

# MANAGEMENT'S DISCUSSION OF FINANCIAL RESPONSIBILITY AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## FINANCIAL RESPONSIBILITY

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards. Corporate Audit reports directly to the Audit Committee of the Board of Directors, providing independent appraisals of Merrill Lynch's internal controls and compliance with established policies and procedures. Finance management establishes accounting policies and procedures, measures and monitors financial risk, and independently from the businesses prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Treasury monitors capital adequacy and liquidity management. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks. The Office of the General Counsel serves in a counseling and advisory role to Management and the business groups. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; and provides legal advice, representation, execution, and transaction support to the businesses.

ML & Co. has established a Disclosure Committee to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for overseeing the accuracy and timeliness of disclosures made by ML & Co. The Disclosure Committee is made up of senior representatives of Merrill Lynch's Finance, Investor Relations, Office of the General Counsel, Treasury, Tax and Corporate Risk Management groups and is responsible for implementing and evaluating disclosure controls and procedures on an ongoing basis. The Disclosure Committee meets at least eight times a year as meetings are held as needed to review key events and disclosures impacting the period throughout each fiscal quarter and prior to the filing of the 10-K and 10-Q reports and proxy statement with the SEC.

The Board of Directors designated Merrill Lynch's Guidelines for Business Conduct as the Company's code of ethics for directors, officers and employees in performing their duties. The Guidelines set forth written standards for employee conduct with respect to conflicts of interest, disclosure obligations, compliance with applicable laws and rules and other matters. The Guidelines also set forth information and procedures for employees to report ethical or accounting concerns, misconduct or violations of the

Guidelines in a confidential manner. The Board of Directors adopted Merrill Lynch's Code of Ethics for Financial Professionals in 2003. The Code, which applies to all Merrill Lynch professionals who participate in the Company's public disclosure process, supplements our Guidelines for Business Conduct and is designed to promote honest and ethical conduct, full, fair and accurate disclosure and compliance with applicable laws.

The independent registered public accounting firm, Deloitte & Touche LLP, performs annual audits of Merrill Lynch's financial statements in accordance with generally accepted auditing standards. They openly discuss with the Audit Committee their views on the quality of the financial statements and related disclosures and the adequacy of Merrill Lynch's internal accounting controls. Quarterly review reports on the interim financial statements are also issued by Deloitte & Touche LLP. The Audit Committee appoints the independent registered public accounting firm. The independent registered public accounting firm is given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, the Board of Directors, and committees of the Board.

As part of their oversight role, committees of the Board supervise management in the formulation of corporate policies, procedures and controls. The Audit Committee, which consists of six independent directors, oversees Merrill Lynch's system of internal accounting controls and the internal audit function. In addition, the Audit Committee oversees adherence to risk management and compliance policies, procedures, and functions. It also reviews the annual Consolidated Financial Statements with Management and Merrill Lynch's independent registered public accounting firm, and evaluates the performance, independence and fees of our independent registered public accounting firm and the professional services it provides. The Audit Committee also has the sole authority to appoint or replace the independent registered public accounting firm.

The Finance Committee, which consists of six independent directors, reviews, recommends, and approves policies regarding financial commitments and other expenditures. It also reviews and approves certain financial commitments, acquisitions, divestitures, and proprietary investments. In addition, the Finance Committee oversees corporate funding policies and financing plans and also reviews procedures for implementing and adhering to such policies.



## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2003, Merrill Lynch formed a Project Management Office to facilitate ongoing internal control reviews, coordinate the documentation process for these reviews, provide direction to its business and control groups involved in this initiative and assist in the assessment and remediation of any identified weaknesses in internal controls over financial reporting. Merrill Lynch also formed a Steering Committee comprised of senior management from Merrill Lynch's Finance, Corporate Audit, Corporate Risk Management, Operations, Technology and Legal functions. This Committee has been responsible for reviewing the progress of the Sarbanes-Oxley Section 404 compliance initiative and directing the efforts of the Project Management Office. During 2004, the Project Management Office and Steering Committee completed their review of documentation evidencing key controls, performed walkthroughs, and conducted tests of controls and operating effectiveness in order to be in a position to express a view to management on the effectiveness of our internal control over financial reporting.

Management recognizes its responsibility for establishing and maintaining adequate internal control over financial reporting and has designed internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements and related notes in accordance with generally accepted accounting principles in the United States of America. Management assessed the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, management believes that Merrill Lynch maintained effective internal control over financial reporting as of December 31, 2004.

The audited consolidated financial statements of Merrill Lynch include the results of the following entities, but management's assessment does not include an assessment of the internal control over financial reporting of these entities because they were acquired during the fourth quarter of 2004. This approach is consistent with published SEC guidance on the permissible scope of management's internal control report.

- The commodities trading businesses of Entergy-Koch, LP, a venture of Entergy Corporation and privately-owned Koch Energy, Inc., a subsidiary of Koch Industries, Inc. (acquired on November 1, 2004).
- Mortgages plc, a U.K. non-conforming mortgage lender and servicer (acquired on October 29, 2004).

The financial statements for these entities reflect total assets and revenues constituting less than one percent of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. See Note 16 to the Consolidated Financial Statements for additional information regarding these acquisitions.

Deloitte & Touche LLP, Merrill Lynch's independent registered public accounting firm, has issued an attestation report on management's assessment of Merrill Lynch's internal control over financial reporting and on the effectiveness of Merrill Lynch's internal control over financial reporting. This report appears under "*Report of Independent Registered Public Accounting Firm*" on the following page.

New York, New York  
February 25, 2005