

MERRILL LYNCH INTERNATIONAL BANK LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH DECEMBER 2005

COMPANY REGISTRATION NUMBER: 1062001

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH DECEMBER 2005**

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MERRILL LYNCH INTERNATIONAL BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30TH DECEMBER 2005

The directors present their report and the audited consolidated financial statements of Merrill Lynch International Bank Limited (the "Company" and, together with its subsidiaries, the "Group") and the audited Company balance sheet for the year ended 30th December 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activity of Merrill Lynch International Bank Limited and its subsidiaries is the provision of domestic and international banking, and global foreign exchange services.

The Group provides private banking services for high net worth clients. These services involve the acceptance of deposits and the provision of standardised and tailored multi-currency financing and standby letters of credit. The Group also provides loan facilities on a selective basis to corporate clients and accepts deposits from corporate clients and other banks.

Foreign exchange services are provided for clients, both private and corporate, in all major and many minor currencies on the international foreign exchange markets.

The Group provides Swiss Banking services through its subsidiary, Merrill Lynch Bank (Suisse) SA. These include securities trading and custody, portfolio management, foreign exchange, fiduciary deposits and lending services.

The Group provides mortgage services through the Company and Majestic Acquisitions Limited and its subsidiaries. The Group acts as a mortgage lender, administrator, arranger and servicer in the United Kingdom's non-conforming residential mortgage market.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30TH DECEMBER 2005

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS (Continued)

The Company operates seven overseas branches. The main branch operates in Singapore and provides private banking services to clients located in the Far East.

The Company is an authorised institution under the Financial Services and Markets Act 2000.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to \$147 million (2004 - profit \$102 million). The directors do not recommend the payment of a dividend for the year ended 30th December 2005 (2004 - \$nil) on the ordinary or preference share capital. The Company paid a \$6 million dividend on the convertible debt in the year.

DIRECTORS

The directors who served during the year and up to the date of signing this report were as follows:

A.A.	Abbas	
N.	Azam	
A.G.	Braithwaite III	
A.M.	Briski	Appointed 16th May 2005
M.	Butler	
I.	Chivers	
D.C.	Cochran	
M.J.	D'Souza	
M.J.	Hale	
H.W.	Lengsfeld II	Resigned 24th February 2005
R.J.	Lofaso	
S.J.	Patriarco	
K.	Pearson	Resigned 6th May 2005
O.	Semerci	Appointed 22nd February 2005
R.C.M.	Wigley (Chairman)	Appointed Chairman with effect 1st January 2005
J.E.	Wright	Resigned 8th February 2005

The directors had no beneficial interests in the shares of the Company or any other United Kingdom affiliated company at 30th December 2005 or at any time during the period then ended.

EMPLOYMENT OF DISABLED PERSONS

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the Group. Training, career development and promotion of disabled persons is, as far as possible, identical to that of other employees who are not disabled.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30TH DECEMBER 2005

FINANCIAL INSTRUMENTS

Financial instruments are dealt with in both the trading book and non-trading book of the Group. Both trading book and non-trading book activities may expose the Group to various categories of risk. These risks are continually monitored through a comprehensive risk management process. The proper execution of this process leads to effective management of these risks, helping to reduce the likelihood of earnings volatility over time. These risks are set out in note 23. Derivatives and Other Financial Instrument.

EMPLOYEE INVOLVEMENT

It is the Group's policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects.

CHARITABLE AND POLITICAL DONATIONS

During the year the Company made donations totaling \$76,000 to registered charities (2004: \$nil). There were no political donations made during the year (2004: \$nil).

AUDITORS

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

BY ORDER OF THE BOARD



For and on behalf of
Merrill Lynch Corporate Services Limited
Company Secretary
London
23rd March 2006

MERRILL LYNCH INTERNATIONAL BANK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL BANK LIMITED

We have audited the financial statements of Merrill Lynch International Bank Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 30th December 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated statement of total recognised gains and losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company and Group have not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERRILL LYNCH
INTERNATIONAL BANK LIMITED**

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and Group's affairs as at 30th December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

23rd March 2006

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH DECEMBER 2005**

		Group	
	Notes	2005	2004
		\$ 000	\$ 000
Interest Receivable			
–Interest receivable and similar income arising on debt securities		134,142	62,507
–Other interest receivable and similar income	2	668,034	300,625
Interest Payable	2	<u>(593,138)</u>	<u>(248,956)</u>
Net interest income		209,038	114,176
Fees and commissions receivable		200,484	150,143
Fees and commissions payable		(35,965)	(33,657)
Dealing profits		230,416	209,375
Other operating income		<u>194,561</u>	<u>173,897</u>
Operating income		798,534	613,934
Administrative expenses		(617,184)	(493,052)
Depreciation and amortisation		(8,812)	(4,175)
Provisions for bad and doubtful debts	7	<u>(12,647)</u>	<u>(2,634)</u>
Profit on ordinary activities before taxation	3	159,891	114,073
Tax on profit on ordinary activities	8	<u>(7,455)</u>	<u>(11,719)</u>
Profit on ordinary activities after taxation		152,436	102,354
Dividends on convertible debt		<u>(5,574)</u>	<u>-</u>
Profit on ordinary activities after taxation and dividends retained for the year	21	<u><u>146,862</u></u>	<u><u>102,354</u></u>

All results arise from continuing activities.

Other movements in shareholders' funds are set out in note 21.

The notes on pages 39 form part of these financial statements.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30TH DECEMBER 2005**

	Group	
	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Profit for the financial year	146,862	102,354
Translation differences on foreign currency net investment	<u>(76,073)</u>	<u>47,513</u>
Total recognised gains and losses for the year	<u>70,789</u>	<u>149,867</u>

The notes on pages 39 form part of these financial statements.

MERRILL LYNCH INTERNATIONAL BANK LIMITED**CONSOLIDATED BALANCE SHEET AS AT 30TH DECEMBER 2005**

		Group	
	Notes	2005	2004
		\$ 000	\$ 000
ASSETS			
Cash and balances at central banks		781,900	409,029
Loans and advances to banks	11	1,797,233	2,908,999
Loans and advances to customers not subject to securitisation		14,782,100	9,787,822
Loans and advances to customers subject to securitisation	12	2,319,936	1,675,012
Loans and advances to customers	11	17,102,036	11,462,834
Debt securities	13	2,707,575	3,307,805
Trading assets	23	11,215,554	3,059,592
Intangible fixed assets	14	96,524	114,006
Tangible fixed assets	15	7,466	8,227
Other assets		328,310	418,864
Prepayments and accrued income		164,202	161,212
Deferred taxation	17	10,671	-
Total assets		34,211,471	21,850,568

MERRILL LYNCH INTERNATIONAL BANK LIMITED

CONSOLIDATED BALANCE SHEET AS AT 30TH DECEMBER 2005

		Group	
	Notes	2005	2004
		\$ 000	\$ 000
LIABILITIES			
Deposits by banks	16	1,401,748	811,017
Customer accounts	16	15,465,774	11,747,953
Non-recourse finance	18	2,299,051	1,561,018
Trading liabilities	23	10,336,193	4,107,947
Other liabilities		965,150	735,674
Taxation		10,863	10,012
Accruals and deferred income		284,756	248,595
Provision for liabilities and charges			
– Deferred taxation	17	-	1,205
Subordinated liabilities	19	1,470,000	869,555
 Shareholders' funds			
– Called up share capital	20	578,012	549,435
– Share premium account	21	121,134	156
– Capital contribution	21	325,000	325,000
– Profit and loss account	21	<u>953,790</u>	<u>883,001</u>
	21	<u>1,977,936</u>	<u>1,757,592</u>
Total liabilities		<u><u>34,211,471</u></u>	<u><u>21,850,568</u></u>

MEMORANDUM ITEMS

Contingent liabilities: Guarantees and assets pledged as collateral security	22	399,093	1,849,015
Commitments	22	17,539,896	16,529,347

The financial statements on pages 6 to 39 were approved by the Board of Directors on 23rd March 2006 and signed on their behalf by:



ANDREW BRISKI



MARTIN BUTLER

The notes on pages 39 form part of these financial statements.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

COMPANY BALANCE SHEET AS AT 30TH DECEMBER 2005

	Notes	Company	
		2005 \$ 000	2004 \$ 000
ASSETS			
Cash and balances at central banks		315,976	220,324
Loans and advances to banks	11	2,565,705	3,341,579
Loans and advances to customers not subject to securitisation		13,488,291	8,667,085
Loans and advances to customers subject to securitisation		1,875,598	873,266
Less: non-recourse finance		(1,985,424)	(799,042)
Loans and advances to customers	11	13,378,465	8,741,309
Debt securities	13	2,687,723	3,295,962
Trading assets	23	11,175,817	2,990,328
Shares in group undertakings	25	153,531	153,531
Tangible fixed assets	15	2,949	2,283
Other assets		426,088	399,533
Prepayments and accrued income		119,569	75,012
Deferred taxation	17	24,853	16,629
Total assets		<u>30,850,676</u>	<u>19,236,490</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

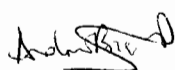
COMPANY BALANCE SHEET AS AT 30TH DECEMBER 2005

		Company	
	Notes	<u>2005</u>	<u>2004</u>
		\$ 000	\$ 000
LIABILITIES			
Deposits by banks	16	1,429,087	809,600
Customer accounts	16	15,232,006	11,306,847
Trading liabilities	23	10,297,140	4,043,051
Other liabilities		598,595	640,737
Taxation		8,002	9,761
Accruals and deferred income		209,224	204,172
Subordinated liabilities	19	1,470,000	869,555
Shareholders' funds			
– Called up share capital	20	578,012	549,435
– Share premium account	21	121,134	156
– Capital contribution	21	325,000	325,000
– Profit and loss account	21	<u>582,476</u>	<u>478,176</u>
	21	<u>1,606,622</u>	<u>1,352,767</u>
Total liabilities		<u><u>30,850,676</u></u>	<u><u>19,236,490</u></u>

MEMORANDUM ITEMS

Contingent liabilities: Guarantees and assets pledged as collateral security	22	328,411	1,734,600
Commitments	22	17,610,677	16,561,344

The financial statements on pages 6 to 39 were approved by the Board of Directors on 23rd March 2006 and signed on their behalf by:



ANDREW BRISKI

The notes on pages 39 form part of these financial statements.



MARTIN BUTLER

MERRILL LYNCH INTERNATIONAL BANK LIMITED

COMPANY BALANCE SHEET AS AT 30TH DECEMBER 2005

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards, and Statements of Recommended Practice issued by the British Bankers' Association.

Accounting Period

The Group's financial year consisted of a fifty-two (2004: fifty-three) week period ending on the last Friday in December (2004: 31st December).

Accounting Convention

The financial statements have been prepared on the historical cost basis of accounting modified by the revaluation of certain assets and in accordance with the special provisions of Part VII Schedule 9 of the Companies Act 1985 relating to banks and banking companies. Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

Under Financial Reporting Standard No. 25 - Financial Instruments, which was adopted during the year the Company's convertible debt which was redeemed on 23rd November 2005 (see note 19) met the definition of equity. The \$5,574,000 interest payable on the convertible debt in 2005 is accordingly accounted for as a dividend expense. As permitted under FRS 25 the prior year comparatives have not been restated.

Following changes to the Companies Act 1985 the special purpose securitisation companies now meet the definition of legal subsidiaries rather than quasi-subidiaries under Financial Reporting Standards No. 5 - Substance of Transactions. Consequently for the Group, linked presentation on the face of the balance sheet is no longer applied resulting in the "non-recourse finance" being presented in the balance sheet as a liability.

Basis of Consolidation

Group Financial Statements consolidate the financial statements of the Company and its subsidiaries, and are drawn up to the last Friday in December of each year. Acquisitions are accounted for under the acquisition method. Goodwill arising on consolidation of subsidiary undertakings, being the excess of the cost of the investment over the fair value of the Group's share of separable net assets at the date of acquisition, is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life.

Cash Flow Statement

The Group is exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised 1996) - Cash Flow Statements, as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, Merrill Lynch & Co., Inc.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

1. ACCOUNTING POLICIES (Continued)

Loans

Loans are stated in the balance sheet at the principal amount outstanding net of any provisions for loan losses. Interest income on loans is accrued and credited to interest income at the actual interest rates applicable to the loan principal amounts outstanding.

The recognition of interest ceases when the payment of interest is in doubt and does so automatically if interest payments are 60 days or more overdue. At the same time, any interest previously accrued but not received on such a loan is reversed. Thereafter, interest is included in income only when it is received. Loans are returned to the accruals basis only when doubt about collectibility of interest has been removed.

Fees and commissions are accrued when services for the transactions are substantially completed.

Loss Provisions

Specific provisions for loan losses are made when management considers the repayment of loan principal is in doubt and, in the case of other loss provisions, when it is determined that an asset has been impaired or a liability has been incurred.

Provisions for loan losses made during the year are charged as a separate amount in the profit and loss account and are deducted from loans and advances. Loans are written off when the extent of any loss has been confirmed.

General provisions are raised to cover losses which are judged to be present in loans and advances at the balance sheet date, but which have not been specifically identified as such.

Translation of Foreign Currencies

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US Dollars at average monthly market rates of exchange. Monetary assets and liabilities are translated into US Dollars at the market rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account.

The financial statements of subsidiaries whose functional currency is not US Dollars are translated into US Dollars at the closing rate for the balance sheet and at the average rate of exchange for the year for the profit and loss account. Translation differences arising on the profit and loss for the current year and on the opening net assets of the subsidiaries are reflected as a movement in reserves.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

1. ACCOUNTING POLICIES (Continued)

Depreciation

Tangible fixed assets are stated at cost and are written down to their estimated residual value on a straight line basis over their expected useful lives, as follows:

Motor vehicles	4 years
Computer equipment	3 years
Fixtures and fittings	3-10 years

Deferred Taxation

Deferred tax is recognised as a liability or an asset if, prior to the balance sheet date, the Company or the Group has entered into transactions or events have occurred that give rise to timing differences giving the Company or the Group an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Segmental Reporting

All of the activities of the Group arise from the provision of banking and related services. It is not possible to allocate revenues or assets to any one particular geographical source as any one transaction may involve parties situated in a number of different geographical areas.

Pension Costs

The Group participates in a number of defined benefit and defined contribution pension schemes throughout Europe. The schemes are funded with the assets held in separate trustee administered funds.

The major defined benefit scheme is the Merrill Lynch (UK) Pension Plan, (the "Plan", formerly the Merrill Lynch (UK) Final Salary Plan), which was closed to new entrants with effect from 30th June 1997 and to contributions from existing members with effect from 30th June 2004. The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The Group is one of a number of Merrill Lynch employers based in the United Kingdom which participate in the Plan. The Group has been unable to identify its share of the underlying assets and liabilities of the Plan and accordingly accounts for the Plan as if it were a defined contribution scheme.

The major defined contribution scheme is the Merrill Lynch (UK) Defined Contribution. The costs of defined contribution schemes are a percentage of each employee's annual salary based on their age and length of service with the group and are charged to the profit and loss account in the period in which they fall due.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

1. ACCOUNTING POLICIES (Continued)

Fiduciary Assets

Assets held in a trust or a fiduciary capacity are not assets of the Group and accordingly are not included in the financial statements.

Shares in Group Undertakings

Shares in Group undertakings are stated at cost less provisions for impairment.

Debt Securities

Investment securities held by the Group are stated at cost adjusted for amortisation of premiums and discounts to redemption, less provisions for impairment.

Derivatives

Derivative instruments used by the Group include forward rate agreements, interest rate swaps, currency swaps, foreign currency options, forward foreign exchange contracts and financial futures. These items are predominantly held as trading assets and liabilities and are valued on a mark-to-market basis with the differences between the fair value at the balance sheet date and the contract price being taken to the profit and loss account as operating income. Derivatives used as hedging instruments are accounted for on a consistent basis with the assets, liabilities or positions, which are the subject of the hedge. Profits and losses on hedge transactions are recognised on a basis consistent with the transactions to which they relate.

Netting

The Group enters into master netting agreements with counterparties whenever possible. Master netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a current enforceable legal right to set off and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Securitisations

In order to refinance existing assets the Company sells loans to special purpose securitisation companies under non-recourse finance arrangements. These companies are funded primarily through the issue of mortgage backed floating rate notes. Where the conditions for linked presentation are met, the outstanding amounts of the floating rate notes, to the extent that there is no recourse, are presented as "non-recourse finance" in the balance sheet and are deducted from the outstanding securitised assets, which are presented as "Loans and advances to customers subject to securitisation". As noted above the special purpose securitisation companies meet the definition of legal subsidiaries under the Companies Act 1985 and are presented as "non-recourse finance" in the balance sheet as a liability.

MERRILL LYNCH INTERNATIONAL BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)****2. NET INTEREST INCOME**

Net interest income includes:

	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Other interest receivable and similar income:		
Due from affiliated companies	160,350	42,696
Other	<u>507,684</u>	<u>257,929</u>
	<u>668,034</u>	<u>300,625</u>
Interest payable:		
Due to affiliated companies	(49,718)	(18,318)
Interest on subordinated debt - to immediate parent company	(89)	(3,908)
- to ultimate parent company	(46,285)	(21,173)
Other	<u>(497,046)</u>	<u>(205,557)</u>
	<u>(593,138)</u>	<u>(248,956)</u>
Net interest income due from\ (to) affiliates	<u>64,258</u>	<u>(703)</u>

3. CONSOLIDATED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Consolidated profit on ordinary activities before taxation is stated after crediting / (charging):

	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Service fee income	184,288	171,468
Service fee expense	(214,331)	(158,674)
Amortisation of intangible fixed assets (see note 14)	(5,302)	(1,205)
Depreciation of tangible fixed assets (see note 15)	(3,512)	(1,130)
Auditors' remuneration for audit services	(1,913)	(1,213)

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

4. DIRECTORS AND EMPLOYEES

Staff costs, including directors' remuneration, were as follows:

	Group		Company	
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
Salaries and benefits	223,608	179,070	168,464	141,240
Social security costs	13,346	13,442	10,624	11,101
Other pension costs	17,688	8,781	14,778	6,910
	<u>254,642</u>	<u>201,293</u>	<u>193,866</u>	<u>159,251</u>

The average number of persons (including directors) employed by the Group during the year was 1,374, of which 1,131 were employed by the Company (2004: 1,142 by the Group and 921 by the Company). All were employed in the provision of domestic and international banking, global foreign exchange and mortgage services.

Of the directors that served during the year ten (2004: ten) were remunerated in relation to their services as directors for this Company and the amounts included below are based on an estimated time allocation basis. Emoluments in relation to services performed for other affiliated companies are not disclosed in this Company's financial statements.

Remuneration paid to directors of the Company was:	2005	2004
	\$ 000	\$ 000
Emoluments	<u>6,247</u>	<u>3,063</u>
Contributions to defined contribution pension schemes	<u>66</u>	<u>50</u>
Number of directors during the year:	2005	2004
	No.	No.
Who exercised Merrill Lynch & Co. share options	<u>9</u>	<u>3</u>
To whom Merrill Lynch & Co shares are receivable or have been received under long-term incentive schemes	<u>10</u>	<u>10</u>
Who were members of a defined benefit pension scheme	<u>8</u>	<u>8</u>
Who were members of a defined contribution pension scheme	<u>8</u>	<u>10</u>
Highest paid director:	2005	2004
	\$ 000	\$ 000
Total emoluments	<u>2,890</u>	<u>1,363</u>
Contributions to defined contribution pension schemes	<u>-</u>	<u>21</u>
Accrued annual pension as at year end	<u>12</u>	<u>76</u>

The highest paid director exercised Merrill Lynch & Co. share options in 2005.

The highest paid director received Merrill Lynch & Co. shares under a long-term incentive scheme in the current year and prior year.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

5. PENSION COSTS

The latest formal triennial actuarial assessment of the Merrill Lynch (UK) Pension Plan, ("the Plan", formerly the Merrill Lynch (UK) Final Salary Plan) was carried out as at 1st January 2003. That assessment showed that the Plan had a deficit of £25.7 million. In addition to the contributions required to meet the cost of future benefits accruing, the employing companies decided, based on actuarial advice and after discussion with the Trustee, to make additional contributions of £2.5 million per annum (increasing in line with price inflation) over the next 13 years (2004: additional contribution of £2.6 million).

An informal funding review of the Plan was carried out as at 1st January 2005. This showed that the deficit in the Plan had increased to £128.5 million. In response to the results of this review the employing companies, after discussion with the Trustee, made a one-off contribution of £50 million into the Plan in December 2005, as opposed to the £2.5million inflation-linked contribution originally advised.

Future contributions to the Plan will be discussed after the results of the next formal triennial valuation of the Plan are available which is due to be carried out as at 1st January 2006.

The pension cost for the Group for the period was \$14 million (2004: \$4 million) in respect of defined benefit schemes and \$4 million (2004: \$5 million) in respect of defined contribution schemes.

6. RELATED PARTY TRANSACTIONS

At 30th December 2005, the amount outstanding in relation to transactions, arrangements and agreements entered into by the Company with directors and connected persons was \$418,000 (2004: \$500,000) in respect of a letter of credit provided to one director.

The Company has taken advantage of the exemption from related party disclosure available in Paragraph 3(c) of Financial Reporting Standard No. 8 - Related Party Disclosures, as it is a wholly owned subsidiary and the consolidated financial statements of the ultimate parent company are publicly available as detailed in note 27. Except as disclosed above, there were no related party transactions other than those with affiliated companies covered by this exemption.

7. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Group		Company	
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
At start of year	10,896	8,496	10,348	8,496
Charged to profit and loss account	12,647	2,634	3,088	2,086
Effect of securitisation entities	3,306	-	(1,330)	-
Irrecoverable amounts written off	-	(234)	-	(234)
At end of year	<u>26,849</u>	<u>10,896</u>	<u>12,106</u>	<u>10,348</u>

The provisions above relate to loans and advances to customers.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax for the year is as follows:	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Current tax		
United Kingdom corporation tax on profits for the year	5,559	4,481
Double tax relief	(5,559)	(4,481)
Adjustment in respect of previous years	<u>3,093</u>	<u>1,045</u>
	3,093	1,045
Foreign tax	<u>13,299</u>	<u>11,618</u>
Total current tax (see note below)	<u>16,392</u>	<u>12,663</u>
Deferred tax		
Origination and reversal of timing differences	<u>(8,937)</u>	<u>(944)</u>
Tax on profit on ordinary activities	<u>7,455</u>	<u>11,719</u>

The factors affecting the current tax charge for the year are noted below:

	2005	2004
	\$ 000	\$ 000
Profit on ordinary activities before tax	<u>159,891</u>	<u>114,073</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 30% (2004: 30%)	47,967	34,222
Effects of:		
Tax losses received by the group undertakings for no payment	(33,673)	(16,899)
Expenses not deductible for tax purposes	1,452	1,172
Deductible expenses, not included in profit before tax	(1,672)	-
Income not taxable	(222)	(4,151)
Timing differences relating to fixed assets	1,082	(170)
Timing differences relating to compensation and social security costs	196	(3,806)
Impact of foreign taxes	(1,831)	560
Movement in other timing differences	3,093	690
Adjustment to tax charge in respect of previous years	<u>-</u>	<u>1,045</u>
Current tax charge for year (see note above)	<u>16,392</u>	<u>12,663</u>

9. RESULTS OF MERRILL LYNCH INTERNATIONAL BANK LIMITED

As permitted by section 230(3) of the Companies Act 1985, the Company does not present its profit and loss account. The Company's profit for the year was \$104 million (2004: \$74 million).

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

10. ASSETS AND LIABILITIES DENOMINATED IN US DOLLARS AND OTHER CURRENCIES

	Group		Company	
	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Assets				
Denominated in US dollars	25,751,520	12,969,137	25,970,920	12,895,851
Denominated in other currencies	<u>8,459,951</u>	<u>8,881,431</u>	<u>4,879,756</u>	<u>6,340,639</u>
	<u>34,211,471</u>	<u>21,850,568</u>	<u>30,850,676</u>	<u>19,236,490</u>
Liabilities				
Denominated in US dollars	25,779,313	12,864,391	25,940,696	13,252,360
Denominated in other currencies	<u>8,432,158</u>	<u>8,986,177</u>	<u>4,909,980</u>	<u>5,984,130</u>
	<u>34,211,471</u>	<u>21,850,568</u>	<u>30,850,676</u>	<u>19,236,490</u>

11. LOANS AND ADVANCES

	Group		Company	
	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
<u>Loans and advances to banks</u>				
Remaining maturity:				
- over 5 years	-	13,525	-	13,771
- 5 years or less but over 1 year	-	-	97,059	40,633
- 1 year or less but over 3 months	62,384	157,421	326,145	389,689
- 3 months or less excluding on demand	<u>1,734,849</u>	<u>2,738,053</u>	<u>2,142,501</u>	<u>2,897,486</u>
	<u>1,797,233</u>	<u>2,908,999</u>	<u>2,565,705</u>	<u>3,341,579</u>
Amounts include due from subsidiary undertakings			<u>820,611</u>	<u>518,987</u>
<u>Loans and advances to customers</u>				
Repayable on demand	914,685	325,027	918,079	103,852
Remaining maturity:				
- over 5 years	4,213,102	2,402,221	1,890,731	801,934
- 5 years or less but over 1 year	1,700,410	239,084	1,594,516	198,178
- 1 year or less but over 3 months	1,477,266	1,581,901	1,201,408	1,237,758
- 3 months or less excluding on demand	<u>8,823,422</u>	<u>6,925,497</u>	<u>7,785,837</u>	<u>6,409,935</u>
Specific bad and doubtful debt provisions (see note 7)	<u>(26,849)</u>	<u>(10,896)</u>	<u>(12,106)</u>	<u>(10,348)</u>
	<u>17,102,036</u>	<u>11,462,834</u>	<u>13,378,465</u>	<u>8,741,309</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

12. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION

Loans and advances to customers include mortgage loans which are subject to non-recourse finance arrangements. These loans have been sold to special purpose securitisation companies, Mortgages No. 3 Plc, Mortgages No. 4 Plc, Mortgages No. 5 Plc, Mortgages No. 6 Plc and Mortgages No. 7 Plc, which are ultimately beneficially owned by charitable trusts, and have been funded primarily through the issue of floating rate notes. No gain or loss has been recognised as a result of these sales. The special purpose securitisation companies are consolidated as legal subsidiaries under FRS2 and the Companies Act 1985.

Holders of the floating rate notes are only entitled to obtain payment of principal and interest to the extent that the resources of the securitisation companies are sufficient to support such payments, and the holders of the floating rate notes have no recourse in any other form. The priority and amount of claims on the proceeds generated by the assets are determined in accordance with a strict priority of payments.

The Group is entitled to receive payment of deferred consideration for the sale of the mortgage loans. As part of the deferred consideration, the Group is entitled to receive any residual amounts less a predetermined amount of the outstanding principal on the floating rate notes on each interest determination date. The Group is also entitled to receive mortgage redemption penalty interest on the securitised loans.

The Group has no obligation or intention to repurchase the benefit of any securitised loan except if certain representations and warranties given by the Group at the time of transfer are breached. The Group also has no obligation or intention to financially support any of the securitisation companies and does not intend to do so.

The special purpose securitisation companies are as follows:

Group

Securitisation Company	Date of Securitisation	Gross Assets Securitised \$ 000	Non-recourse finance \$ 000
Mortgages No 3 Plc	27th November 2001/25th January 2002	57,632	60,680
Mortgages No 4 Plc	28th November 2002/28th February 2003	82,617	91,895
Mortgages No 5 Plc	8th July 2003/31st July 2003	157,416	161,051
Mortgages No 6 Plc	7th December 2004/8th December 2004	763,875	779,020
Mortgages No 7 Plc	8th August 2005/3rd October 2005	<u>1,258,396</u>	<u>1,206,405</u>
		<u>2,319,936</u>	<u>2,299,051</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

13. DEBT SECURITIES

	Book Value 2005 \$ 000	Market Value 2005 \$ 000	Book Value 2004 \$ 000	Market Value 2004 \$ 000
Group				
Listed: Government securities	6,107	6,282	1,483,212	1,487,131
Unlisted securities:				
Bank and Building Society Certificates of Deposit	2,686,540	2,686,540	1,805,018	1,805,018
Hedge Funds	1,183	1,207	-	-
Corporate bonds	13,745	13,781	19,575	19,575
	<u>2,707,575</u>	<u>2,707,810</u>	<u>3,307,805</u>	<u>3,311,724</u>
Maturity				
Due within one year	2,691,767	2,694,029	3,291,997	3,292,149
Due one year and over	15,808	13,781	15,808	19,575
	<u>2,707,575</u>	<u>2,707,810</u>	<u>3,307,805</u>	<u>3,311,724</u>
Company				
Listed: Government securities	-	-	1,483,212	1,487,131
Unlisted securities:				
Bank and Building Society Certificates of Deposit	2,686,540	2,686,540	1,805,018	1,805,018
Hedge Funds	1,183	1,207	-	-
Corporate bonds	-	-	7,732	7,732
	<u>2,687,723</u>	<u>2,687,747</u>	<u>3,295,962</u>	<u>3,299,881</u>
Maturity				
Due within one year	2,687,723	2,687,747	3,288,230	3,292,149
Due one year and over	-	-	7,732	7,732
	<u>2,687,723</u>	<u>2,687,747</u>	<u>3,295,962</u>	<u>3,299,881</u>

The Company does not trade debt securities. All instruments are held for investment.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

14. INTANGIBLE FIXED ASSETS

Group

Goodwill	\$ 000
Cost	
At start of year	121,558
Exchange translation	<u>(12,461)</u>
At end of year	<u>109,097</u>
Amortisation	
At start of year	7,552
Charge for the year	5,302
Exchange translation	<u>(281)</u>
At end of year	<u>12,573</u>
Net Book Value	
At end of year	<u>96,524</u>
At start of year	<u>114,006</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)

15. TANGIBLE FIXED ASSETS

	Motor Vehicles	Computer Equipment	Fixtures & Fittings	Total
Group	\$ 000	\$ 000	\$ 000	\$ 000
Cost				
At start of year	232	25,405	25,071	50,708
Additions	3	1,423	2,501	3,927
Disposals	(4)	(288)	(521)	(813)
Exchange translation	(4)	(2,504)	(1,474)	(3,982)
At end of year	<u>227</u>	<u>24,036</u>	<u>25,577</u>	<u>49,840</u>
Depreciation				
At start of year	40	23,272	19,169	42,481
Disposals	(4)	(286)	(64)	(354)
Charge for the year	66	1,349	2,097	3,512
Exchange translation	(3)	(2,196)	(1,066)	(3,265)
At end of year	<u>99</u>	<u>22,139</u>	<u>20,136</u>	<u>42,374</u>
Net book value				
At end of year	<u>128</u>	<u>1,897</u>	<u>5,441</u>	<u>7,466</u>
At start of year	<u>192</u>	<u>2,133</u>	<u>5,902</u>	<u>8,227</u>
Company				
Cost				
At start of year	206	8,546	15,274	24,026
Additions	3	983	636	1,622
Disposals	(4)	(288)	(64)	(356)
Exchange translation	-	(357)	(163)	(520)
At end of year	<u>205</u>	<u>8,884</u>	<u>15,683</u>	<u>24,772</u>
Depreciation				
At start of year	15	8,202	13,526	21,743
Disposals	(4)	(286)	(64)	(354)
Charge for the year	66	320	665	1,051
Exchange translation	-	(412)	(205)	(617)
At end of year	<u>77</u>	<u>7,824</u>	<u>13,922</u>	<u>21,823</u>
Net book value				
At end of year	<u>128</u>	<u>1,060</u>	<u>1,761</u>	<u>2,949</u>
At start of year	<u>191</u>	<u>344</u>	<u>1,748</u>	<u>2,283</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

16. DEPOSITS AND CUSTOMER ACCOUNTS

	Group		Company	
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
<u>Deposits by banks</u>				
Repayable on demand	386,412	214,837	355,677	149,014
With agreed maturity dates or periods of notice by remaining maturity:				
- 1 year or less but over 3 months	410,774	30,895	460,774	896
- 3 months or less but not repayable on demand	<u>604,562</u>	<u>565,285</u>	<u>612,636</u>	<u>659,690</u>
	<u><u>1,401,748</u></u>	<u><u>811,017</u></u>	<u><u>1,429,087</u></u>	<u><u>809,600</u></u>
Amounts include above due to subsidiary undertakings			<u><u>58,074</u></u>	<u><u>119,406</u></u>
<u>Customer accounts</u>				
Repayable on demand	3,784,871	3,291,291	3,391,938	2,850,185
With agreed maturity dates or periods of notice by remaining maturity:				
- over 5 years	2,000	-	2,000	-
- 5 years or less but over 1 year	33,565	20,311	33,565	20,311
- 1 year or less but over 3 months	358,025	340,313	543,608	340,313
- 3 months or less but not repayable on demand	<u>11,287,313</u>	<u>8,096,038</u>	<u>11,260,895</u>	<u>8,096,038</u>
	<u><u>15,465,774</u></u>	<u><u>11,747,953</u></u>	<u><u>15,232,006</u></u>	<u><u>11,306,847</u></u>
Amounts include above due to subsidiary undertakings			<u><u>185,584</u></u>	<u><u>-</u></u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

17. DEFERRED TAXATION

	<u>2005</u>	<u>2004</u>
Company	\$ 000	\$ 000
Accelerated capital allowances	1,813	1,674
Timing differences relating to compensation and social security costs	7,163	6,356
Timing differences in relation to interest	7,913	5,193
Other timing differences	<u>7,964</u>	<u>3,406</u>
	<u><u>24,853</u></u>	<u><u>16,629</u></u>
Group		
Timing differences relating to compensation and social security costs	1,063	1,235
Other timing differences	<u>(15,245)</u>	<u>(19,069)</u>
	<u><u>10,671</u></u>	<u><u>(1,205)</u></u>

Movement on deferred taxation:

Company		
Balance at start of year	16,629	15,698
Deferred tax charge in profit and loss account relating to current year	(590)	(4,037)
Adjustment in respect of previous years	<u>8,814</u>	<u>4,968</u>
	<u><u>24,853</u></u>	<u><u>16,629</u></u>
Group		
Provision at start of year	(1,205)	(104)
Deferred tax charge in profit and loss account relating to current year	(971)	(4,023)
Adjustment in respect of previous years	9,908	4,967
Acquisition of subsidiary	-	(163)
Foreign exchange differences	<u>2,939</u>	<u>(1,882)</u>
	<u><u>10,671</u></u>	<u><u>(1,205)</u></u>

The amount of deferred tax unprovided by the Group for the year ended 30th December 2005 was \$nil (2004: \$2 million). The amount of deferred tax unprovided by the Company for the year ended 30th December 2005 was \$nil (2004: \$2 million).

Management is of the opinion that it is more likely than not that the Company and the Group will be able to generate future taxable income to recover the deferred tax asset recognised at the balance sheet date, having considered historic performance.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

18. NON-RECOURSE FINANCE

	Group	
	2005	2004
	\$ 000	\$ 000
Mortgage backed floating rate notes:		
Remaining maturity - over 5 years	<u>2,299,051</u>	<u>1,561,018</u>

19. SUBORDINATED LIABILITIES INCLUDING CONVERTIBLE DEBT

		2005	2004
		\$ 000	\$ 000
Group and company			
Dated loan capital			
2nd November 2010	Drawdown on loan facility of \$600,000,000 bearing interest at 100 basis points above 1 month USD LIBOR	560,000	560,000
28th February 2011	Drawdown on loan facility of \$150,000,000 bearing interest at 100 basis points above 1 month USD LIBOR	150,000	-
To be agreed in writing with a minimum of 2 years and one day as maturity	Drawdown on loan facility of \$650,000,000 bearing interest at 100 basis points above 1 month USD LIBOR	610,000	160,000
To be agreed in writing with a minimum of 2 years and one day as maturity	Drawdown on loan facility of \$150,000,000 bearing interest at 100 basis points above 1 month USD LIBOR	<u>150,000</u>	<u>-</u>
		<u>1,470,000</u>	<u>720,000</u>
Convertible dated loan capital			
31st December 2042	Drawdown on loan facility of \$150,000,000 bearing interest at USD LIBOR, mandatorily convertible into non-cumulative preference shares of par value \$1 each at maturity	-	149,555
		<u>1,470,000</u>	<u>869,555</u>

Subordinated liabilities including convertible debt securities in issue are repayable as follows:

	2005	2004
	\$ 000	\$ 000
Group and Company		
In 1 year or less	-	160,000
Between 2 and 5 years	760,000	-
In more than 5 years	<u>710,000</u>	<u>709,555</u>
	<u>1,470,000</u>	<u>869,555</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

19. SUBORDINATED LIABILITIES INCLUDING CONVERTIBLE DEBT (Continued)

On 23rd November 2005 the Company redeemed the \$149,555,000 convertible note by the issuance of 28,577,000 ordinary shares of \$1 each to Merrill Lynch International Finance Corporation at a premium of \$120,978,000 (see note 20).

Claims in respect of the Group's loan capital are subordinated to the claims of other creditors. None of the Group's capital is secured.

20. CALLED UP SHARE CAPITAL

	Authorised 2005 No.	Authorised 2004 No.	Called up, issued and fully paid 2005 \$ 000	Called up, issued and fully paid 2004 \$ 000
Ordinary shares of \$1 each	500,000,000	500,000,000	328,012	299,435
Non-cumulative preference shares of \$10 each	<u>50,000,000</u>	<u>50,000,000</u>	<u>250,000</u>	<u>250,000</u>
	<u>550,000,000</u>	<u>550,000,000</u>	<u>578,012</u>	<u>549,435</u>

On 23rd November 2005 the Company issued 28,577,000 ordinary shares of \$1 each to Merrill Lynch International Finance Corporation at a premium of \$120,978,000 (see note 19).

The preference shares are non-redeemable. On a return of capital on winding-up the holders of the preference shares shall be entitled in priority to holders of any other class of shares, to the repayment of a sum equal to the nominal capital paid up or credited as paid up together with a sum equal to all declared but unpaid preferential dividends.

The holders of the preference shares are entitled to dividends of one percent over LIBOR on the nominal capital. Any accrued preferential dividend that remains undeclared or unpaid at the end of the respective calendar year, shall not carry forward to the following calendar year and the holder of the preference shares shall have no right to demand payment of such amounts.

The holder of the non-cumulative preference shares has the right to attend, speak and vote at a general meeting of the Company only if a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the preference shares, or for the winding up of the Company, or for sanctioning the sale of the Company in which case they shall only be entitled to vote on such resolution.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

**21. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND
STATEMENT OF MOVEMENTS IN RESERVES**

	Share Capital \$ 000	Convertible Debt \$ 000	Share Premium \$ 000	Capital Contribution \$ 000	Profit and Loss Account \$ 000	Total 2005 \$ 000	Total 2004 \$ 000
Group							
At start of year	549,435	-	156	325,000	883,001	1,757,592	1,357,725
FRS 25 transfer	-	149,555	-	-	-	149,555	-
Redemption	-	(149,555)	-	-	-	(149,555)	-
Issue of new shares	28,577	-	120,978	-	-	149,555	250,000
Profit for the year	-	-	-	-	146,862	146,862	102,354
Translation adjustment	-	-	-	-	(76,073)	(76,073)	47,513
At end of year	<u>578,012</u>	<u>-</u>	<u>121,134</u>	<u>325,000</u>	<u>953,790</u>	<u>1,977,936</u>	<u>1,757,592</u>
Company							
At start of year	549,435	-	156	325,000	478,176	1,352,767	1,028,417
FRS 25 transfer	-	149,555	-	-	-	149,555	-
Redemption	-	(149,555)	-	-	-	(149,555)	-
Issue of new shares	28,577	-	120,978	-	-	149,555	250,000
Profit for the year	-	-	-	-	104,300	104,300	73,643
Translation adjustment	-	-	-	-	-	-	707
At end of year	<u>578,012</u>	<u>-</u>	<u>121,134</u>	<u>325,000</u>	<u>582,476</u>	<u>1,606,622</u>	<u>1,352,767</u>

Under Financial Reporting Standard No. 25 - Financial Instruments the Company's convertible debt which was redeemed on 23rd November 2005 meets the definition of equity.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

22. MEMORANDUM ITEMS

	Contract amount 2005 <u>\$ 000</u>	Risk weighted amount 2005 <u>\$ 000</u>	Contract amount 2004 <u>\$ 000</u>	Risk weighted amount 2004 <u>\$ 000</u>
Group				
Contingent liabilities				
Guarantees and irrevocable letters of credit	397,057	389,787	363,436	301,873
Assets pledged as collateral security	<u>2,036</u>	<u>-</u>	<u>1,485,579</u>	<u>148,321</u>
Total contingent liabilities	<u><u>399,093</u></u>	<u><u>389,787</u></u>	<u><u>1,849,015</u></u>	<u><u>450,194</u></u>
Commitments				
Forward deposits placed	722,686	-	391,354	-
Undrawn formal standby facilities, credit lines and other commitments to lend:				
- one year and over	1,028,567	368,738	661,837	109,648
- less than 1 year	<u>15,788,643</u>	<u>-</u>	<u>15,476,156</u>	<u>-</u>
Total commitments	<u><u>17,539,896</u></u>	<u><u>368,738</u></u>	<u><u>16,529,347</u></u>	<u><u>109,648</u></u>
Total memorandum items	<u><u>17,938,989</u></u>	<u><u>758,525</u></u>	<u><u>18,378,362</u></u>	<u><u>559,842</u></u>
Company				
Contingent liabilities				
Guarantees and irrevocable letters of credit	328,411	327,305	251,387	251,207
Assets pledged as collateral security	<u>-</u>	<u>-</u>	<u>1,483,213</u>	<u>148,321</u>
Total contingent liabilities	<u><u>328,411</u></u>	<u><u>327,305</u></u>	<u><u>1,734,600</u></u>	<u><u>399,528</u></u>
Commitments				
Forward deposits placed	793,467	-	423,351	-
Undrawn formal standby facilities, credit lines and other commitments to lend:				
- one year and over	1,028,567	368,739	661,837	109,648
- less than 1 year	<u>15,788,643</u>	<u>-</u>	<u>15,476,156</u>	<u>-</u>
Total commitments	<u><u>17,610,677</u></u>	<u><u>368,739</u></u>	<u><u>16,561,344</u></u>	<u><u>109,648</u></u>
Total memorandum items	<u><u>17,939,088</u></u>	<u><u>696,044</u></u>	<u><u>18,295,944</u></u>	<u><u>509,176</u></u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Financial instruments are dealt with in both the trading book and non-trading book of the Group. Both trading book and non-trading book activities may expose the Group to various categories of risk. These risks are continually monitored through a comprehensive risk management process. The proper execution of this process leads to effective management of these risks, helping to reduce the likelihood of earnings volatility over time.

The Group, through the operation of its Risk Oversight Committee, monitors and controls all elements of risk within the Group, working in conjunction with the Merrill Lynch & Co., Inc., Corporate Risk Management Group. This Committee reviews reports from the Group's existing Credit, Asset & Liability, Process Risk and Compliance & Regulatory Committees. These Committees identify and monitor risk limits based on recommendations and analysis provided by independent risk management groups who work with the business units in establishing suitable risk profiles for each of the business units.

The initial responsibility in the risk management process rests with the individual business units in managing the risks that arise on individual transactions or portfolios of similar transactions. Business units manage these risks by adhering to established risk policies and procedures.

In addition to risk management at the business unit level, the Group has developed corporate governance policies and procedures that require corporate personnel, who are independent of business units, to participate in the risk management process. The primary independent groups responsible for the maintenance of risk policies and procedures and for establishing, controlling and monitoring risk are Market Risk Management and Credit Risk Management. To ensure a proper system of checks and balances, these units are independent of business units and are accountable to senior management in the Group.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

The Group seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. The Group uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Group.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact on the value of financial instruments. The Group's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than fifty currencies, including the Euro, Japanese Yen, Swiss Franc, and Sterling. Currency forwards and options are commonly used to manage currency risk associated with these instruments.

Credit Risk

The Group is exposed to risk of loss if an issuer, counterparty or country fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Group to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market risk section.

The Group has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

Liquidity Risk

Liquidity relates to the ability of a company to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Liquidity risk is particularly important for financial services firms and includes both the potential inability to raise funding with appropriate maturity and interest rate characteristics as well as the inability to liquidate an asset in a timely manner at a reasonable price.

The following tables show the contractual re-pricing terms for each category of asset and liability, together with management's estimate of the interest rate sensitivity gap for the Group's non-trading book as at 30th December 2005 and 31st December 2004. Contractual re-pricing terms do not reflect the potential impact of early repayment or withdrawal. Major changes in position can be made promptly as market outlooks change. In addition, significant variations in interest rate sensitivity may exist within the re-pricing periods presented and among the currencies in which the Group has interest rate positions.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

(a) Interest rate sensitivity gap as at 30th December 2005

	Within 3 months \$ 000	After 3 months but within 6 months \$ 000	After 6 months but within 1 year \$ 000	After 1 year but within 5 years \$ 000	After 5 years \$ 000	Non-interest bearing and trading book items \$ 000	Total \$ 000
Assets							
Cash and balances at central banks	483,141	-	-	-	500	298,259	781,900
Loans and advances to banks	1,736,603	58,976	1,654	-	-	-	1,797,233
Loans and advances to customers	14,458,162	568,081	471,861	1,187,082	416,850	-	17,102,036
Debt securities	1,167,548	463,830	1,071,035	3,979	-	1,183	2,707,575
Trading Assets	-	-	-	-	-	11,215,554	11,215,554
Intangible fixed assets	-	-	-	-	-	96,524	96,524
Tangible fixed assets	-	-	-	-	-	7,466	7,466
Other assets	-	-	-	-	-	328,310	328,310
Prepayments and accrued income	-	-	-	-	-	164,202	164,202
Deferred taxation	-	-	-	-	-	10,671	10,671
Total assets	17,845,454	1,090,887	1,544,550	1,191,061	417,350	12,122,169	34,211,471
Liabilities							
Deposits by banks	1,370,031	-	-	-	-	31,717	1,401,748
Customer accounts	14,113,768	537,173	370,551	33,565	2,000	408,717	15,465,774
Non-recourse finance	2,299,051	-	-	-	-	-	2,299,051
Trading Liabilities	-	-	-	-	-	10,336,193	10,336,193
Other liabilities	-	-	-	-	-	965,150	965,150
Taxation	-	-	-	-	-	10,863	10,863
Accruals and deferred income	-	-	-	-	-	284,756	284,756
Subordinated liabilities including convertible debt	1,470,000	-	-	-	-	-	1,470,000
Shareholder's funds	-	-	-	-	-	1,727,936	1,727,936
Non-equity shareholder's funds	-	-	-	-	-	250,000	250,000
Total liabilities	19,252,850	537,173	370,551	33,565	2,000	14,015,332	34,211,471
Derivatives affecting interest rate sensitivity	1,280,910	21,005	(11,000)	(872,085)	(418,830)	-	-
Interest rate sensitivity gap	6,407	574,719	1,162,999	285,411	(3,480)	(2,026,056)	-
Cumulative interest rate sensitivity gap	6,407	581,126	1,744,125	2,029,536	2,026,056	-	-

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

(b) Interest rate sensitivity gap as at 31st December 2004

	Within 3 months \$ 000	After 3 months but within 6 months \$ 000	After 6 months but within 1 year \$ 000	After 1 year but within 5 years \$ 000	After 5 years \$ 000	Non-interest bearing and trading book items \$ 000	Total \$ 000
Assets							
Cash and balances at central banks	224,650	-	-	-	-	184,379	409,029
Loans and advances to banks	2,751,577	157,422	-	-	-	-	2,908,999
Loans and advances to customers	9,312,095	804,865	776,918	513,342	55,614	-	11,462,834
Debt securities	1,934,290	186,485	1,167,488	19,542	-	-	3,307,805
Intangible fixed assets	-	-	-	-	-	114,006	114,006
Tangible fixed assets	-	-	-	-	-	8,227	8,227
Other assets	-	-	-	-	-	418,864	418,864
Prepayments and accrued income	-	-	-	-	-	3,220,804	3,220,804
Total assets	<u>14,222,612</u>	<u>1,148,772</u>	<u>1,944,406</u>	<u>532,884</u>	<u>55,614</u>	<u>3,946,280</u>	<u>21,850,568</u>
Liabilities							
Deposits by banks	780,123	20,626	10,268	-	-	-	811,017
Customer accounts	11,357,834	224,185	116,127	18,311	2,000	29,496	11,747,953
Non-recourse finance	1,561,018	-	-	-	-	-	1,561,018
Other liabilities	-	-	-	-	-	735,674	735,674
Taxation	-	-	-	-	-	10,012	10,012
Accruals and deferred income	-	-	-	-	-	4,356,542	4,356,542
Deferred taxation	-	-	-	-	-	1,205	1,205
Subordinated liabilities including convertible debt	720,000	149,555	-	-	-	-	869,555
Shareholder's funds	-	-	-	-	-	1,507,592	1,507,592
Non-equity shareholder's funds	-	-	-	-	-	250,000	250,000
Total liabilities	<u>14,418,975</u>	<u>394,366</u>	<u>126,395</u>	<u>18,311</u>	<u>2,000</u>	<u>6,890,521</u>	<u>21,850,568</u>
Derivatives affecting interest rate sensitivity	<u>592,911</u>	<u>(16,743)</u>	<u>(47,084)</u>	<u>(473,470)</u>	<u>(55,614)</u>	<u>-</u>	<u>-</u>
Interest rate sensitivity gap	<u>396,548</u>	<u>737,663</u>	<u>1,770,927</u>	<u>41,103</u>	<u>(2,000)</u>	<u>(2,944,241)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>396,548</u>	<u>1,134,211</u>	<u>2,905,138</u>	<u>2,946,241</u>	<u>2,994,241</u>	<u>-</u>	<u>-</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

Currency Risk

Since the Group prepares its consolidated financial statements in US Dollars, the consolidated balance sheet is affected by the structural currency exposures arising on movements in exchange rates between US Dollars and the operating currencies of the overseas entities. The Group's net assets in non-functional currency overseas operations were:

Functional currency of the operation involved:

	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Swiss Franc	373,679	414,041
Sterling	142,884	131,326
Euro	(4,652)	7,437
Bahraini Dinar	<u>7,112</u>	<u>6,689</u>
	<u>519,023</u>	<u>559,493</u>

Transactional currency exposures are non-structural currency exposures, which arise on the monetary assets and monetary liabilities of the Group that are not denominated in the base currency of the operating unit involved. The transactional currency exposures arising from the Group's non-trading book were not material.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

Fair value of Financial Instruments

The term financial instruments includes financial assets, financial liabilities and derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Quoted market prices are used where available; otherwise management estimates fair value based upon quoted market prices of financial instruments with similar characteristics.

	Note	2005			2004		
		Notional /	Positive	Negative	Notional /	Positive	Negative
		principal	fair values	fair values	principal	fair values	fair values
		\$ million	\$ million	\$ million	\$ million	\$ million	
Non-trading book (a)							
Interest rate and foreign							
exchange swaps		4,901	12	18	1,872	8	3
Debt securities		2,712	2,708	-	3,308	3,312	-
Other financial assets	(b)	20,181	20,181	-	13,701	13,701	-
Other financial liabilities	(a)	21,897	-	21,897	14,366	-	14,366
Trading book (c) & (d)							
Foreign exchange derivatives:							
Forward foreign exchange		922,292	7,961	7,530	13,940	2,501	2,788
Currency futures		-	-	-	10,660	-	-
Currency options		354,178	1,751	1,679	26,270	1,820	2,106
		<u>1,276,470</u>	<u>9,712</u>	<u>9,209</u>	<u>50,870</u>	<u>4,321</u>	<u>4,894</u>
Interest rate derivatives:							
Interest rate swaps		406,450	1,495	1,106	296,357	781	1,387
Forward rate agreements		235,771	8	21	9,800	32	33
		<u>642,221</u>	<u>1,503</u>	<u>1,127</u>	<u>306,157</u>	<u>813</u>	<u>1,420</u>

Notes

- (a) Non-trading book fair values are determined by market prices where available; otherwise management estimates fair value based upon quoted market prices of financial instruments with similar characteristics.
- (b) Balance sheet values approximate to fair values.
- (c) Trading book financial instruments are held at market value.
- (d) All off-balance sheet contracts or underlying principal amounts are shown net.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH DECEMBER 2005 (Continued)**

23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (Continued)

The Group's gains and losses included in the profit and loss account in relation to financial instruments held at fair value analysed by financial instrument category are as follows:

	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000
Foreign exchange derivatives	256,942	210,576
Interest rate derivatives	<u>(26,526)</u>	<u>(1,201)</u>
	<u>230,416</u>	<u>209,375</u>

24. AMOUNTS DUE TO AND FROM OTHER MERRILL LYNCH COMPANIES

Amounts due to and from the ultimate parent company, Merrill Lynch & Co., Inc., and its subsidiaries are included as follows:

	Group		Company	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	\$ 000	\$ 000	\$ 000	\$ 000
Assets				
Loans and advances to banks	35,290	70,106	855,901	589,092
Loans and advances to customers	5,189,075	2,588,187	5,181,495	2,607,545
Trading assets	992,902	181,375	976,368	138,863
Other assets	215,211	73,219	340,919	41,833
Prepayments and accrued income	<u>13,187</u>	<u>2,126</u>	<u>13,187</u>	<u>4,623</u>
	<u>6,445,665</u>	<u>2,915,013</u>	<u>7,367,870</u>	<u>3,381,956</u>
Liabilities				
Deposits by banks	259,334	104,867	317,408	194,273
Customer accounts	251,192	590,224	436,774	590,224
Trading Liabilities	223,074	602,506	202,615	584,180
Other liabilities	694,885	231,214	495,404	218,347
Accruals and deferred income	15,251	2,060	15,251	2,076
Subordinated liabilities	<u>1,470,000</u>	<u>869,555</u>	<u>1,470,000</u>	<u>869,555</u>
	<u>2,913,736</u>	<u>2,400,426</u>	<u>2,937,452</u>	<u>2,458,655</u>

25. SHARES IN GROUP UNDERTAKINGS

The movement in shares in Group undertakings was as follows:

Company	\$ 000
Cost	
At start and end of year	<u>153,531</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

25. SHARES IN GROUP UNDERTAKINGS (Continued)

The principal subsidiaries (held indirectly unless marked *) in the Group are as follows:

Company	Principal Activity	Country of Incorporation	Proportion of Ordinary shares held
Merrill Lynch Bank (Suisse) SA*	Private client banking services	Switzerland	100%
MLB(S) Fund Management SA	Fund management	Switzerland	100%
Mership Nominees Limited*	Nominee company	United Kingdom	100%
Majestic Acquisitions Limited*	Holding company	United Kingdom	100%
Mortgage Holdings Limited	Holding company	United Kingdom	100%
Mortgages plc	Managing company	United Kingdom	100%
Mortgages 1 Limited	Residential lending	United Kingdom	100%
Mortgages 2 Limited	Residential lending	United Kingdom	100%
Mortgages 3 Limited	Residential lending	United Kingdom	100%
Mortgages 4 Limited	Residential lending	United Kingdom	100%
Mortgages 5 Limited	Residential lending	United Kingdom	100%
Mortgages 6 Limited	Residential lending	United Kingdom	100%
Mortgages 7 Limited	Residential lending	United Kingdom	100%
Mortgages DACS Limited	Acquiring investments	United Kingdom	100%
Mortgages No. 2 (DACs) Limited	Acquiring investments	United Kingdom	100%
Mortgages No. 3 (DACs) Limited	Acquiring investments	United Kingdom	100%
Mortgages No. 4 (DACs) Limited	Acquiring investments	United Kingdom	100%
Mortgages No. 5 (DACs) Limited	Acquiring investments	United Kingdom	100%
Mortgages No. 6 Plc	Securitisation Vehicle	United Kingdom	0%
Mortgages No. 7 Plc	Securitisation Vehicle	United Kingdom	0%
WOW! Mortgages & Loans Limited	Mortgage broker	United Kingdom	50%

Mortgages No. 6 Plc and Mortgages No. 7 Plc are not owned by the Group but their results are consolidated, as they meet the definition of legal subsidiaries under FRS 2 and the Companies Act 1985.

The holding in WOW! Mortgages & Loans Limited has 50% of the voting rights.

26. POST BALANCE SHEET EVENTS

On 3rd January 2006 the Company increased the authorised share capital to 2,000,000,000 ordinary shares of \$1 each. On 11th January 2006 the Company issued 28,663,000 ordinary shares of \$1 each to Merrill Lynch International Finance Corporation at a premium of \$121,337,000.

MERRILL LYNCH INTERNATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH DECEMBER 2005 (Continued)

27. ULTIMATE PARENT COMPANY

The Company's ultimate parent company and controlling party is Merrill Lynch & Co., Inc., a company incorporated in the state of Delaware, in the United States of America. The parent company of the largest group that includes the Company and for which group accounts are prepared is Merrill Lynch & Co., Inc. The parent undertaking of the smallest group, including the Company, which prepares group accounts is Merrill Lynch International Finance Corporation, a company incorporated in the state of New York, in the United States of America. Copies of the group financial statements of Merrill Lynch & Co., Inc. are available from the Investor Relations website at www.ir.ml.com. Copies of the group financial statements of Merrill Lynch & Co., Inc. are also available, as well as those of Merrill Lynch International Finance Corporation by contacting the Corporate Secretary by mail at 222 Broadway, 17th Floor, New York, NY 10038, USA or by email at corporate_secretary@ml.com. Copies of the Merrill Lynch International Bank Limited group financial statements are available from the Company Secretary, Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ.