

June 2, 2008

Research Update:

Merrill Lynch & Co. Inc. Ratings Lowered To 'A/A-1' From A+/A-1'; Outlook Negative

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Rationale

On June 2, 2008, Standard & Poor's Ratings Services lowered its ratings on Merrill Lynch & Co. Inc. to 'A/A-1' from 'A+/A-1' and all related entities (see list below), in conjunction with our global securities industry review. (See "S&P Completes Review Of Global Securities Industry; Ratings Lowered On Morgan Stanley, Merrill Lynch & Co. Inc., And Lehman Brothers Holdings Inc.; Outlooks Negative," published June 2, 2008, on RatingsDirect.) The outlook is negative.

The downgrade primarily reflects our concern that the pace and extent of earnings improvement could be considerably more muted than we previously anticipated. Merrill Lynch's financial performance during the past three quarters has been among the worst of any company in the broker-dealer sector, primarily reflecting write-downs on its outsized holdings of asset-backed collateralized debt obligations (ABS CDOs), subprime mortgages, other mortgage-related exposures, and leveraged-finance commitments, as well as on its hedge positions with monoline insurers. Under new management, the company has sought to downsize notional positions and hedge remaining net exposures. However, its ability to do so has been hampered by persisting difficult market conditions, leaving the company exposed to further write-downs, including as the result of counterparty risk related to its hedges.

The significant risks Merrill Lynch had taken on through its mortgage-related activities are largely reflective of past shortcomings in its risk-management practices. Merrill Lynch is implementing an extensive revamping of its organization and processes to address these shortcomings. Because this implementation is still in progress, at this time we consider Merrill's risk-management capabilities to be adequate, rather than strong.

Setting aside the effect of the large write-downs, Merrill Lynch's operating performance had remained satisfactory in recent quarters, accounting for difficult securities industry conditions. However, we are concerned that persisting capital-market dislocations could further weigh on investment banking and trading results industry-wide. Although, the results of Merrill Lynch's large and well-positioned global wealth management unit have mitigated earnings pressures, consumer investing activity could weaken during the next few quarters. The company is taking steps to rein in operating costs, such as the extensive, planned manpower reductions announced recently.

Merrill Lynch's relatively weak capitalization, compared to competitors', is another concern that affects our view. In the wake of its net losses, the company has taken actions to shore up its capital base--issuing \$6.2 billion of common stock, \$6.6 billion of mandatorily convertible preferred stock and, most recently, \$2.7 billion of noncumulative preferred stock--while eliminating share repurchases. However, we believe that the quality of Merrill Lynch's equity has deteriorated, given the increased reliance on hybrid

capital rather than common equity. Accordingly, under our hybrid capital criteria, a portion of Merrill Lynch's hybrid capital outstanding is not included in capital measures for the purpose of our analysis.

Notwithstanding recent volatile capital market conditions, Merrill Lynch has been able to bolster its liquidity. Its excess liquidity pool was a strong \$82 billion as of March 28, 2008. Merrill Lynch has benefited from increased retail deposits at its bank subsidiaries; these deposits are a relatively stable funding source and now account for about 10% of Merrill Lynch's overall funding mix. In addition, the Federal Reserve has, in recent months, made available to the broker-dealers various financing programs (e.g., Primary Dealer Credit Facility) in which they can borrow on a secured basis, using a wide range of securities as collateral. Although these programs have restrictions and may be only temporary, they nonetheless enhance Merrill Lynch's and its peers' near-term funding flexibility.

Outlook

The outlook is negative. There are many uncertainties that could affect the future performance of the broker-dealer sector. We could lower the rating further if Merrill Lynch incurred additional large losses--either as a result of depressed business conditions or additional large write-downs. We could also lower the ratings if more concerns arise regarding the company's ability to sustain potential liquidity stresses. Conversely, we could revise the outlook to stable if Merrill Lynch's operating performance rebounds to more normal levels. Conversely, we could revise the outlook to stable if Merrill Lynch's operating performance rebounds to more normal levels.

Standard & Poor's will hold a telephone conference call on Tuesday, June 3, 2008, at 10:30 a.m. EDT to discuss this and related actions. The live call-in numbers for this call are (1) 210-795-1098 (U.S./all others) and (44) 20-7108-6248 (U.K.); the conference ID for this call is 2029583, and the passcode is SANDP. A replay of this call will be available starting about one hour after the call concludes through Tuesday, June 10th; the replay number will be (1) 203-369-1201.

Ratings List

Downgraded

	To	From
Merrill Lynch & Co. Inc.		
Senior Unsecured		
Foreign Currency	A	A+
Subordinated	A-	A
Preferred Stock		
Local Currency	BBB+	A-
Merrill Lynch Bank & Trust Co., FSB		
Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
Subordinated		

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Local Currency	A	A+
Preferred Stock		
Local Currency	A-	A
Merrill Lynch Bank USA		
Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
Merrill Lynch Capital Trust III		
Merrill Lynch Preferred Capital Trust I		
Merrill Lynch Preferred Capital Trust II		
Merrill Lynch Preferred Capital Trust III		
Merrill Lynch Preferred Capital Trust IV		
Merrill Lynch Preferred Capital Trust V		
Merrill Lynch Yen TOPrS Trust 1		
Preferred Stock		
Local Currency	BBB+	A-
Downgraded; Ratings Affirmed		
	To	From
Merrill Lynch & Co. Inc.		
Counterparty Credit Rating	A/Negative/A-1	A+/Negative/A-1
Senior Unsecured		
Local Currency	A/A-1	A+
Merrill Lynch Bank & Trust Co. (Cayman) Ltd		
Counterparty Credit Rating	A/Negative/A-1	A+/Negative/A-1
Ratings Affirmed		
Merrill Lynch & Co. Inc.		
Short-Term Debt		
Foreign Currency	A-1	
Commercial Paper		
Local Currency	A-1	
Merrill Lynch & Co., Canada Ltd.		
Counterparty Credit Rating	--/--/A-1	
Merrill Lynch International (Australia) Ltd.		
Counterparty Credit Rating	--/--/A-1	
Commercial Paper		
Local Currency	A-1	

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