ 32,018
LOCOM	129	17,317
Foreign exchange revaluation	(20)	-
Balance, end of period	<u>\$ 52,144</u>	<u>\$ 49,335</u>

Loans and leases receivable are summarized below:

	<b>March 31,</b>	<b>December 30,</b>
	<b>2006</b>	<b>2005</b>
<b>Consumer</b>		
Residential mortgages - 1-4 family	\$ 4,323,116	\$ 4,944,726
Securities-based	4,097,400	3,615,171
Residential mortgages - home equity	2,901,768	2,216,142
Residential construction	454,810	487,154
Delayed debit	56,718	69,633
Unsecured	7,449	9,540
Total consumer	<u>11,841,261</u>	<u>11,342,366</u>
<b>Commercial</b>		
Asset-based	9,396,831	10,818,373
Commercial and industrial	4,856,420	4,883,422
Real estate	4,176,269	3,919,149
Securities-based	1,502,911	1,854,573
Unsecured	2,385,480	1,565,347
Hedge fund lending	1,228,500	1,195,200
Lease financing	755,382	775,302
Total commercial	<u>24,301,793</u>	<u>25,011,366</u>
Deferred fees, net	<u>(159,671)</u>	<u>(193,575)</u>
Total	<u>\$ 35,983,383</u>	<u>\$ 36,160,157</u>

The principal balance of nonaccruing loans was \$195,964 and \$206,152 at March 31, 2006 and December 30, 2005, respectively.

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Information pertaining to impaired loans is summarized below:

	<u>March 31, 2006</u>	<u>December 30, 2005</u>
Impaired loans with an allowance for loan loss	\$ 171,158	\$ 167,881
Impaired loans that have been charged-off partially	<u>23,155</u>	<u>20,248</u>
Total impaired loans	<u>\$ 194,313</u>	<u>\$ 188,129</u>
Allowance for loan losses related to impaired loans	<u>\$ 40,526</u>	<u>\$ 43,728</u>

	<b>Three Months Ended</b>	
	<u>March 31, 2006</u>	<u>April 1, 2005</u>
Average investment in impaired loans	<u>\$ 204,477</u>	<u>\$ 270,747</u>
Interest income recognized on impaired loans	<u>\$ 1,990</u>	<u>\$ 1,041</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ 1,819</u>	<u>\$ 356</u>

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#### 5. ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED LOAN COMMITMENTS

Changes in the allowance for loan and lease losses are summarized below:

	Three Months Ended	
	March 31, 2006	April 1, 2005
Balance, beginning of period	\$ 237,005	\$ 167,224
Provision for loan and lease losses	15,535	24,229
Charge-offs, net of recoveries	(8,974)	(4,496)
Foreign exchange revaluation	55	(42)
Balance, end of period	<u>\$ 243,621</u>	<u>\$ 186,915</u>

Changes in the allowance for unfunded loan commitments (reported as a component of other liabilities) are summarized below:

	Three Months Ended	
	March 31, 2006	April 1, 2005
Balance, beginning of period	\$ 156,253	\$ 99,832
Net provision (recovery of provision)	7,265	(3,538)
Foreign exchange revaluation	29	(55)
Balance, end of period	<u>\$ 163,547</u>	<u>\$ 96,239</u>

#### 6. DEPOSITS

Deposits reported on the consolidated balance sheets are summarized below:

	March 31, 2006	December 30, 2005
Money market deposits and NOW accounts	\$ 51,603,360	\$ 51,555,101
Certificates of deposit	<u>2,549,226</u>	<u>1,228,270</u>
Total	<u>\$ 54,152,586</u>	<u>\$ 52,783,371</u>

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The weighted average interest rates for the three months ended March 31, 2006 for money market deposits and NOW accounts, and certificates of deposit (including the effect of hedges), were 2.79% and 4.52%, respectively, and for the year ended December 30, 2005 were 2.74% and 4.10%, respectively.

### **7. BORROWED FUNDS**

#### **Federal Funds Purchased and Securities Sold Under Agreements to Repurchase**

Federal funds purchased were \$500,000 and \$400,000 at March 31, 2006 and December 30, 2005, respectively. There were no securities sold under agreements to repurchase at March 31, 2006 or December 30, 2005. The weighted average interest rates for Federal funds purchased and securities sold under agreements to repurchase for March 31, 2006 were 4.54% and 0% respectively, and for the year ending December 30, 2005 were 3.75% and 2.98%, respectively.

#### **Subordinated Debt**

In connection with a credit facility between the Parent and MLBUSA (the "Subordinated Debt Facility"), MLBUSA may borrow term subordinated debt in amounts to be agreed upon between MLBUSA and the Parent. Individual term subordinated advances have a maturity of six years. The maturity date of each advance automatically extends each year such that the remaining term is never less than five years. Either the Parent or MLBUSA may determine not to automatically extend the maturity upon proper notification to the other party. The interest rate charged is one month LIBOR plus 45 basis points. Subordinated debt outstanding as of March 31, 2006 and December 30, 2005 was \$250,000. The weighted average interest rate for the three months ended March 31, 2006 was 5.04%. The weighted average interest rate for the period the loan was outstanding in 2005 was 4.88%. There were no other amounts outstanding at March 31, 2006 or December 30, 2005 under this facility.

#### **Secured Credit Facility**

MLBUSA has joined with the Parent and certain affiliates in a secured credit facility of up to \$2,500,000, as described in the 2005 audited consolidated financial statements previously referenced. MLBUSA did not have any borrowings outstanding under the secured credit facility at March 31, 2006, or December 30, 2005.

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### 8. INCOME TAX

The income tax provisions are summarized as follows:

	<u>March 31, 2006</u>	<u>April 1, 2005</u>
U.S. Federal:		
Current	\$ 158,839	\$ 140,186
Deferred	<u>(15,712)</u>	<u>2,298</u>
	143,127	142,484
State and Local:		
Current	12,752	17,616
Deferred	<u>(1,350)</u>	<u>(1,772)</u>
	<u>11,402</u>	<u>15,844</u>
Total	<u>\$ 154,529</u>	<u>\$ 158,328</u>

As part of the consolidated group, the Bank transfers to the Parent its current U.S. Federal, state and local tax assets and liabilities. Amounts payable to, or receivable from the Parent are settled quarterly. A reconciliation of the statutory U.S. Federal income tax rate to the Bank's effective tax rate is as follows:

	<u>March 31, 2006</u>	<u>April 1, 2005</u>
Statutory U.S. Federal income tax rate	35.00 %	35.00 %
U.S. state and local income taxes, net of U.S. Federal benefit	1.71 %	2.44 %
Dividend received deductions	(1.11)%	0.15 %
Other	<u>(0.38)%</u>	<u>(0.43)%</u>
Total	<u>35.22 %</u>	<u>37.16 %</u>

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### 9. SECURITIZATION TRANSACTIONS AND TRANSACTIONS WITH VARIABLE INTEREST ENTITIES (“VIE”)

#### Securitization Transactions

The Bank has a significant financial interest in a qualifying special purpose entity (“QSPE”). In 2001, MLBUSA securitized \$648,634 of residential mortgage loans. To securitize these assets, MLBUSA established a QSPE, Merrill Lynch Bank Mortgage Loan Trust 2001-A (“2001-A”). MLBUSA received \$648,105 of proceeds from this securitization and recognized a loss of \$1,032, inclusive of transaction costs. The loss on sale of assets is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, based on their fair value at the date of transfer.

Subsequent to the securitization, MLBUSA repurchased \$635,018 of securities issued by 2001-A, including the residual tranche. Specifically, the Bank retains a 97% interest in the VIE. Retained interests of \$173,863 and \$189,014 at March 31, 2006 and December 30, 2005, respectively, are recorded in available-for-sale mortgage-backed securities at fair value. To obtain fair values, quoted market prices are used if available. Where quotes are unavailable for retained interests, MLBUSA generally estimates fair value based on the present value of expected cash flows using management’s estimate of the key assumptions, including credit losses, prepayment rates, and discount rates, commensurate with the risks involved.

The following table presents MLBUSA’s key weighted-average assumptions used to estimate the fair value of the retained interests in 2001-A at March 31, 2006, and the pretax sensitivity of the fair values to an immediate 10 and 20 percent adverse change in these assumptions:

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Weighted average life (in years)	2.96
Expected Credit losses (rate per annum)	1.49%
10% adverse change	\$ (191)
20% adverse change	\$ (361)
Weighted average discount rate	5.73%
10% adverse change	\$ (805)
20% adverse change	\$ (1,039)
Prepayment speed (constant prepayment rate)	25.00%
10% adverse change	\$ (93)
20% adverse change	\$ (178)

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The sensitivity analysis above is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities. Further changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not consider any hedging action that MLBUSA may take to mitigate the impact of any adverse changes in the key assumptions.

For the three months ended March 31, 2006 and April 1, 2005, cash flows received on the retained interests were \$17,709 and \$16,987, respectively. As of March 31, 2006, the principal amount outstanding and delinquencies of the 2001-A securitized mortgage loans were \$181,902 and \$9,566 respectively. For the three months ended March 31, 2006, there were no net credit losses on the 2001-A securitized mortgage loans.

In December 2005, the Bank established an asset-backed commercial paper conduit ("ABCP conduit"). MLBUSA transferred \$2,509,723 of investment grade (AA+ or better) asset-backed securities to the ABCP conduit. The Bank received proceeds in the amount of \$2,514,005 and recognized a net gain on the sale of securities of \$2,150. MLBUSA did not retain any interest in this securitization but has continuing involvement with the ABCP conduit as described in the section below. The ABCP conduit funds its security acquisitions through the issuance of notes, including commercial paper, or the sale of its assets.

### Transactions with Variable Interest Entities

A VIE is defined in FASB Interpretation No. 46R (revised December 2003), *Consolidation of Variable Interest Entities* ("FIN 46R") as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In the normal course of business, MLBUSA acts as a derivative counterparty, investor, transferor, guarantor and/or liquidity provider to various VIEs. MLBUSA has entered into three transactions with VIEs for which MLBUSA was deemed the primary beneficiary and must consolidate the VIEs. Specifically, MLBUSA loans outstanding to these three VIEs totaled \$460,200 as of March 31, 2006 and \$452,993 as of December 30, 2005. The assets of the VIEs total approximately \$480,148 as of March 31, 2006 and \$469,149 as of December 30, 2005. The consolidated assets that collateralize the Bank's loans are generally loans or leases. Holders of the beneficial interests in these VIEs have no recourse to the general credit of MLBUSA; rather their investment is paid exclusively from the assets held by the VIE.

In addition, the Bank holds a significant variable interest in two VIEs as a result of its lending and investing activities.

- The first VIE was created to acquire automobile leases. The Bank also has an investment position in this VIE. This VIE has total assets of approximately \$20,252. The Bank's maximum exposure to loss as a result of its lending and investment activities in this VIE is \$5,206, which assumes no collections on the outstanding loan and a complete loss on the equity investment.

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- The second VIE was created in December 2005 when MLBUSA entered into a liquidity asset purchase agreement with the previously described ABCP conduit in the amount of \$3,000,000 to purchase investment grade securities from the ABCP conduit in the event the notes issued by the ABCP conduit are not purchased in the market. The Bank also has a commitment to issue letters of credit in aggregate up to \$60,000 in the event a credit enhancement is needed to maintain the ABCP conduit rating. The Bank also serves the ABCP conduit as administrative agent for which it receives a fee. A third party investor purchased a \$4,500 first loss note issued by the ABCP conduit which is subordinated to all other claims and enhancements. MLBUSA's maximum exposure to loss as a result of its relationships is \$3,060,000, which assumes the securities purchased suffer a total loss. Fees received for these products and services totaled \$2,101 during the three months period ended March 31, 2006.

## **10. COMMITMENTS, CONTINGENCIES, AND GUARANTEES**

### *Commitments*

In the normal course of business, the Bank enters into a number of off-balance sheet commitments. These commitments expose the Bank to varying degrees of credit risk, interest rate risk, and liquidity risk, and are subject to the same credit and risk limitation reviews as those recorded on the consolidated balance sheet.

### *Credit Extension*

The Bank enters into commitments to extend credit and commercial letters of credit to meet the financing needs of its customers. A summary of the Bank's unfunded commitments to extend credit follows:

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	<u>March 31,</u> <u>2006</u>	<u>December 30,</u> <u>2005</u>
<b>Consumer</b>		
Residential mortgages - 1-4 family	\$ 1,298,931	\$ 1,185,555
Securities-based	343	10,531
Residential mortgages - home equity	4,320,620	3,890,669
Residential construction	484,224	512,869
Unsecured	<u>66,174</u>	<u>64,115</u>
Total consumer	6,170,292	5,663,739
<b>Commercial</b>		
Asset-based	8,778,855	8,225,915
Commercial and industrial	4,859,703	2,820,475
Real estate	1,373,816	1,214,305
Securities-based	39,534	64,723
Unsecured	16,605,526	16,345,990
Hedge fund lending	326,500	304,600
Other	<u>34,729</u>	<u>42,973</u>
Total commercial	<u>32,018,663</u>	<u>29,018,981</u>
Total	<u>\$ 38,188,955</u>	<u>\$ 34,682,720</u>

Commitments to extend credit are legally binding, generally have specified rates and maturities, and are for specified purposes. In many instances, the borrower must meet specified conditions before the Bank is required to lend. The Bank manages the credit risk on these commitments by subjecting these commitments to normal credit approval and monitoring processes.

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Unfunded commitments to extend credit have the following contractual remaining maturities at March 31, 2006:

	<u>Expires in</u>			
	<u>1 Year or Less</u>	<u>After 1 Through 3 Years</u>	<u>After 3 Through 5 Years</u>	<u>After 5 Years</u>
<b>Consumer</b>				
Residential mortgages - 1-4 family	\$ 1,298,931	\$ -	\$ -	\$ -
Securities-based	202	141		
Residential mortgages - home equity	366,226	102,706	146,008	28,012
Residential construction	353,049	131,175	-	3,677,668
Credit card	-	66,174	-	-
Total consumer	<u>2,018,408</u>	<u>300,196</u>	<u>146,008</u>	<u>3,705,680</u>
<b>Commercial</b>				
Asset-based	5,543,550	1,295,027	1,829,058	111,220
Commercial and industrial	3,245,737	525,922	886,787	201,257
Real estate	54,384	843,305	375,999	100,128
Securities-based	35,585	2,296	1,303	350
Unsecured	3,832,992	2,598,117	9,999,217	175,200
Hedge fund lending	326,500	-	-	-
Other	5,112	20,392	825	8,400
Total commercial	<u>13,043,860</u>	<u>5,285,059</u>	<u>13,093,189</u>	<u>596,555</u>
Total	<u>\$ 15,062,268</u>	<u>\$ 5,585,255</u>	<u>\$ 13,239,197</u>	<u>\$ 4,302,235</u>

The Bank has a master repurchase agreement with the Parent and an affiliate, Merrill Lynch Government Securities, Inc. ("MLGSI") in which MLBUSA agrees to purchase securities issued or guaranteed by the United States of America or its agencies, and such other securities that are permissible under applicable bank regulations, and the seller agrees to repurchase the securities at a time specified at purchase (a repurchase agreement) up to a maximum of \$5,000,000. As of March 31, 2006, and December 30, 2005 no securities had been purchased pursuant to this agreement.

The Bank is also committed to fund charges resulting from Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") customers' use of delayed debit cards issued by the Bank. These advances are collateralized by either cash on deposit at the Bank or cash and securities held in the customer's MLPF&S account. Advances outstanding as of March 31, 2006, and December 30, 2005 were \$56,718 and \$69,633, respectively.

For each of these types of instruments, the Bank's maximum exposure to credit loss is represented by the contractual amount of these instruments. Many of the commitments are collateralized, or would be collateralized upon funding, and most are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent the risk of loss or future cash requirements.

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(Dollars in thousands)

### **Purchases**

At March 31, 2006, the Bank had committed to purchase leases to be originated by a third party finance company in amounts totaling \$18,356 over the next year.

At March 31, 2006, the Bank had committed to purchase residential mortgage loans in the amount of \$460,316, expiring over the next year.

### **Contingencies**

The Bank and its subsidiaries are involved in various legal proceedings arising out of, and incidental to, their respective businesses. Management of the Bank, based on its review with counsel of development of these matters to date, considers that the aggregate loss resulting from the final outcome, if any, of these proceedings should not be material to the Bank's consolidated financial condition or results of operations.

### **Other**

MLBUSA's money market and time deposits are deposited at the Bank by MLPFS, an affiliate, as agent for certain customers. The Bank's funding of its assets is dependent upon these deposits and the affiliate's ongoing relationships with its customers.

### **Guarantees**

MLBUSA provides guarantees to counterparties in the form of standby letters of credit and liquidity asset purchase agreements. Standby letters of credit are obligations issued by the Bank to a third party where the Bank promises to pay the third party the financial commitments or contractual obligations of the Bank's customer. The liquidity asset purchase agreement is a commitment to purchase investment grade securities from an ABCP conduit.

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(Dollars in thousands)

These guarantees are summarized at March 31, 2006:

<u>Type of Guarantee</u>	<u>Maximum Payout/Notional</u>	<u>Carrying Value</u>	<u>Value of Collateral</u>
Standby letters of credit	\$2,245,105	\$ (19,582)	\$ 527,946 (1), (2)
Liquidity asset purchase agreement	\$3,060,000	\$ (4,528)	\$2,983,645 (3), (4)

- (1) Marketable securities delivered by customers to MLBUSA collateralize up to \$285,922 of the standby letters of credit.
- (2) In the event MLBUSA funds the standby letters of credit, the Bank has recourse to customers on whose behalf the Bank issued the standby letter of credit in the amount of \$1,611,227.
- (3) In the event MLBUSA purchases securities pursuant to this agreement, the Bank will receive investment grade marketable securities.
- (4) The maximum payout/notional amount includes a commitment to issue letters of credit in the amount of \$60,000.

Expiration information for these contracts is as follows:

<u>Type of Guarantee</u>	<u>Maximum Payout/Notional</u>	<u>Less than 1 Year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>Over 5 Years</u>
Standby letters of credit	\$2,245,105	\$ 528,843	\$599,713	\$ 1,024,011	\$ 92,538
Liquidity asset repurchase agreement	\$3,060,000	\$3,060,000	\$ -	\$ -	\$ -

The standby letters of credit amounts above include two-party letters of credit issued by the Bank in conjunction with a principal protected mutual fund. The two-party letters of credit require the Bank to pay an amount equal to the amount by which the mutual fund asset value at the end of seven years is less than the amount originally invested. This fund is managed using an algorithm that requires holding an amount of highly liquid risk-free investments in addition to other more risky investments that, when combined, will result in the return of at least the original principal investment to the investors at maturity of the fund unless there is a significant and sudden market event. The Bank's maximum potential exposure to loss with respect to the two-party letters of credit totals \$633,879. Such a loss assumes that no funds are invested in risk-free investments, and that all investments suffer a total loss. As such, this measure significantly overstates the Bank's expected loss exposure at March 31, 2006.

The liquidity asset purchase agreement is a commitment to purchase investment grade securities from an ABCP conduit formed in December 2005 to purchase securities or other financial assets and fund those purchases through the issuance of notes, including commercial paper. The liquidity support would be called on by the ABCP conduit in the event a market disruption or other event make it difficult or impossible for the ABCP conduit to issue new notes to repay previously issued notes at their maturity. The Bank's maximum exposure to loss with respect to the liquidity asset purchase agreement is \$3,000,000. Such a loss assumes that the Bank suffers a total loss on all securities held by the ABCP conduit. As such, this measure significantly overstates the Bank's expected loss exposure at March 31, 2006.

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Also related to the ABCP conduit, the Bank has committed to issue standby letters of credit. The letters of credit act as a credit enhancement to the ABCP conduit and will be issued in variable amounts up to \$60,000 as necessary to maintain the ABCP conduit rating. No letters of credit were issued pursuant to the commitment at March 31, 2006. The Bank's maximum exposure to loss with respect to the commitment to issue these letters of credit is \$60,000. Such a loss assumes that the Bank issues the letters of credit and suffers a total loss. As such, this measure significantly overstates the Bank's expected loss exposure at March 31, 2006.

In connection with certain asset sales and securitization transactions, MLBUSA typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, MLBUSA may have an obligation to repurchase the assets or indemnify the purchaser against any loss. To the extent these assets were originated by others and purchased by the Bank, MLBUSA seeks to obtain appropriate representations and warranties in connection with its acquisition of the assets. The Bank believes that the potential for loss under these arrangements is remote. Accordingly, no liability is recorded in the consolidated financial statements.

### **11. CAPITAL REQUIREMENTS**

MLBUSA is subject to various regulatory capital requirements administered by U.S. Federal and state banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on MLBUSA's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, MLBUSA must meet specific capital guidelines that involve quantitative measures of MLBUSA's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. MLBUSA's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined in the regulation), and of Tier 1 capital to average assets (as defined in the regulation). Management believes, as of March 31, 2006 and December 30, 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized MLBUSA as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," MLBUSA must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed MLBUSA's category.

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The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum for Capital Adequacy Purposes		Minimum To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>March 31, 2006</b>						
Total capital						
to risk - weighted assets	\$ 6,426,879	10.89 %	\$ 4,722,336	8.0 %	\$ 5,902,920	10.0 %
Tier I capital to risk - weighted assets	\$ 5,769,485	9.77 %	\$ 2,361,168	4.0 %	\$ 3,541,752	6.0 %
Tier I capital to average assets	\$ 5,769,485	9.87 %	\$ 2,345,742	4.0 %	\$ 2,932,177	5.0 %
<b>December 30, 2005</b>						
Total capital						
to risk - weighted assets	\$ 6,376,034	11.07 %	\$ 4,608,003	8.0 %	\$ 5,760,004	10.0 %
Tier I capital to risk - weighted assets	\$ 5,732,776	9.95 %	\$ 2,304,002	4.0 %	\$ 3,456,002	6.0 %
Tier I capital to average assets	\$ 5,732,776	9.46 %	\$ 2,423,879	4.0 %	\$ 3,029,849	5.0 %

## 12. DERIVATIVES

MLBUSA uses derivative instruments to manage its interest rate risk position. The types of derivative instruments used and the accounting for those instruments are discussed in Note 1 in the Bank's 2005 Consolidated Financial Statements. MLBUSA's derivative positions at March 31, 2006 and December 30, 2005 follow:

	March 31, 2006		December 30, 2005	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Interest rate swaps				
Bank receives fixed/pays floating	\$ 2,092,156	\$ (5,855)	\$ 14,389,908	\$ 153,323
Bank receives floating/pays fixed	12,956,663	393,098	13,815,436	227,530
Bank receives CPI-equity linked/pays floating	136,639	(4,369)	133,320	(4,497)
Interest rate futures	24,245,000	(1,761)	825,000	15
Interest rate options	588,892	858	991,126	341
Credit default swaps	5,517,878	(22,710)	4,966,903	(10,775)
Principal protection guarantees	502,258	6,613	521,886	7,369
Equity linked	116,351	3,402	113,182	4,147
Total return swaps/credit link note	767,258	(7,231)	686,886	(8,511)
Foreign exchange forward contracts	3,523,322	39,936	2,306,864	34,000
To-be-announced security forward contracts	280,000	753	135,000	(807)
Rate-locked mortgage loan pipeline	1,271,501	(737)	390,114	(321)
Total	\$ 51,997,918	\$ 401,997	\$ 39,275,625	\$ 401,814
Weighted average receivable interest rate	4.75 %		4.13 %	
Weighted average payable interest rate	(4.15)%		(4.17)%	

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(Dollars in thousands)

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### **13. PROPOSED INTERNAL REORGANIZATION**

In January 2006, Merrill Lynch Trust Company, FSB (“MLTC-FSB”), an affiliate of the Bank, applied to the Office of Thrift Supervision (“OTS”) to become a full service thrift institution as the first step in an internal reorganization of certain banking businesses of Parent. The reorganization is expected to provide the Parent with a more efficient platform to deliver banking products and services to clients and to provide a more effective avenue for future growth. Subsequent to, and contingent upon, OTS approval of the application, Merrill Lynch Bank & Trust Co. (“MLB&T”), an existing FDIC-insured depository institution affiliate of MLBUSA, will be merged with MLTC-FSB, and MLTC-FSB will be renamed Merrill Lynch Bank & Trust Co., FSB (“MLBT-FSB”). It is expected that the new entity will be regulated by the OTS and its deposits insured by the FDIC. The remaining steps in the internal reorganization include MLBUSA receiving as a capital contribution all common shares of Financial Data Services (“FDS”), a wholly-owned indirect subsidiary of Parent principally serving as transfer agent, subaccountant, registrar, and fiscal agent for mutual funds and money market deposit accounts. In addition, MLBUSA and MLBT-FSB will organize a Delaware corporation named Merrill Lynch Mortgage and Investment Corp. (“MLMIC”). In exchange for an approximately 15 percent ownership interest of MLMIC’s common shares, MLBUSA will contribute all common shares of Merrill Lynch Credit Corporation (“MLCC”), currently a subsidiary serving primarily as a mortgage banker, and Merrill Lynch Community Development Company, LLC (“MLCDC”), currently a subsidiary serving primarily to make or purchase loans and investments to low and moderate income borrowers, to fulfill MLBUSA’s and MLB&T’s Community Reinvestment Act responsibilities. MLBUSA expects to account for all the transfers of interests between entities under common control in a manner similar to the pooling of interest method of accounting. Management expects the reorganization to be completed mid-year 2006.