

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

MERRILL LYNCH INTERNATIONAL BANK LIMITED

FOR THE YEAR ENDED 28 DECEMBER 2007

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REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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**MERRILL LYNCH INTERNATIONAL BANK LIMITED
DIRECTORS AND OTHER INFORMATION**

DIRECTORS

Robert Wigley - Chairman
Michael G Ryan - Managing Director
Nasser Azam
Allen G Braithwaite III
Andrew Briski
Gavin Caldwell
Eva Castillo
Kevin Cox
Michael J D'Souza
David Gu
Chris Hayward
Eng Huat Kong
Robert G Murphy
Liam O'Reilly
Paddy Teahon

REGISTERED OFFICE

Treasury Building
Lower Grand Canal Street
Dublin 2

SECRETARY

Merrill Lynch Corporate Services Limited
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

AUDITORS

Deloitte & Touche
Chartered Accountants
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

MERRILL LYNCH INTERNATIONAL BANK LIMITED
EXTRACT FROM 'REPORT OF THE DIRECTORS'

The directors have pleasure in submitting their report along with the audited financial statements of Merrill Lynch International Bank Limited ('MLIB'), the 'Company', and together with its subsidiaries, the 'Group', for the year ended 28 December 2007.

Merrill Lynch Capital Markets Bank Limited ('MLCMB') was formed in 1995. In 2006, the worldwide businesses of MLIB, a United Kingdom based bank, were acquired by MLCMB. On completion of the acquisition of the businesses, MLCMB changed its name to MLIB. The Group is incorporated in Ireland and is regulated by the Financial Regulator.

PRINCIPAL ACTIVITIES

The Group is the primary non-U.S. banking entity for Merrill Lynch. The Group has its head office in Ireland with branch offices in Amsterdam, Bahrain, Frankfurt, London, Madrid, Milan and Singapore.

The Group acts as a principal for debt derivative and foreign exchange transactions and engages in advisory, lending, loan trading and institutional sales activity. The Group also provides collateralised (including mortgage) lending, letters of credit, guarantees and foreign exchange services to, and accepts deposits from, its clients. The Group provides mortgage lending, administration and servicing in the UK non-conforming residential mortgage markets.

Merrill Lynch Bank (Suisse) S.A., a subsidiary of MLIB, is a Swiss licensed bank that provides a full array of banking, asset management and brokerage products and services to international clients, including securities trading and custody, secured loans and overdrafts, deposits, foreign exchange trading and portfolio management services.

RESULTS AND DIVIDENDS

The Group's profit for the year on ordinary activities after taxation was US\$751,016,000 (2006: US\$549,389,000) as set out in the consolidated Income Statement. The directors have recommended that no dividends be declared (2006: Nil).

BUSINESS ENVIRONMENT

Global financial markets experienced significant stress during 2007, primarily driven by challenging conditions in the credit markets. This adverse market environment began to intensify at the beginning of the third quarter and was characterised by significant credit spread widening, prolonged illiquidity, reduced price transparency and increased volatility. In response to these conditions, the European Central Bank, the Federal Reserve and the Bank of England injected significant liquidity into the markets during the second half of the year. Long-term interest rates, as measured by the 10-year U.S. Treasury bond, ended the year at 4.03%, down from 4.71% at the end of 2006. Major European and U.S. equity indices increased moderately during 2007, oil prices hit a record high and the Euro reached record levels against the US Dollar. Overall the global economy continued to grow during 2007, albeit slower than in 2006.

While the Group results may vary based on global economic and market trends, the directors believe that the outlook for growth in most of the Group's businesses remains favourable due to positive underlying fundamentals and the resiliency of these markets. However, the challenging conditions in certain credit markets have continued into early 2008. Since year-end, these markets have shown renewed signs of volatility and weakness as evidenced by increased expectations of future rating agency actions and increased default and delinquency rates.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
EXTRACT FROM 'REPORT OF THE DIRECTORS'

OUTLOOK

These conditions are expected to continue throughout 2008, driven largely by significant weakness in the European and US credit markets, which are expected to persist in the near term with continued asset repricing and valuation pressures across multiple asset classes. This continued weakness may negatively impact the valuation of the Group's net exposures to non-conforming related assets and other residential and commercial real estate related loans and securities. Additionally, negative economic conditions have begun to adversely impact other consumer lending asset classes. Specifically, the Group ended 2007 with sizeable exposures to UK residential real estate assets, European commercial real estate and asset backed loans and European leveraged finance loans. The Group has no exposure to U.S. non-conforming related assets or U.S. collateralised debt obligations markets.

Conditions in both the leveraged finance and commercial real estate markets, which began to deteriorate in the middle of 2007, have continued to experience significant spread widening and price declines since the beginning of 2008. Future market conditions will likely remain challenged due to increased volatility, uncertain economic conditions and reduced demand from some market participants. The Group continues to focus on reducing its aggregate exposures, monitoring the underlying fundamentals of these positions and exercising prudent underwriting discipline with respect to any new financing commitments.

Overall, with these challenging credit conditions and declines in most global equity indices in 2008, volatility in the financial markets remains high and capital markets uncertainty has increased. While these factors may negatively impact investment banking activity in the near term, the Group's rates and currencies businesses is expected to benefit from increased client trading activity and proprietary trading opportunities. In addition, despite this near term uncertainty, client interest in various strategic and financial transactions remains active globally and investment banking pipelines continue to be at healthy levels. For the long term, the directors continue to be optimistic about the outlook for the Group's businesses. Given the Group's regional and product diversification, the directors expect continued growth of the global capital markets and ongoing wealth creation around the world to provide a favourable environment for the Group's businesses over the long term.

PRINCIPAL RISKS AND UNCERTAINTIES

In the course of conducting the Group's business operations, it is exposed to a variety of risks that are inherent to the financial services industry. The most significant risks that the Group faces relate to market risk, credit risk, liquidity risk and operational risk. A more detailed note about these risks and how the Group manages them is included in Note 28 to the financial statements.

BOOKS OF ACCOUNT

To comply with the requirement that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990 the directors have ensured that appropriately qualified accounting personnel have been employed and that appropriate computerised accounting systems are maintained. The books of account are located at the Group's registered office.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
EXTRACT FROM 'REPORT OF THE DIRECTORS'

DIRECTORS AND SECRETARY

The directors who served during the year were as follows:

Robert Wigley - Chairman
Michael G Ryan - Managing Director
Nasser Azam
Allen G Braithwaite III
Andrew Briski
Gavin Caldwell
Eva Castillo
Kevin Cox
Michael J D'Souza
David Gu
Chris Hayward
Eng Huat Kong
Robert G Murphy
Liam O'Reilly
Paddy Teahon

Appointed 8 March 2007

Merrill Lynch Corporate Services Limited continues to be company secretary having been appointed on the 12 May 2005.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and the company secretary had no beneficial interest in the shares of the Company or its subsidiaries at any time during the year.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
EXTRACT FROM 'REPORT OF THE DIRECTORS'

CORPORATE GOVERNANCE

The Board of Directors ('the Board') is responsible for approving the corporate strategy for the Group, monitoring and reviewing performance and providing oversight of major initiatives for the Group. The Board meets at least quarterly, to review the Group's business. In the course of conducting its business operations, the Group is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. To ensure that risks are properly identified, measured, monitored and managed, the Group has established a governance and risk management process to ensure that its risk-taking is consistent with its business strategy, capital structure and current and anticipated market conditions. The Board formally reviews its corporate governance on an annual basis to ensure that it meets industry best practice.

The Board has delegated day-to-day control and management of the Group's activities to management and various Board approved management committees. The Managing Director and other members of the management team report at least quarterly to the various committees. The charters and composition of the various committees are reviewed annually and approved by the Board.

These committees perform an important oversight function for the Group.

The Risk Policy and Oversight Committee (the 'Risk Committee') is chaired by Mr. Robert G Murphy and its membership includes five additional directors. The Risk Committee is responsible for reviewing the Group's risk-taking activities and ensuring that such activities are prudently managed and within acceptable risk tolerance levels. The Credit Committee, the Asset and Liability Committee, the New Product Committee and the Operational Risk Committee report to the Risk Committee on a quarterly basis. These committees are responsible for ensuring that the Group's market, credit, liquidity and operational risks (among others) are properly identified, monitored and controlled.

The Audit Committee is chaired by Mr. Robert G Murphy and its membership includes four non-executive directors. The Audit Committee monitors and reports to the Board on all audit and compliance matters affecting the Group. The Compliance Committee reports to the Audit Committee on all matters of a compliance, legal or regulatory nature affecting the Group.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The total sum donated during the year by the Group to charitable organisations was US\$226,803 (2006: US\$201,667). The Group provides matched funding of certain contributions made by employees under a Give As You Earn scheme and donations made by employees to certain specified charities. There were no political donations made during the year (2006: Nil).

MERRILL LYNCH INTERNATIONAL BANK LIMITED
EXTRACT FROM 'REPORT OF THE DIRECTORS'

ENVIRONMENT

The facilitation of a clean environment and effective environmental protection is a fundamental aspect of good business operations. The Group recognises that its business activities have an impact on the environment, both globally and locally. Therefore it is the Group's policy to minimise any adverse impact of its operations on the environment.

AUDITORS

The auditors, Deloitte & Touche, Chartered Accountants, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board:

Michael J. Hoya
[Signature]

} DIRECTORS

13 March 2008

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish 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 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 for the Company and the Group and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for 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.

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

We have audited the financial statements of Merrill Lynch International Bank Limited for the year ended 28 December 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Group Balance Sheet, the Company Balance Sheet, the Statement of Accounting Policies and the related Notes 1 to 37. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Group's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Group'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 Group and the Group'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

The directors are responsible for preparing the financial statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant 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, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Group; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Group; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Group's balance sheet and income statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

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

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 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 evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the Company and the Group as at 28 December 2007 and of the profit of the Group for the year then ended;
- have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Group. The Group's balance sheet and its income statement are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Group, as stated in the Group balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 28 December 2007 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Group.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Dublin
13 March 2008

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are set out below.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, as modified to include certain assets and liabilities at market value and are denominated in US Dollars (US\$). Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

FINANCIAL REPORTING STANDARDS

During the year, the Group has adopted Financial Reporting Standard ('FRS') 20: 'Share-Based Payment', FRS 23: 'The Effects of Changes in Foreign Exchange Rates' and FRS 26: 'Financial Instruments: Measurement'. The Group has also decided to early adopt FRS 29: 'Financial Instruments: Disclosures'.

FRS 20 specifies the accounting treatment to be adopted (including the disclosures to be provided) by entities making share-based payments. In particular, it requires entities to recognise an expense, measured at fair value, in respect of the share-based payments they make. The Group has adopted FRS 20 retrospectively and as a result there has been a restatement of prior year results; details of which are included in Note 6 to the financial statements. The additional disclosure requirements associated with FRS 20 are included in Note 31 to the financial statements.

The adoption of FRS 26 resulted in changes to accounting policies that deal with the classification and measurement of financial instruments. This standard was applied prospectively in accordance with the transitional provisions of the standard and the exemption from restating comparatives in FRS 26 paragraph 108D has been taken. More detailed information about the adoption of FRS 26 is included in Note 25.

FRS 29 replaces the disclosure requirements of FRS 25 'Financial Instruments: Disclosure and Presentation', and applies to those entities applying FRS 26. The disclosures required by the standard include information on the significance of financial instruments for an entity's financial position and performance, information about exposure to risks arising from financial instruments and the entity's objectives, policies and processes for managing capital. FRS 29 has no impact on the financial results of the Group and the additional disclosure requirements can be seen in notes 25 to 29 to the financial statements.

GROUP ACCOUNTS

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. All intra-group balances, transactions, income and expenses are eliminated on consolidation. The financial statements have been prepared in accordance with accounting policies.

Subsidiaries, which are those companies and other entities, in which the Group, directly or indirectly, has power to govern the financial and operating policies, are consolidated.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

GROUP ACCOUNTS (CONTINUED)

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration at the date of acquisition, plus costs directly attributable to the acquisition. 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.

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and receivables.

All financial assets subject to securitisation continue to be held on the Group's balance sheet and a liability is recognised for the proceeds of the funding received, unless:

- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group, in which case the asset will continue to be recognised to the extent of the Group's continuing involvement.

INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs and all other premiums or discounts.

FEES AND COMMISSIONS

The Group earns fee income from a diverse range of services. Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition.

Fees and commissions also include charges made to affiliated undertakings to remunerate services provided or reimburse expenditure incurred by the Group. These are recognised on an accruals basis.

DEALING PROFITS

Dealing profits include net realised and unrealised gains and losses from marking to market all trading instruments on a daily basis.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

FINANCIAL ASSETS

On initial recognition, financial assets are classified into held for trading, available-for-sale financial assets or loans and receivables.

(a) Held for trading

Financial assets classified as held for trading are acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets are initially recognised at fair value plus, for all financial assets not carried at fair value through the income statement, directly attributable transactions costs.

Long and short inventory positions, including debt securities and other fixed income securities, held for trading purposes are recorded on a trade date basis and are valued at market price at the close of business on the balance sheet date. The net changes in fair values are reflected in the income statement for the current year. Further details about the Group's financial instruments are included in the risk management section in Note 28 to the financial statements.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the Group may not recover substantially all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are carried at amortised cost using the effective interest rate method less an allowance for impairment. Interest calculated using the effective interest rate method is recognised in the income statement.

The Group's lending activities include commercial lending, residential mortgage lending, securities based lending and interbank placements.

(c) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for a period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are measured at fair value. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or hedges of a net investment in a foreign operation ('net investment hedge').

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in Interest Income. Any ineffectiveness is recorded in Dealing Profits.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

(b) Net investment hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement – 'net trading income – transaction gains less losses'. Gains and losses accumulated in equity are included in the income statement when there is disposal of the foreign operation.

FINANCIAL LIABILITIES

On initial recognition, a financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of trading instruments that are managed together and for which there is evidence of short-term profit taking.

Held for trading financial liabilities are recognised at fair value with transaction costs being recognised in the income statement. Subsequently they are measured at fair value. Gains and losses are recognised through the income statement as they arise.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

FAIR VALUE

The fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Group has entered into transactions where fair value is determined using valuation models for which not all significant inputs are market observable prices or rates. Such trading instruments are initially recognised at the transaction price although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value is not recognised immediately in the income statement, but deferred until the instrument's fair value can be determined using market observable inputs, or is realised. Subsequent changes in fair value are recognised immediately in the income statement.

The fair values of quoted investments in active markets are based on current prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. More detailed information in relation to the fair value of financial instruments is included in Note 26.

MARKET AND CLIENT RECEIVABLES AND PAYABLES

Receivables from and payables to customers include amounts due on cash and margin transactions. Due to their short-term nature, such amounts approximate fair value.

SALE AND REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase and securities purchased under agreements to resell are recorded as financing transactions at the amount received or paid plus accrued interest at the balance sheet date.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received.

NETTING

Where the Group intends to settle (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously and the Group has the legal right to do so, the balance included within the consolidated financial statements is the net balance due to or due from the customer.

Financial instruments are reported separately as assets and liabilities regardless of whether a legal right of set-off exists under a master netting agreement enforceable in law as there is no intention to settle net.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

IMPAIRMENT OF FINANCIAL ASSETS

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively.

Individually assessed loans

At each balance sheet date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant.

Objective evidence of impairment exists if one or more of the following events have occurred:

- the borrower is in significant difficulty;
- actual breach of contract, such as default or delinquency in interest or principal payments;
- the lender grants concessions to the borrower, for reasons relating to the borrower's financial difficulty, that are more favourable conditions than the lender would otherwise consider; or
- there is a high probability that the borrower will undergo bankruptcy or other financial reorganisation.

Impairment losses are calculated by discounting the expected future cash flows of a loan using its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. Any loss is charged to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of an allowance account.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The reversal is recognised in the income statement.

Loans (and the related impairment allowance account) are normally written off, either partially or in full, when there is no realistic expectation of recovery of these amounts.

Collectively assessed loans

Collectively assessed loans are split into two groups: provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and loan losses that have been incurred but that had not been separately identified at the balance sheet date (latent loss provisions). Individually assessed loans for which no evidence of loss has been specifically identified are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses incurred at the balance sheet date which will only be individually identified in the future.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

GOODWILL

Goodwill arising on acquisition of subsidiary undertakings is defined as the excess of the cost of investment over the fair value of the Group's share of separable net assets at the date of acquisition. Recognised goodwill is capitalised and amortised on a straight line basis over a 20 year period reflecting its estimated useful life. Impairment testing is performed by comparing the present value of the expected future cash flows from a business with the carrying amount of its net assets, including attributable goodwill. Goodwill is stated at amortised cost less accumulated impairment losses which are charged to the income statement.

TANGIBLE FIXED ASSETS AND DEPRECIATION

All tangible fixed assets are stated at historical cost, net of accumulated depreciation.

Depreciation is provided in equal annual instalments over the estimated useful lives of the assets as follows:

Leasehold improvements	4 to 9 years
Communication equipment	3 to 5 years
Furniture and fittings	4 to 8 years
Motor vehicles	4 years
Computer equipment	3 years

TAXATION

Income tax on the profit or loss for the year comprises current tax and deferred tax.

Current tax is the tax expected to be payable on the profit for the year, calculated using tax rates enacted by the balance sheet date, taking into account overseas taxation where appropriate and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised as a liability or an asset if, prior to the balance sheet date, the Group has entered into transactions or events that have occurred and that give rise to timing differences giving 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 considered recoverable by management. 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.

SHARE BASED PAYMENTS

Merrill Lynch & Co. Inc., ultimate parent company and controlling party of the Group, grants equity settled share based payment awards to employees of the Group under various incentive schemes. Equity settled share based payment plans are measured based on the fair value of those awards at grant date. The fair value determined at the grant date is expensed on an accelerated basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The Group has applied the requirements of FRS 20 on a fully retrospective basis.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
STATEMENT OF ACCOUNTING POLICIES

PENSIONS

The Group participates in a number of defined benefit and defined contribution pension schemes.

The Group is one of a number of Merrill Lynch employers based in the United Kingdom which participate in 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 30 June 1997 and to contributions from existing members with effect from 30 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 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 Group also operates a defined benefit scheme in Germany; all other schemes operated by the Group are defined contribution schemes. The major defined contribution scheme in Ireland is the Merrill Lynch Employee Benefit Plan. The costs of defined contribution schemes are calculated as a percentage of each employee's annual salary based on their age and length of service with the Group and are charged to the income statement in the year in which they fall due.

LEASES

All leases are operating leases and the annual rentals are charged to the income statement in the accounting period to which they relate.

FOREIGN CURRENCIES

The functional currency of the Group is US Dollars. 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 income statement.

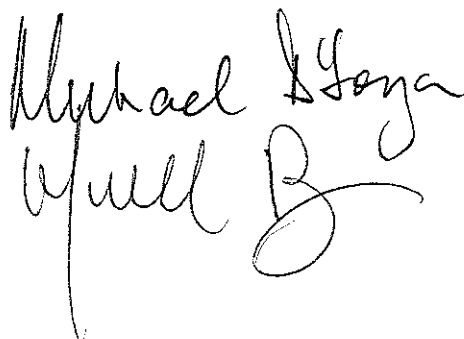
The financial statements of branches and subsidiaries whose functional currency is not the US Dollar are translated into US Dollars at the closing rate for the balance sheet and at the average rate of exchange for the year for the income statement. Translation differences arising on the profit and loss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

MERRILL LYNCH INTERNATIONAL BANK LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 28 DECEMBER 2007

	Notes	2007	2006 as restated
		US\$'000	US\$'000
Interest income:	1		
- Other interest receivable and similar income		2,509,541	1,599,165
- Interest payable and similar charges		(1,745,653)	(1,208,390)
Fees and commissions:	2		
- Receivable		773,292	498,660
- Payable		(897,409)	(519,907)
Dealing profits	3	1,112,324	739,208
Other operating income		112,367	222,559
TOTAL OPERATING INCOME		1,864,462	1,331,295
Administrative expenses	4	835,095	765,981
Depreciation		8,072	5,316
Amortisation and impairment of goodwill		32,110	6,631
Other operating charges		34,928	20,976
Provisions for bad and doubtful debts		99,332	3,039
TOTAL OPERATING EXPENSES		1,009,537	801,943
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		854,925	529,352
Tax on profit on ordinary activities	8	(103,909)	20,037
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		751,016	549,389

All gains and losses arise from continuing activities. Notes 1 to 37 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 13 March 2008 and signed on its behalf by:


} DIRECTORS

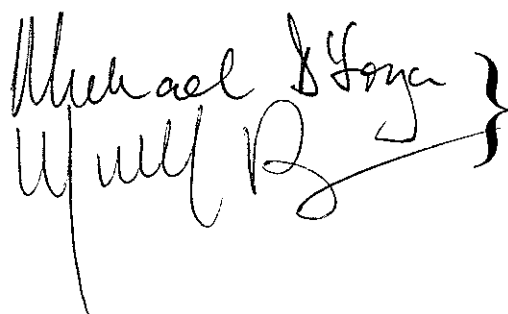
MERRILL LYNCH INTERNATIONAL BANK LIMITED
CONSOLIDATED STATEMENT OF TOTAL
RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 28 DECEMBER 2007

	Notes	2007 US\$'000	2006 US\$'000
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit attributable to ordinary shareholders		751,016	549,389
Transition adjustment on adopting FRS 26		1,592	-
Tax effect on transition adjustment on adopting FRS 26		(557)	-
Gains on revaluation of available-for-sale investments taken to equity		(1,553)	-
Tax effect on revaluation of available-for-sale investments		557	-
Exchange differences on translation of foreign operations		43,185	28,654
		<hr/>	<hr/>
Total recognised gains relating to the year		794,240	578,043
		<hr/>	<hr/>
Prior period adjustment	6	(19,194)	54,127
		<hr/>	<hr/>
		775,046	632,170
		<hr/>	<hr/>

MERRILL LYNCH INTERNATIONAL BANK LIMITED
GROUP BALANCE SHEET AS AT 28 DECEMBER 2007

	Notes	2007 US\$'000	2006 as restated US\$'000
ASSETS			
Cash and balances at Central Bank		938,683	328,328
Loans and advances to banks	9	9,622,170	7,817,545
Loans and advances to customers	10	29,964,148	22,747,145
Market and client receivables	12	11,876,270	7,323,596
Debt securities and other fixed income securities	13	1,036,020	5,204,960
Trading assets	28	194,753,955	110,120,177
Deferred taxation	14	43,020	26,731
Goodwill	15	150,336	142,314
Tangible fixed assets		29,617	12,498
Other assets	16	4,403,950	2,818,992
TOTAL ASSETS		<u>252,818,169</u>	<u>156,542,286</u>
LIABILITIES			
Deposits by banks	17	1,001,267	55,050
Customer accounts	18	26,906,520	21,807,151
Non-recourse financing	11	1,853,456	2,002,073
Market and client payables	19	8,074,042	8,383,579
Trading liabilities	28	199,856,302	112,923,728
Other liabilities	21	3,270,094	3,667,223
Accruals and deferred income		430,619	457,325
Subordinated debt	22	2,760,000	-
TOTAL LIABILITIES		<u>244,152,300</u>	<u>149,296,129</u>
SHAREHOLDERS' FUNDS			
Share capital	23	32,067	31,985
Share premium account	24	3,898,359	3,872,970
Capital contribution	24	790,875	190,875
Available-for-sale reserve	24	39	-
Retained earnings	24	3,944,529	3,150,327
		<u>8,665,869</u>	<u>7,246,157</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>252,818,169</u>	<u>156,542,286</u>
MEMORANDUM ITEMS			
Guarantees, undrawn commitments and assets pledged as collateral security	28	<u>52,130,685</u>	<u>33,335,363</u>

The financial statements were approved by the Board of Directors on 13 March 2008 and signed on its behalf by:


 } DIRECTORS

MERRILL LYNCH INTERNATIONAL BANK LIMITED
COMPANY BALANCE SHEET AS AT 28 DECEMBER 2007

	Notes	2007 US\$'000	2006 as restated US\$'000
ASSETS			
Cash and balances at Central Bank		938,683	328,328
Loans and advances to banks	9	9,115,104	7,142,360
Loans and advances to customers	10	25,725,441	19,471,461
Securitized assets		2,804,544	1,949,491
Less: non-recourse financing		(1,853,456)	(2,002,073)
	11	951,088	(52,582)
Market and client receivables	12	11,682,640	7,108,708
Debt securities and other fixed income securities	13	1,036,020	5,204,960
Trading assets	28	194,736,244	110,082,929
Deferred taxation	14	39,670	24,263
Investment in subsidiaries	34	256,172	194,321
Tangible fixed assets		22,517	7,180
Other assets	16	5,182,987	3,533,099
TOTAL ASSETS		249,686,566	153,045,027
LIABILITIES			
Deposits by banks	17	843,987	55,050
Customer accounts	18	26,464,899	21,308,873
Market and client payables	19	8,079,994	8,014,762
Trading liabilities	28	199,842,760	112,976,053
Other liabilities	21	3,278,923	3,575,304
Accruals and deferred income		237,983	353,573
Subordinated debt	22	2,760,000	-
TOTAL LIABILITIES		241,508,546	146,283,615
SHAREHOLDERS' FUNDS			
Share capital	23	32,067	31,985
Share premium account	24	3,898,359	3,872,970
Capital contribution	24	790,875	190,875
Available-for-sale reserve	24	39	-
Retained earnings	24	3,456,680	2,665,582
		8,178,020	6,761,412
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		249,686,566	153,045,027
MEMORANDUM ITEMS			
Guarantees, undrawn commitments and assets pledged as collateral security		52,041,233	33,257,793

The financial statements were approved by the Board of Directors on 13 March 2008 and signed on its behalf by:

Michael D'Amico
 Y. M. B. J.

}

DIRECTORS

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

1. INTEREST INCOME	2007	2006
	US\$'000	US\$'000
Other interest receivable and similar income		
- Loans and advances to banks	547,255	389,993
- Loans and advances to customers	1,657,497	1,014,058
- Debt securities and other fixed income securities	62,279	36,999
- Loans to affiliates	236,894	155,559
- Other assets	5,616	2,556
	<u>2,509,541</u>	<u>1,599,165</u>
Interest payable and similar charges		
- Deposits by banks	(266,615)	(185,378)
- Customer accounts	(893,230)	(669,972)
- Non-recourse financing	(112,603)	(138,720)
- Loans from affiliates	(470,251)	(195,787)
- Other liabilities	(2,954)	(18,533)
	<u>(1,745,653)</u>	<u>(1,208,390)</u>

Included in interest receivable is \$7,137,000 of interest on impaired loans, accrued but not yet received.

2. FEES AND COMMISSIONS	2007	2006
	US\$'000	US\$'000
Receivable		
- Intercompany service fees	571,114	358,447
- Investment banking fees	81,989	46,157
- Private client fees	90,788	75,897
- Commissions	11,322	7,587
- Other bank fees	18,079	10,572
	<u>773,292</u>	<u>498,660</u>
Payable		
- Intercompany service fees	(724,633)	(405,936)
- Brokerage fees	(111,049)	(77,108)
- Exchange and clearing house fees	(25,180)	(12,469)
- Other fees	(36,547)	(24,394)
	<u>(897,409)</u>	<u>(519,907)</u>

3. DEALING PROFITS

Dealing profits are generated from financial assets and financial liabilities. Included in the figure for dealing profits is an amount of \$1,553,000, relating to available-for-sale financial assets, that has been recycled through the income statement following maturity of assets that had previously been recognised in equity.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

4. ADMINISTRATIVE EXPENSES	2007 US\$'000	2006 US\$'000 as restated
Wages and salaries	547,910	548,659
Social welfare	32,501	19,434
Pension costs (Note 20)	11,072	18,786
Other administrative expenses	243,612	179,102
	<u>835,095</u>	<u>765,981</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2007 US\$'000	2006 US\$'000 as restated
--	------------------	---------------------------------

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

Depreciation of tangible fixed assets	(8,072)	(5,316)
Directors' remuneration:		
Fees paid by the Group	(358)	(231)
Other emoluments	(18,354)	(4,670)
(Included in 2007: US\$75,000 (2006: US\$56,000) in respect of pension contributions)		
Operating lease rentals (Note 32)	(27,043)	(14,031)
Auditors' remuneration	(2,767)	(2,327)

6. PRIOR PERIOD ADJUSTMENT

The comparative figures in the financial statements have been restated in order to reflect the adoption of FRS 20.

Prior to the adoption of FRS 20, share based payment plans were measured based on the fair value of those awards at the balance sheet date and expensed on a straight line basis. Under FRS 20, equity settled share based payment plans granted by Merrill Lynch & Co. Inc., are measured based on the fair value of those awards at grant date, and are expensed on an accelerated basis over the vesting period. As the Group has contracted to reimburse the ultimate parent for the issuance of shares under the awards, there is no net equity impact.

Income statement	2006 US\$'000
Administration expenses	(20,017)
Tax	823
Decrease in profit for the year	<u>(19,194)</u>
Balance Sheet	
Deferred taxation	823
Other liabilities	(20,017)
Decrease in net assets	<u>(19,194)</u>
Decrease in shareholders funds	<u>(19,194)</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

7. PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE COMPANY

Of the consolidated profit after tax for the financial year, US\$788,291,000 (2006: US\$354,220,000) is attributable to the operations of the Company. The income statement of the Company is not presented by virtue of the exemption contained within Section 3(2) of the Companies (Amendment) Act 1986.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 US\$'000	2006 US\$'000 as restated
Taxation on profit on ordinary activities:		
Corporation tax charge	9,232	68,018
Deferred tax credit	<u>(14,408)</u>	<u>(21,487)</u>
	(5,176)	46,531
Adjustments in respect of prior years	<u>109,083</u>	<u>(66,568)</u>
	<u>103,907</u>	<u>(20,037)</u>

The effective tax rate for 2007 is 12.15% (2006: (3.79%)).

Factors affecting tax charge for the period:

The current tax charge for the year is lower than the current charge that would result from applying the standard rate of Irish Corporation tax (2007: 12.5%; 2006: 12.5%) to the profit on ordinary activities. The difference is explained below:

	2007 US\$'000	2006 US\$'000
Profit on ordinary activities before tax	<u>854,925</u>	<u>529,352</u>
Tax charge at the standard rate of corporation tax	106,866	66,169
Effects of:		
Foreign taxes	115,641	101,392
Tax losses received from affiliates for no payment	(222,853)	(99,190)
Other	9,578	(353)
Corporation tax charge	<u>9,232</u>	<u>68,018</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

9. LOANS AND ADVANCES TO BANKS	2007	2006
	US\$'000	US\$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	3,219,979	1,552,847
3 months or less but not on demand	6,269,000	6,094,247
1 year or less but over 3 months	60,578	170,451
5 years or less but over 1 year	72,613	-
	<u>9,622,170</u>	<u>7,817,545</u>
- Company		
Analysed by remaining maturity:		
Repayable on demand	2,847,285	1,177,396
3 months or less but not on demand	6,145,206	5,796,432
1 year or less but over 3 months	50,000	168,532
5 years or less but over 1 year	72,613	-
	<u>9,115,104</u>	<u>7,142,360</u>
10. LOANS AND ADVANCES TO CUSTOMERS	2007	2006
	US\$'000	US\$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	2,068,008	-
3 months or less but not on demand	6,092,322	7,088,703
1 year or less but over 3 months	5,547,795	4,094,607
5 years or less but over 1 year	5,353,695	7,749,945
5 years and over	10,902,328	3,813,890
	<u>29,964,148</u>	<u>22,747,145</u>
- Company		
Analysed by remaining maturity:		
Repayable on demand	1,770,180	-
3 months or less but not on demand	5,048,369	5,796,772
1 year or less but over 3 months	5,354,523	3,898,124
5 years or less but over 1 year	5,294,083	7,729,694
5 years and over	8,258,286	2,046,871
	<u>25,725,441</u>	<u>19,471,461</u>

There were loan loss provisions of US\$129,220,000 as at 28 December 2007 (2006: US\$29,888,000) against assets in the Group's portfolio. Loan loss provisions in respect of assets in the Company's portfolio amounted to US\$103,799,000 as at 28 December 2007 (2006: US\$14,378,000).

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

11. SECURITISED ASSETS

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. 6 Plc, Mortgages No. 7 Plc, Newgate Funding Plc and Taurus CMBS No.2 Srl which are ultimately beneficially owned by charitable trusts and have been funded primarily through the issuance 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 for these purposes, under FRS 2: 'Accounting for Subsidiary Undertakings', the Companies Acts 1963 to 2006 and the European Communities (Credit Institutions; Account) Regulations, 1992. A list of all of the Group's principal subsidiaries is included in Note 34.

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 loans 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:

- Company		2007	2007
Securitisation Company	Date of Securitisation	Gross Assets Securitised US\$'000	Non-recourse finance US\$'000
Mortgages No. 6 Plc	Dec 2004	277,140	307,767
Mortgages No. 7 Plc	Aug 2005	696,773	746,830
Taurus CMBS No. 2 Srl	Dec 2005	139,322	152,126
Newgate Funding Plc	Dec 2007	1,691,309	646,733
		<u>2,804,544</u>	<u>1,853,456</u>

12. MARKET AND CLIENT RECEIVABLES

	2007	2006
	US\$'000	US\$'000 as restated
- Group		
Analysed by remaining maturity:		
On demand	11,876,270	7,323,596
	<u>11,876,270</u>	<u>7,323,596</u>
- Company		
Analysed by remaining maturity:		
On demand	11,682,640	7,108,708
	<u>11,682,640</u>	<u>7,108,708</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

13. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES	2007 US\$'000	2006 US\$'000 as restated
- Group and Company		
Held for Trading:		
Listed securities		
- Government securities	567,075	1,960,756
- Corporate bonds	378,906	603,097
Unlisted securities		
- Bank and Building Society Certificates of Deposit	-	2,641,107
	<u>945,981</u>	<u>5,204,960</u>
Available-for-sale:		
Unlisted securities		
- Bank and Building Society Certificates of Deposit	90,039	-
	<u>90,039</u>	<u>-</u>
Total debt securities and other fixed income securities	<u><u>1,036,020</u></u>	<u><u>5,204,960</u></u>
Analysed by remaining maturity:		
Due within one year	90,039	3,850,273
Due one year and over	945,981	1,354,687
	<u>1,036,020</u>	<u>5,204,960</u>

The risks associated with debt securities and other fixed income securities are dealt with in detail in Note 28.

14. DEFERRED TAXATION	2007 US\$'000	2006 US\$'000 as restated
- Group		
Timing differences related to:		
- accelerated capital allowances	351	376
- compensation and social security costs	1,603	16,182
- impairment allowances	28,240	-
- other timing differences	12,826	10,173
	<u>43,020</u>	<u>26,731</u>
- Company		
Timing differences related to:		
- accelerated capital allowances	351	376
- compensation and social security costs	1,603	16,182
- impairment allowances	28,240	-
- other timing differences	9,476	7,705
	<u>39,670</u>	<u>24,263</u>

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

14. DEFERRED TAXATION (CONTINUED)

Movement on deferred taxation:	2007 US\$'000	2006 US\$'000 as restated
- Group		
Balance at start of year	26,731	14,099
Deferred tax charge in income statement relating to current year	14,408	21,487
Adjustment relating to change in future tax rate	(1,960)	-
Adjustment in respect of previous years	3,841	(8,855)
Balance at end of year	<u>43,020</u>	<u>26,731</u>

Movement on deferred taxation:

- Company		
Balance at start of year	24,263	3,428
Deferred tax charge in income statement relating to current year	16,151	22,223
Adjustment relating to change in future tax rate	(1,960)	-
Adjustment in respect of previous years	1,216	(1,388)
Balance at end of year	<u>39,670</u>	<u>24,263</u>

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.

15. GOODWILL

	2007 US\$'000	2006 US\$'000
Cost		
At start of year	162,111	109,097
Additions	-	43,187
Adjustment for contingent consideration on previous acquisitions	36,409	-
Impairment	(21,500)	-
Exchange translation	3,955	9,827
At end of year	<u>180,975</u>	<u>162,111</u>
Amortisation		
At start of year	19,797	12,573
Charge for year	10,610	6,631
Exchange translation	232	593
At end of year	<u>30,639</u>	<u>19,797</u>
Net Book Value		
At start of year	<u>142,314</u>	<u>96,524</u>
At end of year	<u>150,336</u>	<u>142,314</u>

Goodwill acquired through business combinations was reviewed for permanent impairment during the year. The recoverable amount of the business units is based on a value in use calculation which indicated a permanent impairment.

MERRILL LYNCH INTERNATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 DECEMBER 2007

16. OTHER ASSETS	2007	2006
	US\$'000	US\$'000
- Group		
Amounts due from affiliate companies	3,894,106	1,919,684
Prepaid taxation	70,824	85,287
Prepayments and accrued income	439,020	814,021
	<u>4,403,950</u>	<u>2,818,992</u>
- Company		
Amounts due from affiliate companies	4,770,565	2,717,178
Prepaid taxation	65,555	23,416
Prepayments and accrued income	346,867	792,505
	<u>5,182,987</u>	<u>3,533,099</u>

Amounts due from affiliate companies at 28 December 2007 includes an amount of US\$8,367,943 (2006: Nil) due from the Group's immediate parent, Merrill Lynch Group Holdings Limited.

17. DEPOSITS BY BANKS	2007	2006
	US\$'000	US\$'000
		as restated
- Group		
Analysed by remaining maturity:		
Repayable on demand	1,001,267	55,050
	<u>1,001,267</u>	<u>55,050</u>
- Company		
Analysed by remaining maturity:		
Repayable on demand	843,987	55,050
	<u>843,987</u>	<u>55,050</u>

18. CUSTOMER ACCOUNTS	2007	2006
	US\$'000	US\$'000
- Group		
Analysed by remaining maturity:		
Repayable on demand	3,834,016	2,303,131
3 months or less but not on demand	20,568,575	18,513,115
1 year or less but over 3 months	2,279,908	963,747
5 years or less but over 1 year	56,894	10,242
5 years and over	167,127	16,916
	<u>26,906,520</u>	<u>21,807,151</u>
- Company		
Analysed by remaining maturity:		
Repayable on demand	3,392,395	2,303,131
3 months or less but not on demand	20,568,575	18,114,837
1 year or less but over 3 months	2,279,908	863,747
5 years or less but over 1 year	56,894	10,242
5 years and over	167,127	16,916
	<u>26,464,899</u>	<u>21,308,873</u>

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19. MARKET AND CLIENT PAYABLES	2007	2006
	US\$'000	US\$'000 as restated
- Group		
Analysed by remaining maturity:		
On demand	8,074,042	8,383,579
	<u>8,074,042</u>	<u>8,383,579</u>
- Company		
Analysed by remaining maturity:		
On demand	8,079,994	8,014,762
	<u>8,079,994</u>	<u>8,014,762</u>

20. PENSION COMMITMENTS

The Group operates pension plans both in Ireland and in its overseas branches and subsidiaries. The pension charges for the year are as follows:

- Group	2007	2006
	US\$'000	US\$'000
Defined contribution scheme	12,996	13,005
Defined benefit scheme	(1,924)	5,781
	<u>11,072</u>	<u>18,786</u>

The Group is a member of a multi employer group scheme, the Merrill Lynch (UK) Pension Plan ('the Plan'), formerly the Merrill Lynch (UK) Final Salary Plan. Valuations of the Plan are carried out triennially with the last valuation being performed as at 1 January 2006. That assessment showed that the Plan had a deficit of £103.3 million which represented a funding level of 83%. This represents an increase in the funding level from 69% recorded at the previous valuation in 2003; improvements were due to additional contributions and good returns on investments. Contributions to the Plan are recorded in the Company's accounts as 'defined contribution' in line with accounting rules on multi-employer schemes.

The assets of all other defined contribution schemes operated by the Group are held separately in independently administered funds. The charge in respect of these schemes is calculated on the basis of contributions due in the financial year.

A defined benefit scheme is operated in Germany and the main economic assumptions employed for determining the costs are as follows:

Date of latest valuation	1 October 2007
Salary growth	5.00%
Pension increases	2.00%
Discount rate	5.50%

The German scheme's liabilities as at 28 December 2007 were US\$45.2 million (2006: US\$49.2 million) and are provided in the accounts. In line with German business practices, the defined benefit pension scheme is not funded. The scheme's liabilities represent the net present value of future pension obligations to eligible past and current employees. These pension obligations are partially covered by an independent insurance provider.

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21. OTHER LIABILITIES	2007	2006
	US\$'000	US\$'000 as restated
- Group		
Amounts owed to affiliate companies	3,049,686	3,496,265
Provision for pensions	60,053	54,721
Corporation tax payable	74,733	82,240
Provision for deferred taxation	-	588
Other accruals	85,622	33,409
	<u>3,270,094</u>	<u>3,667,223</u>
- Company		
Amounts owed to affiliate companies	3,128,844	3,457,931
Provision for pensions	60,053	54,721
Corporation tax payable	43,649	61,770
Provision for deferred taxation	-	588
Other accruals	46,377	294
	<u>3,278,923</u>	<u>3,575,304</u>

Amounts owed to affiliate companies at 28 December 2007 has no amount due to the Group's immediate parent, Merrill Lynch Group Holdings Limited.(2006: US\$20,074,410). Deferred taxation relates to short term timing differences.

22. SUBORDINATED DEBT	2007	2006
	US\$'000	US\$'000
- Group		
US\$ 3,680m subordinated debt repayable 01 February 2013, Libor + 100bps	2,760,000	-
	<u>2,760,000</u>	<u>-</u>
- Company		
US\$ 3,680m subordinated debt repayable 01 February 2013, Libor + 100bps	2,760,000	-
	<u>2,760,000</u>	<u>-</u>

During 2007 the Group put two new facilities in place with Merrill Lynch & Co., Inc., as follows: US\$3,680,000,000 maturing on 1 February 2013 at Libor + 100bps as shown above and US\$2,250,000,000 maturing on 1 February 2010 at Libor + 100bps which remained undrawn at year end.

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23. SHARE CAPITAL

Authorised	2007	2007	2006	2006
	No.	US\$	No.	US\$
Ordinary shares US\$1	10,000,000	10,000,000	10,000,000	10,000,000
A Ordinary shares US\$1	15,000,000	15,000,000	15,000,000	15,000,000
B Ordinary shares US\$1	30,000	30,000	30,000	30,000
IR Ordinary shares US\$1	1,000	1,000	1,000	1,000
IT Ordinary shares US\$1	10,000	10,000	10,000	10,000
NL Ordinary shares US\$1	5,000	5,000	5,000	5,000
S Ordinary shares US\$20	500,000	10,000,000	500,000	10,000,000
SP Ordinary shares US\$1	5,000	5,000	5,000	5,000
	<u>25,551,000</u>	<u>35,051,000</u>	<u>25,551,000</u>	<u>35,051,000</u>
Called up, issued and fully paid	2007	2007	2006	2006
	No.	US\$	No.	US\$
Ordinary shares US\$1	9,207,075	9,207,075	9,125,000	9,125,000
A Ordinary shares US\$1	14,320,617	14,320,617	14,320,617	14,320,617
B Ordinary shares US\$1	377	377	377	377
IR Ordinary shares US\$1	163	163	163	163
IT Ordinary shares US\$1	4,012	4,012	4,012	4,012
NL Ordinary shares US\$1	1,080	1,080	1,080	1,080
S Ordinary shares US\$20	426,642	8,532,840	426,642	8,532,840
SP Ordinary shares US\$1	846	846	846	846
	<u>23,960,812</u>	<u>32,067,010</u>	<u>23,878,737</u>	<u>31,984,935</u>

In 2007 the Company issued share capital in order to facilitate the purchase of the net assets of Merrill Lynch Financial Services Limited. An analysis of the share capital issued, premium associated with these shares and the net assets acquired is shown below:

Share Class	Nominal	Par Value	Capital Issue	Premium	Net Assets
			US\$	US\$	US\$
Ordinary shares US\$1	82,075	1	82,075	25,388,925	25,471,000

All shares in issue as at 28 December 2007 rank pari passu in all respects save that upon the return of capital, such capital shall be applied in the following order of priority: Ordinary Shares followed by the B Ordinary Shares, IR Ordinary Shares, IT Ordinary Shares, NL Ordinary Shares, SP Ordinary Shares, A Ordinary Shares and finally the S Ordinary Shares. Any surplus after the repayment of such amounts shall be distributed between the holders of the shares in proportion to their holdings.

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24. COMBINED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENT IN RESERVES

- Group (all in US\$'000)

	Share Capital	Share Premium	Capital Contribution	Available- for-sale Reserve	Retained Earnings	Total
As at 29 December 2006	31,985	3,872,970	190,875	-	3,169,521	7,265,351
Prior period adjustment	-	-	-	-	(19,194)	(19,194)
As restated	31,985	3,872,970	190,875	-	3,150,327	7,246,157
Transition adjustment on adoption of FRS 26	-	-	-	1,592	-	1,592
Tax effect on transition adjustment on adopting FRS 26	-	-	-	(557)	-	(557)
As at 30 December 2006	31,985	3,872,970	190,875	1,035	3,150,327	7,247,192
Issue of new shares	82	25,389	-	-	-	25,471
Capital contribution	-	-	600,000	-	-	600,000
Profit for the year	-	-	-	-	751,016	751,016
Currency translation adjustment	-	-	-	-	43,186	43,186
Movement in available-for-sale reserve	-	-	-	(1,553)	-	(1,553)
Tax effect on movement in available-for-sale reserve	-	-	-	557	-	557
As at 28 December 2007	32,067	3,898,359	790,875	39	3,944,529	8,665,869

- Company (all in US\$'000)

	Share Capital	Share Premium	Capital Contribution	Available- for-sale Reserve	Retained Earnings	Total
As at 29 December 2006	31,985	3,872,970	190,875	-	2,684,776	6,780,606
Prior period adjustment	-	-	-	-	(19,194)	(19,194)
As restated	31,985	3,872,970	190,875	-	2,665,582	6,761,412
Transition adjustment on adopting FRS 26	-	-	-	1,592	-	1,592
Tax effect on transition adjustment on adopting FRS 26	-	-	-	(557)	-	(557)
As at 30 December 2006	31,985	3,872,970	190,875	1,035	2,665,582	6,762,447
Issue of new shares	82	25,389	-	-	-	25,471
Capital contribution	-	-	600,000	-	-	600,000
Profit for the year	-	-	-	-	788,291	788,291
Currency translation adjustment	-	-	-	-	2,807	2,807
Movement in available-for-sale reserve	-	-	-	(1,553)	-	(1,553)
Tax effect on movement in available-for-sale reserve	-	-	-	557	-	557
As at 28 Dec 2007	32,067	3,898,359	790,875	39	3,456,680	8,178,020

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25. ADOPTION OF FRS 26 AND FRS 29

Reconciliation of movements on adoption of FRS 26 at 30 December 2006

The adoption of FRS 26 results in a number of re-measurements to the opening balance sheet of the Group:

- Group	29 Dec 2006	Effect of adopting FRS 26		30 Dec 2006
	As restated	Re-	Re-	
	US\$'000	measurement	classification	US\$'000
		US\$'000	US\$'000	
ASSETS				
Cash and balances at Central Bank	328,328	-	-	328,328
Loans and advances to banks	7,817,545	-	-	7,817,545
Loans and advances to customers	22,747,145	-	-	22,747,145
Market and client receivables	7,323,596	-	-	7,323,596
Debt securities and other fixed income securities	5,204,960	(1,592)	-	5,203,368
Trading assets	110,120,177	-	-	110,120,177
Deferred taxation	26,731	557	-	27,288
Goodwill	142,314	-	-	142,314
Tangible fixed assets	12,498	-	-	12,498
Other assets	2,818,992	-	-	2,818,992
TOTAL ASSETS	156,542,286	(1,035)	-	156,541,251
LIABILITIES				
Deposits by banks	55,050	-	-	55,050
Customer accounts	21,807,151	-	-	21,807,151
Non-recourse financing	2,002,073	-	-	2,002,073
Market and client payables	8,383,579	-	-	8,383,579
Trading liabilities	112,923,728	-	-	112,923,728
Other liabilities	3,667,223	-	-	3,667,223
Accruals and deferred income	457,325	-	-	457,325
TOTAL LIABILITIES	149,296,129	-	-	149,296,129
SHAREHOLDERS' FUNDS				
Share capital	31,985	-	-	31,985
Share premium account	3,872,970	-	-	3,872,970
Capital contribution	190,875	-	-	190,875
Available-for-sale reserve	-	(1,035)	-	(1,035)
Retained earnings	3,150,327	-	-	3,150,327
	7,246,157	(1,035)	-	7,245,122
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	156,542,286	(1,035)	-	156,541,251

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25. ADOPTION OF FRS 26 AND FRS 29 (CONTINUED)

Reconciliation of movements on adoption of FRS 26 at 30 December 2006 (continued)

The adoption of FRS 26 results in a number of re-measurements to the opening balance sheet of the Company:

- Company	29 Dec 2006	Effect of adopting FRS 26		30 Dec 2006
	As restated	Re-	Re-	
	US\$'000	measurement	classification	US\$'000
		US\$'000	US\$'000	
ASSETS				
Cash and balances at Central Bank	328,328	-	-	328,328
Loans and advances to banks	7,142,360	-	-	7,142,360
Loans and advances to customers	19,471,461	-	-	19,471,461
Securitised assets	1,949,491	-	-	1,949,491
Less: non-recourse financing	(2,002,073)	-	-	(2,002,073)
Market and client receivables	7,108,708	-	-	7,108,708
Debt securities and other fixed income securities	5,204,960	(1,592)	-	5,203,368
Trading assets	110,082,929	-	-	110,082,929
Deferred taxation	24,263	557	-	24,820
Investment in subsidiaries	194,321	-	-	194,321
Tangible fixed assets	7,180	-	-	7,180
Other assets	3,533,099	-	-	3,533,099
TOTAL ASSETS	153,045,027	(1,035)	-	153,043,992
LIABILITIES				
Deposits by banks	55,050	-	-	55,050
Customer accounts	21,308,873	-	-	21,308,873
Market and client payables	8,014,762	-	-	8,014,762
Trading liabilities	112,976,053	-	-	112,976,053
Other liabilities	3,575,304	-	-	3,575,304
Accruals and deferred income	353,573	-	-	353,573
TOTAL LIABILITIES	146,283,615	-	-	146,283,615
SHAREHOLDERS' FUNDS				
Share capital	31,985	-	-	31,985
Share premium account	3,872,970	-	-	3,872,970
Capital contribution	190,875	-	-	190,875
Available-for-sale reserve	-	(1,035)	-	(1,035)
Retained earnings	2,665,582	-	-	2,665,582
	6,761,412	(1,035)	-	6,760,377
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	153,045,027	(1,035)	-	153,043,992

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25. ADOPTION OF FRS 26 AND FRS 29 (CONTINUED)

Analysis of FRS 26 categories as at 28 December 2007

The following table analyses the carrying amount of financial assets and liabilities of the Group as at 28 December 2007 by category and by balance sheet heading:

All figures in US\$'M

	Held for trading	Loans and receivables	Financial assets and liabilities	Available-for-sale	Derivatives designated as fair value hedges	Derivatives designated as net investment hedges	Total
ASSETS							
Cash and balances at Central Bank	-	939	-	-	-	-	939
Loans and advances to banks	-	9,622	-	-	-	-	9,622
Loans and advances to customers	-	29,964	-	-	-	-	29,964
Market and client receivables	-	-	11,876	-	-	-	11,876
Debt securities and other fixed income securities	946	-	-	90	-	-	1,036
Trading assets	194,754	-	-	-	-	-	194,754
	195,700	40,525	11,876	90	-	-	248,191
LIABILITIES							
Deposits by banks	-	-	1,001	-	-	-	1,001
Customer accounts	-	-	26,907	-	-	-	26,907
Non-recourse financing	-	-	1,853	-	-	-	1,853
Market and client payables	-	-	8,074	-	-	-	8,074
Trading liabilities	199,853	-	-	-	3	-	199,856
Subordinated debt	-	-	2,760	-	-	-	2,760
	199,853	-	40,595	-	3	-	240,451

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25. ADOPTION OF FRS 26 AND FRS 29 (CONTINUED)

Analysis of FRS 26 categories as at 28 December 2007 (continued)

The following table analyses the carrying amount of financial assets and liabilities of the Company as at 28 December 2007 by category and by balance sheet heading:

All figures in US\$'M

	Held for trading	Loans and receivables	Financial assets and liabilities	Available-for-sale	Derivatives designated as fair value hedges	Derivatives designated as net investment hedges	Total
ASSETS							
Cash and balances at Central Bank	-	939	-	-	-	-	939
Loans and advances to banks	-	9,115	-	-	-	-	9,115
Loans and advances to customers	-	25,725	-	-	-	-	25,725
Securitised assets	-	2,805	-	-	-	-	2,805
Non-recourse financing	-	-	(1,853)	-	-	-	(1,853)
Market and client receivables	-	-	11,683	-	-	-	11,683
Debt securities and other fixed income securities	946	-	-	90	-	-	1,036
Trading assets	194,736	-	-	-	-	-	194,736
	195,682	38,584	9,830	90	-	-	244,186
LIABILITIES							
Deposits by banks	-	-	844	-	-	-	844
Customer accounts	-	-	26,465	-	-	-	26,465
Market and client payables	-	-	8,080	-	-	-	8,080
Trading liabilities	199,840	-	-	-	3	-	199,843
Subordinated debt	-	-	2,760	-	-	-	2,760
	199,840	-	38,149	-	3	-	237,992

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26. FAIR VALUE INFORMATION

The following table provides an analysis of the fair value of financial instruments of the Group not carried at fair value on the balance sheet:

All figures in US\$'M

	2007	
	Carrying amount	Fair value
Financial Assets		
Cash and balances at Central Bank	939	939
Loans and advances to banks	9,622	9,621
Loans and advances to customers	29,964	28,954
Market and client receivables	11,876	11,876
Financial Liabilities		
Deposits by banks	1,001	1,001
Customers accounts	26,907	26,907
Non-recourse financing	1,853	1,853
Market and client payables	8,074	8,074
Subordinated debt	2,760	2,691

The fair value presented in the table above are stated at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date. In many cases, it would not be possible to realise immediately fair values.

Impact of internal models on fair value calculations

Fair values of certain financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

- the value given by application of a valuation model, based upon the Group's best estimate of the most appropriate model inputs;
- any fair value adjustments to account for market features not included within the valuation model (for example; counterparty credit spreads, market data uncertainty); and
- inception profit not recognised immediately in the income statement in accordance with accounting policies.

Day one profits

The amount that has yet to be recognised in the consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques been applied at initial recognition, less subsequent release, is as follows:

	2007
	US\$'000
Balance as at 29 December 2006	-
New trades deemed unobservable	143,771
Less: Buybacks/defeasements	(24,939)
Balance as at 28 December 2007	118,832

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27. HEDGE ACCOUNTING

At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group also monitors the position on an ongoing basis to ensure that the risk management objectives continue to be achieved.

Fair value hedge

To hedge the interest rate risk associated with a number of loans in the Group's portfolio, interest rate derivatives have been designated as part of a fair value hedge.

Gains or losses arising from fair value hedges	2007 US\$'000
Gains/(losses):	
- on hedging instruments	(2,773)
- on the hedged items attributable to the hedged risk	2,679
Total	<u>(94)</u>

The notional amounts relating to financial instruments held to manage interest rate risk as part of a fair value hedge at 28 December 2007 amounted to US\$154,719,000. The fair value of derivatives used as part of a fair value hedge amounted to (US\$2,773,000), as at 28 December 2007.

Net investment hedges

The Group's consolidated balance sheet is affected by exchange differences between the US dollar and all the non-US dollar functional currencies of its branches. Hedging is undertaken by financing with borrowings in the same currency as the functional currency involved. As at 28 December 2007, the Group had borrowings equivalent to US\$294 million hedging overseas net assets; the amount of ineffectiveness was immaterial. Changes in US dollar value of the borrowings were taken to equity during the year, matching gains and losses of overseas operations upon consolidation.

28. FINANCIAL RISK MANAGEMENT

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 systematically manage the following risk categories most relevant to its business:

- **Market risk:** The current or future threat to our earnings and capital base as a result of a change in the value of an asset due to a movement in credit spreads, interest rates, foreign exchange rates or equity prices;
- **Credit risk:** The potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations to the Group;
- **Liquidity risk:** The potential inability to meet financial obligations, on or off-balance sheet, as they come due; and
- **Operational risk:** The risk of loss resulting from the failure of people, internal processes and systems, or from external events.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group approves and monitors risk tolerance levels (i.e. credit, market, liquidity and operational risks) through the Risk Policy and Oversight Committee, chaired by a non-executive director. This committee reviews reports from the Group's credit, asset and liability, new product and operational risk 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 limits are market risk management, credit risk management and liquidity risk management. To ensure a proper system of checks and balances, these groups are independent of business units and report to senior management in the Group.

(a) Market risk

The Group uses conventional risk measures and internal mathematical and statistical measures, specifically Value at Risk (VaR), to manage its market risk positions both in and outside the trading portfolio on a daily basis.

The main elements of market risk relevant to the Group are:

- **Interest Rate Risk:** the potential for loss due to adverse changes in interest rates. Interest rate swap agreements, futures and securities are common interest rate risk management tools;
- **Currency Risk:** the potential for loss due to fluctuations in foreign exchange rates. Trading assets and liabilities include both cash instruments in, and derivatives linked to, over 30 currencies including Japanese Yen, Euro, Swiss Franc and British Pound. Currency forwards, swaps and options are commonly used to manage currency risk associated with these instruments; and
- **Credit Spread Risk:** the potential for loss due to changes in credit spreads. Credit spreads represent the credit risk premiums required by market participants for a given credit quality. Credit default swaps are common credit spread risk management tools.

The global risk management group ('GRM') and other independent risk and control groups are responsible for approving the products and markets in which the Group's business units and functions will transact and take risk. Moreover, this group is responsible for identifying the risks to which these business units will be exposed in these approved products and markets. GRM uses a variety of quantitative methods to assess the risk of the Group's positions and portfolios, in both trading and non-trading books. In particular, GRM quantifies the sensitivities of the Group's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that the Group's current portfolios would have incurred throughout the historical period. From these distributions, GRM derives a number of useful risk statistics, including VaR.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

The VaR disclosed in the accompanying table is an estimate of the amount that the Group's current trading and non-trading portfolios could lose with a specified degree of confidence, over a given time interval. The aggregate VaR for the Group's trading and non-trading portfolios is less than the sum of the VaR for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaR for individual risk categories and the VaR calculated for all risk categories is shown in the following table and may be viewed as a measure of the diversification within the Group's portfolios. Management believe that the tabulated risk measures provide broad guidance as to the amount the Group could lose in future periods, and management work continually to improve the Group's measurement and the methodology of VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk. In addition, VaR is not intended to capture worst case scenario losses.

To calculate VaR, the Group aggregates sensitivities to market risk factors and combines them with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, which include exposure to volatility risk found in certain products, such as options.

The table that follows presents the Group's average and year-end VaR for trading and non-trading portfolios for 2007 and 2006. Additionally, high and low VaR for 2007 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

95% Daily (scaled) VaR in US\$'000	Year End 2007	Daily Average	High	Low	Year End 2006
Group (Total)	24,155	16,429	30,280	6,784	8,667
of which:					
FX	6,122	4,357	10,368	1,221	3,504
Rates	10,151	10,759	25,040	2,901	4,770
Credit	21,530	13,087	21,530	8,583	8,782

GRM applies an enhanced historical simulation methodology, using the most recent four years of historical observations, updated quarterly. To this historical observation set we add a hypothetical observation set consisting of the opposite of the historical movements. Together, the historical data and the simulated observations comprise the total observation set. Since there are typically 209 weeks in a four-year historical period, the total observation set for the weekly VaR typically consists of 418 observations.

The aim of the enhanced historical simulation methodology is to increase the number of potential observations and to reduce potential biases in the historical data by including states of the world that reverse any longer-term trends evident in benchmark time series over the historical observation period. All scenario submissions are mapped to a benchmark time series in the total observation set.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

To calculate VaR, the profits or losses for each submission are calculated for all dates in the total observation set. For a given scenario and benchmark observation, if the shift in the benchmark time series falls between two scenario shocks, then profit and loss ('P&L') is calculated using linear interpolation from the two scenario points that straddle the shift. If the shift exceeds the range of the scenario shocks, then linear extrapolation is applied to the two extreme scenario points closest to that shift.

P&L results are calculated independently for each scenario and for each observation in the total observation set. The results for each draw are then summed across all scenarios. The aggregate draws are each ranked by P&L.

For 99% and 95% confidence level VaR, the VaR is defined as the 1% or 5% order statistic of the aggregate draws. In the case of weekly observations, since there are typically 418 observations in the total observation set, the 1% and 5% order statistics are the 5th-ranked and 21st- ranked observations.

(b) Credit risk

The Group defines credit risk as the potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations to the Group. The credit risk framework is the primary tool that is used to communicate firm wide credit limits and monitor exposure by constraining the magnitude and tenor of exposure to counterparty and issuer families. Additionally, there are country risk limits that constrain total aggregate exposure across all counterparties and issuers (including sovereign entities) for a given country within predefined tolerance levels.

The Group's credit department assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firm wide credit risk levels within the credit risk framework among other tools. This department reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. They are also responsible for the ongoing monitoring of credit quality and limit compliance and actively work with all of the Group's business units to manage and mitigate credit risk.

The credit department uses a variety of methodologies to set limits on exposure and potential loss resulting from an individual, counterparty or issuer failing to fulfil its contractual obligations. The credit department performs analyses in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure as well as potential loss and are set and monitored by broad risk type, product type, and maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavourable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees and the purchase of credit default protection. The credit department, in conjunction with the Group's senior management, conducts regular portfolio reviews, monitors counterparty creditworthiness and evaluates potential transaction risks with a view toward early problem identification and protection against unacceptable credit related losses. The Group continues to invest additional resources to enhance its methods and policies to assist in managing the Group's credit risk and to address evolving regulatory requirements.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Senior members of the global credit and commitments committee chair various commitment committees with membership across business, control and support units. These committees review and approve commitments, underwritings and syndication strategies related to debt, syndicated loans, equity, real estate, leveraged finance and asset-backed finance.

The primary credit risks of the Group relate to its lending and derivative activities:

Lending activities

The Group's commercial lending activities consist primarily of corporate and institutional lending, asset-backed finance, commercial real estate related activities, and leveraged finance. In evaluating certain potential commercial lending transactions, a risk adjusted return on capital model is used in addition to other methodologies. The Group typically provides corporate and institutional lending facilities to clients for general corporate purposes, backup liquidity lines, bridge financings, and acquisition related activities. The Group often syndicate corporate and institutional loans through assignments and participations to unaffiliated third parties. While these facilities may be supported by credit enhancing arrangements such as property liens or claims on operating assets, the Group generally expect repayment through other sources including cash flow and/or recapitalisation.

The Group's credit department mitigates certain exposures in the corporate and institutional lending portfolio by purchasing single name and basket credit default swaps as well as by evaluating and selectively executing loan sales in the secondary markets.

Asset-backed finance facilities are typically secured by financial assets such as mortgages, auto loans, leases, credit card and other receivables. Clients often use these facilities for the origination and purchase of assets during a warehousing period leading up to securitisation. Credit assessment for these facilities relies primarily on the amount, asset type, quality, and liquidity of the supporting collateral, as the collateral is the expected source of repayment. Limits are monitored against potential loss upon default taking these factors into consideration.

The Group's other commercial real estate related activities consist of commercial mortgage originations and other extensions of credit connected to the financing of commercial properties or portfolios of properties. The Group may reduce or eliminate these exposures through third-party syndications or securitisations. The Group's assessment of creditworthiness and credit approval is highly dependent upon the anticipated performance of the underlying property and/or associated cash flows.

The Group originates residential mortgage loans through its subsidiary operations. The loans are secured on residential property and advances are made subject to underwriting guidelines. The loans are not rated and are originated with the intention to securitise or sell through whole loan sales. The carrying value of such loans amounted to US\$5.5 billion, as at 28 December 2007.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Derivative activities

The Group enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ('master netting agreements') with all of the Group's major derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. While the Group makes every effort to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject the Group to additional risk. The enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis for risk assessment purposes.

In addition, to reduce the risk of loss, the Group requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, the Group evaluates risk exposures net of related collateral that meets specified standards. The Group also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable us to terminate or reset the terms of our derivative contracts.

The following is a summary of counterparty credit ratings, which are the credit rating agency equivalent of internal credit ratings, for the Group's financial assets as at 28 December 2007:

- Group (all figures US\$'000)	AAA to AA	A to BBB	BB and lower	Not Rated*	Total
Cash and balances at Central Bank	938,683	-	-	-	938,683
Loans and advances to banks	8,208,473	1,413,697	-	-	9,622,170
Loans and advances to customers	1,178,440	5,431,386	8,544,415	14,809,907	29,964,148
Market and client receivables	5,746,589	4,885,605	23,008	1,221,068	11,876,270
Debt securities and other fixed income securities	336,017	603,642	46,147	50,214	1,036,020
Trading assets	153,586,744	39,243,082	724,553	1,199,576	194,753,955
Total financial assets	169,994,946	51,577,412	9,338,123	17,280,765	248,191,246
Guarantees, undrawn commitments and assets pledged as collateral security	13,296,809	11,376,846	3,551,602	23,905,428	52,130,685
Maximum credit exposure	183,291,755	62,954,258	12,889,725	41,186,193	300,321,931

*The majority of the Group's exposure to 'Not Rated' counterparties relates to its activities in the residential mortgages and private client securities based lending areas. Both of these activities are characterised by the provision of lending facilities which are secured on assets in the form of residential property, cash or equity.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Collateral

The Group applies the various instruments available to reduce the risk on individual transactions, including collateral in the form of physical assets, netting arrangements and guarantees.

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is US\$9,833 million. The fair value of financial assets accepted as collateral that have been sold or repledged is US\$9,824 million.

The Group has pledged US\$9,800 million of its financial assets, as collateral for liabilities.

The Group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities financing activities.

Past due, but not impaired assets

The following table details credit exposures that are past due, but not impaired.

(All figures US\$'000)	0 to 30 days	31 to 60 days	61 to 90 days	90 to 120 days	120 to 180 days	180 days +
Loans and advances to customers	111,096	52,995	16,101	5,001	2,298	5,515
Market and client receivables	502,486	261,787	421,296	177,317	631,905	-
Fair value of associated collateral	134,667	64,309	19,855	6,460	2,872	6,762

Impairment charges

The allowance account includes all impairment charges against loans and receivables. There were no impairment charges against any other class of financial asset. The table below gives details of the movement of the allowance account during the year

	Individual impairment US\$'000	Collective impairment US\$'000	Total impairment charges US\$'000
At 29 December 2006	9,413	20,475	29,888
Amounts written off subsequently recovered	(3,839)	(4,530)	(8,369)
Charge to income statement	11,466	101,179	112,645
Foreign currency translation	-	(4,944)	(4,944)
At 28 December 2007	17,040	112,180	129,220

Interest accrued on individually impaired assets during the period was US\$7,137,000. There was no collateral held on the back of individual impaired loans.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The Group defines liquidity risk as the potential inability to meet financial obligations, on or off-balance sheet, as they become due. Liquidity risk relates to the ability of a company to repay short-term borrowings with new borrowings or with assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Liquidity risk also includes both the potential inability to raise funding with appropriate maturity, currency and interest rate characteristics and the inability to liquidate assets in a timely manner. The Group actively manages the liquidity risks in its businesses that can arise from asset-liability mismatches, credit sensitive funding, commitments or contingencies.

The primary liquidity objectives are to ensure liquidity through market cycles and periods of financial stress. The Group manages liquidity risk through holding a portfolio of cash and highly liquid assets which can be readily realised for cash, by maintaining committed credit facilities, by appropriately matching the liquidity profile of its assets and liabilities and by maintaining a funding profile which is well diversified on a client, segmental, geographical and duration basis.

The Board sets the Group's liquidity risk tolerance, and maintains a comprehensive liquidity policy, investment policy and a formal contingency financing plan. The plan is comprehensive and includes detailed actions which may be required depending on the nature and severity of the potential liquidity stress event.

Through its Risk Policy and Oversight Committee, the Board ensures suitable systems and controls, risk limits, risk assessments, management responsibilities and limit controls which are in turn monitored by the Asset and Liability Committee. The Group has a comprehensive stress testing framework which is consistent with market practice for liquidity risk stress and scenario testing. The stress tests incorporate both market and Group specific stresses.

Liquidity Risk Management ('LRM') is responsible for measuring, monitoring and controlling the Group's liquidity risks. LRM establishes methodologies and specifications for measuring liquidity risks, performs scenario analysis and liquidity stress testing, and sets and monitors liquidity limits. LRM works with the Group's business units to limit liquidity risk exposures and reviews liquidity risks associated with new products and new business strategies.

Liquidity risk is measured using the cash flow mismatch methodology in conformity with the regulatory liquidity requirements introduced in 2007 by the Financial Regulator. Under this methodology, modelled, contractual and contingent cash inflows and outflows are reported in pre-determined time bands and managed against limits as established in the Group's Board approved liquidity policy. Conservative modelling assumptions, reviewed by Financial Regulator, imply degrees of hypothetical stress to ensure that the Group will be able to continue to operate as a going concern under such stress conditions.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

The following table shows the liability maturity profile of the Group:

(All figures US\$'000)	On demand	Due within 1 year	Due between 1 and 5 years	Due after 5 years
NON-TRADING LIABILITIES				
Deposits by banks	1,001,267	-	-	-
Customers accounts	3,834,016	22,848,483	56,894	167,127
Non-recourse financing	-	-	-	1,853,456
Market and client payables	8,074,042	-	-	-
Subordinated debt	-	-	-	2,760,000
OFF-BALANCE SHEET				
Guarantees, undrawn commitments and assets pledged as collateral security	3,601,813	42,187,748	4,254,927	2,086,197
TRADING LIABILITIES*				
Trading liabilities	199,856,302	-	-	-

*Trading liabilities primarily consist of derivative liabilities. The Group has recorded all derivative liabilities in the 'on demand' category to reflect the common market practice of terminating derivative contracts at fair value upon a client's request. The Group has provided the present value rather than contractual undiscounted cash flows for these instruments. It should be noted however, that it is remote that in any given period all of the derivatives will unwind in the short term, and although it is current market practice to terminate contracts upon a client's request, the Group is generally not contractually obligated to do so. The Group manages liquidity for these instruments by actively unwinding asset positions to ensure appropriately balanced cash flows. All other figures are undiscounted and show contractual maturities.

(d) Operational risk

The Group defines operational risk as the risk of loss resulting from the failure of people, internal processes and systems, or from external events. Operational risk can arise from many sources including theft and fraud, improper business practices, claims from clients, and from events which disrupt business.

The primary responsibility for managing operational risk on a day-to-day basis lies with the Group's businesses and support functions. Each business and support group has established processes, systems and controls to address operational risks within their unit. These include the use of technology to automate processes and key controls; the provision and testing of business continuity plans to protect against major disruptions; the establishment of control committees to oversee the effectiveness of the control environment; and the training, supervision and development of staff.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk (continued)

Operational Risk Management ('ORM') is an independent risk management function responsible for providing a framework and infrastructure to support the effective management and oversight of the firm's exposure to operational risk. The framework includes:

- Identification, assessment and monitoring of risks - ORM works closely with business management, GRM, and other independent control functions to identify, assess and monitor the critical operational risks impacting the business;
- Loss analysis - ORM systematically captures, analyses, and reports operational risk loss data based on a structured classification of risk. Risk categories used for analysis of both firm and industry loss data include business disruption, business practices, client selection and exposure, client suitability and servicing, employment practices, key person, technology, theft and fraud, transaction execution, and valuation and reporting; and
- Reporting to governance committees - ORM presents analysis of all elements of the operational risk framework to key governance, risk, and control committees both regionally and globally.

29. CAPITAL RISK MANAGEMENT

It is the Group's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group is headquartered in Ireland and directly regulated and subject to the capital requirements of the Financial Regulator. The Group is required to meet minimum regulatory capital requirements under European Union ('EU') banking law as implemented in Ireland and supervised by the Financial Regulator. At 28 December 2007, the Group's capital ratio was above the minimum requirement at 11.59% (2006: 11.06%) and its financial resources were US\$10,236 million (2006: US\$6,686 million), exceeding the minimum requirement by US\$3,365 million (2006: US\$1,840 million).

Capital Type	2007 US\$ M	2006 US\$ M
Tier One	7,404	6,625
Tier Two	2,532	61
Tier Three	300	-

Tier One capital is the Group's core capital and includes its equity capital, share premium and retained earnings. Tier Two and Tier Three capital consists of the Group's subordinated debt which it has received from its ultimate parent Merrill Lynch & Co., Inc.. In addition, Tier Three capital can include the Group's unaudited trading book profits. Tier Two capital has a maturity profile of no less than five years, Tier Three a maturity profile of no less than two years.

The Group's policy is to hold capital in excess of its regulatory capital requirements. Compliance with this policy is monitored daily and reported to appropriate governance forums monthly and quarterly, and to the Financial Regulator quarterly.

The Basel Committee on Banking Supervision has published a framework for calculating minimum capital requirements which is known as Basel II. It replaces the 1988 Basel Capital Accord. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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29. CAPITAL RISK MANAGEMENT (CONTINUED)

With respect to the first pillar, minimum capital requirements, Basel II provides three approaches of increasing sophistication for the calculation of credit risk regulatory capital; the Standardised Approach which requires firms to use external credit ratings to determine the risk weightings applied to rated counterparties; the Foundation Internal Ratings Based Approach ('FIRB') which determines risk weightings on the basis of an internal assessment of the probability that a counterparty will default, but uses standard supervisory parameters for loss given default; and Advanced Internal Ratings Based Approach ('AIRB') which allows banks to use their own internal assessment not only of the counterparties probability of default but also of the loss given default.

From 1 January 2008 the Group has implemented the FIRB Approach for the majority of its business units. A rollout plan has been developed to extend coverage of this approach over the next three years leaving a small residue of exposures on the standardised approach.

30. NON-TRADING BOOK ACTIVITIES

Interest rate sensitivity gap analysis - Group

Part of the Group's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Group's non-trading book as at 28 December 2007. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months US\$ M	Not more than six months US\$ M	Not more than one year US\$ M	Not more than five years US\$ M	More than five years US\$ M	Non- interest bearing US\$ M	Total US\$ M
Assets							
Cash and balances at central banks	939	-	-	-	-	-	939
Loans and advances to banks	9,488	61	-	73	-	-	9,622
Loans and advances to customers	2,068	6,092	5,548	5,354	10,902	-	29,964
Market and client receivables	11,876	-	-	-	-	-	11,876
Other assets	4,008	-	-	-	-	619	4,627
Total assets	28,379	6,153	5,548	5,427	10,902	619	57,028
Liabilities							
Deposits by banks	1,001	-	-	-	-	-	1,001
Customer Accounts	24,383	1,738	542	57	167	20	26,907
Non-recourse finance	-	-	-	1,853	-	-	1,853
Market and client payables	8,074	-	-	-	-	-	8,074
Other liabilities	2,867	-	-	-	-	834	3,701
Subordinated debt	-	-	-	-	2,760	-	2,760
Shareholders' funds	-	-	-	-	-	8,666	8,666
Total Liabilities	36,325	1,738	542	1,910	2,927	9,520	52,962
Interest rate sensitivity gap	(7,946)	4,415	5,006	3,517	7,975	(8,901)	4,066
Cumulative Gap	(7,946)	(3,531)	1,475	4,992	12,967	4,066	

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30. NON-TRADING BOOK ACTIVITIES (CONTINUED)

The primary non-trading book activities of the Group include lending and investment activity.

Currency risk disclosures

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

	2007 US\$'000	2006 US\$'000
Swiss Franc	493,401	418,895
Sterling	139,844	204,666
Euro	42,669	156
Bahraini Dinar	1,438	1,140
	677,352	624,857

Transactional currency exposures are non-structural currency exposures, which arise on the monetary assets and liabilities of the Group that are not denominated in the base currency of the operating unit involved.

31. SHARE BASED PAYMENTS

To align the interests of employees with those of shareholders, the Group's ultimate parent, Merrill Lynch & Co., Inc., sponsors several employee compensation plans that provide eligible employees with shares or options to purchase shares. The total pre-tax compensation cost recognised in the income statement for share based compensation plans for 2007 was US\$122 million (2006: US\$121 million).

Long Term Incentive Compensation Plans ('LTIC Plans'), Employee Stock Compensation Plan ('ESCP') and Equity Capital Accumulation Plan ('ECAP')

LTIC Plans, ESCP and ECAP provide for grants of equity and equity related instruments to certain employees. LTIC Plans consist of a shareholder approved plan used for grants to executive officers, and the long term incentive compensation plan for managers and producers, a broad-based plan which was approved by the Board, but has not been shareholder approved. LTIC Plans provide for the issuance of restricted shares, restricted units and non-qualified stock options, as well as incentive stock options, performance shares, performance units, performance options, and other securities of Merrill Lynch. ESCP, a broad-based plan approved by shareholders in 2003, provides for the issuance of restricted shares, restricted units and non-qualified stock options. ECAP, a shareholder-approved plan, provides for the issuance of restricted shares, as well as performance shares. All plans under LTIC Plans, ESCP and ECAP may be satisfied using either treasury or newly issued shares.

Restricted shares and restricted units

Restricted shares are shares of Merrill Lynch & Co., Inc. common stock carrying voting and dividend rights. A restricted unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of restricted unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer or assignment until the end of the restricted period.

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31. SHARE BASED PAYMENTS (CONTINUED)

Restricted shares and restricted units (continued)

Such shares and units are subject to forfeiture during the vesting period for grants under LTIC Plans or the restricted period for grants under ECAP. Restricted share and unit grants made prior to 2003 generally cliff vest in three years. Restricted share and unit grants made in 2003 through 2005 generally cliff vest in four years. Restricted share and unit grants made from 2006, generally step vest in four years. From 2006, participation units were granted from the LTIC Plans under Merrill Lynch's managing partners incentive program. The awards granted under this program are fully at risk, and the potential payout will vary depending on Merrill Lynch's financial performance against pre-determined return on average common stockholders' equity targets. One-third of the participation units will convert into restricted shares on each of 31 January 2007, 31 January 2008 and 31 January 2009, subject to the satisfaction of minimum ROE targets determined for the most recently completed fiscal year. Participation units will cease to be outstanding immediately following conversion. If the minimum target is not met, the participation units will expire without being converted.

The activity for restricted shares and units under these plans during 2007 and 2006 is as follows:

	Restricted shares	Restricted units
Outstanding, beginning of 2006	740,501	607,529
Granted – 2006	249,360	240,128
Paid, forfeited or released from contingencies	(310,530)	(182,390)
Outstanding, end of 2006	679,331	665,267
Granted – 2007	343,953	371,196
Paid, forfeited or released from contingencies	34,226	50,822
Outstanding, end of 2007	1,057,510	1,087,285

Non-qualified stock options

Non-qualified stock options granted under LTIC Plans in 1996 through 2000 generally became exercisable over five years; options granted in 2001 and 2002 became exercisable after approximately six months. Options made after 2002 generally become exercisable over four years. The exercise price of these grants is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of Merrill Lynch & Co., Inc. common stock on the date of grant. Options expire ten years after their grant date.

The activity for non-qualified stock options under LTIC Plans for 2007 and 2006 is as follows:

	Options outstanding	Weighted average exercise price	Weighted average share price at date of exercise
Outstanding, beginning of 2006	2,773,478	50.8	
Granted – 2006	32,549	71.5	
Exercised	(588,099)	41.2	78.34
Forfeited	(40,436)	42.9	
Outstanding, end of 2006	2,177,492	53.7	
Granted – 2007	4,450	95.8	
Exercised	(320,725)	46.6	90.95
Forfeited	(91,474)	49.4	
Outstanding, end of 2007	1,769,743	54.7	
Exercisable, end of 2007	1,679,189	53.3	

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31. SHARE BASED PAYMENTS (CONTINUED)

At 28 December 2007, the weighted-average remaining contractual terms of options outstanding and exercisable were 3.3 years and 3.2 years, respectively. The weighted-average fair value of options granted in 2007 and 2006 was US\$8.18 and US\$14.16 per option, respectively. The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 28 December 2007.

Range of exercise prices	2007 Number	Weighted average remaining contractual life - 2007	2006 Number	Weighted average remaining contractual life - 2006
\$20.00-\$30.00	-	-	38,278	0.08
\$30.00-\$40.00	447,098	2.08	542,500	3.01
\$40.00-\$50.00	239,271	3.58	287,342	4.58
\$50.00-\$60.00	564,005	4.08	691,794	5.08
\$60.00-\$70.00	7,216	2.59	7,216	3.59
\$70.00-\$80.00	507,703	3.07	610,362	4.07
\$80.00-\$90.00	-	-	-	-
\$90.00-\$100.00	4,450	4.07	-	-

The fair value of each option award is estimated on the date of grant based on a Black-Scholes option pricing model using the following weighted-average assumptions:

- The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant;
- The expected life of options granted is equal to the contractual life of the options adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations; and
- Expected volatilities are based on historical volatility of Merrill Lynch & Co., Inc. common stock. The expected dividend is based on the current dividend rate at the time of grant.

	2007	2006
Risk free interest rate	4.79%	4.40%
Expected life	4.3 years	4.5 years
Expected volatility	21.39%	28.87%
Expected dividend yield	1.49%	1.37%

32. LEASE COMMITMENTS

During the year, the Group is committed to pay US\$27,043,000 (2006: US\$14,031,000) in respect to operating leases as follows:

	2007 US\$'000		2006 US\$'000	
	Land and Building	Other	Land and Building	Other
Maturity of lease:				
1 year to 5 years	17,816	2,819	7,608	2,059
Over 5 years	6,408	-	4,364	-
	<u>24,224</u>	<u>2,819</u>	<u>11,972</u>	<u>2,059</u>

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33. PARENT COMPANY AND RELATED PARTY TRANSACTIONS

The immediate parent company is Merrill Lynch Group Holdings Limited, a company incorporated in Ireland. The financial statements of Merrill Lynch Group Holdings Limited are available at the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

The ultimate parent company is Merrill Lynch & Co., Inc., a company incorporated in the State of Delaware, USA. Copies of the group financial statements of Merrill Lynch & Co., Inc. are available from the Investor Relations website at www.ir.ml.com or 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.

The Group has availed itself of an exemption, contained in FRS 8: 'Related Party Disclosures', from detailing transactions and balances with group companies. There were no related party transactions other than those with affiliated companies covered by this exemption.

34. SUBSIDIARY COMPANIES

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

Company	Principal Activity	Country of Incorporation	Proportion of Ordinary shares held	Value of Shareholding US\$'000
Merrill Lynch Bank (Suisse) SA*	Private client banking	Switzerland	100%	21,561
Majestic Acquisitions*	Mortgage lending	United Kingdom	100%	160,972
Mortgages Plc	Mortgage lending	United Kingdom	100%	-
Mortgages No. 1 Plc	Mortgage lending	United Kingdom	0%	-
Mortgages No. 6 Plc	Securitisation vehicle	United Kingdom	0%	-
Mortgages No. 7 Plc	Securitisation vehicle	United Kingdom	0%	-
Wave Lending Limited*	Mortgage lending	United Kingdom	100%	48,168
Taurus No.2 CMBS Srl	Securitisation vehicle	Italy	0%	-
Newgate Funding Plc	Securitisation vehicle	United Kingdom	0%	-
Merrill Lynch Financial Services Ltd*	Financial services	Ireland	100%	25,471
				256,172

Mortgages No. 6 Plc, Mortgages No. 7 Plc, Newgate Funding Plc and Taurus No.2 CMBS Srl are not owned by the Group but their results are consolidated, as they meet the definition of legal subsidiaries for these accounts under FRS 2: 'Accounting for Subsidiary Undertakings', the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

35. CASH FLOW STATEMENT

The Group is exempt from the requirement to prepare a cash flow statement under FRS1: '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
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36. SEGMENTAL REPORTING

The Groups activities are derived from Global Markets and Investment Banking and Global Wealth Management. The Groups ultimate parent, Merrill Lynch & Co. Inc., manages the entire groups businesses along these segments.

From a Group perspective however, it is not possible to allocate trading revenues or net assets to any particular geographical source as one trade may involve parties situated in a number of different geographical areas.

37. EMPLOYEE INFORMATION

Average number of persons employed:	2007	2006
Sales and trading	610	497
Sales and trading support	228	214
Other support services	<u>1,849</u>	<u>1,108</u>
	<u>2,687</u>	<u>1,819</u>

The above averages include Group staff in both Ireland and its overseas operations.

**OFFICES OF MERRILL LYNCH INTERNATIONAL BANK LIMITED
HEAD OFFICE, BRANCHES AND SUBSIDIARIES
FOR THE YEAR ENDED 28 DECEMBER 2007**

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