

DELIVERING SHAREHOLDER VALUE

In addition to serving clients, Merrill Lynch is committed to delivering superior value to shareholders.

Merrill Lynch seeks to deliver returns to shareholders through appreciation in its common stock price and cash dividends. The price of a Merrill Lynch common share has grown at an 11% compound annual rate since our 1971 initial public offering. Merrill Lynch has also consistently paid a quarterly dividend since 1971. While in the short term Merrill Lynch's share price is subject to fluctuations in market conditions, we believe that over the longer term, the distinctiveness of our franchise, combined with our focus on consistent earnings and disciplined growth, will drive superior stock price performance. The following elements are central to our ability to deliver shareholder value:

REVENUE GROWTH AND DIVERSIFICATION

Since 1971, Merrill Lynch has increased net revenues at an 11% compound annual rate. By strategically positioning the company to benefit from continued global growth and innovation in financial services, we have established worldwide leadership positions in our three business segments. Underlying growth prospects for each of these businesses favor sustained revenue expansion. Revenue diversification and investment for growth that leverage Merrill Lynch's competitive strengths, scale and client relationships across asset classes and geographies offer the opportunity to enhance the consistency of our financial performance across market cycles. Investment in growing fee-based and recurring sources of revenue also affords more consistent returns across economic and market cycles.

OPERATING DISCIPLINE

Growth in revenues drives expansion in net earnings through strong operating discipline, appropriate scaling of capacity and profitable market share. Since going public in 1971, Merrill Lynch has increased net earnings at a 13% compound annual rate. Success in generating leading profit margins is driven by our resource allocation focus: the deployment of our people, financial, technical and other resources into areas that offer the most attractive returns and growth opportunities. Superior performance in cyclical, market-driven businesses is achieved through ongoing expense and capital management discipline that creates operating leverage by limiting performance declines in cyclical downturns and increasing profit margins in upturns. This discipline also facilitates investment in the most attractive growth opportunities, and is integral to further enhancing Merrill Lynch's competitive positioning.

CAPITAL MANAGEMENT

Merrill Lynch seeks to ensure that it has a strong and flexible capital structure while delivering superior returns on equity. In capital planning, Merrill Lynch considers the equity capital necessary to support the risks and needs of its businesses, including investment for growth, diversification and other strategic initiatives. We assign each of our businesses an amount of equity that reflects the risks of that business, both on and off balance sheet. We recognize that equity capital used to support business risks may not always be adequately measured through quantitative models or ratios and thus do not rely solely on such measures. We also evaluate equity returns against internal and external benchmarks.

Merrill Lynch's dividend policy is to maintain a competitive market yield, considering conservative increases that do not impair capital planning flexibility. In the event that capital is generated beyond the opportunities to invest in businesses that are strategically attractive and offer appropriate returns, Merrill Lynch will return capital to shareholders through share repurchases and dividends.

LIQUIDITY AND FUNDING

Merrill Lynch ensures sufficient liquidity across market cycles and periods of financial stress as part of its core funding strategy. Our primary liquidity objective is to maintain alternative sources of funding so that all debt obligations maturing within one year can be repaid when due without raising new unsecured debt or requiring the liquidation of business assets. Our liquidity policy ensures that sufficient long-term debt and equity capital are in place to fund the firm's assets, commitments, contingent obligations and regulatory capital needs. We also assure sufficient liquidity is available at each bank subsidiary to meet deposit obligations under stress market conditions. We diversify our funding sources, including deposits, globally to minimize our overall cost of funding and maximize available sources of liquidity.

RISK MANAGEMENT

Growth, consistent returns and capital are jeopardized if risk is not controlled. Merrill Lynch's market, credit and operating risk management framework seeks to reduce volatility in our operating performance and lower our cost of equity by managing risks both within and across businesses. We limit our risk profile by diversifying risk and revenue sources, growing fee-based and recurring revenues, and minimizing our break-even point by carefully managing fixed costs. Other risk management objectives include closely monitoring our proprietary risk-taking and long-term exposure to illiquid assets. We continually look for opportunities to strengthen our worldwide market and credit risk controls, with particular attention to avoiding undue concentrations. At all levels of the organization, Merrill Lynch recognizes that sound corporate governance and oversight policies and employee integrity are critical to effectively managing risk and protecting the interests of shareholders.

ALIGNING EMPLOYEES WITH SHAREHOLDERS

Employee stock ownership is the critical element in aligning the economic interests of management with those of Merrill Lynch's shareholders and emphasizing long-term value creation. As such, Merrill Lynch pays a significant amount of total annual incentive compensation in stock-based awards subject to vesting requirements. To ensure this alignment of employees and shareholders extends broadly across the company, approximately 7,700 employees receive a portion of their bonus awards in stock. This means that, like other shareholders, employees participate in both the "upside opportunity" and the "downside risk" of the firm's performance. The allocation of stock bonus awards is progressive, so that as an employee's total compensation increases an increasing percentage of total compensation is paid in stock-based awards. This ensures that higher paid employees have a greater "at risk" financial interest in the sustained success of the company.