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Merrill Lynch Capital Markets AG

2007 Annual Report

Global Markets & Investment Banking | Global Research | Global Wealth Management

LET'S FACE THE FACTS

MERRILL LYNCH CAPITAL MARKETS AG

CHAIRMAN AND CEO BUSINESS REPORT 2007

The performance achieved in 2007 and the financial results of Merrill Lynch Capital Markets AG ("MLCM AG") were a reflection of our market presence and the progress made to further validate our position as a leading foreign bank in the Swiss market place. In 2007, MLCM AG celebrated its 20th anniversary in Switzerland, during the first years as a financial institution, and since 1993 we operate with a Swiss Banking license. At MLCM AG we have been investing for 20 years, to build the capabilities to serve Swiss clients in a fast-moving financial industry. Today we are proud to offer a wide platform of integrated solutions that draw on intellectual capital from across the entire Merrill Lynch network. We find innovative answers from our top research, traders, investment bankers, prime brokerage specialists and many more. It is our local knowledge & experience paired with our global presence that enables us to provide not just products, but customised smart solutions.

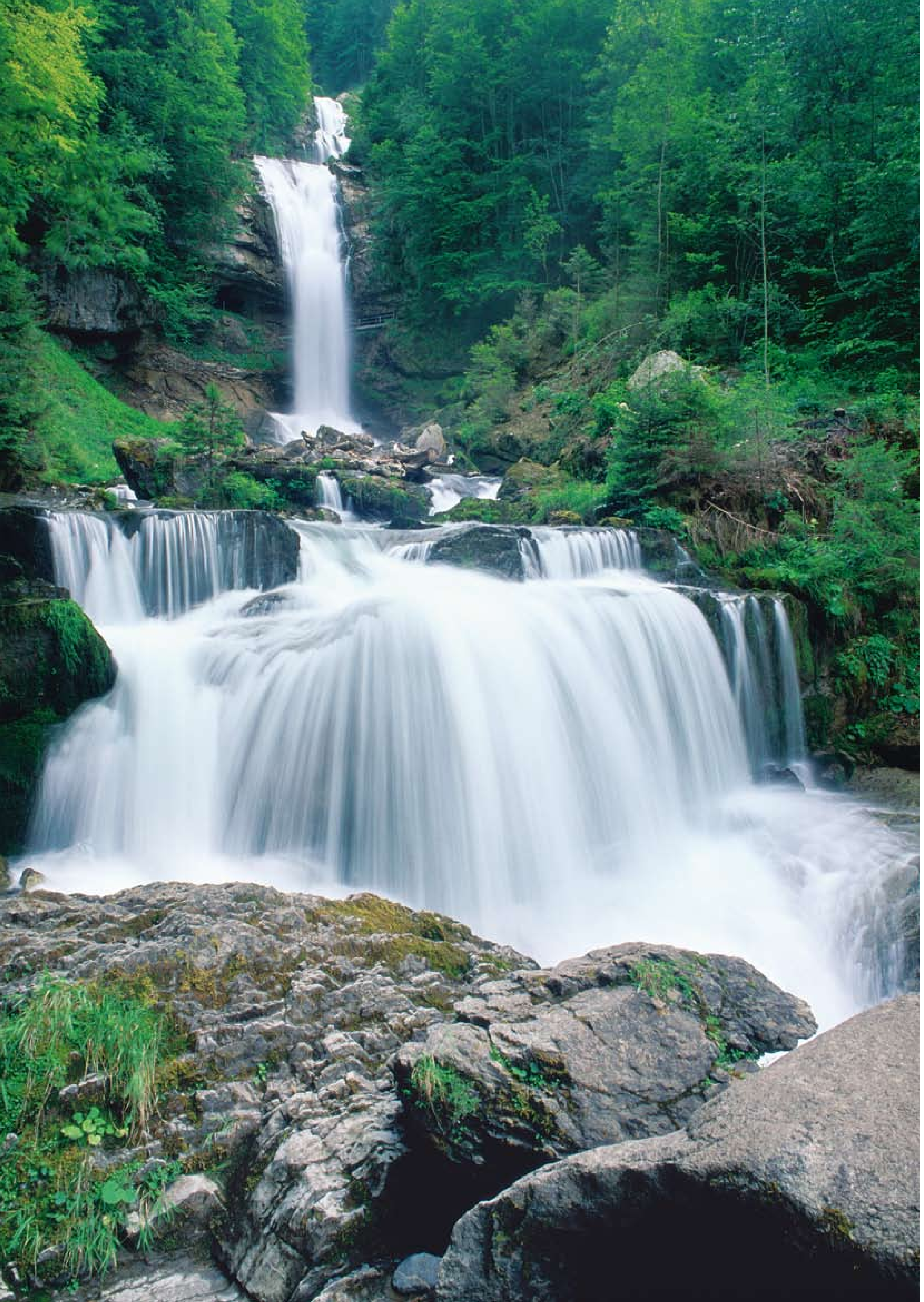
Business activities

The Bank is located in Zurich and is primarily engaged in securities and derivatives trading activities. MLCM AG is a member of of the Swiss Stock Exchange as well as Virt-X. The business itself is limited primarily to the issuing, underwriting and trading of listed and non-listed securities and derivatives for its own account and for its clientele.

Our greatest assets are our talented employees, who as a team continue to produce sustainable added value to our clients. We would like to take the opportunity to thank them for their effort, dedication and teamwork. We would like to express our confidence in their ability to provide the best in class service to our clientele.

Alfred Berger
Chairman

Christian De Prati
CEO



FICC – FIXED INCOME, CURRENCIES AND COMMODITIES

The Merrill Lynch FICC Zurich business model remains very well balanced between Cash and Structured Credit, Rates Derivatives and Commodities. The Team is well established, experienced, highly professional and motivated.

It has been a solid and strong year until news around the U.S. housing and its subprime market started the negative price spiral which was followed by a massive widening in credit spreads and a liquidity constraint market.

Interest rates were rising throughout the first half of the year. They fell sharply in the second half with the short end outperforming the long end. As a consequence, the US$ 10-2 year Treasury curve steepened by 100 basis points. The U.S. started to lower Fed Funds from 5.25% to 4.25% last autumn on higher recession risk due to the housing slump. The European economy was more robust and rates less volatile but OECD leading indicators are pointing towards an economic slowdown in Europe.

The ML Global Sovereign Broad Market index returned 3.88% in 2007 while our Global Broad Market Corp Index ended the year with a negative excess return of -3.85%. The worst performance since the index was issued in 1997.

Corporate bond spreads reversed sharply from the second half last year and hit levels not seen since 2002. Low rated and financial bonds markedly underperformed high qualities and industrials. High Yield posted the worst return in the last five years while Emerging Market Bonds held up fairly well.

The current market environment poses many challenges but offers exciting opportunities for our clients. We are successfully servicing our clients and value their trust in Merrill Lynch very highly.

The fixed income team had the best year ever which is a great achievement in these turbulent times. We have expanded our team and our capabilities during the year. Our position in the Swiss market is stronger and we are looking forward into 2008.

Ernst Rohner **Christian Thormann**
FICC Switzerland Co-Heads

EQUITY MARKETS GROUP

2007 was a very challenging year in the global equity world, but it was also the best year ever in the history of Merrill Lynch Capital Markets AG in Switzerland, allowing the Equity & the Derivatives team to substantially increase its performance.

Major institutional investor categories such as pension funds, insurance companies, banks and hedge funds became more risk averse towards the end of 2007. The Equity Market Group in Zurich was well positioned to respond to these rapidly changing client demands by having the broad capabilities and product to meet their particular needs.

During 2007 we expanded our equity linked business furthermore, and we have now become one of the most recognized foreign players in the Swiss market. The coverage team consist of 9 fully fledged markets. We serve institutional clients and corporates, private banks, family offices and independent asset managers respectively. We were able to respond quickly to client needs, whilst permanently improving pricing and market penetration. The team is now fully assembled, and is clearly one of the best in market by demonstrating product expertise paired with creating innovative investment solutions. The position for 2008 is excellent and a strong pillar which will allow Merrill Lynch Capital Markets AG to gain further market shares in the derivative business in the coming years.

IPO activity and secondary cash equity volumes were strong throughout the year. The Equity team in Zurich was very focused in capturing the opportunities.

Overall, despite the uncertainty created by the losses in the U.S. subprime category, Merrill Lynch Capital Markets AG was able to further strengthen its market recognition as a top tier Bank, and it is still on track on the excellent path of growth.

Christian De Prati
CEO & Head of Equity Switzerland

Urs Kunz
Head of Derivatives Switzerland

LOCAL KNOWLEDGE

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

> MERRILL LYNCH BANK (SUISSE) SA
Private Banking

> MERRILL LYNCH CAPITAL MARKETS AG
Institutional Business

> MERRILL LYNCH DERIVATIVE PRODUCTS AG
Institutional Business through a AAA+ rated vehicle

MERRILL LYNCH CAPITAL MARKETS AG

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

FINANCIAL MANAGEMENT

Financial Highlights

The gross profit for the year under review reached a record level of CHF 79.7 million compared to CHF 37.5 million in 2006, or in relative terms it reflects an increase of 113%. Net profit after extraordinary items and taxes amounted to CHF 66.3 million compared to CHF 33.4 million in the previous year, also this reflects a relative increase of almost 100%. The main contributors of this significant increase are higher revenues of approx. CHF 13 million from commission and service fee income as well as substantially increased revenue from trading operations which was almost CHF 20 million higher than in 2006. On the expense side, the Bank reduced its operating costs by approx. CHF 10 million, of which CHF 7.5 million resulted from a reduction in other operating costs and CHF 2.5 million participated from a reduction in personnel expenses. The Board of Directors recommends carrying forward the 2007 net profit in order to further strengthen the capital basis for the Bank.

During 2007, MLCM AG implemented Basle II requirements choosing the Basic Indicator Approach for operational risks and the standard approach for credit risks. In the segment of market risks, the capital requirements remain almost unchanged. The Bank approached these requirements by building a wide project team in order to efficiently implement it.

Mario Alini
CAO

Balance Sheets
at Dec 28, 2007 and Dec 29, 2006

(Swiss franc thousands)	12/28/2007	12/29/2006
ASSETS		
Cash	1	2
Due from banks	1,504,109	649,832
Due from customers	3,561	95,199
Securities trading portfolios	990,419	394,390
Fixed assets	2,104	2,562
Accrued income and prepaid expenses	2,378	1,382
Other assets	1,609,977	1,702,432
TOTAL ASSETS	**4,112,549**	**2,845,799**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Due to banks	950,807	187,716
Due to customers, other	6,026	36,575
Accrued expenses and deferred income	29,523	20,426
Other liabilities	2,448,983	1,990,141
Valuation adjustments and provisions	–	–
Share capital	112,000	112,000
General legal reserve	45,440	45,440
Retained earnings brought forward	453,501	420,122
Net income	66,269	33,379
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**4,112,549**	**2,845,799**
Total subordinated liabilities	–	–

OFF-BALANCE SHEET TRANSACTIONS

(Swiss franc thousands)	12/28/2007	12/29/2006
Contingent liabilities	16	34
DERIVATIVE INSTRUMENTS		
Positive replacement values	1,560,561	1,689,790
Negative replacement values	2,415,907	1,980,869
Contract volume (notional)	24,308,628	25,043,190

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

Income Statements
for the years ended Dec 28, 2007 and Dec 29, 2006

(Swiss franc thousands)	12/28/2007	12/29/2006
REVENUES AND EXPENSES FROM ORDINARY BANKING ACTIVITIES		
Results from interest activities:		
– Interest and discount income	15,158	17,970
– Interest expense	(15,158)	(17,970)
Net interest income	–	–
Results from commission and service fee activities:		
– Commission income on securities and investment transactions	77,957	64,380
– Commission income on other services	204	310
– Commission expenses	(2,216)	(1,850)
Results from commission and service fee activities	75,945	62,840
Results from trading operations	26,221	6,924
Other ordinary income	–	–
Total operating income	102,166	69,764
Operating expenses:		
– Personnel expenses	(20,712)	(23,137)
– Other operating expenses	(1,769)	(9,146)
Total operating expenses	(22,481)	(32,283)
GROSS PROFIT	**79,685**	**37,481**
NET INCOME		
Gross profit	79,685	37,481
Depreciation and write-offs of noncurrent assets	(713)	(947)
Valuation adjustments, provisions and losses	–	–
Result before extraordinary items and taxes	78,972	36,534
Extraordinary income	–	24,000
Extraordinary expenses	–	(24,000)
Taxes	(12,703)	(3,155)
NET INCOME	**66,269**	**33,379**
ALLOCATION OF RETAINED EARNINGS		
Net income	66,269	33,379
Retained earnings brought forward	453,501	420,122
Retained earnings	519,770	453,501
– Dividends paid out	–	–
– Allocation to general legal reserve	–	–
RETAINED EARNINGS	**519,770**	**453,501**

Statements of Cash Flows
for the years ended Dec 28, 2007 and Dec 29, 2006

(Swiss franc thousands)	2007		2006	
	Source of funds	Application of funds	Source of funds	Application of funds
CASH FLOW FROM OPERATING RESULTS (INTERNAL SOURCES)				
Net income	66,269	–	33,379	–
Depreciation and write-offs on noncurrent assets	713	–	947	–
Valuation adjustments and provisions	–	–	–	11,569
Accrued income and prepaid expenses	–	996	4,650	–
Accrued expenses and deferred income	9,097	–	6,027	–
Dividends paid out	–	–	–	–
Balance	76,079	996	45,003	11,569
CASH FLOW FROM INVESTMENT ACTIVITIES				
Fixed assets	7	262	20	332
CASH FLOW FROM BANKING OPERATIONS				
Short-term operations:				
– Due from banks	–	854,276	–	96,439
– Due from customers	91,638	–	–	82,052
– Securities and trading portfolios	–	596,029	3,156,826	–
– Other assets	92,455	–	–	642,571
– Due to banks	763,091	–	–	3,062,476
– Due to customers	–	30,549	31,570	–
– Other liabilities	458,843	–	662,021	–
Liquidity:				
– Cash	–	1	–	1
Balance	1,406,027	1,480,855	3,850,417	3,883,539
TOTAL	**1,482,113**	**1,482,113**	**3,895,440**	**3,895,440**

Notes to the Financial Statements
for the years ended Dec 28, 2007 and Dec 29, 2006

1. Comment on business activities and number of employees

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

Employees

At year-end, the number of employees amounted to 48 based on conversion to full-time positions (prior year: 43).

Outsourcing of business sectors

The bank has out-sourced various administrative functions to other ML companies as well as to third parties. The most important delegated functions to other ML companies comprise market and credit risk management, support and update of data, processing of corporate action events, systems maintenance and support, reconciliation activities and internal audit. The most important functions outsourced to third parties are the settlement of securities transactions and the custody of securities to SegaIntersettle AG (SIS). These functions are performed by BNP Paribas Security Services, which is the custodian of the bank. All outsourcing functions were implemented in accordance with the provisions of the Swiss Federal Banking Commission. Furthermore, each function is regulated by a Service Level Agreement (SLA) with the corresponding service provider. In case that, on basis of the SLA client data are submitted to the service provider, the employees of the service provider are also subject to the banking secrecy principle.

2. Accounting policies and valuation principles

2.1 Accounting policies and valuation principles

General principles

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

Foreign currency translation

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

Assets and liabilities: year-end rate

12/28/2007		**12/29/2006**	
USD	1.127400	USD	1.221050
EUR	1.658657	EUR	1.607757
JPY	0.009968	JPY	0.010266

Expenses and income: rate prevailing at transaction date

Foreign currency translation differences are included in the income statement.

Cash Assets, due from and due to banks

Cash Assets, due from and due to banks items are reported in the balance sheet at par value.

Due from and due to customers

Due from and due to customer items are reported in the balance sheet at par value.

Repurchase transactions

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

Financial instruments

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

Fixed assets

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

Leasehold improvements	7 years
Information technology and telecommunication equipment	max. 5 years
Other fixed assets	max. 5 years

Valuation adjustments and provisions

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

Results from trading operations

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

Employee Benefit Plans

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

2.2 Changes in accounting policies and valuation principles
For the year under review no accounting and valuation principles were changed.

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

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

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

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

Market Risks
Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded. The Bank seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate and price of trading inventories and related financing and hedging activities. The Bank uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risks faced by the Bank.

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

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

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

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

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

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

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

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

The positive and negative replacement values of all derivatives are reported in the positions Other Assets and Other Liabilities.

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

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

3. Information on the Balance Sheet

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

(Swiss franc thousands)	Type of collateral			
	Mortgage collateral	Other collateral	Without collateral	Total
LOANS				
Due from customers	–	–	3,561	3,561
TOTAL LOANS 12/28/2007	**–**	**–**	**3,561**	**3,561**
TOTAL LOANS 12/29/2006	**–**	**–**	**95,199**	**95,199**

	Non-performing loans gross	Estimated proceeds of liquidating collateral	Impaired loans net	Allowance for credit losses related to non-performing loans
IMPAIRED LOANS 12/28/2007	**–**	**–**	**–**	**–**
IMPAIRED LOANS 12/29/2006	**–**	**–**	**–**	**–**

3.2 Securities trading portfolios, financial investments and participations

SECURITIES TRADING PORTFOLIOS

(Swiss franc thousands)	12/28/2007	12/29/2006
Debt securities:		
– exchange listed	720	734
– unlisted	–	–
– of which own bonds and cash bonds	–	–
Equity securities:	989,699	393,656
– of which own shares, similar securities and rights	–	–
TOTAL SECURITIES TRADING PORTFOLIOS	**990,419**	**394,390**
– thereof eligible for repo transactions according to liquidity requirements	720	734

3.3 Schedule of noncurrent assets

(Swiss franc thousands)				2007				
	Historical cost	Write-offs/ accumulated depreciation	Book value 12/29/06	Reclassifi-cations	Additions	Disposals	Write-offs/ depreciation	Book value 12/28/07
Fixed assets	5,711	(3,149)	2,562	–	262	(7)	(713)	2,104
Fire insurance value of fixed assets (includes fixed assets of other group entities)								9,050
Commitments: future leasing installments under operating leases								418

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

(Swiss franc thousands)	12/28/2007		12/29/2006	
	Receivable book value	thereof utilized	Receivable book value	thereof utilized
Collateral for securities borrowing	–	–	–	–
Collateral at SNB for Lombard Credit	–	–	–	–
Pledged shares for stillhalters	–	–	–	–
SWX membership guarantee	720	–	734	–
TOTAL	**720**	**–**	**734**	**–**

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

(Swiss franc thousands)	12/28/2007	12/29/2006
Obligations to return cash collateral received under securities lending and repurchase agreements	805,197	–
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	784,810	–
of which the right to pledge or sell the securities has been granted without any restriction	784,810	–

3.6 Other assets and other liabilities

(Swiss franc thousands)	12/28/2007		12/29/2006	
	Other assets	Other liabilities	Other assets	Other liabilities
Trading positions	1,560,561	2,415,907	1,689,790	1,980,869
Total derivative instruments	1,560,561	2,415,907	1,689,790	1,980,869
Other assets and liabilities	49,415	33,076	12,642	9,271
TOTAL	**1,609,976**	**2,448,983**	**1,702,432**	**1,990,140**

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

3.7 Liabilities to own pension funds

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

At the year end, the Bank, has a liability in favour of the pension institution amounting to TCHF 97 (2006 – TCHF 83). The plan applies to employees of the Bank as well as all other Swiss entities of the Merrill Lynch Group. The employers contribution reserves and other economical benefit are not recognised as financial assets in the balance sheet.

(Swiss franc thousands)	Pension institution **2007**	Pension institution **02006**
Employers contribution reserves:		
Value of employers contribution reserve*	2,191	2,191
Amounts of renounced use	–	–
Economical benefit (obligation) and pension benefit expenses:		
Surplus/(deficit)* – (dotation capital)	10	10
Economical benefits (obligations)	–	–
Change of economical benefits and economical obligations, respectively, as difference between the two disclosed balance sheet dates	–	–
Contributions concerning the business period (including result from employer contribution reserves)	673	628
of which: Extraordinary contributions in the case of exercised, temporary measures to remove deficits	–	–
Pension benefit expenses with their most important parameters – as part of the personnel expenses	673	628

* The pension institution's 2007 audited accounts are not available; therefore December 31, 2006 and December 31, 2005 figures are reported for 2007 and 2006 respectively.

3.8 Valuation adjustments and provisions

(Swiss franc thousands)

	Balance 12/29/06	Specific usage	Change in definition of purpose (reclassifi-cations)	Recoveries, doubtful interest, differences	New creation charged to income statement	Reversals credited to income statement	Balance 12/28/07
Valuation adjustments and provisions for:							
credit risks (credit and country risks)	–	–	–	–	–	–	–
Provisions:							
for deferred taxes	–	–	–	–	–	–	–
other provisions	–	–	–	–	–	–	–
TOTAL VALUATION ADJUSTMENTS AND PROVISIONS	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL VALUATION ADJUSTMENTS AND PROVISIONS AS PER BALANCE SHEET	**–**				**TOTAL NET VALUATION ADJUSTMENTS AND PROVISIONS**		**–**

3.9 Share capital and shareholders

(Swiss franc thousands)	12/28/2007			12/29/2006		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Share capital:						
Share capital	112,000	112,000	112,000	112,000	112,000	112,000
Total capital	112,000	112,000	112,000	112,000	112,000	112,000

Significant shareholders:	12/28/2007		12/29/2006	
	Nominal	Participation in %	Nominal	Participation in %
Merrill Lynch International Holdings Inc., USA*	112,000	100%	112,000	100%

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

3.10 Statement of changes in shareholders' equity

(Swiss franc thousands)	
Shareholders' equity at December 29, 2006:	
Share capital paid in	112,000
General legal reserve	45,440
Retained earnings	453,501
TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 29, 2006 (before profit distribution)	**610,941**
Changes 2007:	
Net income	66,269
TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 28, 2007 (before profit distribution)	**677,210**
Thereof:	
Share capital paid in	112,000
General legal reserve	45,440
Retained earnings	519,770

3.11 Maturity structure of current assets and borrowed funds

(Swiss franc thousands)

	Maturities							Total
	At sight	Redeem-able by notice	Within 3 months	After 3 months up to 12 months	After 12 months up to 5 years	After 5 years	Without maturity	
Current assets:								
Cash	1	–	–	–	–	–	–	1
Due from banks	1,500,017	–	4,092	–	–	–	–	1,504,109
Due from customers	–	3,561	–	–	–	–	–	3,561
Securities trading portfolio	990,419	–	–	–	–	–	–	990,419
TOTAL CURRENT ASSETS 12/28/2007	**2,490,437**	**3,561**	**4,092**	**–**	**–**	**–**	**–**	**2,498,091**
Total current assets 12/29/2006	1,004,402	130,555	4,466	–	–	–	–	1,139,423

(Swiss franc thousands)

	Maturities							Total
	At sight	Redeem-able by notice	Within 3 months	After 3 months up to 12 months	After 12 months up to 5 years	After 5 years	Without maturity	
Borrowed funds:								
Due to banks	60,675	82,278	807,854	–	–	–	–	950,807
Due to customers, other	6,021	–	5	–	–	–	–	6,026
TOTAL BORROWED FUNDS 12/28/2007	**66,696**	**82,278**	**807,859**	**–**	**–**	**–**	**–**	**956,833**
Total borrowed funds 12/29/2006	209,400	13,573	1,318	–	–	–	–	224,291

3.12 Amounts due from and to affiliated entities

(Swiss franc thousands)	12/28/2007	12/29/2006
Amounts due from affiliated companies	1,341,937	662,725
Amounts due to affiliated companies	956,238	222,872

Related Party Transactions

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

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

3.13 Assets and liabilities by domestic and foreign origin

(Swiss franc thousands)	12/28/2007		12/29/2006	
	Domestic	Foreign	Domestic	Foreign
ASSETS				
Cash	1	–	2	–
Due from banks	165,714	1,338,395	13,956	635,876
Due from customers	745	2,816	69,304	25,895
Securities trading portfolios	951,941	38,478	294,291	100,099
Fixed assets	2,104	–	2,562	–
Accrued income and prepaid expenses	2,378	–	1,019	363
Other assets	123,604	1,486,373	104,694	1,597,738
TOTAL ASSETS	**1,246,487**	**2,866,062**	**485,828**	**2,359,971**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks	2,002	948,805	2,929	184,787
Due to customers, other	–	6,026	–	36,575
Accrued expenses and deferred income	29,523	–	20,426	–
Other liabilities	1,542,152	906,831	1,307,499	682,642
Valuation adjustments and provisions	–	–	–	–
Share capital	112,000	–	112,000	–
General legal reserve	45,440	–	45,440	–
Retained earnings	453,501	–	420,122	–
Net income	66,269	–	33,379	–
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,250,887**	**1,861,662**	**1,941,795**	**904,004**

3.14 Assets by country and country groups

(Swiss franc thousands)	12/28/2007		12/29/2006	
		in %		in %
Switzerland	1,282,957	31%	485,828	17%
Europe, excluding Switzerland	2,642,612	64%	2,106,753	74%
Elsewhere	186,980	5%	253,218	9%
TOTAL ASSETS	**4,112,549**	**100%**	**2,845,799**	**100%**

3.15 Assets and liabilities by currencies

(Swiss franc thousands)	Currencies – 12/28/2007			
	CHF	USD	EUR	Other
ASSETS				
Cash	1	–	–	–
Due from banks	1,391,189	18,882	87,087	6,951
Due from customers	3,362	186	1	12
Securities trading portfolios	951,941	38,476	–	2
Fixed assets	2,104	–	–	–
Accrued income and prepaid expenses	2,263	37	42	36
Other assets	281,305	685,299	600,034	43,339
TOTAL ASSETS REPORTED ON THE BALANCE SHEET	**2,632,165**	**742,880**	**687,164**	**50,340**
Delivery claims arising from spot and forward exchange operations and currency options		3,155,154		4,547,398
TOTAL ASSETS	**2,632,165**	**3,898,034**	**687,164**	**4,597,738**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks	818,858	47,135	77,314	7,500
Due to customers, other	24	5,853	28	121
Accrued expenses and deferred income	21,188	6,647	2	1,686
Other liabilities	1,138,455	671,612	600,052	38,864
Valuation adjustments and provisions	–	–	–	–
Share capital	112,000	–	–	–
General legal reserve	45,440	–	–	–
Retained earnings	453,501	–	–	–
Net income	57,820	8,449	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY REPORTED ON THE BALANCE SHEET	**2,647,286**	**739,696**	**677,396**	**48,171**
Delivery obligations arising from spot and forward exchange operations and currency options		3,777,479		3,982,511
TOTAL LIABILITIES	**2,647,286**	**4,517,175**	**677,396**	**4,030,682**
TOTAL NET ASSETS	**(15,121)**	**(619,141)**	**9,768**	**567,056**

4. Information on off-balance sheet transactions

4.1 Outstanding derivative financial instruments

(Swiss franc thousands)	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments:						
– Options – OTC	696	6,846	738,757	6,846	696	738,757
– Futures	–	–	–	–	–	–
– Swaps	29,220	44,636	2,103,663	44,636	29,220	2,103,663
Cross currency instruments:						
– Options – OTC	66,259	72,733	4,295,394	72,733	66,259	4,295,394
– Futures	–	–	–	–	–	–
– Swaps	64,209	44,686	2,777,889	44,686	64,209	2,777,889
– Fxoptions & forwards	–	–	–	–	–	–
Shares/Indices:						
– Futures	–	–	–	–	–	–
– Options – OTC	–	–	–	6,847,410	894,532	33,429,514
– Options – Exchange traded	–	6,811,187	30,418,462	–	–	–
TOTAL BEFORE NETTING AGREEMENTS 12/28/2007	**160,384**	**6,980,088**	**40,334,165**	**7,016,311**	**1,054,916**	**43,345,217**
Total 12/29/2006	213,461	7,078,842	21,389,928	7,090,095	515,888	33,243,662
TOTAL AFTER NETTING AGREEMENTS 12/28/2007	**137,341**	**1,521,375**	**11,321,406**	**1,423,220**	**894,532**	**12,987,222**
Total 12/29/2006	118,677	1,603,244	10,366,572	1,571,113	377,625	14,676,618

4.2 Client assets

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

5. Information on the income statement

5.1 Refinancing income in the position interest and discount income

(Swiss franc thousands)	12/28/2007	12/29/2006
Refinancing income (expense) on intercompany loans	12,388	(11,372)

5.2 Results from trading operations

(Swiss franc thousands)	12/28/2007	12/29/2006
Equity division	15,717	(3,444)
Debt division	10,504	10,368
TOTAL RESULTS FROM TRADING OPERATIONS	**26,221**	**6,924**

5.3 Personnel expense

(Swiss franc thousands)	12/28/2007	12/29/2006
Salaries	17,133	20,852
Social benefits	2,052	1,589
Other personnel expenses	1,527	696
TOTAL PERSONNEL EXPENSES	**20,712**	**23,137**

5.4 Other operating expenses

(Swiss franc thousands)	12/28/2007	12/29/2006
Occupancy	552	20
Cost of EDP, machines, fixtures and fittings, vehicles and other equipment	1,831	1,593
Other expenses	(614)	7,533
TOTAL OTHER OPERATING EXPENSES	**1,769**	**9,146**

5.5 Extraordinary income

(Swiss franc thousands)	12/28/2007	12/29/2006
Reimbursement costs of settlement in relation to legal proceedings	–	24,000

5.6 Extraordinary expenses

(Swiss franc thousands)	12/28/2007	12/29/2006
Settlement costs of settlement in relation to legal proceedings	–	24,000

Merrill Lynch Capital Markets AG

Proposed appropriation of available earnings

The Directors of Merrill Lynch Capital Markets AG propose to carry forward the available earnings at December 28, 2007 of CHF 519,770 thousands:

(Swiss franc thousands)	
Balance to be carried forward	519,770
TOTAL	**519,770**

AUDITORS' REPORT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF MERRILL LYNCH CAPITAL MARKETS AG, ZURICH

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of Merrill Lynch Capital Markets AG for the year ended December 28, 2007.

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

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

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

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

DELOITTE AG

Stephan Schmidli	Thomas Reisser Auditor in charge

Zurich, April 28, 2008

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

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Serge Robin Director
Dr. Robert Furter Director
Dr. Rudolf Heiz (until the end of Dec. 2007) Director
Dominik Schärer (since July 2007) Director

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Sven Fischer
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