



Merrill Lynch Bank and Trust Company (Cayman) Limited and Subsidiaries

Consolidated Financial Statements as of
and for the Years Ended
December 28, 2007 and December 29, 2006,
and Independent Auditors' Report

MERRILL LYNCH BANK AND TRUST COMPANY (CAYMAN) LIMITED AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006:	
Consolidated Balance Sheets	2
Consolidated Statements of Earnings	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Changes in Stockholder's Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–26

INDEPENDENT AUDITORS' REPORT

To the Stockholder of
Merrill Lynch Bank and Trust Company
(Cayman) Limited and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Merrill Lynch Bank and Trust Company (Cayman) Limited (a wholly owned subsidiary of Merrill Lynch Cayman Holdings Incorporated) and subsidiaries (the "Company") as of December 28, 2007 and December 29, 2006, and the related consolidated statements of earnings, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 28, 2007, and December 29, 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

March 28, 2008

**MERRILL LYNCH BANK AND TRUST COMPANY
(CAYMAN) LIMITED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 28, 2007 AND DECEMBER 29, 2006
(In thousands of United States dollars)**

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	\$ 6,741	\$ 8,910
Interbank placements with affiliated companies	130,981	541,263
Interest-earning deposits with banks	<u>-</u>	<u>910,000</u>
Total cash and cash equivalents	137,722	1,460,173
INTEREST-EARNING DEPOSITS WITH BANKS	-	100,000
INVESTMENT SECURITIES AVAILABLE-FOR-SALE	200,505	461,700
RECEIVABLES FROM AFFILIATES	84,502	80,844
LOANS (Net of allowance for loan losses of \$3,243 in 2007 and \$2,261 in 2006)	2,338,319	345,381
OTHER ASSETS	<u>56,261</u>	<u>49,906</u>
TOTAL	<u>\$ 2,817,309</u>	<u>\$ 2,498,004</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Deposits:		
Demand	\$ 217,696	\$ 256,036
Time	<u>2,003,473</u>	<u>1,919,799</u>
Total deposits	2,221,169	2,175,835
Debt	100,000	-
Other borrowings	2,459	-
Payables to affiliates	100,009	78,034
Other liabilities	<u>70,575</u>	<u>76,157</u>
Total liabilities	<u>2,494,212</u>	<u>2,330,026</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)		
STOCKHOLDER'S EQUITY:		
Capital	273,537	173,537
Accumulated other comprehensive loss	(16,459)	(39,884)
Retained earnings	<u>66,019</u>	<u>34,325</u>
Total stockholder's equity	<u>323,097</u>	<u>167,978</u>
TOTAL	<u>\$ 2,817,309</u>	<u>\$ 2,498,004</u>

See notes to consolidated financial statements.

Allen Braithwaite
Director

Johann Moxam
Director

**MERRILL LYNCH BANK AND TRUST COMPANY
(CAYMAN) LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006
(In thousands of United States dollars)**

	2007	2006
INTEREST REVENUES:		
Interest-earning deposits with banks and affiliated companies	\$ 84,330	\$ 54,295
Loans	25,387	21,258
Investment securities available-for-sale	29,274	25,508
Other	518	52
Total interest revenues	<u>139,509</u>	<u>101,113</u>
INTEREST EXPENSE:		
Deposits	119,553	90,007
Other	283	-
Total interest expense	<u>119,836</u>	<u>90,007</u>
NET INTEREST REVENUES	19,673	11,106
PROVISION FOR LOAN LOSSES	982	58
NET INTEREST REVENUES AFTER PROVISION FOR LOAN LOSSES	<u>18,691</u>	<u>11,048</u>
NON-INTEREST REVENUES:		
Service fee income from affiliated companies	59,716	48,911
Trust administrative fees	38,152	34,932
Other	1,340	3,405
Total non-interest revenues	<u>99,208</u>	<u>87,248</u>
NET REVENUES	<u>117,899</u>	<u>98,296</u>
NON-INTEREST EXPENSES:		
Compensation and benefits	53,712	48,595
Service fee expense with affiliated companies	15,952	10,157
Occupancy and related depreciation	3,390	3,100
Advertising and market development	2,809	2,367
Communications and technology	1,943	1,769
Professional fees	2,126	2,190
Other	5,194	3,909
Total non-interest expenses	<u>85,126</u>	<u>72,087</u>
EARNINGS BEFORE INCOME TAXES	32,773	26,209
INCOME TAX EXPENSE	1,079	1,665
NET EARNINGS	<u>\$ 31,694</u>	<u>\$ 24,544</u>

See notes to consolidated financial statements.

**MERRILL LYNCH BANK AND TRUST COMPANY
(CAYMAN) LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006
(In thousands of United States dollars)**

	2007	2006
NET EARNINGS	<u>\$ 31,694</u>	<u>\$ 24,544</u>
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment	1,325	(5,942)
Net change in unrealized gain on investment securities available-for-sale	2,254	4,889
Net actuarial gains	9,151	-
Minimum pension liability adjustment	<u>-</u>	<u>14,412</u>
Total other comprehensive income	<u>12,730</u>	<u>13,359</u>
COMPREHENSIVE INCOME	<u>\$ 44,424</u>	<u>\$ 37,903</u>

See notes to consolidated financial statements.

**MERRILL LYNCH BANK AND TRUST COMPANY
(CAYMAN) LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006
(In thousands of United States dollars, except per share amounts)**

	2007	2006
CAPITAL:		
Share capital (12,000 ordinary shares with par value \$1 per share) —		
Balance — beginning and end of year	\$ 12	\$ 12
Share premium:		
Balance — beginning of year	173,525	173,525
Capital contribution by Parent	<u>100,000</u>	<u>-</u>
Balance — end of year	<u>273,537</u>	<u>173,537</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment:		
Balance — beginning of year	(13,800)	(7,858)
Translation adjustment	<u>1,325</u>	<u>(5,942)</u>
Balance — end of year	<u>(12,475)</u>	<u>(13,800)</u>
Net unrealized losses on investment securities available-for-sale:		
Balance — beginning of year	(2,088)	(6,977)
Net change in unrealized gain on investment securities available-for-sale	<u>2,254</u>	<u>4,889</u>
Balance — end of year	<u>166</u>	<u>(2,088)</u>
Defined benefit pension plan:		
Balance — beginning of year	(23,996)	(27,713)
Net actuarial gains	19,846	-
Minimum pension liability adjustment	-	14,412
Adjustment to initially apply FASB Statement No. 158	<u>-</u>	<u>(10,695)</u>
Balance — end of year	<u>(4,150)</u>	<u>(23,996)</u>
Balance — end of year	<u>(16,459)</u>	<u>(39,884)</u>
RETAINED EARNINGS:		
Balance — beginning of year	34,325	9,781
Net earnings	<u>31,694</u>	<u>24,544</u>
Balance — end of year	<u>66,019</u>	<u>34,325</u>
TOTAL STOCKHOLDER'S EQUITY	<u><u>\$ 323,097</u></u>	<u><u>\$ 167,978</u></u>

See notes to consolidated financial statements.

**MERRILL LYNCH BANK AND TRUST COMPANY
(CAYMAN) LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006**

(In thousands of United States dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 31,694	\$ 24,544
Noncash items included in earnings:		
Depreciation and amortization	837	845
Stock compensation expense	4,449	6,869
Deferred taxes	533	120
Provision for loan losses	982	58
Changes in operating assets and liabilities:		
Receivables from affiliates	(3,658)	(7,016)
Payables to affiliates	17,526	(27,719)
Other assets	(7,682)	3,863
Other liabilities	(5,625)	4,325
Other — net	15,510	(29,822)
	<u>54,566</u>	<u>(23,933)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available-for-sale	(1,200,000)	(321)
Maturities of securities available-for-sale	1,469,110	800,000
Decrease (increase) in interest-earning deposits with banks	100,000	(100,000)
(Increase) decrease in loans	(1,993,920)	107,719
Decrease in interbank placements with affiliated companies	-	55,000
	<u>(1,624,810)</u>	<u>862,398</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions by Parent	100,000	-
Proceed from issuance of debt	100,000	-
Proceeds from other borrowings	2,459	-
(Decrease) increase in demand deposits	(38,340)	8,678
Increase in time deposits	83,674	105,798
	<u>247,793</u>	<u>114,476</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,322,451)	952,941
CASH AND CASH EQUIVALENTS — Beginning of year	<u>1,460,173</u>	<u>507,232</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 137,722</u>	<u>\$ 1,460,173</u>
SUPPLEMENTAL CASH FLOW INFORMATION — Cash paid for:		
Interest	<u>\$ 113,795</u>	<u>\$ 89,836</u>
Income taxes	<u>\$ 1,331</u>	<u>\$ 1,028</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES — Pension liability net actuarial gains of \$19,846 were recorded within other liabilities during 2007. Minimum pension liability adjustment of \$14,412 was recorded within other liabilities during 2006.

See notes to consolidated financial statements.

MERRILL LYNCH BANK AND TRUST COMPANY (CAYMAN) LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 28, 2007 AND DECEMBER 29, 2006 (In thousands of United States dollars)

1. DESCRIPTION OF BUSINESS

Merrill Lynch Bank and Trust Company (Cayman) Limited, (a wholly owned subsidiary of Merrill Lynch Cayman Holdings Incorporated, or MLCHI, which in turn is a wholly owned subsidiary of Merrill Lynch International Holdings, Inc., or MLIHI) and subsidiaries (collectively, the “Company”) consists of a banking division (the “Banking Division”) and non-banking division (the “Non-Banking Division”). The Company’s ultimate parent is Merrill Lynch & Co., Inc. (ML & Co.). The Company is registered under the laws of the Cayman Islands and holds a Category “A” Banking and Trust License subject to the provisions of the Banks and Trust Companies Law.

The Company’s most significant business is the Banking Division, which conducts banking and trust operations for customers of its affiliates. The Banking Division maintains branches in the Isle of Man and Singapore, which perform administration duties associated with the Banking Division’s trust business. The branches do not engage in deposit taking, lending, or foreign currency trading activities. The Company has a subsidiary in Uruguay, whose primary activities consist of intercompany lending and business development for other ML & Co. entities. The Banking Division conducts business with non-resident client corporations, non-resident high net worth individuals, and other financial institutions. The Banking Division’s principal products include secured loans, interbank placements, deposits from private clients, and foreign exchange transactions.

In 2007, the Company purchased \$2,000,000 of secured loans that were initially originated by Merrill Lynch Bank USA (MLBUSA) that are collateralized by securities and other financial assets held by an affiliate of the Banking Division. In conjunction with the purchase of the \$2,000,000 of secured loans, the Company received a capital contribution of \$100,000 from MLCHI, and issued \$100,000 of debt to ML & Co., see Note 8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which include industry practices. Intercompany transactions and balances have been eliminated in consolidation.

In presenting the consolidated financial statements, management makes estimates regarding the outcome of litigation, the allowance for loan losses, the realization of deferred tax assets, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements, and it is possible that such changes could occur in the near-term.

Currency Translation — The consolidated financial statements are presented in U.S. dollars. Non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency, net of related tax effects, are reported in stockholder's equity as a component of accumulated other comprehensive loss. All other translation adjustments are included in earnings. The Banking Division maintains a matched book in its currency position. As such, changes in the foreign exchange rates for money market transactions are covered daily with an affiliate to avoid any significant fluctuations in net earnings.

Foreign Exchange Transactions — The Banking Division enters into foreign exchange contracts to facilitate currency conversions for its customers, as well as to minimize its currency exposure. Foreign exchange contracts are valued daily with realized and unrealized gains and losses reflected in non-interest revenue as other.

Fair Value of Financial Instruments — The Company's financial instruments consist of cash and cash equivalents, interest-earning deposits with banks, investment securities available-for-sale, loans, deposits, and certain other assets and liabilities, all of whose fair values approximate their carrying value.

Fair values for over-the-counter (OTC) derivative financial instruments, principally forwards, options, and swaps, represent amounts that would be received from, or paid, to a third party in settlement of these instruments. These amounts are determined using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services.

Derivatives — The Company accounts for all derivatives as other assets and other liabilities at fair value. If certain conditions are met, the derivative may qualify for hedge accounting treatment and be designated as one of the following types of hedges: (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"); (b) a hedge of the exposure to variability of cash flows of a recognized asset, liability, or forecasted transaction ("cash flow hedge"); or (c) a hedge of foreign currency exposure.

In the case of a qualifying fair value hedge, changes in the value of the derivative instruments that have been highly effective are recognized in current-period earnings along with the change in value of the designated hedged item. In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that have been highly effective are recognized in other comprehensive loss until such time as those earnings are affected by the variability of the cash flows of the underlying hedged item. In either a fair value hedge or a cash flow hedge, net earnings may be impacted to the extent the changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. If the derivative is not designated as a hedging instrument, the changes in fair value of the derivative are recorded in earnings.

Forward Rate Agreement (FRA) and Interest Rate Swaps — The Banking Division enters into FRAs and interest rate swaps for the purpose of managing its overall interest rate risk. FRAs and interest rate swaps are valued daily with realized and unrealized gains and losses recorded as interest income or expense, as appropriate.

Market Risk — Market risk is the potential change in an instrument’s value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, and 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 Company uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Company:

Interest Rate Risk — Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements and over-the-counter (OTC) options are common interest rate risk management tools. The decision to manage interest rate risk using OTC options or swap contracts, as opposed to buying or selling short other instruments, depends on current market conditions and funding considerations.

Currency Risk — Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward contract is not available or where the end user needs a customized instrument to hedge a foreign currency cash flow stream.

Credit Risk — The Company 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 Company to default risk.

The notional or contractual value of derivatives does not represent default risk exposure. Default risk is limited to the current cost of replacing derivative contracts in a gain position. Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options and warrants represent a potential obligation to counterparties and, accordingly, do not subject the Company to default risk.

To reduce default risk, the Company typically requires collateral on certain derivative transactions. From an economic standpoint, the Company evaluates default risk exposure net of related collateral. In addition to obtaining collateral, the Company attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable the Company to terminate or reset the terms of the derivative contract.

Concentrations of Credit Risk — The Company’s exposure to credit risk, both default and credit spread, associated with its trading and lending activities is measured on an individual counterparty basis as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 28, 2007 and December 29, 2006, the Company’s most significant concentration of credit risk is with affiliates. This concentration arises in the normal course of business.

Cash and Cash Equivalents — The Company defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with maturities, when purchased, of three months or less, other than those used for trading purposes.

Investment Securities Available-for-Sale — Securities to be held for unspecified periods of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as available-for-sale and are carried at fair value. The fair value of investment securities is based on quoted market prices or pricing models. Unrealized gains or losses are reported within accumulated other comprehensive loss, which is a separate component of stockholder's equity. Management reviews all available-for-sale securities at least on an annual basis to determine whether any impairment is other-than-temporary. Factors considered in the review include estimated future cash flows, length of time and extent to which market value has been less than cost. Any unrealized losses deemed other than temporary are included in current period earnings. Realized gains and losses are reclassified into earnings using the specific identification method upon realization.

Loans — Loans are carried at their principal amount outstanding, net of the allowances for loan losses. All loans are classified as held for investment. Interest income from loans is recognized as earned, based upon the principal amount outstanding over the term of the related instruments.

Allowance for Loan Losses — The allowance for loan losses is based upon management's estimate of the amount necessary to maintain the allowance at a level adequate to absorb probable loan losses. Management's estimate of loan losses is influenced by many factors, including adverse situations that may affect the borrower's ability to repay, current economic conditions, prior loan loss experience, and the estimated value of any underlying collateral. The fair value of collateral is generally determined by quoted market prices for securities and estimates of fair value for other assets. Management's estimates of loan losses include considerable judgment about collectibility based on available facts and evidence at the balance sheet date and the uncertainties inherent in those assumptions. While management uses the best information available on which to base its estimates, future adjustments to the allowance may be necessary, based on changes in the economic environment or variances between actual results and the original assumptions used by management.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Alternatively, measurement may also be based on observable market prices or, for loans that are solely dependent on the collateral for repayment, measurement may be based on the fair value of the collateral. Impairment losses are included in the allowance for loan losses through a charge to the provision.

Equipment and Facilities — Equipment and facilities primarily consist of technology hardware, facility and non-technology equipment, and leasehold improvements. Equipment and facilities with a historical cost of \$13,044 and \$12,317 at December 28, 2007 and December 29, 2006, respectively, and net of accumulated depreciation and amortization of \$11,062 and \$10,291 at December 28, 2007 and December 29, 2006, respectively, totaled \$1,982 and \$2,026 at December 28, 2007 and December 29, 2006, respectively, and are included in other assets in the accompanying consolidated balance sheets. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life (which range from 3 to 5 years), while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the occupancy and related depreciation expense category was depreciation and amortization of \$498 and \$535 in 2007 and 2006, respectively. Depreciation and amortization recognized in the communications and technology expense category was \$339 and \$310 for 2007 and 2006, respectively.

Deposits — Demand deposits are interest-bearing accounts that the depositor is entitled to withdraw at any time without prior notice. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may pay a penalty to do so.

Other Borrowings — Other borrowings consist of a bank overdraft which was cleared on December 31, 2007.

Trust Accounts — Funds held by the Banking Division in fiduciary or agency capacities are not included in the accompanying consolidated financial statements, as such items are not assets of the Company.

Stock-Based Compensation — ML & Co. adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123R (revised 2004), *Share-Based Payment*, a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, beginning in the first quarter of 2006. Under FASB Statement No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. ML & Co. adopted FASB Statement No. 123R under the modified prospective method whereby the provisions of FASB Statement No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for ML & Co. FASB Statement No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions. The Company is allocated its portion of expenses related to FASB Statement No. 123R awards.

Prior to the adoption of FASB Statement No. 123R, ML & Co. had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees. This included those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. Previously, ML & Co. had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left ML & Co. However, because FASB Statement No. 123R applies only to awards granted or modified in 2006, and thereafter, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards must continue to be amortized over the stated vesting period.

Income Taxes — The Company provides for income taxes on all transactions that have been recognized in the consolidated financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*.

Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period during which such changes are enacted. Deferred tax assets and liabilities are included in other assets and other liabilities, respectively, on the consolidated balance sheets. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

During 2007, the Company received an undertaking from the Cayman Islands Government exempting it from all local income, profits, and capital gains taxes until February 19, 2028. At December 28, 2007, no such taxes are levied in the Cayman Islands.

3. NEW ACCOUNTING PRONOUNCEMENTS

On December 4, 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. FASB Statement No. 160 requires noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Under FASB Statement No. 160, gains or losses on sales of noncontrolling interests in subsidiaries are not recognized, instead, sales of noncontrolling interests are accounted for as equity transactions. However, in a sale of a subsidiary's shares that results in the deconsolidation of the subsidiary, a gain or loss is recognized for the difference between the proceeds of that sale and the carrying amount of the interest sold. Additionally, a new fair value basis is established for any remaining ownership interest. FASB Statement No. 160 is effective for the Company beginning in 2009; earlier application is prohibited. FASB Statement No. 160 is required to be adopted prospectively, with the exception of certain presentation and disclosure requirements (e.g., reclassifying noncontrolling interests to appear in equity), which are required to be adopted retrospectively. The Company is currently evaluating the impact of FASB Statement No. 160, but does not expect it to have a material impact on the consolidated financial statements.

On December 4, 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, which significantly changes the financial accounting and reporting for business combinations. FASB Statement No. 141(R) will require:

- More assets and liabilities assumed to be measured at fair value as of the acquisition date,
- Liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period, and
- An acquirer in pre-acquisition periods to expense all acquisition-related costs.

FASB Statement No. 141(R) is required to be adopted on a prospective basis concurrently with FASB Statement No. 160 and is effective for business combinations commencing in 2009. Early adoption is prohibited. The Company is currently evaluating the impact of FASB Statement No. 141(R), but does not expect it to have a material impact on the consolidated financial statements.

In April 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1, *Amendment of FASB Interpretation No. 39*. FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, and permits companies to offset cash collateral receivables or payables with net derivative positions. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 will not have an effect on the Company's consolidated financial statements as it clarified the acceptability of existing accounting practice, which the Company applies for netting of cash collateral against net derivative assets and liabilities.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. FASB Statement No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. FASB Statement No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that the entity makes that choice in the first 120 days of that fiscal year, has not yet issued financial

statements for any interim period of the fiscal year of adoption, and also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Company early adopted SFAS No. 159 in the first quarter of 2007. There was no impact in the adoption on the consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157. FASB Statement No. 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting provisions of FASB Statement No. 157 will be effective for fiscal years beginning after November 15, 2007. The guidance is fully reflected in these financial statements and accompanying notes.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R*. FASB Statement No. 158 requires an employer to recognize the overfunded or underfunded status of its defined benefit pension and other postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation as an asset or liability in its statement of financial condition. Upon adoption, FASB Statement No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses and prior service costs within accumulated other comprehensive loss, net of tax. In accordance with the guidance in FASB Statement No. 158, the Company adopted this provision of the standard for year-end 2006. The adoption of FASB Statement No. 158 resulted in a net credit of \$10,695 to accumulated other comprehensive loss recorded on the consolidated financial statements at December 29, 2006. FASB Statement No. 158 also requires defined benefit plan assets and benefit obligations to be measured as of the date of the Company's fiscal year-end. The Company has historically used a September 30 measurement date. Under the provisions of FASB Statement No. 158, the Company will be required to change its measurement date to coincide with its fiscal year-end. This provision of FASB Statement No. 158 will be effective for the Company in fiscal 2008. The Company is currently assessing the impact of adoption of this provision of FASB Statement No. 158 on the consolidated financial statements.

In June 2006, the FASB issued FIN No. 48. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN No. 48 did not have any impact on the consolidated financial statements of the Company.

In February 2006, the FASB issued FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. FASB Statement No. 155 clarifies the bifurcation requirements for certain financial instruments and permits hybrid financial instruments that contain a bifurcable embedded derivative to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instruments and the fair value of the combined hybrid financial instruments is recognized as a cumulative-effect adjustment to beginning retained earnings. The Company adopted FASB Statement No. 155 on a prospective basis beginning in the first quarter of 2007. Since FASB Statement No. 159 incorporates accounting and disclosure requirements that are similar to FASB Statement No. 155, the Company applies FASB Statement No. 159, rather than FASB Statement No. 155, to its fair value elections for hybrid financial instruments.

During the first quarter of 2006, ML & Co. adopted the provisions of FASB Statement No. 123R (revised 2004), *Share-Based Payment*, a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Under FASB Statement No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. Stock-based compensation costs are measured based on the fair value of the award at the grant date. ML & Co. adopted FASB Statement No. 123R under the modified prospective method whereby the provisions of FASB Statement No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. The Company participates in ML & Co.'s stock-based compensation plans and was affected by ML & Co.'s adoption of FASB Statement No. 123R. Thus, for ML & Co., FASB Statement No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions. The Company is allocated its portion of expenses related to FASB Statement No. 123R awards.

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

In addition, beginning with performance year 2006, for which ML & Co. granted stock awards in January 2007, the Company accrued the expense for future awards granted to retirement-eligible employees over the award performance year instead of recognizing the entire expense related to the award on the grant date. Compensation expense for the 2007 and 2006 performance year and all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

FASB Statement No. 123R also requires expected forfeitures of share-based compensation awards for non-retirement-eligible employees to be included in determining compensation expense. Prior to the adoption of FASB Statement No. 123R, any benefits of employee forfeitures of such awards were recorded as a reduction of compensation expense when the employee left the Company and forfeited the award. In the first quarter of 2006, the Company recorded a benefit based on expected forfeitures, which was not material to the results of operations for the quarter.

The adoption of FASB Statement No. 123R, combined with other business and competitive considerations, prompted ML & Co. to undertake a comprehensive review of its stock-based incentive compensation awards, including vesting schedules and retirement eligibility requirements, examining their impact to ML & Co., the Company, and its employees. Upon the completion of this review, the Management Development and Compensation Committee of ML & Co.'s Board of Directors determined that to fulfill the objective of retaining high quality personnel, future stock grants should contain more stringent retirement provisions. These provisions include a combination of increased age and length of service requirements. While the stock awards of employees who retire continue to vest, retired employees are subject to continued compliance with the strict non-compete provisions of those awards. To facilitate transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees, including certain executive officers, were modified, effective March 31, 2006, to permit employees to be immediately eligible for retirement with respect to those earlier awards. While ML & Co. modified the retirement-related provisions of the previous stock awards, the vesting and non-compete provisions for those awards remain in force.

Since the provisions of FASB Statement No. 123R apply to awards modified in 2006, these modifications required the Company to record additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards.

The one-time non-cash charge associated with the adoption of FASB Statement No. 123R, and the policy modifications to previous awards resulted in a net charge to compensation expense of approximately \$1,011 in 2006 for the Company.

4. RELATED-PARTY TRANSACTIONS

The Company receives service fee income for conducting banking and trust operations for customers of affiliates. Receivables from affiliates include loans and deposits with affiliated companies. Interest is accrued on these amounts at prevailing short-term rates. The remaining balances of receivables from affiliates are service-fee related and are non-interest bearing.

Payables to affiliates include loans from affiliated companies on which interest is accrued at prevailing short-term rates. The Company also enters into other derivative transactions, such as swaps and forwards, with its affiliates, which are included in other assets and other liabilities.

The summary of balances and transactions with affiliated companies as of and for the years ended December 28, 2007 and December 29, 2006, is as follows:

	2007	2006
Interbank placements with affiliated companies	\$ 130,981	\$ 541,263
Receivables from affiliates	<u>84,502</u>	<u>80,844</u>
Total assets	<u>\$ 215,483</u>	<u>\$ 622,107</u>
Debt	\$ 100,000	\$ -
Payables to affiliates	100,009	78,034
Other liabilities	<u>-</u>	<u>428</u>
Total liabilities	<u>\$ 200,009</u>	<u>\$ 78,462</u>
Service fee income from affiliated companies	\$ 59,716	\$ 48,911
Interbank placement revenues with affiliated companies	<u>28,766</u>	<u>5,274</u>
Total income	<u>\$ 88,482</u>	<u>\$ 54,185</u>
Interest expense	\$ 1,777	\$ 1,437
Service fee expense with affiliated companies	<u>15,952</u>	<u>10,157</u>
Total expense	<u>\$ 17,729</u>	<u>\$ 11,594</u>

See Note 10, for disclosures of foreign exchange forward contracts, currency swaps, forward rate agreements, and interest rate swaps entered into with affiliates.

5. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair value at December 28, 2007 and December 29, 2006, were as follows:

	2007			Approximate Fair Values
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Marketable certificates of deposit	\$ 200,000	\$ 164	\$ -	\$ 200,164
Other	<u>339</u>	<u>2</u>	<u>-</u>	<u>341</u>
Total	<u>\$ 200,339</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 200,505</u>

	2006			Approximate Fair Values
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Callable certificates of deposit	\$ 263,470	\$ -	\$ (1,666)	\$ 261,804
Marketable certificates of deposit	200,000	-	(424)	199,576
Other	<u>317</u>	<u>3</u>	<u>-</u>	<u>320</u>
Total	<u>\$ 463,787</u>	<u>\$ 3</u>	<u>\$ (2,090)</u>	<u>\$ 461,700</u>

As of December 28, 2007, there were no securities available-for-sale with gross unrealized losses.

Securities available-for-sale at December 29, 2006, with gross unrealized losses were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Callable certificates of deposit	\$261,804	\$(1,666)	\$ -	\$ -	\$261,804	\$(1,666)
Marketable certificates of deposit	199,576	(424)	-	-	199,576	(424)
Other	<u>320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>-</u>
	<u>\$461,700</u>	<u>\$(2,090)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$461,700</u>	<u>\$(2,090)</u>

All securities available-for-sale at December 28, 2007, are due in one year or less.

6. LOANS

Loans at December 28, 2007 and December 29, 2006, consist of the following:

	2007	2006
Short-term	\$2,332,293	\$ 328,817
Long-term	9,269	18,825
Less allowance for loan losses	<u>(3,243)</u>	<u>(2,261)</u>
Loans — net	<u>\$2,338,319</u>	<u>\$ 345,381</u>

During the year ended December 28, 2007 and December 29, 2006, the Company recorded \$982 and \$58 of provisions for loan losses, respectively. There were no loan charge-offs or recoveries of loans previously charged-off during 2007 and 2006.

In the normal course of business, the Banking Division enters into loans with customers. The majority of the loans are collateralized by securities and other financial assets held by affiliates of the Banking Division. These activities expose the Banking Division to risks arising from the potential that customers may fail to satisfy their obligations and the collateral will be insufficient. In these situations, the Banking Division may be required to sell financial instruments at unfavorable market prices to satisfy obligations of its customers. As of December 28, 2007 and December 29, 2006, all loans were collateralized.

7. DEPOSITS

Substantially, all demand and time deposits were in denominations of \$250 or more at December 28, 2007 and December 29, 2006, and their scheduled maturities are as follows:

	2007	2006
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	\$ 1,855,070	\$ 1,732,634
One year or less but over three months	148,039	170,845
Over one year	364	16,320
Repayable on demand	<u>217,696</u>	<u>256,036</u>
 Total	 <u>\$2,221,169</u>	 <u>\$2,175,835</u>

The effective weighted-average interest rates for deposits at December 28, 2007 and December 29, 2006, were 4.44% and 4.17%, respectively.

8. DEBT

During 2007, the Company entered into a credit facility with ML & Co., which provides for a maximum available borrowing of up to \$200,000. As of December 28, 2007, the outstanding amount under the credit facility was \$100,000. The outstanding principal under the credit facility is payable December 17, 2010. The Company incurred interest expense of \$283 related to this credit facility during the year ended December 28, 2007. The credit facility does not have any financial or non-financial covenants.

In addition, during 2007, the Company entered into a credit facility with ML & Co., which provides for maximum available borrowing of up to \$2,000,000. As of December 28, 2007, there were no amounts outstanding under the credit facility. The credit facility matures on December 19, 2008. The Company did not incur interest expense related to this credit facility during the year ended December 28, 2007. The credit facility does not have any financial or non-financial covenants.

The Company also entered into an uncommitted credit facility with ML & Co., which provided for a maximum available borrowing of up to \$5,000,000. As of December 28, 2007, there were no amounts outstanding under the credit facility. The uncommitted credit facility matures on December 7, 2017. The Company did not incur interest expense related to this credit facility during the year ended December 28, 2007. The credit facility does not have any financial or non-financial covenants.

9. EMPLOYEE BENEFIT PLANS

The Company participates in an employee compensation plan sponsored by ML & Co. which provides eligible employees with stock and options to purchase shares. Compensation and benefits expense included \$4,449 and \$6,869 related to this plan as of December 28, 2007 and December 29, 2006, respectively. Payables to affiliates included \$22,922 and \$18,473 in accrued liabilities related to this plan as of December 28, 2007 and December 29, 2006, respectively.

The Company provides retirement and other post-employment benefits to its employees worldwide through defined contribution and defined benefit pension plans and other post-retirement benefit plans sponsored by ML & Co. and the Company. ML & Co. reserves the right to amend or terminate these plans at any time.

The U.S.-defined contribution plans sponsored by ML & Co. consist of the Retirement Accumulation Plan (RAP), the Employee Stock Ownership Plan (ESOP), and the 401(k) Savings & Investment Plan (401K). The RAP, ESOP and 401K cover substantially all U.S. employees who have met certain service requirements.

Employees of ML & Co.'s non-U.S. subsidiaries participate in various local defined benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. ML & Co.'s funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

The Third Country National Defined Benefit Pension (the TCN Plan) is the responsibility of the Company and serves as the pension plan for various non-U.S. expatriate employees. The costs of the TCN Plan are ultimately allocated back to the Merrill Lynch affiliates for which the employees provide services. The measurement date for the TCN Plan is September 30.

In September 2006, the FASB issued FASB Statement No. 158, which requires an employer to recognize the overfunded and underfunded status of its defined benefit pension and other postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability in its statement of financial condition. Upon adoption, FASB Statement No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses and prior service costs within accumulated other comprehensive income (loss). The final net minimum pension liability (MPL) adjustments are recognized prior to adoption of FASB Statement No. 158. FASB Statement No. 158 also requires defined benefit plan assets and benefit obligations to be measured as of the date of the Company's fiscal year-end. The Company has historically used a September 30 measurement date. Under the provisions of FASB Statement No. 158, the Company will be required to change its measurement date to coincide with its fiscal year-end. This provision of FASB Statement No. 158 will be effective for the Company beginning with year-end 2008.

The following table illustrates the final net MPL adjustment and the incremental effect of the application of SFAS No. 158:

	Balance Before Net MPL and SFAS No. 158 Adjustment December 29, 2006	Final net MPL Adjustment	SFAS No. 158 Adjustments	Ending Balance December 29, 2006
Liability for pension benefits	<u>\$ 59,831</u>	<u>\$(14,412)</u>	<u>\$ 10,695</u>	<u>\$ 56,114</u>
Accumulated other comprehensive loss	<u>\$ 27,713</u>	<u>\$(14,412)</u>	<u>\$ 10,695</u>	<u>\$ 23,996</u>

No participant contributions were made to the TCN Plan for the years ended December 28, 2007 and December 29, 2006. During 2007, no Company contributions were made to the TCN Plan. During 2006, the Company contributions amounted to \$6,389. Benefits paid were \$1,287 and \$1,069 for the years ended December 28, 2007 and December 29, 2006, respectively. The Company currently expects to contribute \$6,479 to the TCN Plan and expects to pay \$1,553 of benefit payments to participants in 2008. The accumulated benefit obligation for the TCN Plan was \$75,510 and \$75,705 at September 30, 2007 and September 30, 2006, respectively.

Total net periodic benefit cost for the years ended December 28, 2007 and December 29, 2006, included the following components:

	2007	2006
Service costs	\$ 6,201	\$ 7,312
Interest costs	4,709	4,241
Expected return on plan assets	(1,830)	(1,379)
Amortization of prior service costs	(12)	(19)
Amortization of actuarial (gain)/loss	961	1,487
Amortization of net transition obligation	<u>-</u>	<u>10</u>
Total net periodic benefit cost	<u>\$ 10,029</u>	<u>\$ 11,652</u>

Pension expense for the Company amounted to \$2,779 and \$2,428 for the years ended December 28, 2007 and December 29, 2006, respectively, and was fully reimbursed as service-fee income from Merrill Lynch International Incorporated. The remainder of the net periodic benefit cost was allocated to other Merrill Lynch affiliates.

The following table provides the status of the TCN Plan's projected benefit obligations, fair value of the TCN Plan assets, and funded status for the years ended September 30, 2007 and September 30, 2006, and the amounts recognized in the consolidated balance sheets at year-end 2007 and 2006.

	2007	2006
Projected benefit obligation — beginning of year	\$ 86,400	\$ 85,275
Service cost	6,201	7,312
Interest cost	4,709	4,241
Actuarial (gain)/loss	(10,725)	(9,359)
Plan amendments	(7,940)	-
Benefits paid	<u>(1,287)</u>	<u>(1,069)</u>
Projected benefit obligation — end of year	<u>77,358</u>	<u>86,400</u>
Fair value of plan assets — beginning of year	23,606	21,209
Actual return on plan assets	2,323	2,397
Employer contribution	7,676	1,069
Benefits paid	<u>(1,287)</u>	<u>(1,069)</u>
Fair value of plan assets — end of year	<u>32,318</u>	<u>23,606</u>
Funded status — end of year	(45,040)	(62,794)
Fourth-quarter activity	<u>345</u>	<u>6,680</u>
Amount recognized in consolidated balance sheets	<u>\$ (44,695)</u>	<u>\$ (56,114)</u>
Assets	\$ -	\$ -
Liabilities	<u>(44,695)</u>	<u>(56,114)</u>
Amount recognized in consolidated balance sheets	<u>\$ (44,695)</u>	<u>\$ (56,114)</u>

Amounts recognized in accumulated other comprehensive loss, pre-tax, at year-end 2007 and 2006 consisted of \$11,843 and \$24,008 in net actuarial losses, as well as \$7,940 and \$12 in prior services credits, respectively. The estimated net loss for the TCN Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is approximately \$257.

The weighted-average assumptions used in calculating the projected benefit obligation at September 30, 2007 and September 30, 2006, are as follows:

	2007	2006
Discount rate	6.0 %	5.5 %
Rate of compensation increase	4.0	4.0

The weighted-average assumptions used in calculating the net periodic cost for the years ended September 30, 2007 and September 30, 2006, are as follows:

	2007	2006
Discount rate	5.5 %	5.3 %
Rate of compensation increase	4.0	4.0
Expected long-term return on plan assets	6.5	6.5

The expected long-term rate of return on the TCN Plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The rate reflects estimates by the TCN Plan investment advisors of the expected returns of different asset classes held by the TCN Plan in light of prevailing economic conditions at the beginning of the fiscal year.

The assets of the TCN Plan are invested prudently so that the benefits promised to members are provided, having regard to the nature and duration of the TCN Plan's liabilities. Generally, the planned investment strategy is set following an asset-liability study and advice from the Trustee's investment advisors. The asset allocation strategy selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meet the TCN Plan's liabilities. As of September 30, 2007 and September 30, 2006, the "other" category represents \$32,318 and \$7,318, respectively, and primarily invested in cash and cash equivalents as the plan's future asset allocation is currently under review. The target asset allocation is 100% debt securities.

The pension plan weighted-average asset allocations at September 30, 2007 and September 30, 2006, by asset category are presented in the table below:

	2007	2006
Equity securities	- %	65 %
Debt securities	-	4
Other	<u>100</u>	<u>31</u>
Total	<u>100 %</u>	<u>100 %</u>

Expected benefit payments associated with the TCN Plan for the next five years, and in the aggregate for the five years thereafter are as follows:

Year	Amount
2008	\$ 1,553
2009	1,553
2010	1,553
2011	1,553
2012	1,553
2013 through 2017	<u>7,765</u>
Total	<u>\$ 15,530</u>

10. FINANCIAL INSTRUMENTS

Certain of the Banking Division's financial instruments have off-balance sheet risk of loss, which may consist of market and/or credit risk in excess of amounts recorded on the consolidated balance sheets. Financial instruments with off-balance sheet market risk include derivatives and certain commitments.

A derivative is an instrument whose value is "derived" from an underlying instrument or index such as a future, forward, swap, or option contract or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

The Banking Division enters into foreign exchange forward contracts and currency swaps with affiliates for hedging foreign currency positions including the U.S. dollar costs of future foreign currency requirements. Delayed delivery and forward contracts are transactions in which one party agrees to deliver securities or a currency to a counterparty at a specified price on a specified date. Parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate. The Banking Division is exposed to market risk associated with the possibility of unfavorable changes in currency exchange rates and the market price of the underlying financial instruments.

The notional or contractual amounts of these instruments and the related fair values at December 28, 2007 and December 29, 2006, are set forth below:

	<u>2007</u>		<u>2006</u>	
	<u>Notional</u>	<u>Fair Value</u>	<u>Notional</u>	<u>Fair Value</u>
Foreign exchange forward contracts and currency swaps — long	\$ 781,153	\$ (37)	\$ 665,511	\$ 3,676
Foreign exchange forward contracts and currency swaps — short	24,483	29	139,205	142

The fair value of these instruments is recorded in receivable from affiliates and payables to affiliates, as applicable, in the accompanying consolidated balance sheets as of December 28, 2007 and December 29, 2006, respectively.

The notional or contractual amounts of these instruments do not represent the Banking Division's exposure to credit risk. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Banking Division's exposure to credit risk is limited to the current cost of replacing all contracts in a gain position. As of December 28, 2007 and December 29, 2006, the Banking Division had no significant contracts in such position.

The Banking Division enters into forward rate agreements and interest rate swaps with affiliates to manage its overall interest rate risk. These agreements generally fix an interest spread between a rate earned and rate paid; any change in actual interest rates results in an amount paid or received under the agreement based on a notional amount. Any amounts paid or received under these rate agreements are recorded as adjustments to interest expense.

The contractual or notional amounts of these instruments and the related fair values at December 28, 2007 and December 29, 2006, were as follows:

	2007		2006	
	Notional	Fair Value	Notional	Fair Value
Forward rate agreements	\$ -	\$ -	\$ 329,338	\$ 563
Interest rate swaps	15,000	(308)	15,000	(142)

The fair value of these instruments is recorded in receivables from affiliates or payables to affiliates, as applicable, in the accompanying consolidated balance sheets as of December 28, 2007 and December 29, 2006, respectively.

Substantially, all of the above transactions are entered into with the Banking Division's swaps and foreign exchange dealer subsidiaries, which intermediate the interest rate and currency risk with third parties in the normal course of their trading activities.

11. COMMITMENTS AND CONTINGENCIES

Litigation — From time to time, the Company is named as a defendant in legal actions and arbitrations, arising in connection with its normal course of business. Although the ultimate outcome of these actions cannot always be ascertained and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements, but may be material to the Company's operating results or cash flows for any particular period.

The Company may explore potential settlements before a case is taken through trial because of the uncertainty, risks, and costs inherent in the litigation process. In accordance with FASB Statement No. 5, *Accounting for Contingencies*, the Company will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including almost all of the class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time.

Leases — The Company has entered into various non-cancelable long-term operating lease agreements for premises and equipment. The Company has also entered into various non-cancelable short-term operating lease agreements that are primarily commitments of less than one year under equipment leases.

At December 28, 2007, future non-cancelable minimum rental commitments under leases with remaining terms exceeding one year are presented below:

Year	Amount
2008	\$ 1,339
2009	1,297
2010	825
2011	376
2012	395
2013 and thereafter	<u>2,519</u>
Total	<u>\$ 6,751</u>

The Company recorded rent expense of \$2,141 and \$1,963 for the years ended December 28, 2007 and December 29, 2006, respectively.

12. INCOME TAXES

Banking Division — During 2007, the Company received an undertaking from the Cayman Islands government exempting it from all local income, profits, and capital gains taxes until February 19, 2028. At December 28, 2007, no such taxes are levied in the Cayman Islands.

Non-Banking Division — Certain non-banking entities are subject to income taxes at rates applicable in the countries in which they operate. Income tax expense represents management's estimate of taxes due on earnings and the effect of changes in estimates for the prior year.

Total income tax expenses for the Company are as follows:

	2007	2006
Foreign current tax provision	\$ 546	\$ 1,545
Foreign deferred tax provision	<u>533</u>	<u>120</u>
Total	<u>\$1,079</u>	<u>\$1,665</u>

Details of the Company's deferred tax assets and liabilities, which are included in other assets and other liabilities, respectively, are as follows:

	2007	2006
Deferred tax asset	\$ 219	\$ 709
Deferred tax liability	<u>(319)</u>	<u>(276)</u>
Net deferred tax (liability) asset	<u>\$ (100)</u>	<u>\$ 433</u>

As of December 28, 2007 and December 29, 2006, the Company has recorded no valuation allowance against deferred tax assets because management believes that it is more likely than not that the deferred tax assets will be fully realized.

The Company adopted FIN No. 48 in 2007. The adoption of FIN No. 48 did not have any impact on the consolidated financial statements of the Company.

13. FAIR VALUE

The Company adopted the provisions of FASB Statement No. 157 and FASB Statement No. 159 in the first quarter of 2007.

Fair Value Measurements — FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The Company accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Company accounts for certain financial assets and liabilities at fair value under various accounting literature, including FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Fair Value Hierarchy — In accordance with FASB Statement No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives, most U.S. Government and agency securities, and certain other sovereign government obligations).

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets (for example, restricted stock);
- b. Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- c. Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including loans, securities and derivatives).

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, certain residential and commercial mortgage-related assets (including loans, securities and derivatives), and long-dated or complex derivatives including certain equity derivatives and long-dated options on gas and power).

As required by FASB Statement No. 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety, for example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore gains and losses for such assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

A review of fair value hierarchy classifications is conducted at least on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which the reclassifications occur.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 28, 2007.

	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale	\$ -	\$ 200,505	\$ -	\$ 200,505
Foreign exchange forward contracts and currency swaps — short	-	29	-	29
Liabilities:				
Foreign exchange forward contracts and currency swaps — long	-	37	-	37
Interest rate swap	-	308	-	308

Fair Value Option — FASB Statement No. 159 provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. FASB Statement No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. As discussed above, certain of the Company's financial instruments are required to be accounted for at fair value under FASB Statement No. 115 and FASB Statement No. 133. For certain financial instruments that are not accounted for at fair value under other applicable accounting guidance, the fair value option under FASB Statement No. 159 has not been elected.

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