

Delivering Stockholder Value

In addition to providing outstanding service to clients, Merrill Lynch is committed to delivering superior returns to stockholders through appreciation in our common stock price and cash dividends. The price of our common stock has grown at a 12% compound annual rate since our 1971 initial public offering. We have also consistently paid a quarterly common stock dividend, and our annual dividends have grown at a 12% compound annual rate. We believe that over the longer term, the distinctiveness and diversity of our franchise and business mix, combined with our focus on generating earnings growth and returns through strong operating discipline and effective capital management, will drive superior returns to stockholders. The following elements are central to our ability to deliver shareholder value:

Revenue Growth and Diversification Since 1971, we have increased our net revenues at a 12% compound annual rate, and since 2003, the year we began to significantly increase our investments for growth and diversification, a 20% compound annual rate. We have strategically positioned our company to serve clients, as well as to take proprietary risk, through world-class capabilities in key asset classes, products, and geographic regions, enabling Merrill Lynch to benefit from what we believe to be a long-term, secular global growth trend in financial services. To enhance the strength and consistency of our financial performance across market cycles, we are committed to continuing to make investments to further broaden and deepen our capabilities and diversify our sources of revenue, including fee-based and recurring sources of revenue, taking advantage of our global scale, expertise and client franchise.

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, we have increased our net earnings per diluted share at a 12% compound annual rate, and since 2003, a 25% compound annual rate. We work to deliver superior performance in cyclical, market-driven businesses 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, and sound execution of, the most attractive organic and inorganic growth opportunities.

Capital Management and Funding We strive to ensure that we have a robust and flexible capital and funding structure to support our businesses and clients. In capital planning, we consider the debt and equity capital we need to support regulatory requirements and the growth and risks of our businesses, including investments and other strategic initiatives. We also evaluate investment opportunities in the context of their returns on the equity capital we believe they require under this framework. If we generate common equity capital beyond what is required to support our businesses and execute on opportunities to make investments that are strategically attractive and offer appropriate returns, we will seek to return that capital to stockholders through share repurchases and dividends, working to strike a careful balance among operating performance, returns on common equity, and growth in book value per common share. Our dividend policy is to maintain a competitive market yield, considering increases in the context of earnings growth and capital planning.

Risk Management and Liquidity Growth, consistency of returns and capital could be jeopardized if we do not effectively manage risk and maintain liquidity. Our market, credit and operational risk management framework seeks to mitigate volatility in our

operating performance and lower our cost of equity both within and across businesses. We also seek to limit our risk through diversifying risk and revenue sources, increasing the contribution of fee-based and recurring revenues, and carefully managing costs. Other risk management objectives include closely monitoring our proprietary risk-taking and long-term exposure to illiquid or otherwise risky assets. We continually strive to strengthen our global market and credit risk controls and avoid undue concentrations. Our primary liquidity objectives are to enable business continuity through market cycles and periods of financial stress and to ensure that we can repay all our debt obligations maturing within one year without having to issue new unsecured debt or liquidate business assets. At all levels of our organization, we recognize that sound corporate governance and oversight policies and employee integrity are critical to effectively managing risk and protecting the interests of stockholders.

Aligning Employees with Stockholders Employee stock ownership is a critical element in aligning the economic interests of our management with those of our stockholders and emphasizing long-term value creation. As such, we pay a significant amount of total annual incentive compensation in stock-based awards subject to vesting requirements. This alignment of employees and stockholders extends broadly across the company, as approximately 8,600 employees receive a portion of their bonus awards in company stock. This means that, like other stockholders, employees participate in both the upside opportunity and downside risk of our common shares. The allocation of stock bonus awards is generally progressive, so that as an employee's total compensation increases, the percentage of total compensation paid in stock-based awards increases. This ensures that higher paid employees have a greater "at risk" financial interest in the sustained success of the company.

Further, at the end of 2005, in support of a Board and management review of our strategic priorities and to increase emphasis on longer-term performance, we made several changes in our compensation structure for key senior executives. We substantially increased the stock component of their total annual compensation to 60%, and also required executive officers to retain 75% of the net after-tax value of their company stock holdings on an annual basis. Additionally, we invited each executive officer to participate in the Managing Partner Incentive Program, a three-year performance-based program that is tied to the company's returns on average common equity. Each year, a portion of each executive's stock compensation is allocated to this program. These amounts may be reduced or completely forfeited if specified return on average common equity thresholds are not met, but may be increased if the goals are exceeded. This creates a strong partnership incentive by rewarding top executives equally for firm-wide achievements regardless of individual pay levels.