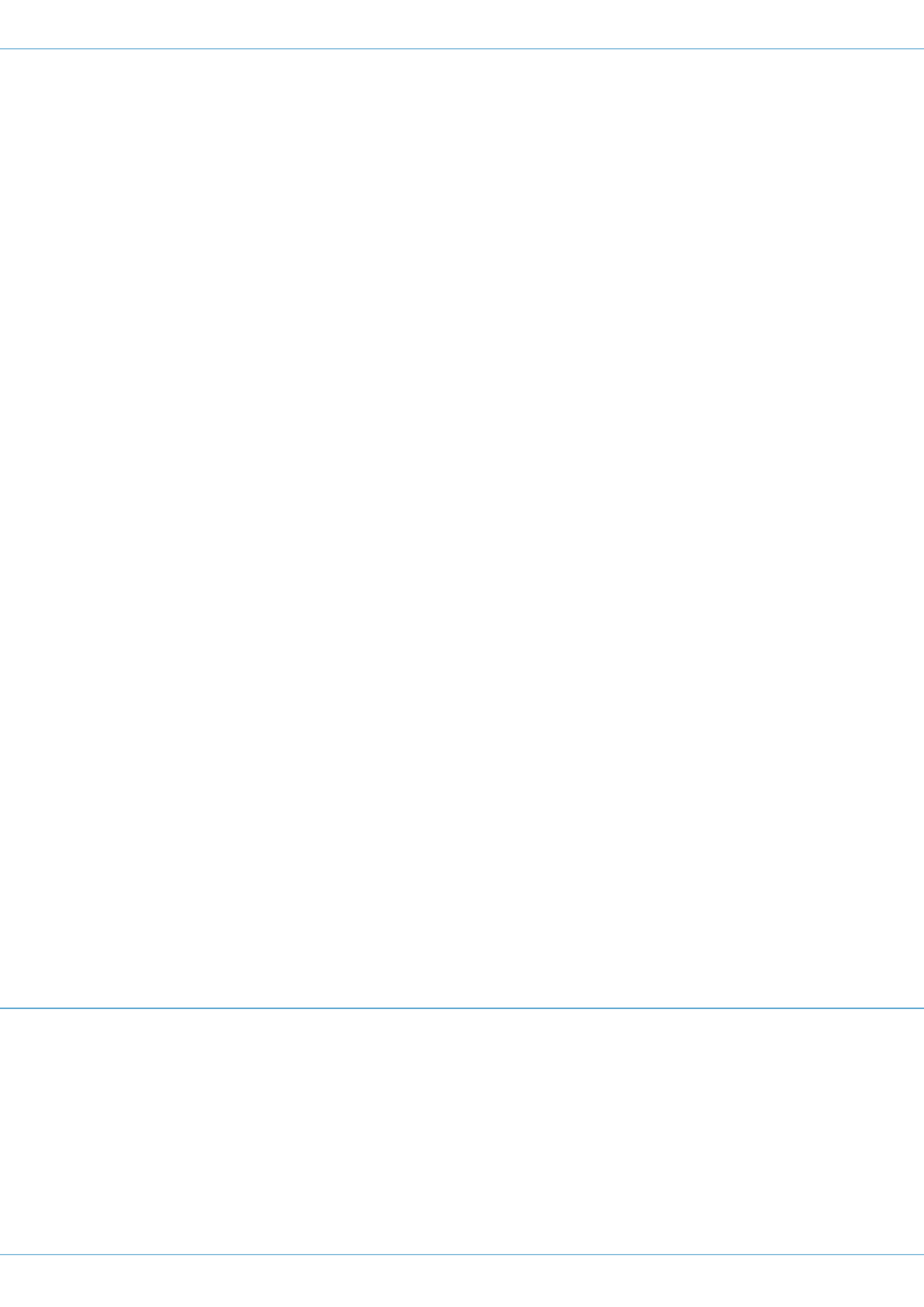


Results

# Bringing it all together

Merrill Lynch Capital Markets AG | 2005 Annual Report





Bringing together the industry's top talent, innovative products, global expertise, an array of new and growing capabilities and, most importantly, an unmatched commitment to our clients, Merrill Lynch delivered record performance in 2005. We enter 2006 stronger than ever before and more confident in our ability to grow our business and provide consistent, superior value to our shareholders and clients.



NEW YORK 04:17 LONDON 09:17 DUBLIN 10:17 HONG KONG 17:17



“ We are constantly evolving to provide the finest client service and meet the full breadth of our clients’ needs.”



## Dear Fellow Shareholders and Clients:

In 2005, Merrill Lynch began to bring together all of the investments and strategies that we have been developing over the last several years for the benefit of our shareholders and clients.

Our goal is simple – to build on our rich heritage of industry leadership and establish a foundation from which we can continue to invest for growth in revenues and profits while producing strong, consistent financial performance; attract and retain top talent; and, above all, add more value to every client relationship by meeting a broader array of client needs and innovating and executing winning strategies on their behalf.

So, how did we do last year?

We delivered:

- Net revenues of \$26.0 billion, up 18% from the \$22.1 billion the firm generated in 2004.
- Net earnings of \$5.1 billion, the highest the firm has ever reported, up 15% from \$4.4 billion in 2004.
- Record earnings per diluted share of \$5.16, an 18% increase over \$4.38 per share the prior year.
- Pre-tax margin of 27.8%, also a record level.
- Return on common equity (ROE) of 16.0%, up from 14.9% in 2004.
- A 25% increase in the quarterly dividend per common share.

Each of Merrill Lynch’s three businesses – Global Markets & Investment Banking (GMI), Global Private Client (GPC) and Merrill Lynch Investment Managers (MLIM) – generated record pre-tax earnings, and year-over-year growth in net revenues. Our focus on geographic diversity is also paying off. Non-U.S. net revenues and pre-tax earnings grew by more than double the rate of those from the U.S. with particularly strong performances from Europe and the Pacific Rim.

In these results, we are starting to see the culmination of a well defined plan to develop a portfolio of businesses that is able to compete and win across economic cycles and across a host of dimensions from client service to the metrics of our financial performance. There is still more work to be done, but I believe we are well on the way to achieving our goal.

## Global Access

The Global Markets and Investment Banking group capitalizes on Merrill Lynch's global presence and resources in 35 countries around the world, providing local market intelligence, product innovation, and leading scale positions in the capital markets to deliver value-added, complete solutions to our clients.

- Global Footprint – Merrill Lynch Operations in 35 Countries
- Member of approximately 70 Exchanges Around the World
- Global Research with Leading Rankings in All Regions
- 55'500 Employees
- Merrill Lynch Market Cap is currently \$75.7 Billion
- Total Assets in Client Accounts of \$1.7 Trillion

## Local Knowledge

Merrill Lynch's presence in Switzerland goes back to 1951 when it opens a sales office in Geneva. In 1987 Merrill Lynch Capital Markets AG begins trading in Zurich and in 1993 acquires bank status, leaving its name unchanged.

In Switzerland we have the following Merrill Lynch divisions:

**> Merrill Lynch Bank (Suisse) SA**

Private Banking

**> Merrill Lynch Investment Managers**

Fund Business

**> Merrill Lynch Capital Markets AG**

Institutional Business

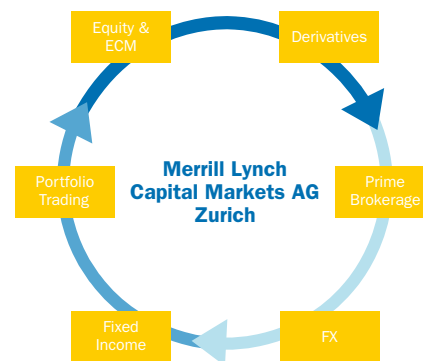
**> Merrill Lynch Derivative Products AG**

Institutional Business through a AAA+ related vehicle

## Merrill Lynch Capital Markets AG

Merrill Lynch is one of the world's premier Investment Banks. In Switzerland, this area of activity is covered by Merrill Lynch Capital Markets AG, through which clients gain access to specialized conception and structuring of bond and equity issues as well as related derivative products, either in Swiss francs or other currencies. Our local sales force offers unparalleled know-how and service to our clients.

“A unlimited range of solutions,  
a single point of contact.”



## Smart Solutions

At Merrill Lynch, we offer integrated solutions that draw on intellectual capital from across the entire firm. We find innovative answers from our bankers, traders, portfolio managers, financial advisors, research and more. The resources and capabilities of our other businesses provide us with a full range of information for all our institutional clients. By offering the resources of the entire firm we can provide seamless execution.

It's our local knowledge paired with our global presence that enables us to provide not just solutions, but customised “smart” solutions. This is just one example of how Merrill Lynch develops and delivers exceptional financial solutions for exceptional clients.

## One Stop Shop

Tap into the resources of GMI (Global Markets and Investment Banking) and you're tapping into the total resources of Merrill Lynch.

We believe in offering integrated solutions – drawing on intellectual capital from across the firm, finding innovative answers from our bankers, traders, portfolio managers and financial advisors. With the resources and capabilities of each of our businesses we are able to cover the full range of client needs. We can provide seamless execution by offering the resources of the entire firm to our clients. Every day, we connect issuers and investors in equity markets, debt markets and investment banking across five continents.

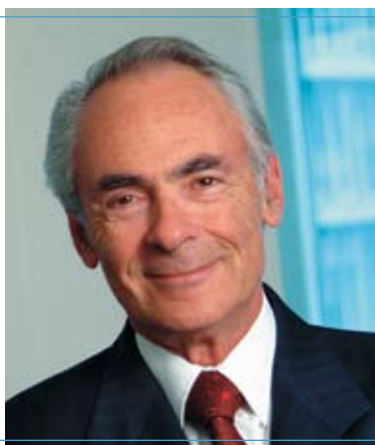


Three men in dark suits standing together, looking towards the left. They appear to be in a professional setting, possibly a bank or office lobby.

Two men in business attire standing at a counter or service desk. One man is leaning over the counter, possibly interacting with a staff member or another client.

A blurred image of a man in a suit walking through a glass-walled area, likely a modern office or public space. The background shows other people and office equipment.

A large, rectangular stone block with a textured, speckled surface. It appears to be a decorative element or a base for a structure in a modern architectural setting.



## Merrill Lynch Capital Markets AG Business Report 2005

“Merrill Lynch comes back from a record year. Yet again, full dedication to client needs has been key to our success” – “Stronger than ever, Merrill Lynch is committed to superior performance. In the Swiss market, and worldwide.”

2005 represented a validation of Merrill Lynch Group’s strategy, which we have been developing over the last several years for the benefit of our clients and shareholders.

Our goal has been simple-use our industry leadership and establish a foundation from which we can continue to invest for growth while producing strong financial performance. This was demonstrated by the record results achieved by the group, which showed that we are adding value to every client relationship by meeting a broader array of client needs and innovating and executing winning strategies on their behalf.

The performance and results of Merrill Lynch Capital Markets AG (“MLCM AG”) reflected not only the continued execution of this strategy, but also its position as a leading foreign bank in the Swiss market place. Swiss investors placed their confidence in the bank’s high quality advisory and financial service across all product classes. This in turn led to our equity and fixed income teams achieving performances that not only exceeded last year, but were the best in a number of years. The equity team achieved its best performance in three years, and for the fixed income team this was the fifth consecutive year of revenue growth. The performance by both teams indicates that Swiss investors are increasingly confident and allocating more investment in equity markets whilst fixed income, commodities and foreign exchange continue to be asset classes of choice, even in a rising interest rate environment.

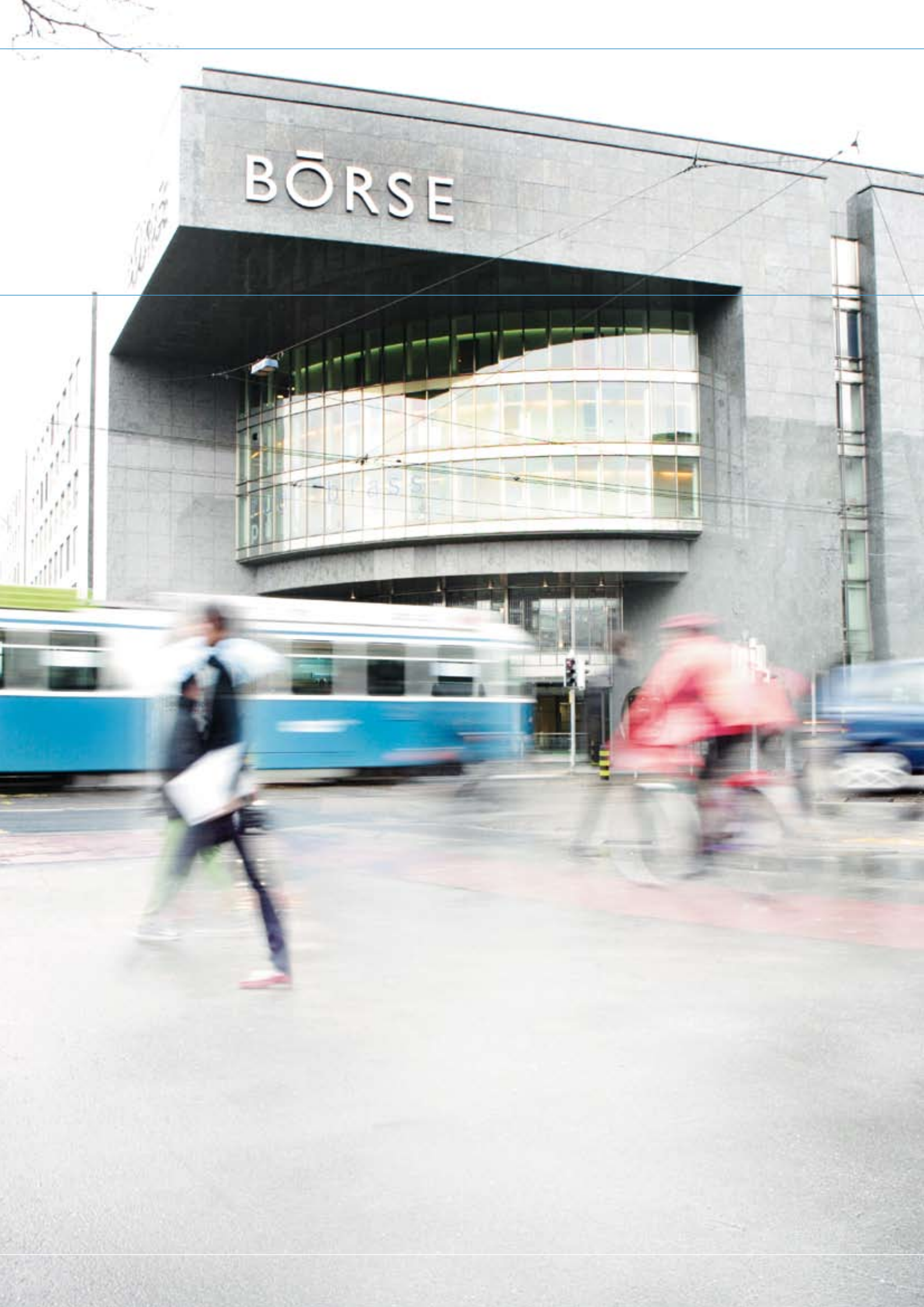
MLCM AG’s profit before extraordinary items and taxes of CHF 53.8 million in 2005 against CHF 27.5 million for 2004 reflects the effort of the Zurich team, and MLCM AG recorded a net income of CHF 51.9 million compared to CHF 29.7 million for 2004. The Switzerland franchise remains a key part of the group’s European strategy. It is our belief that the investment that MLCM AG (and Merrill Lynch Group) continue to make in its strategy will allow us to have the people, technology and infrastructure that will allow us to better serve our clients in their needs across all asset classes and in all prevailing financial market conditions. This combined with our excellent team spirit will allow us to continue to act as a “one stop shop” for the Swiss client base, offering the innovation and high quality service they expect.

The corner-stone of our performance are our employees, whose teamwork and effort have delivered results for the clients. We thank them for their efforts, and have confidence that their talents will continue to deliver and execute winning strategies for our Swiss clients.

Alfred Berger  
Chairman

Dominik Schärer  
CEO

BÖRSE





## Debt Markets Group

Merrill Lynch Capital Markets AG, Zurich continued to look after Swiss distribution of all non-Swiss franc denominated bonds. The small fixed income group compared well against others teams in industry surveys and it is particularly pleasing that the quality of service is mentioned specifically. The operative discipline and cost control have also resulted in a very solid bottom line. The per capita production is amongst the highest in the industry.

The trend in interest rates turned in 2005. After reaching new long term lows the continued tightening activity by the U.S. Federal Reserve started to affect the long end as well. European rates followed suit to a somewhat lesser extent. The Global Broad Market Index returned 3.42% for the year, U.S. 2.80%, Europe 5.37% and Switzerland 4.80%. Credit spread continued to add to performance but bonds generally underperformed equities.

Customer activity remained on very high levels across product sectors. Structured business has become a key contributor to our production in Switzerland. Other areas of very positive development were emerging markets and new issue activity in general. The local team managed to increase production yet again capturing a fair share of business in Switzerland. Merrill Lynch has established itself a key provider of debt product in Switzerland.

The new operating structure in London has brought instant results and many businesses there managed to return record profits. This is particularly surprising given the flatness of the yield curve. It is also satisfying to report that all of the sales team have now completed five years of service with the 'Bulls' and are well established both internally and externally.

Fixed Income has had an excellent run and the team is very much looking forward to the challenges lying ahead.

Jurg Risch  
Head of Fixed Income





“ Through inventive capital markets solutions, high-quality execution, superior market-making capabilities and unique equity linked products, we’re impacting the markets for our clients’ advantage.”

## Equity Markets Group

Throughout the year all investor categories such as private investors, pension funds, insurance companies, corporates and institutionals generally became more ready for risks, and felt more and more comfortable with a higher equity content in their portfolios. Money inflow into funds were at high levels through the entire year. However, investors were also very much trying to diversify into other asset classes or sectors such as commodities, emerging markets and hedge funds. These asset classes didn’t have the same money inflow as they had in 2004, however they still played a very significant role both in the markets and in the client’s accounts. The Equity Markets team in Zurich was well positioned to respond to these rapidly changing client demands by having the broad capabilities and products to meet their particular needs.

The economic environment has been rather challenging. Rising energy and commodity prices were responsible for the volatile and some times fragile markets. However, despite the harmful economic climate, the U.S. economy continued to grow at decent pace. After 4.4% in 2004 it grew at 3.5% in 2005. The biggest countries within the European Union were not able to keep up and grew between 0 and 1% last year. Nevertheless it was the European Equity Markets (which were not affected by the German elections) which outperformed the U.S. equity market quite significantly. The Japanese equity market had an extraordinary year too. It performed more than 40%.

Equity markets in general were volatile but able to accelerate the uptrend in the second half. Gold was able to reach new highs on a continuous basis and the U.S. Dollar finished the year very strongly. Overall, 2005 was a good environment for equity markets, with a good IPO calendar, and increased secondary volumes. The Equity Markets team in Zurich team was therefore able to increase their year on year revenue performance.

In summary, Merrill Lynch Capital Markets was able to holds its significant market share, extended its revenues and positioned itself strategically for very aggressive growth in the coming years.

Dominik Schaerer  
Head of Equity – CEO



← A | B | E

Passkontrolle  
Passport Control

Flight information displays showing flight details.

Rauchen verboten  
No smoking

“Merrill Lynch continues its long history of pioneering new structures and marketing techniques across the equity spectrum, enabling our clients to solve their most complex issues.”



## Equity Derivatives Group

The derivative products business remains a strong pillar of MLCM AG's activities. 2005 has confirmed our strong position in the market despite a challenging environment for pure flow derivatives, due to low volatilities literally over the entire year. Therefore OTC and Warrants experienced some margin pressure. Also, many institutional investors were building up equities positions, but did not yet have the requirement to either hedge existing positions or to leverage extensively. However our global presence, and our strength in providing smart delta one solutions has proven to be very successful and we managed to further increase our Certificate issuance.

For structured derivatives, 2005 was a year of building up capabilities. Substantial investments were made in trading, infrastructure and on issuance platforms. The structured equity platform gained shape as did the pricing of all kinds of plain vanilla as well as exotic options thanks to new model implementations. Great improvements were made in particular in our competitiveness as regards to Barrier Reverse Convertibles, Worst of Reverse Convertibles, Certificate Plus and similar products. Substantial progress can also be reported in more complex equity payoffs, especially in terms of pricing competitiveness and generation of innovative ideas.

Hence we are well positioned to gain aggressively market share in these areas in 2006, and be even stronger in our client relationships and trades.

Albert Stuermer  
Head of Equity Derivatives





Dharmendra Amin  
CAO – Member of the Executive Management Committee

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# Financial management

Merrill Lynch Capital Markets AG | 2005 Annual Report



## Balance Sheets

at Dec 30, 2005 and Dec 31, 2004

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
<b>ASSETS</b>		
Cash	1	–
Due from banks	553,393	783,991
Due from customers	13,147	8,942
Securities trading portfolios	3,551,216	87,291
Fixed assets	3,197	3,190
Accrued income and prepaid expenses	6,032	8,880
Other assets	1,059,861	897,248
<b>TOTAL ASSETS</b>	<b>5,186,847</b>	<b>1,789,542</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Due to banks	3,250,192	159,526
Due to customers, other	5,005	3,991
Accrued expenses and deferred income	14,399	11,229
Other liabilities	1,328,120	899,205
Valuation adjustments and provisions	11,569	9,955
Share capital	112,000	112,000
General legal reserve	45,440	27,000
Retained earnings brought forward	368,196	536,929
Net income	51,926	29,707
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>5,186,847</b>	<b>1,789,542</b>
Total subordinated liabilities	–	–
<b>OFF-BALANCE SHEET TRANSACTIONS</b>		
<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
<b>DERIVATIVE INSTRUMENTS</b>		
Positive replacement values	1,047,974	896,255
Negative replacement values	1,314,054	896,313
Contract volume (notional)	27,297,774	13,890,391

The value of derivative instruments have been adjusted to reflect only the value of contracts open with third parties. The unsold derivative inventory in the books of Merrill Lynch International, London and Merrill Lynch Capital Markets AG have been netted down to reflect this.

## Income Statements

for the years ended Dec 30, 2005 and Dec 31, 2004

(Swiss franc thousands)	12/30/2005	12/31/2004
<b>REVENUES AND EXPENSES FROM ORDINARY BANKING ACTIVITIES</b>		
Results from interest activities:		
– Interest and discount income	24,825	760
– Interest expense	(24,825)	(760)
Net interest income	–	–
Results from commission and service fee activities:		
– Commission income on securities and investment transactions	47,687	48,648
– Commission income on other services	643	643
– Commission expenses	(1,610)	(1,201)
Results from commission and service fee activities	46,720	48,090
Results from trading operations	29,824	3,994
Other ordinary income	23	633
Total operating income	76,567	52,717
Operating expenses:		
– Personnel expenses	(15,218)	(19,240)
– Other operating expenses	(6,920)	(5,286)
Total operating expenses	(22,138)	(24,526)
<b>GROSS PROFIT</b>	<b>54,429</b>	<b>28,191</b>
<b>NET INCOME</b>		
Gross profit	54,429	28,191
Depreciation and write-offs of noncurrent assets	(591)	(674)
Valuation adjustments, provisions and losses	–	–
Result before extraordinary items and taxes	53,838	27,517
Extraordinary income	–	9,583
Extraordinary expenses	–	–
Taxes	(1,912)	(7,393)
<b>NET INCOME</b>	<b>51,926</b>	<b>29,707</b>
<b>ALLOCATION OF RETAINED EARNINGS</b>		
Net income	51,926	29,707
Retained earnings brought forward	565,636	536,929
Retained earnings	617,562	566,636
– Dividends paid out	(180,000)	–
– Allocation to general legal reserve	(17,440)	(1,000)
<b>RETAINED EARNINGS</b>	<b>420,122</b>	<b>565,636</b>



Statements of Cash Flows  
at Dec 30, 2005 and Dec 31, 2004

(Swiss franc thousands)	2005		2004	
	Source of funds	Application of funds	Source of funds	Application of funds
<b>CASH FLOW FROM OPERATING RESULTS (INTERNAL SOURCES)</b>				
Net income	51,926	–	29,707	–
Depreciation and write-offs on noncurrent assets	591	–	674	–
Valuation adjustments and provisions	1,614	–	–	10,686
Accrued income and prepaid expenses	2,848	–	–	5,250
Accrued expenses and deferred income	3,170	–	1,477	–
Dividends paid out	–	180,000	–	–
Balance	60,149	180,000	31,858	15,936
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Fixed assets	–	598	–	2,732
<b>CASH FLOW FROM BANKING OPERATIONS</b>				
Short-term operations:				
– Due from banks	230,598	–	–	20,269
– Due from customers	–	4,205	2,571	–
– Securities and trading portfolios	–	3,463,925	–	66,815
– Other assets	–	162,613	–	250,362
– Due to banks	3,090,666	–	68,219	–
– Due to customers	1,014	–	484	–
– Other liabilities	428,915	–	252,981	–
Liquidity:				
– Cash	–	1	1	–
Balance	3,751,193	3,630,744	324,256	337,446
<b>TOTAL</b>	<b>3,811,342</b>	<b>3,811,342</b>	<b>356,114</b>	<b>356,114</b>

Merrill Lynch is a firm with strong, forward momentum – in our financial performance, our prospects for growth, our client relationships and the communities where we live and work. With the interests of our employees, clients and shareholders aligned, we face the future with a clear sense of purpose and enthusiasm for the opportunities that lie ahead.



## Notes to the Financial Statements

### for the years ended Dec 30, 2005 and Dec 31, 2004

#### 1. Comment on Business Activities & Number of Employees

Merrill Lynch Capital Markets AG ("the Bank"); is located in Zurich and is engaged in securities trading and derivatives trading activities. The Bank is a member of the Swiss Stock Exchange as well as Virt-X and limits its business activities primarily to the issuing, underwriting and trading of listed and non-listed securities and derivatives for its own account and for customers. Money market and foreign exchange transactions are only undertaken as required for the funding and hedging of securities positions. The Bank does not accept deposits from customers and, with the exception of granting syndicated loans to banks, does not operate in the credit sector.

#### **Employees**

At year-end, the number of employees amounted to 38 based on conversion to full-time positions (prior year: 34).

#### 2. Accounting Policies and Valuation Principles

##### **2.1 Accounting policies and valuation principles**

###### **General principles**

Accounting policies and valuation principles follow the provisions of the Swiss code of obligations, the banking law and the ordinance to the banking law, and guidelines of the Federal Banking Commission.

###### **Foreign currency translation**

Balances and transactions in foreign currencies are translated into Swiss Francs as follows:

Assets and liabilities:                      Year-End rate

<b>30.12.2005</b>		<b>31.12.2004</b>	
USD	1.314650	USD	1.131250
EUR	1.555297	EUR	1.543081
JPY	0.011204	JPY	0.011029

Expenses and income:                      Rate prevailing at transaction date

Foreign currency translation differences are included in the income statement.

###### **Financial instruments**

All positions in securities, derivatives and loans are held for trading purposes. Securities are valued at market prices prevailing at year-end. Market prices for derivative financial instruments and loans are calculated using valuation models commonly used in the industry. For loans and fixed income securities, a provision is made as the position holding increases.

**Repurchase transactions**

Repurchase transactions are treated as secured financing agreements and are carried as liabilities at the amount of cash received. Securities delivered within the scope of repurchase agreements are removed from the balance sheet only if control of the contractual rights associated with these securities are relinquished. Interest expense from repurchase agreements are accrued in the corresponding periods over the life of the underlying transactions.

**Fixed assets**

Fixed assets are stated at historical cost less accumulated depreciation, computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Information technology and telecommunication equipment	max. 5 years
Other fixed assets	max. 10 years

**Valuation adjustments and provisions**

For identified risks, valuation adjustments and provisions are set up based on the principle of prudence. Income taxes due and income taxes required on the current profit are provided for.

**Results from trading operations**

Income from the securities issuing business is included in this caption.

**Employee Benefit Plans**

The Bank operates a defined contribution pension plan for all employees over the age of 21, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by contributions from the Bank and the employee based on salary and length of service. The Bank's contributions to the defined contribution pension plan are charged to the income statement in the year to which they relate.

**2.2 Changes in accounting policies and valuation principles**

No accounting and valuation principles were changed during the current year.

**2.3 Treatment of refinancing of trading positions**

Refinancing expenses are incorporated within results from trading operations. Accordingly, interest and dividend income from securities trading positions and loans included in trading positions are included in this category.



## 2.4 Comments on risk management

In the course of conducting its business operations, the Bank is exposed to a variety of risks. These risks include market, credit and other risks that are material and require comprehensive controls and management. Risk limits have been approved for all significant market and credit risks and are actively monitored.

Credit and market risk is reported into the Global Credit and Corporate Risk Management (“CRM”) systems of the Merrill Lynch Group on a daily basis. Corporate Risk Management of the Merrill Lynch Group, along with other control units, ensures that these risks are properly identified, monitored, and managed throughout the Bank. The risk management process works to ensure that the Bank’s risk tolerance is well-defined and understood by the firm’s risk-takers as well as by its executive management.

Locally, the Board of Directors and management are informed on a regular basis of the risk positions of the Bank. Monitoring of the positions of the Bank is the responsibility of the Risk Committee and the Risk Officer, who works closely with Global Credit and CRM. Daily stress simulations on the trading portfolio are performed to evaluate the impact of possible extreme market fluctuations on the Bank’s financial positions. New products are approved prior to initial trading. In order to limit liquidity risks, the Risk Committee prior to execution approves certain types of transactions. Legal Risks are limited by using standard agreements for over-the-counter products.

### **Market Risks**

Market risk is the potential change in an instrument’s value caused by fluctuations in interest and currency exchange rates, equity 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 Bank seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate and price of trading inventories and related financing and hedging activities. The Bank uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risks faced by the Bank.

### **Equity Price Risk**

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by the Bank to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

### **Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank utilises interest rate swap agreements to mitigate exposure to interest rate risk.

**Currency Risk**

Currency risk to the Bank arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Bank's largest exposure is to Swiss Francs, however exposure does extend to other G7 currencies, Mexican Pesos and Taiwanese Dollars. The Bank manages currency exposure by transacting regular hedging transactions with the Merrill Lynch Group Treasury.

**Credit Risk**

The Bank is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Bank to default risk.

The Bank 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 credit worthiness of counterparties.

In the normal course of business, the Bank executes and settles various customer securities and derivative transactions. Execution of these transactions includes the purchase and sale of securities by the Bank. These activities may expose the Bank to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. The Bank seeks to control the credit risks associated with its trading activities by requiring customers to maintain collateral in compliance with internal guidelines.

Liabilities to Banks and customers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from the Bank or customer.

**2.5 Business policy concerning the use of derivative financial instruments**

The Bank enters into derivatives in a dealing capacity, providing them to clients and entering into them for proprietary trading and to manage its risk exposures arising from trading assets and liabilities. These transactions allow clients to manage their exposures to interest rate and equity security price risks. The Bank also enters into derivative financial instruments to manage and hedge its own risks related to proprietary trading strategies, client transactions and non trading activities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions.

Derivative activity is subject to the Bank's overall risk management policies and procedures outlined in Section 2.4.

**2.6 Recording of business transactions**

All concluded transactions are recorded on the transaction date and valued according to the principles stated above. The results from those transactions are recorded in the income statement. Balance sheet transactions with a fixed maturity, as well as forward transactions, are included in the balance sheet on the value date. Securities transactions are included in the balance sheet on the transaction date.



### 3. Information on the Balance Sheet

#### 3.1 Schedule of collateral for loans and off-balance sheet transactions

(Swiss franc thousands)	Type of collateral			Total
	Mortgage collateral	Other collateral	Without collateral	
<b>LOANS</b>				
Due from customers	–	–	13,147	13,147
<b>TOTAL LOANS 12/30/2005</b>	–	–	<b>13,147</b>	<b>13,147</b>
<b>TOTAL LOANS 12/31/2004</b>	–	–	<b>8,942</b>	<b>8,942</b>

	Non-performing loans gross	Estimated proceeds of liquidating collateral	Impaired loans net	Allowance for credit related to non-performing loans
<b>IMPAIRED LOANS 12/30/2005</b>	<b>11,569</b>	–	<b>11,569</b>	<b>11,569</b>
<b>IMPAIRED LOANS 12/31/2004</b>	<b>9,955</b>	–	<b>9,955</b>	<b>9,955</b>

#### 3.2 Securities trading portfolios, financial investments and participations

##### SECURITIES TRADING PORTFOLIOS

(Swiss franc thousands)	12/30/2005	12/31/2004
Debt securities:		
– exchange listed	757	780
– unlisted	–	–
– of which own bonds and cash bonds	–	–
Equity securities:		
– of which own shares, similar securities and rights	3,550,459	86,511
<b>TOTAL SECURITIES TRADING PORTFOLIOS</b>	<b>3,551,216</b>	<b>87,291</b>
– of which securities acceptable to central banks	757	780

### 3.3 Schedule of noncurrent assets

(Swiss franc thousands)	2005							
	Historical cost	Write-offs/ accumulated depreciation	Book value 12/31/04	Reclassifi- cations	Additions	Disposals	Write-offs/ depreciation	Book value 12/30/05
Fixed assets	4,796	(1,606)	3,190	–	598	–	(591)	3,197
Fire insurance value of fixed assets (includes fixed assets of other group entities)								10,050
Commitments: future leasing installments under operating leases								303

### 3.4 Total amount of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation

(Swiss franc thousands)	12/30/2005		12/31/2004	
	Receivable book value	thereof utilized	Receivable book value	thereof utilized
Collateral for securities borrowing	–	–	–	–
Collateral at SNB for Lombard Credit	–	–	–	–
Pledged shares for stillholders	–	–	–	–
SWX membership guarantee	757	–	780	–
<b>TOTAL</b>	<b>757</b>	<b>–</b>	<b>780</b>	<b>–</b>

### 3.5 Securities lending and borrowing transactions/repurchase and reverse repurchase transactions

(Swiss franc thousands)	12/30/2005	12/31/2004
Obligations to return cash collateral received in securities lending and repurchase agreements	2,993,858	–
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	3,313,626	–
of which the right to pledge or sell the securities has been granted without any restriction	3,313,626	–



### 3.6 Other assets and other liabilities

(Swiss franc thousands)	12/30/2005		12/31/2004	
	Other assets	Other liabilities	Other assets	Other liabilities
Trading positions	1,047,974	1,314,054	896,255	896,313
Total derivative instruments	1,047,974	1,314,054	896,255	896,313
Other assets and liabilities	11,887	14,066	993	2,892
<b>TOTAL</b>	<b>1,059,861</b>	<b>1,328,120</b>	<b>897,248</b>	<b>1,764,561</b>

The value of derivative instruments have been adjusted to reflect only the value of contracts open with third parties. The unsold derivative inventory in the books of Merrill Lynch International, London and Merrill Lynch Capital Markets AG have been netted down to reflect this.

### 3.7 Liabilities to own pension funds

The company operates a defined contribution pension scheme for all employees over the age of 21. Retirement age from the scheme is 65 for men and 63 for women. Employees can retire at 57 with reduced pension benefits. Every year the scheme is valued using two bases: static positions and net present value of expected future liabilities.

Liability to own pension fund: CHF 0 (2004 CHF 0)

### 3.8 Valuation adjustments and provisions

#### (Swiss franc thousands)

	Balance 12/31/04	Specific usage	Change in definition of purpose (reclassifi- cations)	Recoveries, doubtful interest, differences	New creation charged to income statement	Reversals credited to income statement	Balance 12/30/05
Valuation adjustments and provisions for: credit risks (credit and country risks)	9,955	-	-	1,614	-	-	11,569
Provisions: for taxes and deferred taxes	-	-	-	-	-	-	-
other provisions	-	-	-	-	-	-	-
<b>TOTAL VALUATION ADJUSTMENTS AND PROVISIONS</b>	<b>9,955</b>	<b>-</b>	<b>-</b>	<b>1,614</b>	<b>-</b>	<b>-</b>	<b>11,569</b>
<b>TOTAL VALUATION ADJUSTMENTS AND PROVISIONS AS PER BALANCE SHEET</b>	<b>9,955</b>						<b>11,569</b>
					<b>TOTAL NET VALUATION ADJUSTMENTS AND PROVISIONS</b>		<b>11,569</b>

#### Pending legal proceedings

The Bank is subject to a legal proceedings in Zurich relating to two equity swap transactions executed with SAirGroup in 1999. The Bank has not established a provision, as it is of the opinion that neither the likelihood of having to make any payment in respect of the proceedings nor the amount of any such payment can reasonably be estimated at this stage.

### 3.9 Share capital and shareholders

#### (Swiss franc thousands)

	12/30/2005			12/31/2004		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
<b>Share capital:</b>						
Share capital	112,000	112,000	112,000	112,000	112,000	112,000
Total capital	112,000	112,000	112,000	112,000	112,000	112,000
<b>Significant shareholders:</b>						
	12/30/2005		12/31/2004			
	Nominal	Participation in %	Nominal	Participation in %		
Merrill Lynch International Holdings Inc., USA*	112,000	100%	112,000	100%		

\* The parent company of this Company is Merrill Lynch International Inc. (Delaware) which is 100% owned by Merrill Lynch & Co., Inc.



### 3.10 Statement of changes in shareholders' equity

#### (Swiss franc thousands)

##### Shareholders' equity at December 31, 2004:

Share capital paid in	112,000
General legal reserve	27,000
Retained earnings	566,636
<b>TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004</b> (before profit distribution)	<b>705,636</b>

##### Changes 2005:

Repatriation of dividends	(180,000)
Net income	51,926
<b>TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 30, 2005</b> (before profit distribution)	<b>577,562</b>

Thereof:

Share capital paid in	112,000
General legal reserve	45,440
Retained earnings	420,122

### 3.11 Maturity structure of current assets and borrowed funds

#### (Swiss franc thousands)

	At sight	Redeemable by notice	Within 3 months	Maturities				Total
				After 3 months up to 12 months	After 12 months up to 5 years	After 5 years	Without maturity	
<b>Current assets:</b>								
Cash	1	-	-	-	-	-	-	1
Due from banks	542,288	2,510	8,595	-	-	-	-	553,393
Due from customers	-	13,147	-	-	-	-	-	13,147
Securities trading portfolio	3,551,216	-	-	-	-	-	-	3,551,216
<b>TOTAL CURRENT ASSETS</b>	<b>4,093,505</b>	<b>15,657</b>	<b>8,595</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,117,757</b>
Total current funds								
12/31/04	870,764	9,440	20	-	-	-	-	880,224

**(Swiss franc thousands)**

	At sight	Redeemable by notice	Within 3 months	Maturities				Total
				After 3 months up to 12 months	After 12 months up to 5 years	After 5 years	Without maturity	
<b>Borrowed funds:</b>								
Due to banks	224,905	28,552	–	2,996,735	–	–	–	3,250,192
Due to customers, other	3,817	92	1,096	–	–	–	–	5,005
<b>TOTAL BORROWED FUNDS</b>								
<b>12/30/05</b>	<b>228,722</b>	<b>28,644</b>	<b>1,096</b>	<b>2,996,735</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,255,197</b>
Total borrowed funds								
12/31/04	136,542	24,912	2,063	–	–	–	–	163,517

**3.12 Amounts due from and to affiliated entities**

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Amounts due from affiliated companies	504,345	719,972
Amounts due to affiliated companies	3,255,197	163,516

**Related Party Transactions**

The Bank provides funding to Merrill Lynch International, a member of the Merrill Lynch Group. Funding is provided at market interest rates.

The Bank also sells all issued warrants and certificates to Merrill Lynch International and receives an Over The Counter option in return. Both transactions are conducted at prevailing market price.



## 3.13 Assets and liabilities by domestic and foreign origin

(Swiss franc thousands)	12/30/2005		12/31/2004	
	Domestic	Foreign	Domestic	Foreign
<b>ASSETS</b>				
Cash	1	–	–	–
Due from banks	62,527	490,866	73,007	710,984
Due from customers	762	12,385	5,691	3,251
Securities trading portfolios	3,314,383	236,833	780	86,511
Fixed assets	3,197	–	3,190	–
Accrued income and prepaid expenses	6,032	–	8,880	–
Other assets	141,230	918,631	258,058	639,190
<b>TOTAL ASSETS</b>	<b>3,528,132</b>	<b>1,658,715</b>	<b>349,606</b>	<b>1,439,936</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Due to banks	28	3,250,164	5	159,521
Due to customers, other	–	5,005	1,165	2,826
Accrued expenses and deferred income	14,399	–	11,229	–
Other liabilities	1,070,954	257,166	472,050	427,155
Valuation adjustments and provisions	11,569	–	9,955	–
Share capital	112,000	–	112,000	–
General legal reserve	45,440	–	27,000	–
Retained earnings	368,196	–	536,929	–
Net income	51,926	–	29,707	–
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,674,512</b>	<b>3,512,335</b>	<b>1,200,040</b>	<b>589,502</b>

## 3.14 Assets by country and country groups

(Swiss franc thousands)	12/30/2005		12/31/2004	
	Domestic	in %	Domestic	in %
Switzerland	3,528,132	68%	349,606	19%
Europe, excluding Switzerland	1,332,712	26%	1,283,122	72%
Elsewhere	326,003	6%	156,814	9%
<b>TOTAL ASSETS</b>	<b>5,186,847</b>	<b>100%</b>	<b>1,789,542</b>	<b>100%</b>

## 3.15 Assets and liabilities by currencies

(Swiss franc thousands)	Currencies – 12/30/2005			
	CHF	USD	EUR	Other
<b>ASSETS</b>				
Cash	1	–	–	–
Due from banks	510,986	33,773	293	8,341
Due from customers	12,795	318	34	–
Securities trading portfolios	3,314,383	229,357	–	7,476
Fixed assets	3,197	–	–	–
Accrued income and prepaid expenses	5,993	30	9	–
Other assets	11,464	709,078	306,287	33,032
<b>TOTAL ASSETS REPORTED ON THE BALANCE SHEET</b>	<b>3,858,819</b>	<b>972,556</b>	<b>306,623</b>	<b>48,849</b>
Delivery claims arising from spot and forward exchange operations and currency options		6,719,804		
<b>TOTAL ASSETS</b>	<b>3,858,819</b>	<b>7,692,360</b>	<b>306,623</b>	<b>48,849</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Due to banks	3,005,302	236,662	4,964	3,264
Due to customers, other	411	1,522	26	3,046
Accrued expenses and deferred income	5,910	6,598	1,733	158
Other liabilities	284,180	711,260	306,290	26,390
Valuation adjustments and provisions	11,569	–	–	–
Share capital	112,000	–	–	–
General legal reserve	45,440	–	–	–
Retained earnings	368,196	–	–	–
Net income	51,926	–	–	–
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY REPORTED ON THE BALANCE SHEET</b>	<b>3,884,934</b>	<b>956,042</b>	<b>313,013</b>	<b>32,858</b>
Delivery obligations arising from spot and forward exchange operations and currency options		6,719,804		
<b>TOTAL LIABILITIES</b>	<b>3,884,934</b>	<b>7,675,846</b>	<b>313,013</b>	<b>32,858</b>
<b>TOTAL NET ASSETS</b>	<b>(26,115)</b>	<b>16,514</b>	<b>(6,390)</b>	<b>15,991</b>



## 4. Information on off-balance sheet transactions

### 4.1 Outstanding derivative financial instruments

(Swiss franc thousands)

	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
<b>Interest rate instruments:</b>						
- Options – OTC	-	-	-	-	-	-
- Futures	-	-	-	-	-	-
- Swaps	93,332	28,224	2,087,415	28,224	93,332	2,087,415
<b>Cross currency instruments:</b>						
- Options – OTC	-	-	-	-	-	-
- Futures	-	-	-	-	-	-
- Swaps	58,642	77,391	1,694,523	53,406	58,642	1,694,523
- Fxoptions & forwards	108,010	111,603	2,169,824	111,603	108,010	2,169,824
<b>Shares/Indices:</b>						
- Futures	-	-	-	-	-	-
- Options – OTC	-	127,201	491,685	7,485,527	246,811	70,110,278
- Options – Exchange traded	1,974	7,354,793	27,894,010	-	-	-
<b>TOTAL BEFORE NETTING AGREEMENTS</b>						
<b>12/30/2005</b>	<b>261,958</b>	<b>7,699,212</b>	<b>34,337,457</b>	<b>7,678,760</b>	<b>506,975</b>	<b>76,062,040</b>
Total 12/31/2004	52,445	5,666,007	38,758,043	5,665,949	52,445	38,758,044
<b>TOTAL AFTER NETTING AGREEMENTS</b>						
<b>12/30/2005</b>	<b>106,239</b>	<b>1,220,471</b>	<b>7,525,605</b>	<b>941,735</b>	<b>93,583</b>	<b>19,772,169</b>
Total 12/31/2004	25,115	871,198	6,945,195	871,140	25,115	6,945,196

### 4.2 Client assets

The Bank does not have third party client assets under management.

## 5. Information on the income statement

### 5.1 Refinancing income in the position interest and discount income

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Refinancing income (expense) on intercompany loans	(21,587)	2,298

### 5.2 Results from trading operations

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Equity division	5,578	729
Debt division	24,246	3,265
<b>TOTAL RESULTS FROM TRADING OPERATIONS</b>	<b>29,824</b>	<b>3,994</b>

### 5.3 Personnel expense

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Salaries	12,862	15,471
Social benefits	775	1,472
Other personnel expenses	1,581	2,297
<b>TOTAL PERSONNEL EXPENSES</b>	<b>15,218</b>	<b>19,240</b>

### 5.4 Other operating expenses

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Occupancy	832	1,311
Cost of EDP, machines, fixtures and fittings, vehicles and other equipment	1,280	847
Other expenses	4,808	3,128
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>6,920</b>	<b>5,286</b>

### 5.5 Extraordinary income

<b>(Swiss franc thousands)</b>	<b>12/30/2005</b>	<b>12/31/2004</b>
Release of hidden reserves	–	9,583



## Merrill Lynch Capital Markets AG

### Proposed appropriation of available earnings

The Directors of Merrill Lynch Capital Markets AG propose to carry forward the available earnings at December 30, 2005 of CHF 420,122 thousands:

**(Swiss franc thousands)**

Balance to be carried forward	420,122
<b>TOTAL</b>	<b>420,122</b>

## Auditors' Report

### To the General Meeting of the Shareholders of Merrill Lynch Capital Markets AG, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of Merrill Lynch Capital Markets AG for the year ended December 30, 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.


Our audit was conducted in accordance with Swiss Auditing Standards as well as with International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Without qualifying our opinion we draw your attention to section 3.8 "Valuation adjustments and provisions" in the notes to financial statements, where a major uncertainty regarding a legal case is described. Presently, size and settlement date of the liability, if any, cannot be assessed. Therefore, no provision was set up.

DELOITTE AG

  
**Pavel Nemecek**

  
**Stephan Schmidli**  
Auditor in charge

Zurich, 27 April, 2006

Enclosures:

- Financial statements (balance sheet, income statement, statement of cash flows and notes)
- Proposed appropriation of available earnings



## Board of Directors

**Alfred Berger**

Chairman

**David Jervis**

Vice Chairman

**Serge Robin**

Director

**Dr. Robert Furter**

Director

**Dr. Rudolf Heiz**

Director

## Support & Administration

**Dharmendra Amin**

CAO – Member of the Executive Management Committee

**Bruno Copelli**

Settlements & Control

**Michael Voellm**

CFO - Finance

**Alexandra Monnard**

Corporate Services

**Simone Schenk**

Law & Compliance

**Rene Cherles Dubois**

Technology

## Equity Sales

**Dominik Schaerer**

CEO – Chairman of the Executive Management Committee

**Christian De Prati**

Pan European

**Cameron Dewey**

Pan European

**Ruth Eagar**

Pan European

**Kristina Horvath**

Pan European

**Fedor Plambeck**

Pan European

**Juerg Wolfensberger**

US

**Alexandre Marcuard**

US

**Patrick Hasler**

US

## Equity Sales Trading

**Marco Mautone**

Global

**Serge Hermann**

Global

## Equity Derivatives

**Albert Stuerem**

Managing Director

**Daniel Croisier**

**Björn Grob**

**Martin Kummer**

**Roberto Lazzarotto**

**Romuald Limousin**

**Robert Saly**

**Marco Stauffacher**

## Debt Markets

**Jurg Risch**

Member of the Executive Management Committee

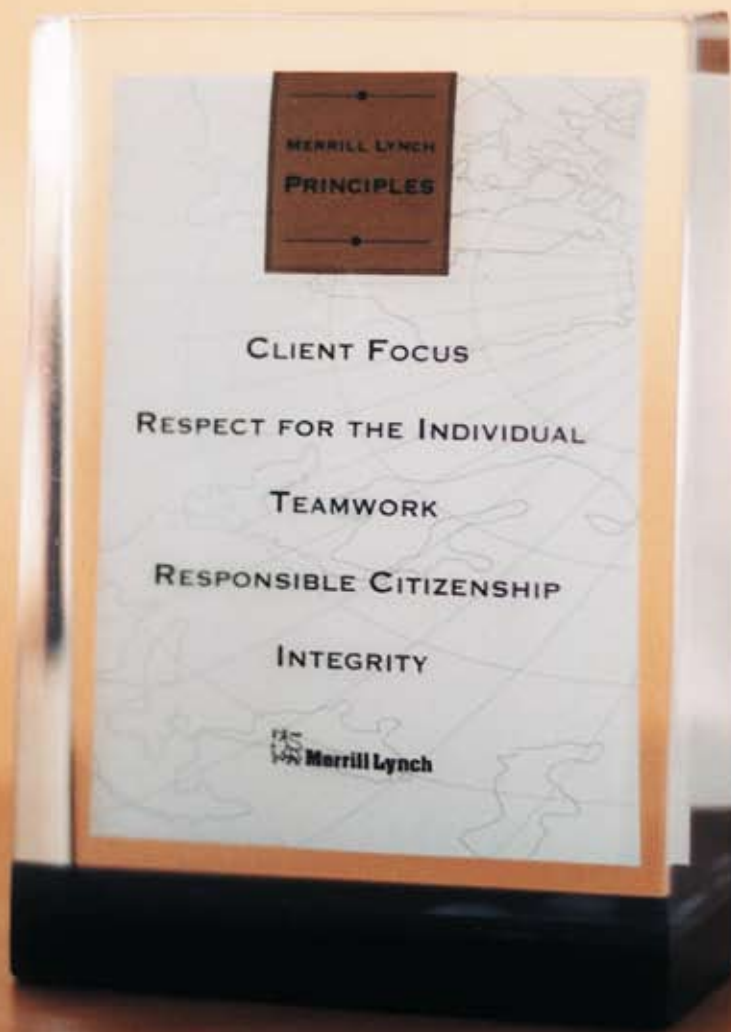
**Rita Hess**

**Michael Mikyska**

**Christian Thormann**

**Oliver Valk**





Relationships are the core of our business. By understanding the needs of our clients, we are leveraging the full resources of Merrill Lynch to help achieve their goals. In the process, we become an essential partner, creating opportunities, adding value and helping turn visions into reality.







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